

OJSC SEVERNEFTEGAZPROM

**INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONDENSED INTERIM FINANCIAL INFORMATION
(UNAUDITED)**

30 JUNE 2020

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OJSC SEVERNEFTEGAZPROM
CONDENSED INTERIM FINANCIAL STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2020
(In thousands of Russian Roubles)

	Note	30 June 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents	6	6,543,771	9,150,682
Trade and other accounts receivable	7	8,467,495	6,352,344
Inventories	8	510,957	549,952
Current income tax prepayment		174,144	101,974
Other current assets	9	-	1,207
Total current assets		15,696,367	16,156,159
Non-current assets			
Property, plant and equipment	10	72,394,470	67,449,409
Long-term accounts receivable	11	5,355	8,652
Total non-current assets		72,399,825	67,458,061
TOTAL assets		88,096,192	83,614,220
Liabilities and equity			
Current liabilities			
Accounts payable and provisions	12	5,955,325	2,671,632
Dividends payable	17	4,408,462	-
Taxes payable other than income tax	13	3,961,141	4,896,585
Total current liabilities		14,324,928	7,568,217
Non-current liabilities			
Provisions	14	11,938,187	11,494,268
Deferred income tax liabilities	15	6,335,610	6,954,186
Long-term accounts payable	16	370,963	229,057
Total non-current liabilities		18,644,760	18,677,511
Total liabilities		32,969,688	26,245,728
Equity			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	262,784	299,810
Retained earnings		29,724,675	31,929,637
Total equity		55,126,504	57,368,492
TOTAL liabilities and equity		88,096,192	83,614,220

Approved for issue and signed on 31 July 2020 by the following members of the management:


A.A. Kasyanenko
Acting General Director

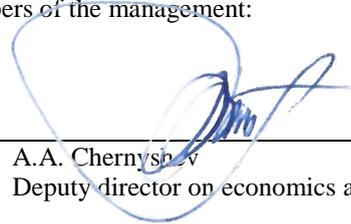

A.A. Chernyshev
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
CONDENSED INTERIM FINANCIAL STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2020
(In thousands of Russian Roubles)

	Note	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue	18	11,356,375	12,637,341	24,208,788	26,475,634
Cost of sales	19	(10,207,105)	(9,941,135)	(20,467,033)	(21,151,991)
Gross profit		1,149,270	2,696,206	3,741,755	5,323,643
General and administrative expenses	20	(296,002)	(244,421)	(585,300)	(525,546)
Exploration costs		(17,976)	(10,432)	(18,122)	(10,432)
Other operating income	21	44,584	21,138	57,869	36,986
Other operating expenses	22	(39,652)	(39,862)	(145,330)	(113,259)
Operating profit		840,224	2,422,629	3,050,872	4,711,392
Finance income	23	99,844	111,384	202,979	195,556
Finance expense	24	(188,568)	(139,250)	(377,391)	(279,378)
Profit before income tax		751,500	2,394,763	2,876,460	4,627,570
Income tax	15	(237,802)	(553,124)	(672,960)	(1,099,998)
Profit for the period		513,698	1,841,639	2,203,500	3,527,572
Other comprehensive income / (loss):					
Items that will not be reclassified to profit or loss:					
Remeasurements of provision for post-employment benefits	14	(202,184)	(224,864)	(46,283)	(299,617)
Related income tax		40,437	35,580	9,257	61,630
Total other comprehensive (loss) / income that will not be reclassified to profit or loss		(161,747)	(189,284)	(37,026)	(237,987)
Other comprehensive (loss) / income for the period		(161,747)	(189,284)	(37,026)	(237,987)
Comprehensive income for the period		351,951	1,652,355	2,166,474	3,289,585

Approved for issue and signed on 31 July 2020 by the following members of the management:


A.A. Kasyanenko
Acting General Director

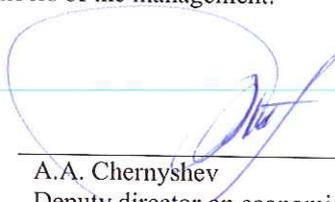

A.A. Chernyshov
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
CONDENSED INTERIM FINANCIAL STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(In thousands of Russian Roubles)

	Note	Six months ended 30 June 2020	Six months ended 30 June 2019
Profit before income tax		2,876,460	4,627,570
Adjustments for:			
Interest income	23	(202,599)	(195,161)
Finance expense excluding foreign currency exchange losses	24	377,074	279,375
Depreciation of property, plant and equipment and right-of-use assets	19, 20	4,113,404	2,715,022
Gain on disposal of property, plant and equipment	21, 22	4,058	(2,471)
Net foreign currency exchange (gain) / loss	23, 24	(63)	(392)
Reversal of impairment allowance on materials for extraction		(22,711)	(8,320)
Change in provision for employee benefits		(52,463)	25,774
Other non-cash transactions		14,006	9,082
Operating cash flows before changes in working capital		7,107,166	7,450,479
Change in inventories		61,706	(22,447)
Change in trade and other accounts receivable		(2,039,874)	(4,495,017)
Change in accounts payable, provisions and taxes payable other than income tax		628,524	(1,834,315)
Change in other current assets		1,207	-
Income tax paid		(1,354,449)	(694,758)
Net cash from operating activities		4,404,280	403,942
Cash flows from investing activities			
Capital expenditures		(7,177,366)	(1,946,387)
Interest received		203,795	196,890
Proceeds from sale of property, plant and equipment		4,541	2,471
Net cash used in investing activities		(6,969,030)	(1,747,026)
Cash flows from financing activities			
Dividends		-	(368,023)
Repayment of lease liabilities		(42,161)	(41,632)
Net cash used in financing activities		(42,161)	(409,655)
Net decrease in cash and cash equivalents		(2,606,911)	(1,752,739)
Cash and cash equivalents at the beginning of the period	6	9,150,682	6,754,924
Cash and cash equivalents at the end of the period	6	6,543,771	5,002,185

Approved for issue and signed on 31 July 2020 by the following members of the management:


A.A. Kasyanenko
Acting General Director

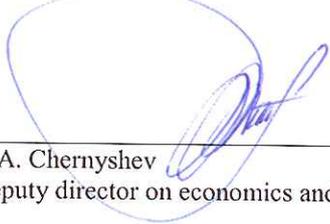

A.A. Chernyshev
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
CONDENSED INTERIM FINANCIAL STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(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 2019		533,330	40,000	25,099,045	813,755	28,742,599	54,695,399
Profit for the period		-	-	-	-	3,527,572	3,527,572
Other comprehensive loss for the period		-	-	-	(237,987)	-	(237,987)
Comprehensive income for the period		-	-	-	(237,987)	3,527,572	3,289,585
Dividends		-	-	-	-	(1,840,114)	(1,840,114)
Balance as at 30 June 2019		533,330	40,000	25,099,045	575,768	30,430,057	56,144,870
Balance as at							
1 January 2020		533,330	40,000	25,099,045	299,810	31,929,637	57,368,492
Profit for the period		-	-	-	-	2,203,500	2,203,500
Other comprehensive income for the period		-	-	-	(37,026)	-	(37,026)
Comprehensive (loss) / income for the period		-	-	-	(37,026)	2,203,500	2,166,474
Dividends	17	-	-	-	-	(4,408,462)	(4,408,462)
Balance as at 30 June 2020		533,330	40,000	25,099,045	262,784	29,724,675	55,126,504

Approved for issue and signed on 31 July 2020 by the following members of the management:


 A.A. Kasryanenko
 Acting General Director


 A.A. Chernyshev
 Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(In thousands of Russian Roubles, unless otherwise stated)

1. MAIN ACTIVITY

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 reorganisation 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 2020 shareholders of the Company were represented by PJSC Gazprom which holds 50 % of ordinary shares plus 6 ordinary shares, Wintershall Dea GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 2 class “A” preference shares and 1 class “C” preference share and OMV Exploration & Production GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 3 class “B” preference shares.

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

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.

The official Russian Rouble to US Dollar (“USD”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 69.9513 and 61.9057 as at 30 June 2020 and 31 December 2019, respectively. The official Russian Rouble to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 78.6812 and 69.3406 as at 30 June 2020 and 31 December 2019, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The condensed interim financial information is prepared in accordance with requirements of International Accounting Standard 34 Interim financial reporting (IAS 34). This condensed interim financial information should be read in conjunction with the financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards (“IFRS”).

The significant accounting policies followed by the Company and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the financial statements for the year ended 31 December 2019.

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

(In thousands of Russian Roubles, unless otherwise stated)

(b) New financial reporting standards

Application of Interpretations and Amendments to Standards became effective after 1 January 2020:

- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.
- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued in October 2018 and apply for annual reporting periods beginning on or after 1 January 2020). The amendments clarify and bring into line the definition of the term “materiality”, as well as provide recommendations for improving the consistency in its application when referenced in IFRS.
- The amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Statement of Cash Flows (issued in September 2019 and effective for annual periods beginning on or after January 2020). The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs).

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

- The amendments to IAS 1 Presentation of Financial Statements (issued in January 2020 and effective for annual reporting periods beginning on or after 1 January 2022). Amendments clarify the criteria for classifying obligations as short-term or long-term.
- The amendments to IFRS 9 Financial Instruments (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments clarify which fees included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
- The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments specify which costs are included in determining the cost of fulfilling a contract for assessing whether the contract is onerous.
- The amendments to IAS 16 Property, Plant and Equipment (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments prohibit deducting from the cost of property, plant and equipment amounts received from selling items produced while the asset is preparing for its intended use. Instead, such sales proceeds and related cost are recognised in profit or loss

The Company has reviewed this interpretation and amendments to standards while preparing the condensed interim financial information. The interpretation and amendments to standards have no significant impact on the Company’s condensed interim financial information.

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 25).

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

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FOR THE SIX MONTHS ENDED 30 JUNE 2020

(In thousands of Russian Roubles, unless otherwise stated)

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 statements.

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 recognised 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.

Accounting for lease liabilities and right-of-use assets

At inception of a contract the Company estimates whether the contract contains a lease. A contract contains a lease if it contains enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. The Company recognise a right-of-use asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee. Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date. Right-of-use assets are measured at cost comprising the following: the amount of the initial measurement of the lease liability; lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs; an estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset. A right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company apply a single discount rate to a portfolio of leases with similar characteristics. The lease payments are discounted using the borrowing rate. When measuring the present value of lease payments, the Company applies professional judgement to determine the incremental borrowing rate if the discount rate is not implicit in the lease. When determining the incremental borrowing rate, the Company's management analyses borrowings over a similar term in a similar period. If there are no borrowings with similar characteristics the discount rate is determined on the basis of the risk-free rate determined on the basis of State bonds. Assessment of the non-cancellable period is subject to management judgement, which takes into account all relevant facts and circumstances that create an economic incentive for the Company to exercise or not to exercise an option to extend the lease. These facts and circumstances include the need to extend the lease to continue operations, the period of construction and exploitation of assets on leased lands, useful lives of leased assets, potential dismantling and relocation costs. The Company does not recognise a right-of-use asset and a lease liability for short-term leases, the term of which does not exceed 12 months, and for leased assets of low value.

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NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(In thousands of Russian Roubles, unless otherwise stated)

5. FINANCIAL INSTRUMENTS

Current liabilities

	Note	30 June 2020	31 December 2019
Current assets			
Cash and cash equivalents	6	6,543,771	9,150,682
Accounts receivable from related parties	7	7,956,959	5,551,514
Other short-term accounts receivable	7	121,646	141,398
Non-current assets			
Other long-term accounts receivable	11	5,355	8,652
Total financial assets at amortised cost		14,627,731	14,852,245
Trade accounts payable	12	4,539,033	1,643,979
Current portion of long-term lease liabilities	12	20,400	57,058
Contract liabilities	12	870,736	-
Accounts payable to related parties	12	107,319	57,706
Other accounts payable	12	12,718	6,359
Non-current liabilities			
Trade accounts payable	16	341,417	179,696
Long-term lease liabilities	16	29,546	49,361
Total financial liabilities at amortised cost		5,921,169	1,994,159

6. CASH AND CASH EQUIVALENTS

	30 June 2020	31 December 2019
Deposit accounts	6,543,400	9,150,600
Current accounts	371	82
Total cash and cash equivalents	6,543,771	9,150,682

As at 30 June 2020 and as at 31 December 2019 cash was placed on deposit accounts for the period less than 3 months.

As at 30 June 2020 the weighted average interest rate on the deposit accounts of the Company was 3.50 % for Russian Roubles.

As at 31 December 2019 the weighted average interest rate on the deposit accounts of the Company was 4.95 % for Russian Roubles.

The fair value of cash and cash equivalents as at 30 June 2020 and as at 31 December 2019 approximates their carrying value.

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

	Rating	Rating agency	Credit limit for one bank	30 June 2020	31 December 2019
Bank GPB (JSC)	Baa3	Moody's	Not set	6,543,770	9 150 682
Bank VTB (PJSC)	Baa3	Moody's	Not set	1	-
Total cash and cash equivalents				6,543,771	9,150,682

OJSC SEVERNEFTEGAZPROM
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020
(In thousands of Russian Roubles, unless otherwise stated)

7. TRADE AND OTHER ACCOUNTS RECEIVABLE

	30 June 2020	31 December 2019
Financial assets		
Accounts receivable from related parties (Note 26)	7,956,959	5,551,514
Other accounts receivable	138,118	157,887
Allowance for expected credit losses	(16,472)	(16,489)
Total financial accounts receivable	8,078,605	5,692,912
Non-financial assets		
VAT recoverable	285,063	584,649
Advances to suppliers	98,194	69,386
Prepaid taxes, other than income tax	5,633	5,397
Total non-financial accounts receivable	388,890	659,432
Total trade and other accounts receivable	8,467,495	6,352,344

As at 30 June 2020 and as at 31 December 2019 accounts receivable 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 LLC Vneshprombank. 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, in 2015 the Company reclassified the deposit in the amount of RUB 1,851,570 thousand into accounts receivable and accrued allowance for expected credit losses for the whole amount. As at December 31, 2019, an analysis of the possibility of debt collection was conducted. The management of the Company decided to write off the full amount of debt due to the created provision for expected credit losses in the amount of 1,896,496 thousand rubles due to the fact that there is no probability of a deposit return.

Allowance for expected credit losses has been charged for the sum of overdue accounts receivable as at 30 June 2020 and as at 31 December 2019.

The ageing analysis of trade and other accounts receivable is as follows:

Ageing from the due date	Total overdue accounts receivable as at		Total allowance for expected credit losses as at		Total overdue accounts receivable net of allowance for expected credit losses as at	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	up to 1 year past due	1,079	1,079	(1,079)	(1,079)	-
1 to 3 years past due	13,374	13,422	(13,374)	(13,422)	-	-
over 3 years past due	2,019	1,988	(2,019)	(1,988)	-	-
Total	16,472	16,489	(16,472)	(16,489)	-	-

Change in the allowance for expected credit losses of accounts receivable is as follows:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Allowance for expected credit losses at the beginning of the period	(16,472)	(1,911,432)
Accrual of allowance	-	-
Reversal of allowance	-	-
Allowance for expected credit losses at the end of the period	(16,472)	(1,911,432)

As the principal debtors of the Company are related parties, the Company believes that the default risk is low. No accounts receivable from related parties were past due or impaired as at 30 June 2020 and as at 31 December 2019.

The fair value of accounts receivable as at 30 June 2020 and 31 December 2019 approximates their carrying value.

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NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

(In thousands of Russian Roubles, unless otherwise stated)

8. INVENTORIES

	30 June 2020	31 December 2019
Materials for extraction	709,660	770,890
Other materials	17,101	17,577
Impairment of materials for extraction	(215,804)	(238,515)
Total inventories	510,957	549,952

9. OTHER CURRENT ASSETS

	30 June 2020	31 December 2019
Assets held for sale	-	1,207
Total other current assets	-	1,207

As at 30 June 2020 there are no assets held for sale.

One asset held for sale as at 31 December 2019 (presented by one flat situated in the Urengoy settlement) has been sold.

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10. PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Others	Right-of-use assets	Prepayments and assets under construction	Total
Cost as at 1 January 2019	9,625,765	12,208,505	39,490,493	18,675,086	13,685,020	229,598	182,578	5,236,942	99,333,987
Additions	-	-	-	73,496	-	6,065	-	2,200,156	5,277,137
Change in component for decommissioning and site restoration obligation (Note 14)	-	18,626	-	-	-	-	-	-	18,626
Disposals	-	-	(1,018)	(8,451)	-	-	-	-	(9,469)
Transfer	-	1,868,992	249,773	34,333	-	6,863	-	(2,159,961)	-
Cost as at 30 June 2019	9,625,765	14,096,123	39,739,248	18,774,464	13,685,020	242,526	182,578	5,277,137	101,622,861
Additions	-	200,132	62,773	89,102	-	1,725	7,470	6,165,405	6,526,607
Change in component for decommissioning and site restoration obligation (Note 14)	1,181,998	1,060,051	5,059,579	514,093	-	-	-	-	7,815,721
Disposals	-	-	(627)	(74,321)	-	(601)	-	-	(75,549)
Transfer to inventories	-	-	-	-	-	-	-	(189,221)	(189,221)
Transfer	-	1,605,018	924,359	310,679	-	1,039	-	(2,841,095)	-
Cost as at 31 December 2019	10,807,763	16,961,324	45,785,332	19,614,017	13,685,020	244,689	190,048	8,412,226	115,700,419
Additions	-	72,753	-	47,411	-	2,216	-	8,973,153	9,095,533
Accrual of component for decommissioning and site restoration obligation (Note 14)	-	-	-	-	-	-	-	-	-
Disposals	-	(1,078)	(2,262)	(4,813)	-	-	-	-	(8,153)
Modification of lease contracts (IFRS 16)	-	-	-	-	-	-	(18,481)	-	(18,481)
Transfer	-	4,716,175	-	110,410	-	-	-	(4,826,585)	-
Cost as at 30 June 2020	10,807,763	21,749,174	45,783,070	19,767,025	13,685,020	246,905	171,567	12,558,794	124,769,318
Accumulated depreciation as at 1 January 2019	(4,173,037)	(4,465,104)	(15,398,282)	(7,312,221)	(5,768,750)	(156,520)	-	-	(37,273,914)
Depreciation	(243,447)	(415,289)	(1,075,509)	(625,361)	(353,437)	(11,061)	(33,544)	-	(2,757,648)
Disposals	-	-	155	8,272	-	-	-	-	8,427
Accumulated depreciation as at 30 June 2019	(4,416,484)	(4,880,393)	(16,473,636)	(7,929,310)	(6,122,187)	(167,581)	(33,544)	-	(40,023,135)
Depreciation	(406,953)	(774,549)	(1,856,139)	(918,591)	(590,813)	(12,029)	(41,159)	-	(4,600,233)
Disposals	-	-	198	78,532	-	582	-	-	79,312
Change in component for decommissioning and site restoration obligation	(533,083)	(513,607)	(2,441,088)	(219,176)	-	-	-	-	(3,706,954)
Accumulated depreciation as at 31 December 2019	(5,356,520)	(6,168,549)	(20,770,665)	(8,988,545)	(6,713,000)	(179,028)	(74,703)	-	(48,251,010)
Depreciation	(363,938)	(817,875)	(1,669,189)	(760,266)	(465,467)	(10,706)	(36,969)	-	(4,124,410)
Disposals	-	572	-	-	-	-	-	-	572
Accumulated depreciation as at 30 June 2020	(5,720,458)	(6,985,852)	(22,439,854)	(9,748,811)	(7,178,467)	(189,734)	(111,672)	-	(52,374,848)
Net book value as at 1 January 2019	5,452,728	7,743,401	24,092,211	11,362,865	7,916,270	73,078	-	5,236,942	61,877,495
Net book value as at 30 June 2019	5,209,281	9,215,730	23,265,612	10,845,154	7,562,833	74,945	149,034	5,277,137	61,599,726
Net book value as at 31 December 2019	5,451,243	10,792,775	25,014,667	10,625,472	6,972,020	65,661	115,345	8,412,226	67,449,409
Net book value as at 30 June 2020	5,087,305	14,763,322	23,343,216	10,018,214	6,506,553	57,171	59,895	12,558,794	72,394,470

For the six months ended 30 June 2020 and for the year ended 31 December 2019 borrowing costs were not capitalised 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 2020 there were no such indicators, accordingly the Company did not conduct an impairment test of the property plant and equipment as at this date.

As at 30 June 2020 property, plant and equipment included prepayments for assets under construction in the amount of RUB 1,451,964 thousand (RUB 2,809,945 thousand as at 31 December 2019).

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As at 30 June 2020 property, plant and equipment included right-of-use assets in the amount of RUB 59,895 thousand (RUB 115,345 thousand as at 31 January 2019). Right-to-use assets are mainly represented by leases of real estate and land.

Change of right-of-use assets for the six months ended 30 June 2020 is provided below:

	Buildings and facilities	Others (land lease)	Total
Cost as at 31 January 2020			
Initial recognition	142,207	47,841	190,048
Effect of leases modification	-	(18,481)	(18,481)
Cost as at 30 June 2020	142,207	39,360	171,567
Accumulated depreciation as at 31 January 2020	(72,788)	(1,915)	(74,703)
Depreciation	(36,394)	(575)	(36,969)
Accumulated depreciation as at 30 June 2020	(109,182)	(2,490)	(111,672)
Net book value as at 30 June 2020	33,025	36,870	59,895

Unit-of-production depreciation, depletion and amortisation charged are principally measured based on Company's estimation 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 extract is assured with reasonable certainty.

The unit-of-production depreciation rate for the property, plant and equipment was 6.676 % for the six months ended 30 June 2020 (for the six months ended 30 June 2019: 4.465 %).

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 RECEIVABLE

	30 June 2020	31 December 2019
Financial assets		
Other accounts receivable	5,355	8,652
Non-financial assets		
Advances to suppliers	-	-
Total long-term accounts receivable	5,355	8,652

The fair value of long-term accounts receivable as at 30 June 2020 and 31 December 2019 approximates their carrying value.

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12. ACCOUNTS PAYABLE AND PROVISIONS

	Note	30 June 2020	31 December 2019
Financial liabilities			
Trade accounts payable		4,539,033	1,643,979
Accounts payable to related parties	26	107,319	604,031
Payable for supply contracts to related parties	26	870,736	-
Current portion of long-term lease liabilities		20,400	57,058
Other accounts payable		12,718	6,359
Total financial liabilities		5,550,206	2,311,427
Non-financial liabilities			
Wages and salaries		391,535	263,274
Provision for employee bonuses		939	66,143
Advances received		-	17,268
Provision for revegetation		12,645	12,645
Estimated expenses for seasonal works and equipment installation		-	875
Total non-financial liabilities		405,119	360,205
Total accounts payable and provisions		5,955,325	2,671,632

The Board of the Company held in June 2020 has decided to establish price for gas supply contracts for the first half of 2020; as a result the gas price for the first half of 2020 decreased by 3%. At the reporting date the additional contracts with the counterparties have not been signed. In this regard, as at June 30, 2020 a contracts liability with PJSC Gazprom, CJSC Gazprom YRGM Trading and JSC Gazprom Development in the amount of RUB 870,736 thousand was recognized.

13. TAXES PAYABLE OTHER THAN INCOME TAX

	30 June 2020	31 December 2019
Mineral extraction tax	2,215,115	2,607,389
Value added tax	1,423,419	2,043,344
Property tax	168,744	162,904
Insurance contributions for employees	123,928	63,086
Personal income tax	29,454	19,087
Other taxes and accruals	481	775
Total taxes payable other than income tax	3,961,141	4,896,585

14. PROVISIONS

	30 June 2020	31 December 2019
Provision for decommissioning and site restoration	10,582,113	10,174,748
Provision for employee benefits	1,353,074	1,319,520
Provision for legal proceedings	3,000	-
Total provisions	11,938,187	11,494,268

As at 30 June 2020 the Company has one unfinished legal proceeding concerning the moral damage recovery with a 100% negative outcome for the Company. The Company has recognized the provision for legal proceedings in amount of RUB 3,000 thousand.

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Provision for decommissioning and site restoration

	Note	Six months ended 30 June 2020	Six months ended 30 June 2019
Provision for decommissioning and site restoration at the beginning of the period		10,174,748	5,251,727
Provision accrual		74,194	28,309
Increase in discounted value for the period	24	333,171	233,960
Provision for decommissioning and site restoration at the end of the period		10,582,113	5,513,997

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development. 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 2020 was 6.58 % (as at 31 December 2019 – 6.58 %), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

Provisions for employee benefits

The Company operates post-employment and other long-term 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, JSC NPF GAZFOND, and post-retirement benefits from the Company provided upon retirement. The amount of post-employment and other long-term 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 employee benefits recognised in the balance sheet is provided below:

	Provision for employee benefits as at	
	30 June 2020	31 December 2019
Present value of benefit obligations	2,177,370	2,087,982
Fair value of plan assets	(824,296)	(768,462)
Total net liabilities	1,353,074	1,319,520

The principal assumptions used for the measurement post-employment and other long-term benefit obligations for the six months ended 30 June 2020 were the same as those applied for the year ended 31 December 2019 with exception of the discount rate determined by reference to market yields on government securities. The decrease in the discount rate from 6.30 % to 6.10 % resulted in recognition of an actuarial loss of RUB 47,847 thousand in other comprehensive income for the six months ended 30 June 2020.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the periods ended 30 June 2020 and 30 June 2019 are provided below:

	Provision for employee benefits (post- employment benefits)	Provision for employee benefits (other long-term benefits)	Fair value of plan assets	Net liability / (asset)
As at 31 December 2019	2,041,549	46,433	(768,462)	1,319,520
Current service cost	82,705	9,898	-	92,603
Interest expense / (income)	62,528	1,412	(24,207)	39,734
Loss on revaluation of other long-term benefits	-	1,263	-	1,263
Total expenses included in staff costs	145,233	12,574	(24,207)	133,600
Loss from remeasurements of post-employment benefits obligations	47,847	-	-	47,847
Gain on plan assets excluding amounts included in net interest expense	-	-	(1,563)	(1,563)
Total loss recognised in the other comprehensive income	47,847	-	(1,563)	46,283
Benefits paid	(113,076)	(3,190)	85,476	(30,790)
Contributions by employer	-	-	(115,540)	(115,540)
Closing balance as at 30 June 2020	2,121,553	55,817	(824,296)	1,353,074

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	Provision for employee benefits (post- employment benefits)	Provision for employee benefits (other long-term benefits)	Fair value of plan assets	Net liability / (asset)
As at 31 December 2018	1,454,377	135,050	(650,317)	939,110
Current service cost	161,420	6,850	-	168,270
Interest expense / (income)	61,010	5,579	(27,964)	38,625
Increase in obligations as a result of plan amendments	-	18,656	-	18,656
Total expenses included in staff costs	222,430	31,085	(27,964)	(225,551)
Loss from remeasurements of post-employment benefit obligations	212,116	-	-	212,116
Loss on plan assets excluding amounts included in net interest expense	-	-	87,501	87,501
Total loss recognised in the other comprehensive income	212,116	-	87,501	299,617
Benefits paid	(35,532)	(5,300)	9,275	(31,557)
Contributions by employer	-	-	(129,594)	(129,594)
Closing balance as at 30 June 2019	1,853,391	160,835	(711,099)	1,303,127

15. INCOME TAX

Income tax expense comprises the following:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Current tax expense	1,282,279	1,199,246
Deferred tax expense	(609,319)	(99,248)
Total tax expense	672,960	1,099,998

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

As at 30 June 2020 and as at 30 June 2019 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).

	30 June 2020	Tax effect of movement in temporary differences Recognised in other comprehensive income	1 January 2020
Tax effect of taxable temporary differences:			
Property, plant and equipment	(7,019,853)	424,588	(7,444,441)
Other temporary differences	14,318	-	14,318
Total	(7,005,535)	424,588	(7,430,123)
Tax effect of deductible temporary differences:			
Inventories	36,482	(1,760)	38,242
Trade and other accounts receivable	408,431	49,526	358,905
Other deductible temporary differences	225,012	136,965	9,257
Total	669,925	184,731	475,937
Total net deferred tax (liabilities) / assets	(6,335,610)	609,319	(6,954,186)

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The tax effect of the movement in these temporary differences for the same period 2019 are provided below.

	30 June 2019	Differences recognition and reversals		1 January 2019
		Recognised in profit or loss	Recognised in other comprehensive income	
Tax effect of taxable temporary differences:				
Property, plant and equipment	(6,877,697)	195,043	-	(7,072,740)
Total	(6,877,697)	195,043	-	(7,072,740)
Tax effect of deductible temporary differences:				
Inventories	38,808	(149)	-	38,957
Trade and other accounts receivable	368,817	(5,117)	-	373,934
Other deductible temporary differences	44,841	90,529	61,630	73,740
Total	452,466	(95,795)	61,630	486,631
Total net deferred tax (liabilities) / assets	(6,425,231)	99,248	61,630	(6,586,109)

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

16. LONG-TERM ACCOUNTS PAYABLE

	30 June 2020	31 December 2019
Trade accounts payable	341,417	179,696
Long-term lease liabilities	29,546	49,361
Total trade accounts payable	370,963	229,057

17. EQUITY

Share capital

Share capital of the Company authorised, issued and paid totals RUB 40,000 thousand as at 30 June 2020 and 31 December 2019 and consists of 533,324 ordinary shares with the nominal value of RUB 60 per share and 2 preference shares (type "A") with the nominal value of RUB 2,462 thousand per share, 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.

The excess of the proceeds from share issuance over the nominal value was recorded in equity as the share premium. After the share capital increase from its own funds (from the share premium) in 2011, the share premium amounted to RUB 25,099,045 thousand.

As at 30 June 2020 and 31 December 2019 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 its holders the right to participate at general shareholders' meetings without voting rights unless decisions are made in relation to reorganisation and liquidation of the Company and 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 the dividend is paid.

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Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognised 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 related tax was recorded in equity as Other reserves. During 2007-2008 years the Company redeemed all the loans for which Other reserves were recognised. The fair value effect in the amount of RUB 873,253 thousand, net of income tax RUB 275,810 thousand, was recognised in Other reserves.

Other reserves include other comprehensive income related to the reassessment of estimated post-employment benefits obligations net of related income tax (Note 14).

Dividends

The Annual General Meeting of the Shareholders of the Company held on 30 June 2020 decided to pay dividends in the amount of RUB 4,408,462 thousand for the year ended 31 December 2019. The dividends will be paid out in the third quarter of 2020.

The Annual General Meeting of the Shareholders of the Company held on 4 June 2019 decided to pay dividends in the amount of RUB 1,840,114 thousand for the year ended 31 December 2018.

All dividends are declared and paid in 2019 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 statutory accounting. The statutory accounting reports of the Company are the basis for profit distribution according to legislation of the Russian Federation.

18. REVENUE

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue from gas sales	11,356,375	12,637,341	24,208,788	26,475,634
Total revenue	11,356,375	12,637,341	24,208,788	26,475,634

All customers of the Company are related parties (Note 26).

19. COST OF SALES

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Mineral extraction tax (MET)	7,089,935	7,532,891	14,273,250	16,222,311
Depreciation of property, plant and equipment and right-of-use assets	2,033,795	1,306,068	4,077,939	2,715,022
Staff costs	613,984	601,673	1,242,943	1,218,236
Property tax	178,954	173,620	353,548	348,134
Repairment and technical maintenance	83,718	89,870	188,630	224,355
Materials	83,254	81,311	99,313	110,289
Insurance	32,652	31,390	65,699	62,965
Other outsourced production services	31,174	11,407	38,484	45,152
Fire safety and security services	16,653	12,884	32,660	25,189
Software support costs	8,973	17,345	24,069	34,531
Transportation costs	7,859	17,441	22,247	31,591
Geophysical services	-	27,249	-	33,388
Fuel costs	7,986	11,564	19,955	24,553
Rent expenses	6,378	6,492	12,840	12,704
Other	11,790	19,930	15,456	43,571
Total cost of sales	10,207,105	9,941,135	20,467,033	21,151,991

Depreciation of property, plant and equipment in the amount of RUB 11,552 thousand for the six months ended 30 June 2020 was capitalised into assets under construction (for the period ended 30 June 2019: RUB 9,082 thousand).

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Average MET rate for the six months ended 30 June 2020 was approximately RUB 1,205 per 1,000 cubic meters for the Cenomanian gas and RUB 253 per 1,000 cubic meters for the Turonian gas.

Average MET rate for the six months ended 30 June 2019 was approximately RUB 1,291 per 1,000 cubic meters for the Cenomanian gas and RUB 271 per 1,000 cubic meters for the Turonian gas.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Administrative staff costs	191,820	173,637	388,625	383,630
Consulting services	31,000	-	43,000	-
Depreciation of right-of-use assets	17,732	16,570	35,465	33,135
Insurance	10,825	7,773	21,358	15,838
Overhaul of other objects	9,380	-	19,966	-
Industrial safety and security services	7,237	5,348	13,442	10,728
Advertising	600	1,373	9,442	9,599
Heat and electricity	3,698	3,778	9,150	9,282
Materials and spare parts	4,329	6,816	7,225	9,784
Communication services	2,840	2,711	5,598	5,458
Maintenance	2,592	4,088	5,563	6,059
Software support	2,663	3,166	5,358	5,335
Rent expenses	504	306	1,012	777
Other	10,782	18,855	20,096	35,921
Total general and administrative expenses	296,002	244,421	585,300	525,546

21. OTHER OPERATING INCOME

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Fees and penalties due to violation of contract covenants	39,120	9,656	42,307	17,998
Gain from assets held for sale	3,613	-	3,613	-
Gain on disposal of property, plant and equipment	-	-	1,070	2,471
Reversal of impairment allowance on materials for extraction	-	8,320	-	8,320
Rent income on property, plant and equipment	754	1,207	1,618	2,350
Reimbursement of the road maintenance costs	270	879	1,442	1,404
Remeasurement of employee benefits	-	-	3,477	-
Gain of material recognizing	356	291	639	3,580
Other	471	785	3,703	863
Total other operating income	44,584	21,138	57,869	36,986

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22. OTHER OPERATING EXPENSES

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Social costs	2,140	3,977	63,096	67,224
Loss on disposal of materials	10,510	8,025	38,274	8,025
Loss from assets held for sale	3,929	-	8,741	-
The costs of registration of rights for real estate and land	61	-	4,105	-
Legal proceedings	3,000	-	3,000	-
House renting to employees	1,157	1,874	2,349	3,845
Remeasurement of employee benefits	4,740	15,568	4,740	18,656
Non-refundable VAT	328	1,141	1,052	1,812
Evaluation and expert service	-	-	660	-
Administrative fines	-	-	600	-
Souvenirs	54	281	447	558
Other	13,733	8,969	18,266	13,139
Total other operating expenses	39,652	39,862	145,330	113,259

23. FINANCE INCOME

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Interest income	99,464	111,363	202,599	195,161
Foreign currency exchange gains	380	21	380	395
Total finance income	99,844	111,384	202,979	195,556

24. FINANCE EXPENSE

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Unwinding of discount cost of provision for decommissioning and site restoration (Note 14)	167,074	116,980	333,171	233,960
Interest expense on provision for post-employment benefits (Note 14)	19,409	18,873	39,734	38,625
Interest expense on long-term lease liability	2,085	3,394	4,169	6,790
Foreign currency exchange losses	-	3	317	3
Total finance expense	188,568	139,250	377,391	279,378

25. 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

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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 2020 and preceding years 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.

(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 utilisation with the investment programme for 2020 is RUB 9,464,914 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.

26. 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 of the Company. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Dea GmbH, which is part of the BASF SE and Letter One Group and OMV Exploration & Production GmbH, which is part of the OMV Group have significant influence on the Company (Note 1).

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Transactions of the Company with related parties for the periods ended 30 June 2020 and 31 December 2019 are presented below:

	Note	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Sales of gas to PJSC Gazprom (Gazprom Group)	18	4,542,550	5,054,936	9,683,515	10,590,253
Sales of gas to CJSC Gazprom YRGM Trading (BASF SE Group)	18	3,974,731	4,423,070	8,473,076	9,266,472
Sales of gas to JSC Gazprom YRGM Development (OMV Group)	18	2,839,094	3,159,335	6,052,197	6,618,909
Other sales		195	206	498	492
Transaction with Gazprom Groups Companies		222,706	93,401	314,363	229,977

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

Cash and cash equivalents	Note	30 June 2020	31 December 2019
Bank GPB (JSC)	6	6,543,770	9,150,682
Total cash and cash equivalents		6,543,770	9,150,682

Information on significant transactions concerning interest income with related parties:

Interest income	Note	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Bank GPB (JSC)	23	99,464	111,363	202,599	187,547
Total interest income		99,464	111,363	202,599	187,547

Significant balances with related parties are summarised as follows:

Accounts receivable	Note	30 June 2020	31 December 2019
PJSC Gazprom		3,874,534	2,219,341
CJSC Gazprom YRGM Trading		1,656,936	,941,923
JSC Gazprom Development		2,421,583	1,387,088
Bank GPB (JSC)		-	1,195
Gazprom Group companies		3,906	1,967
Total accounts receivable	7	7,956,959	5,551,514

As at 30 June 2020 and 31 December 2019 short-term accounts receivable of related parties were non-interest bearing, had maturity within one year and were denominated in Russian Roubles.

Accounts payable	Note	30 June 2020	31 December 2019
Accounts payable to Gazprom Group companies	12	107,319	57,706
Total accounts payable		107,319	57,706

Contracts liability with related parties	Note	30 June 2020	31 December 2019
PJSC Gazprom	13	348,294	-
CJSC Gazprom YRGM Trading	13	304,758	-
JSC Gazprom Development	13	217,684	-
Total		870,736	-

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Transactions with parties under control of the Government

Information on significant transactions with parties under control of the Government:

Interest income	Note	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
VTB Bank (PJSC)	23	-	-	-	7,614
Total interest income		-	-	-	7,614

Cash and cash equivalents	Note	30 June 2020	31 December 2019
VTB Bank (PJSC)	6	1	-
Total cash and cash equivalents		1	-

Accounts payable	Note	30 June 2020	31 December 2019
JSC United Engine Corporation	12	-	546,325
Total accounts payable		-	546,325

The Company hadn't significant transactions with state-controlled organisations except for transactions with the Gazprom Group Companies and their related parties.

Transactions with Key Management Personnel

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

The General Director and his ten deputies compensation is presented below:

	Three months ended 30 June 2020	Three months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
Short-term benefits	92,394	98,740	155,860	183,099
Other long-term benefits	24,491	-	48,982	15,007
Total compensation	116,885	98,740	204,842	198,106

27. SUBSEQUENT EVENTS

Since the beginning of 2020, the uncertainty and volatility of the world currency, trade and financial markets caused by the spread of coronavirus infection (COVID-19) has increased. The combined impact of several factors has resulted in a sharp depreciation of the Russian Ruble against the other foreign currencies and a decrease in world oil prices. Due to the uncertainty and duration of these events, the Company cannot accurately and reliably assess the quantitative effect of these events on its financial position. The Company's management monitors the situation and takes the necessary measures.