

**OJSC SEVERNEFTEGAZPROM**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**INTERIM CONDENSED FINANCIAL INFORMATION**

**(UNAUDITED)**

**30 JUNE 2019**

## Contents

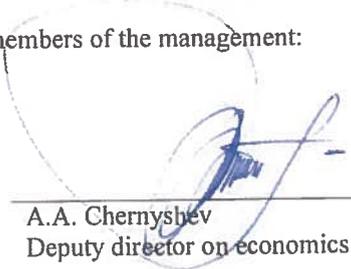
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**OJSC SEVERNEFTEGAZPROM**  
**INTERIM CONDENSED FINANCIAL STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 30 JUNE 2019**  
*(In thousands of Russian Roubles)*

	Note	30 June 2019	31 December 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	5,002,185	6,754,924
Trade and other accounts receivable	7	10,782,031	6,291,616
Inventories	8	542,268	511,501
Current income tax prepayment		72,956	577,444
Other current assets	9	1,207	1,207
<b>Total current assets</b>		<b>16,400,647</b>	<b>14,136,692</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	61,588,639	61,877,495
Long-term accounts receivable	11	28,281	32,863
<b>Total non-current assets</b>		<b>61,616,920</b>	<b>61,910,358</b>
<b>TOTAL assets</b>		<b>78,017,567</b>	<b>76,047,050</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and provisions	12	1,559,905	1,315,831
Taxes payable other than income tax	13	5,437,878	7,208,287
Dividends payable	17	1,472,091	-
<b>Total current liabilities</b>		<b>8,469,874</b>	<b>8,524,118</b>
<b>Non-current liabilities</b>			
Provisions	14	6,817,124	6,190,837
Deferred income tax liabilities	15	6,425,231	6,586,109
Long-term accounts payable	16	160,468	50,421
<b>Total non-current liabilities</b>		<b>13,402,823</b>	<b>12,827,367</b>
<b>Total liabilities</b>		<b>21,872,697</b>	<b>21,351,485</b>
<b>Equity</b>			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	575,768	813,755
Retained earnings		30,430,057	28,742,765
<b>Total equity</b>		<b>56,144,870</b>	<b>54,695,565</b>
<b>TOTAL liabilities and equity</b>		<b>78,017,567</b>	<b>76,047,050</b>

Approved for issue and signed on 31 July 2019 by the following members of the management:

  
A.A. Kasyanenko  
Acting General Director

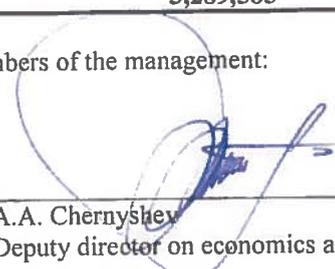
  
A.A. Chernyshev  
Deputy director on economics and finance

**OJSC SEVERNEFTEGAZPROM**  
**INTERIM CONDENSED FINANCIAL STATEMENT OF PROFIT OR LOSS AND OTHER**  
**COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(In thousands of Russian Roubles)*

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Revenue	18	26,475,634	21,856,435
Cost of sales	19	(21,151,991)	(17,907,422)
<b>Gross profit</b>		<b>5,323,643</b>	<b>3,949,013</b>
General and administrative expenses	20	(525,546)	(607,000)
Exploration costs		(10,432)	(1,707)
Other operating income	21	36,986	19,802
Other operating expenses	22	(113,259)	(104,873)
<b>Operating profit</b>		<b>4,711,392</b>	<b>3,255,235</b>
Finance income	23	195,556	225,546
Finance expense	24	(279,378)	(271,899)
<b>Profit before income tax</b>		<b>4,627,570</b>	<b>3,208,882</b>
Income tax	15	(1,099,998)	(749,302)
<b>Profit for the period</b>		<b>3,527,572</b>	<b>2,459,580</b>
<b>Other comprehensive (loss) / income:</b>			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	14	(299,617)	122,403
Related income tax		61,630	(24,481)
<b>Total other comprehensive (loss) / income that will not be reclassified to profit or loss</b>		<b>(237,987)</b>	<b>97,922</b>
<b>Other comprehensive (loss) / income for the period</b>		<b>(237,987)</b>	<b>97,922</b>
<b>Comprehensive income for the period</b>		<b>3,289,585</b>	<b>2,557,502</b>

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A.A. Kasyanenko  
Acting General Director

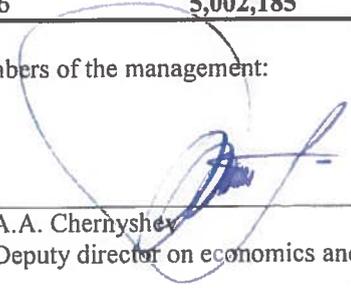
  
A.A. Chernyshev  
Deputy director on economics and finance

**OJSC SEVERNEFTEGAZPROM**  
**INTERIM CONDENSED FINANCIAL STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(In thousands of Russian Roubles)*

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
<b>Profit before income tax</b>		<b>4,627,570</b>	<b>3,208,882</b>
<b>Adjustments for:</b>			
Interest income	23	(195,161)	(225,510)
Finance expense excluding foreign currency exchange losses	24	272,585	271,689
Depreciation	19	2,715,022	2,611,787
Gain on disposal of property, plant and equipment	21	(2,471)	(3,190)
Net foreign exchange (gain) / loss	23, 24	(392)	174
Interest expense on leases liabilities	24	6,790	-
Recovery of impairment allowance on materials for extraction	21	(8,320)	(8,231)
Change in provisions for post-employment benefits		25,774	108,873
Other non-cash transactions		9,082	14,520
<b>Operating cash flows before changes in working capital</b>		<b>7,450,479</b>	<b>5,978,994</b>
Change in inventories		(22,447)	33,674
Change in trade and other accounts receivable		(4,495,017)	(3,209,105)
Change in accounts payable, provisions and taxes payable other than income tax		(1,834,315)	(1,996,331)
Income tax paid		(694,758)	(896,536)
<b>Net cash from operating activities</b>		<b>403,942</b>	<b>(89,304)</b>
<b>Cash flows from investing activities</b>			
Capital expenditures		(1,946,387)	(579,426)
Interest received		196,890	228,574
Proceeds from sale of property, plant and equipment and assets held for sale		2,471	3,190
<b>Net cash used in investing activities</b>		<b>(1,747,026)</b>	<b>(347,662)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(368,023)	(2,964,762)
Repayment of lease liabilities		(41,632)	-
<b>Net cash used in financing activities</b>		<b>(409,655)</b>	<b>(2,964,762)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,752,739)</b>	<b>(3,401,728)</b>
Effect of foreign exchange rate changes on cash and cash equivalents		-	-
<b>Cash and cash equivalents at the beginning of the period</b>	6	<b>6,754,924</b>	<b>7,534,064</b>
<b>Cash and cash equivalents at the end of the period</b>	6	<b>5,002,185</b>	<b>4,132,336</b>

Approved for issue and signed on 31 July 2019 by the following members of the management:

  
A.A. Kasyanenko  
Acting General Director

  
A.A. Chernyshev  
Deputy director on economics and finance

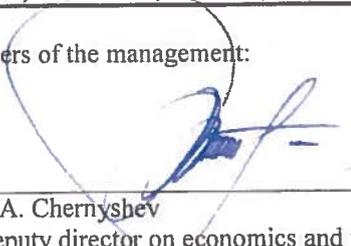
**OJSC SEVERNEFTEGAZPROM**  
**INTERIM CONDENSED FINANCIAL STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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

	Note	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
<b>Balance as at</b>							
<b>1 January 2018</b>		<b>533,330</b>	<b>40,000</b>	<b>25,099,045</b>	<b>660,146</b>	<b>29,067,782</b>	<b>54,866,973</b>
Profit for the period		-	-	-	-	2,459,580	2,459,580
Other comprehensive income for the period		-	-	-	97,922	-	97,922
<b>Comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>97,922</b>	<b>2,459,580</b>	<b>2,577,502</b>
Dividends	17	-	-	-	-	(2,964,762)	(2,964,762)
<b>Balance as at</b>							
<b>30 June 2018</b>		<b>533,330</b>	<b>40,000</b>	<b>25,099,045</b>	<b>758,068</b>	<b>28,562,600</b>	<b>54,459,713</b>
<b>Balance as at</b>							
<b>1 January 2019</b>		<b>533,330</b>	<b>40,000</b>	<b>25,099,045</b>	<b>813,755</b>	<b>28,742,599</b>	<b>54,695,399</b>
Profit for the period		-	-	-	-	3,527,572	3,527,572
Other comprehensive loss for the period		-	-	-	(237,987)	-	(237,987)
<b>Comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(237,987)</b>	<b>3,527,572</b>	<b>3,289,585</b>
Dividends	17	-	-	-	-	(1,840,114)	(1,840,114)
<b>Balance as at</b>							
<b>30 June 2019</b>		<b>533,330</b>	<b>40,000</b>	<b>25,099,045</b>	<b>575,768</b>	<b>30,430,057</b>	<b>56,144,870</b>

Approved for issue and signed on 31 July 2019 by the following members of the management:

  
A.A. Kaspyanenko  
Acting General Director

  
A.A. Chernyshev  
Deputy director on economics and finance

**OJSC SEVERNEFTEGAZPROM**  
**IFRS NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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

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## **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 2019 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” 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.

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 63.0756 and 69.4706 as at 30 June 2019 and 31 December 2018, respectively. The official Russian Rouble to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 71.4605 and 79.4605 as at 30 June 2019 and 31 December 2018, respectively.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of preparation**

The interim condensed financial information is prepared in accordance with requirements of International Accounting Standard 34 Interim financial reporting (IAS 34). This interim condensed financial information should be read in conjunction with the financial statements for the year ended 31 December 2018 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 2018, except for the application of new standards IFRS 16 Leases that became effective on 1 January 2019.

Certain amounts in comparative period were reclassified to provide their comparability with the information in the reported 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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**IFRS NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(In thousands of Russian Roubles, unless otherwise stated)*

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**(b) New financial reporting standards**

**Application of IFRS 16 Leases**

The Company has applied IFRS 16 Leases since 1 January 2019. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases in financial statements.

The Company applied the retrospective approach, which means that the cumulative effect of initially applying IFRS 16 Leases was recognised at the date of initial application, i.e. 1 January 2019, without restatement of the comparative information.

The Company applied the following practical assumptions:

- the standard was applied to contracts that had been previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease and was not applied to contracts that had not been previously identified as containing a lease applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease;
- leases agreements for which the lease term ends within 12 months of the date of initial application of the standard were recognised as short-term leases and expenses associated with those leases was included in the article “Rental expenses” within operating expenses in the consolidated interim condensed statement of comprehensive income;
- initial direct costs were excluded from the measurement of the right-of-use assets at the date of initial application;
- a single discount rate was applied to a portfolio of leases with similar characteristics

The Company recognised lease liabilities at the date of initial application at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

For some leases the Company recognised right-of-use assets at the date of initial application at its carrying amount as if IFRS 16 Leases had been applied since the contract commencement date.

The difference between the carrying amount of assets and liabilities and their carrying amount at the date of initial application was recognised in the opening balance of retained earnings and other reserves and noncontrolling interest in the consolidated interim condensed statement of changes in equity of the Group as of 1 January 2019.

Accounting policy applied from 1 January 2019

At inception of a contract the Company estimates whether the contract contains lease terms. A contract contains lease terms if it contains legal 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 recognises 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.

Obligation under lease contracts are initially measured at the discounted value of the lease payments that have not yet been paid at that date of recognition.

The lease payments are discounted using the Company’s incremental borrowing rate, being the rate that as of the commencement date the Company would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value of the right-of-use asset in a similar economic environment.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- lease payments made at or before the commencement date less any lease incentives received;

- any initial direct 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 with of low value.

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 estimated useful life of an asset is determined on the same basis as of the fixed asset. In addition, the value of a right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain revaluations of the lease liability.

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

Following interpretation and amendments to current standards became effective after 1 January 2019:

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 a part of the net investments in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.

The amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.

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 capitalisation in particular circumstances.

The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.

The amendments to IAS 12 Income Taxes (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.

The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.

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

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

The Company has not early adopted 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 Company is currently assessing the impact of these 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 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***

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

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of the pension plan and these restrictions can be adjusted in the future.

**5. FINANCIAL INSTRUMENTS**

	Note	30 June 2019	31 December 2018
<b>Current assets</b>			
Cash and cash equivalents	6	5,002,185	6,754,924
Accounts receivable from related parties	7	10,164,996	5,596,840
Other short-term accounts receivable	7	91,953	142,140
<b>Non-current assets</b>			
Long-term other accounts receivable	11	28,281	32,863
<b>Total financial assets at amortised cost</b>		<b>15,287,414</b>	<b>12,526,767</b>

	Note	30 June 2019	31 December 2018
<b>Current liabilities</b>			
Trade accounts payable	12	1,190,681	807,866
Accounts payable to related parties	12	36,493	90,773
Other accounts payable	12	9,690	8,162
<b>Non-current liabilities</b>			
Trade accounts payable	16	85,384	49,653
Account payable to related parties	16	768	768
<b>Total financial liabilities at amortised cost</b>		<b>1,323,016</b>	<b>957,222</b>

**6. CASH AND CASH EQUIVALENTS**

	30 June 2019	31 December 2018
Deposit accounts	5,002,000	6,753,800
Current accounts	185	1,124
<b>Total cash and cash equivalents</b>	<b>5,002,185</b>	<b>6,754,924</b>

As at 30 June 2019 and as at 31 December 2018 cash was placed on deposit accounts for the period less than 3 months.

As at 30 June 2019 the weighted average interest rate on the deposit accounts of the Company was 6.25 % for Russian Roubles.

As at 31 December 2018 the weighted average interest rate on the deposit accounts of the Company was 6.07% for Russian Roubles.

The fair value of cash and cash equivalents as at 30 June 2019 and 31 December 2018 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 2019	31 December 2018
Bank GPB (JSC)	Ba2	Moody's	Not set	5,002,185	5,254,924
VTB Bank (PJSC)	Ba2	Moody's	Not set	-	1,500,000
<b>Total cash and cash equivalents</b>				<b>5,002,185</b>	<b>6,754,924</b>

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**7. TRADE AND OTHER ACCOUNTS RECEIVABLE**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Financial assets</b>		
Accounts receivable from related parties (Note 26)	10,164,996	5,596,840
Other accounts receivable	2,003,385	2,053,572
Allowance for expected credit losses	(1,911,432)	(1,911,432)
<b>Total financial accounts receivable</b>	<b>10,256,949</b>	<b>5,738,980</b>
<b>Non-financial assets</b>		
VAT recoverable	460,656	498,619
Advances to suppliers	63,839	47,527
Prepaid taxes, other than income tax	587	6,490
<b>Total non-financial accounts receivable</b>	<b>525,082</b>	<b>552,636</b>
<b>Total trade and other accounts receivable</b>	<b>10,782,031</b>	<b>6,291,616</b>

As at 30 June and 31 December 2018 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. 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. Due to the revocation of the bank license on 21 January 2016 the return probability of the deposit is assessed as low.

Allowance for expected credit losses has been charged for the sum of overdue accounts receivable as at 30 June 2019 and 31 December 2018.

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 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	Up to 1 year past due	12,948	12,948	(12,948)	(12,948)	-
1 to 3 years past due	-	-	-	-	-	-
Over 3 years past due	1,898,484	1,898,484	(1,898,484)	(1,898,484)	-	-
<b>Total</b>	<b>1,911,432</b>	<b>1,911,432</b>	<b>(1,911,432)</b>	<b>(1,911,432)</b>	<b>-</b>	<b>-</b>

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

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Allowance for expected credit losses at the beginning of the period	(1,911,432)	(1,898,861)
Accrued/reversal of allowance	-	-
<b>Allowance for expected credit losses at the end of the period</b>	<b>(1,911,432)</b>	<b>(1,898,861)</b>

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 2019 and of 31 December 2018.

The fair value of accounts receivable as at 30 June 2019 and 31 December 2018 approximates their carrying value.

**8. INVENTORIES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Materials for extraction	747,060	716,497
Other materials	18,186	26,301
Impairment of materials for extraction	(222,978)	(231,297)
<b>Total inventories</b>	<b>542,268</b>	<b>511,501</b>

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**9. OTHER CURRENT ASSETS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Assets held for sale	1,207	1,207
<b>Total other current assets</b>	<b>1,207</b>	<b>1,207</b>

As at 30 June 2019 and 31 December 2018 assets held for sale are presented by one flat situated in the Urengoy settlement.

As at 30 June 2019 and 31 December 2018 assets held for sale were recognised at fair value net of expenses for sale.

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**10. PROPERTY, PLANT AND EQUIPMENT**

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Others	Prepayments and assets under construction	Total
<b>Cost as at 1 January 2018</b>	<b>9,610,147</b>	<b>11,881,744</b>	<b>39,124,053</b>	<b>18,248,891</b>	<b>13,685,020</b>	<b>212,484</b>	<b>764,323</b>	<b>93,526,662</b>
Additions	-	-	-	65,638	-	923	512,865	579,426
Disposals	-	-	-	(2,482)	-	-	(5,609)	(8,091)
Transfer	-	-	101,209	9,935	-	-	(111,144)	-
<b>Cost as at 30 June 2018</b>	<b>9,610,147</b>	<b>11,881,744</b>	<b>39,225,262</b>	<b>18,321,982</b>	<b>13,685,020</b>	<b>213,407</b>	<b>1,160,435</b>	<b>94,097,997</b>
Additions	-	2,336	-	46,953	-	21,419	4,934,786	5,005,494
Change in component for decommissioning and site restoration obligation (Note 14)	15,618	13,669	66,025	6,792	-	-	-	102,104
Disposals	-	-	-	(31,210)	-	(12,255)	-	(43,465)
Transfer to inventories	-	-	-	-	-	-	(16,330)	(16,330)
Transfer	-	310,756	199,206	330,569	-	7,027	(841,949)	5,609
<b>Cost as at 31 December 2018</b>	<b>9,625,765</b>	<b>12,208,505</b>	<b>39,490,493</b>	<b>18,675,086</b>	<b>13,685,020</b>	<b>229,598</b>	<b>5,236,942</b>	<b>99,151,409</b>
Additions (IFRS 16)	-	-	125,020	-	-	46,471	-	171,491
Additions	-	-	-	73,496	-	6,065	2,181,530	2,279,717
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)	-
<b>Cost as at 30 June 2019</b>	<b>9,625,765</b>	<b>14,096,123</b>	<b>39,864,268</b>	<b>18,774,464</b>	<b>13,685,020</b>	<b>288,997</b>	<b>5,277,137</b>	<b>101,611,774</b>
<b>Accumulated depreciation as at 1 January 2018</b>	<b>(3,683,872)</b>	<b>(3,800,691)</b>	<b>(13,249,552)</b>	<b>(6,157,880)</b>	<b>(5,065,934)</b>	<b>(149,868)</b>	-	<b>(32,107,797)</b>
Depreciation	(245,363)	(334,576)	(1,069,361)	(611,033)	(356,852)	(9,978)	-	(2,627,163)
Disposals	-	-	-	8,947	-	-	-	8,947
<b>Accumulated depreciation as at 30 June 2018</b>	<b>(3,929,235)</b>	<b>(4,135,267)</b>	<b>(14,318,913)</b>	<b>(6,759,966)</b>	<b>(5,422,786)</b>	<b>(159,846)</b>	-	<b>(34,726,013)</b>
Depreciation	(237,876)	(324,367)	(1,052,453)	(573,617)	(345,964)	(8,912)	-	(2,543,189)
Disposals	-	-	-	23,749	-	12,238	-	35,987
Change in component for decommissioning and site restoration obligation (Note 14)	(5,926)	(5,470)	(26,916)	(2,387)	-	-	-	(40,699)
<b>Accumulated depreciation as at 31 December 2018</b>	<b>(4,173,037)</b>	<b>(4,465,104)</b>	<b>(15,398,282)</b>	<b>(7,312,221)</b>	<b>(5,768,750)</b>	<b>(156,520)</b>	-	<b>(37,273,914)</b>
Depreciation	(243,447)	(415,289)	(1,075,509)	(625,361)	(353,437)	(11,061)	-	(2,724,104)
Depreciation (IFRS 16)	-	-	(32,614)	-	-	(930)	-	(33,544)
Disposals	-	-	155	8,272	-	-	-	8,427
<b>Accumulated depreciation as at 30 June 2019</b>	<b>(4,416,484)</b>	<b>(4,880,393)</b>	<b>(16,506,250)</b>	<b>(7,929,310)</b>	<b>(6,122,187)</b>	<b>(168,511)</b>	-	<b>(40,023,135)</b>
<b>Net book value as at 1 January 2018</b>	<b>5,926,275</b>	<b>8,081,053</b>	<b>25,874,501</b>	<b>12,091,011</b>	<b>8,619,086</b>	<b>62,616</b>	<b>764,323</b>	<b>61,418,865</b>
<b>Net book value as at 30 June 2018</b>	<b>5,680,912</b>	<b>7,746,477</b>	<b>24,906,349</b>	<b>11,562,016</b>	<b>8,262,234</b>	<b>53,561</b>	<b>1,160,435</b>	<b>59,371,985</b>
<b>Net book value as at 31 December 2018</b>	<b>5,452,728</b>	<b>7,743,401</b>	<b>24,092,211</b>	<b>11,362,865</b>	<b>7,916,270</b>	<b>73,078</b>	<b>5,236,942</b>	<b>61,877,495</b>
<b>Net book value as at 30 June 2019</b>	<b>5,209,281</b>	<b>9,215,730</b>	<b>23,358,018</b>	<b>10,845,154</b>	<b>7,562,833</b>	<b>120,486</b>	<b>5,277,137</b>	<b>61,588,639</b>

For the six months ended 30 June 2019 and for year ended 2018 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 2019 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at this date.

As at 31 December 2018 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:

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- 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 16.11 % 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 2018 an impairment of property, plant and equipment was not identified.

As at 30 June 2019 property, plant and equipment included prepayments for assets under construction in the amount of RUB 2,303,187 thousand (RUB 2,770,046 thousand as at 31 December 2018).

As at 30 June 2019 property, plant and equipment included right-of use assets in the amount of RUB 137,947 thousand (RUB 171,491 thousand as at 1 January 2019). Right-to-use assets are mainly represented by leases of real estate and land.

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 market is assured with reasonable certainty.

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 4.465% for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 2.147%).

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
Other accounts receivable	28,281	32,863
<b>Total long-term accounts receivable</b>	<b>28,281</b>	<b>32,863</b>

The fair value of long-term accounts receivable as at 30 June 2019 and 31 December 2018 approximates their carrying value.

## 12. ACCOUNTS PAYABLE AND PROVISIONS

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Financial liabilities</b>		
Trade accounts payable	1,190,681	807,866
Current portion of long-term lease liability	62,499	-
Accounts payable to related parties (Note 26)	34,643	90,773
Other accounts payable	11,540	8,162
<b>Total financial liabilities</b>	<b>1,299,363</b>	<b>906,801</b>
<b>Non-financial liabilities</b>		
Wages and salaries	260,219	243,292
Provision for employee bonuses	263	155,991
Provision for revegetation	-	9,683
Advances received	60	64
<b>Total non-financial liabilities</b>	<b>260,542</b>	<b>409,030</b>
<b>Total accounts payable and provisions</b>	<b>1,559,905</b>	<b>1,315,831</b>

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**13. TAXES PAYABLE OTHER THAN INCOME TAX**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Mineral extraction tax (MET)	2,470,775	4,332,456
Value added tax (VAT)	2,659,105	2,622,095
Property tax	148,310	131,808
Insurance contributions for employees	142,944	104,727
Personal income tax	16,293	16,543
Other taxes and accruals	451	658
<b>Total taxes payable other than income tax</b>	<b>5,437,878</b>	<b>7,208,287</b>

**14. PROVISIONS**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Provision for decommissioning and site restoration	5,513,997	5,251,727
Provision for employee benefits	1,303,127	939,110
<b>Total provisions</b>	<b>6,817,124</b>	<b>6,190,837</b>

*Provision for decommissioning and site restoration*

	<b>Note</b>	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
<b>At the beginning of the period</b>		<b>5,251,727</b>	<b>4,744,241</b>
Provision accrual		28,309	-
Increase in discounted value for the period	24	233,960	213,016
<b>At the end of the period</b>		<b>5,513,997</b>	<b>4,957,257</b>

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 2019 was 8.94 % (as at 31 December 2018 – 8.94 %), 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:

	<b>Provision for employee benefits as at</b>	
	<b>30 June 2019</b>	<b>31 December 2018</b>
Present value of benefit obligations	2,014,226	1,589,118
Fair value of plan assets	(711,099)	(650,962)
<b>Total</b>	<b>1,303,127</b>	<b>939,110</b>

The principal assumptions used for post-employment and other long-term benefit obligations for the six months ended 30 June 2019 were the same as those applied for the year ended 31 December 2018 with the exception of the discount rate based on the interest rates of government securities. The decrease in the discount rate from 8.60 % to 7.50 % resulted in recognition of an actuarial loss of RUB 212,116 thousand in other comprehensive income for the six months ended 30 June 2019.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the periods ended 30 June 2019 and 30 June 2018 are provided below.

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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)
<b>As at 31 December 2018</b>	<b>1,454,377</b>	<b>135,050</b>	<b>(650,317)</b>	<b>939,110</b>
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
<b>Total expenses included in staff costs</b>	<b>222,430</b>	<b>31,085</b>	<b>(27,964)</b>	<b>(225,551)</b>
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
<b>Total loss recognised in the other comprehensive income</b>	<b>212,116</b>	<b>-</b>	<b>87,501</b>	<b>299,617</b>
Benefits paid	(35,532)	(5,300)	9,275	(31,557)
Contributions by employer	-	-	(129,594)	(129,594)
<b>Closing balance as at 30 June 2019</b>	<b>1,853,391</b>	<b>160,835</b>	<b>(711,099)</b>	<b>1,303,127</b>

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

## 15. INCOME TAX

Income tax expense comprises the following:

	Six months ended 30 June 2019	Six months ended 30 June 2018
Current tax expense	1,199,246	882,398
Deferred tax expense	(99,248)	(133,096)
<b>Total tax expense</b>	<b>1,099,998</b>	<b>749,302</b>

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 %.

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

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).

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 2019	31 December 2018
Long-term lease liability	74,316	-
Trade accounts payable	85,384	49,653
Account payable to related parties	768	768
<b>Total trade accounts payable</b>	<b>160,468</b>	<b>50,421</b>

## 17. EQUITY

### *Share capital*

Share capital of the Company authorised, issued and paid totals RUB 40,000 thousand as at 30 June 2019 and 31 December 2018 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 2019 and 31 December 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 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 post-employment benefit obligations net of related income tax (Note 14).

**Dividends**

The Annual General Meeting of the Shareholders of the Company held on 4 June 2019 decided to pay dividends in the amount of RUB 1,840,114.05 thousand for the year ended 31 December 2018. The amount of dividends paid, net of tax, was RUB 349,621.67 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 statutory accounting. The statutory accounting reports of the Company are the basis for profit distribution according to legislation of the Russian Federation.

**18. REVENUE**

	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2019</b>	<b>30 June 2018</b>
Revenue from gas sales	26,475,634	21,856,435
<b>Total revenue</b>	<b>26,475,634</b>	<b>21,586,435</b>

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

**19. COST OF SALES**

	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2019</b>	<b>30 June 2018</b>
Mineral extraction tax	16,222,311	12,979,664
Depreciation	2,715,022	2,611,787
Staff costs	1,218,236	1,368,471
Property tax	348,134	358,030
Repairment and technical maintenance	224,355	231,857
Materials	110,289	97,706
Insurance	62,965	71,649
Other outsourced production services	45,152	31,011
Software support costs	34,531	16,914
Geophysical services	33,388	6,435
Transportation costs	31,591	29,075
Fire safety and security services	25,189	25,034
Fuel costs	24,553	21,355
Rent expenses	12,704	15,902
Other	43,571	42,535
<b>Total cost of sales</b>	<b>21,151,991</b>	<b>17,907,422</b>

Depreciation in the amount of RUB 9,082 thousand for the period ended 30 June 2019 was capitalised into assets under construction (for the period ended 30 June 2018: RUB 8,911 thousand).

Average MET rate for the six months 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.

Average MET rate for the 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.

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**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Administrative staff costs	383,630	469,446
Insurance	15,838	13,727
Other administrative expenses	126,078	123,827
<b>Total general and administrative expenses</b>	<b>525,546</b>	<b>607,000</b>

**21. OTHER OPERATING INCOME**

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Fees and penalties due to violation of contract covenants	17,998	1,496
Reversal of impairment allowance on materials for extraction	8,320	8,231
Gain on disposal of property, plant and equipment and assets classified as held for sale	2,471	5,050
Reimbursement of the road maintenance costs	1,404	168
Other	6,793	4,857
<b>Total other operating income</b>	<b>36,986</b>	<b>19,802</b>

**22. OTHER OPERATING EXPENSES**

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Social costs	67,224	82,675
Loss from remeasurement of post-employment benefit obligations	18,656	-
Loss on disposal of materials	8,025	-
Non-refundable VAT	1,812	1,939
Loss on disposal of fixed assets	-	1,860
Other	17,542	18,399
<b>Total other operating expenses</b>	<b>113,259</b>	<b>104,873</b>

**23. FINANCE INCOME**

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Interest income	195,161	225,510
Foreign currency exchange gains	395	36
<b>Total finance income</b>	<b>195,556</b>	<b>225,546</b>

**24. FINANCE EXPENSE**

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Unwinding of discount cost of provision for decommissioning and site restoration (Note 14)	233,960	213,016
Interest expense on provision for employee benefits (Note 14)	38,625	58,673
Interest expense on lease liability	6,790	-
Foreign currency exchange losses	3	210
<b>Total finance expense</b>	<b>279,378</b>	<b>271,899</b>

## **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 non-compliant 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 2019 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 program for 2019 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.

### **(e) Operating lease commitments**

As at 30 June 2019 and 31 December 2018 the Company does not have significant liabilities related to operating leases.

## **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.

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**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 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 (see Note 1).

Transactions of the Company with related parties for the periods ended 30 June 2019 and 31 December 2018 are presented below:

	Note	Six months ended 30 June 2019	Six months ended 30 June 2018
Sales of gas to PJSC Gazprom (Gazprom Group)	18	10,590,253	8,742,574
Sales of gas to CJSC Gazprom YRGM Trading (BASF SE Group)	18	9,266,472	7,649,752
Sales of gas to JSC Gazprom YRGM Development (OMV Group)	18	6,618,909	5,464,109
Other sales		492	543
Purchases of goods and services from Gazprom Group		229,977	116,500

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

<b>Cash and cash equivalents</b>	Note	30 June 2019	31 December 2018
Bank GPB (JSC)	6	5,002,185	4,132,336
<b>Total cash and cash equivalents</b>		<b>5,002,185</b>	<b>4,132,336</b>

Information on significant transactions concerning interest income with related parties:

<b>Interest income</b>		Six months ended 30 June 2019	Six months ended 30 June 2018
Bank GPB (JSC)		187,547	225,510
<b>Total interest income</b>		<b>187,547</b>	<b>225,510</b>

Significant balances with related parties are summarised as follows:

<b>Trade and other accounts receivable</b>	Note	30 June 2019	31 December 2018
PJSC Gazprom		4,064,467	2,236,564
CJSC Gazprom YRGM Trading		3,556,409	1,956,993
JSC Gazprom Development		2,540,292	1,397,852
Gazprom Group companies		2,115	1,989
Bank GPB (JSC)		1,713	2,173
<b>Total trade and other accounts receivable</b>	7	<b>10,164,996</b>	<b>5,595,571</b>

As at 30 June 2019 and 31 December 2018 short-term accounts receivable of related parties were non-interest bearing, had maturity within one year and were denominated in Russian Roubles.

<b>Trade and other accounts payable</b>	Note	30 June 2019	31 December 2018
Gazprom Group companies	12	34,643	65,423
<b>Total trade and other accounts payable</b>		<b>34,643</b>	<b>65,423</b>

<b>Long-term accounts payable</b>	Note	30 June 2019	31 December 2018
Gazprom Group companies	16	768	768
<b>Total long-term accounts payable</b>		<b>768</b>	<b>768</b>

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

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

		<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
<b>Cash and cash equivalents</b>			
VTB Bank (PJSC)	Note	-	1,500,000
<b>Total cash and cash equivalents</b>	<b>6</b>	<b>-</b>	<b>1,500,000</b>

		<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
<b>Interest income</b>			
VTB Bank (PJSC)		7,614	-
<b>Total interest income</b>		<b>7,614</b>	<b>-</b>

	Note	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Other accounts receivable</b>			
VTB Bank (PJSC)	7	-	1,269
<b>Total other accounts receivable</b>		<b>-</b>	<b>1,269</b>

	Note	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Trade accounts payable</b>			
JSC United Engine Corporation	12	-	25,350
<b>Total trade accounts payable</b>		<b>-</b>	<b>25,350</b>

The Company hadn't significant transactions with organizations under state control except 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:

	<b>Six months ended 30 June 2019</b>	<b>Six months ended 30 June 2018</b>
Short-term benefits	198,106	197,650
Other long-term benefits	-	-
<b>Total compensation</b>	<b>198,106</b>	<b>197,650</b>

**27. SUBSEQUENT EVENTS**

There were no subsequent events to disclosure.