Gazprom Neft Group

Consolidated Financial Statements
As of and for the year ended 31 December 2019

with independent auditor's report

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom Neft ("PJSC Gazprom Neft") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organizations and the Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

During the audit we specially focused on revenue recognition as the amount of revenue is material and revenue streams are formed in different geographical and operating segments. In addition, revenue streams differ in such terms of recognition as the identification of performance obligations, determination of transaction prices and the pattern of transfer of risks and rewards.

Despite the high level of automation, a large number of contracts and a significant number of transactions pose a risk of misstatement of this item.

Our audit procedures in respect of the risk of material misstatement of revenue included:

- assessing the consistency of the application of the revenue recognition accounting policy in relation to a variety of performance obligations;
- testing controls and assessing the risk of fraud or error;
- verifying the timeliness of revenue recognition and the right to recognised revenue based on the terms of contracts and other documents;
- receiving confirmation letters from counterparties as of the end of the reporting period.

Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be acceptable.

Information about the approaches to revenue recognition is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, information about revenue figures, including information by geographic segments, is disclosed in Note 40 "Segment information" to the consolidated financial statements.

Assessment of the recoverable amount of non-current assets

Due to the material carrying amount of the Group's non-current assets, continuing volatility of macroeconomics parameters supplemented by political instability in some regions where the Group operates, sensitivity of impairment models to the assumptions applied by the Group's management as well as the high level of subjectivity of the applied judgements and estimates of the Group's management we consider this matter to be one of most significance in the audit.

The risk of the non-recoverability of the carrying amount of non-current assets primarily relates to production and oil refining assets located in the Russian Federation, oil and gas production and exploration assets located in Iraq, and assets located mostly in Serbia. As at the reporting date, the Group's management measured the recoverable amount of non-current assets for cash-generating units by means of value in use.

Our audit procedures in respect of this area included:

- testing the principles applied to prepare future cash flow forecasts;
- involvement of our valuation experts who:
  - analysed the methodology used by the Group when performing impairment testing of non-current assets and the consistency of its application by the Group;
  - compared the data used by the Group with the information available from independent sources (inflation and income tax rates) as well as with our own assessments in relation to key inputs used in impairment testing (future oil prices and exchange rates, determined discount rates, estimation of oil and gas reserves and its future production and sales volumes);
  - analysed the sensitivity of the models applied for testing purposes to changes in key assumptions.

Based on the results of the audit procedures, we believe that the information and key assumptions applied by the Group's management to calculate the recoverable amount of non-current assets are acceptable and are well in line with current economic environment.

Information about the approaches applied to measure and recognise impairment of non-current assets is provided in Note 2 “Summary of significant accounting policies” and Note 3 “Critical accounting estimates, assumptions and judgements” to the consolidated financial statements, information about the conducted impairment testing is disclosed in Note 11 “Property, plant and equipment” and Note 13 “Goodwill and other intangible assets” to the consolidated financial statements.

Classification and recognition of financial instruments as cash equivalents

Due to the economic importance of cash and cash equivalents, the significance of the cash equivalent balances, and the professional judgement and assumptions applied by the Group's management in classifying and recognising financial instruments as cash equivalents, we consider this matter to be one of the key audit matters.

The classification and recognition of financial instruments as cash equivalents applied by the Group are based on the significant professional judgement applied by the Group's management, which is supported by the intention of the Group’s management to use such financial instruments to settle the Group's short-term cash liabilities. In addition, the Group analyses various factors, including the assessment of liquidity and credit risks, records on cash returns at any point of time without significant loss of interest and penalties.

During our audit procedures regarding the classification and recognition of financial instruments as cash equivalents, we performed the following procedures:

- assessing the appropriateness and consistency of the professional judgements applied by the Group's management regarding the classification and recognition of financial instruments as cash equivalents;
- reviewing intentions of the Group's management regarding the use of financial instruments classified as cash equivalents for the purposes of managing the Group's liquidity;
- assessing liquidity and credit risks related to the solvency of counterparties, including transactions under repurchase agreements and cash pooling agreement with the Group's parent company;
- analysing agreements and other documents confirming the availability of cash at any point of time without significant loss of interest and penalties because of early redemption.

Based on the results of our procedures, we believe that the key assumptions and professional judgements of the Group's management regarding the classification and recognition of financial instruments as cash equivalents are reasonable and do not contradict the available audit evidence.

Information about the main accounting policies applied to account for cash and cash equivalents is provided in Note 2 "Summary of significant accounting policies" to the consolidated financial statements, and information about the amount of cash and cash equivalents is disclosed in Note 6 "Cash and cash equivalents" to the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 presented in accordance with IFRSs were audited by another auditor (AO PricewaterhouseCoopers Audit) who expressed an unmodified opinion on those statements on 20 February 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended December 31 and September 30, 2019 and years ended December 31, 2019 and 2018 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, the Annual Report of PJSC Gazprom Neft for 2019 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2020, which are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual report of PJSC Gazprom Neft for 2019 and the Quarterly issuer's report of PJSC Gazprom Neft for the first quarter of 2020, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

ФБК

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

ФБК

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

President of FBK, LLC	S.M. Shapiguzov (by virtue of the Charter, audit qualification certificate 01-001230)
Engagement partner on the audit resulting in this independent auditor's report	K.S. Shirikova, FCCA (audit qualification certificate 01-000712)

Date of the independent auditor's report:
21 February 2020

Audited entity	Auditor
Name:	**Name:**
Public Joint Stock Company Gazprom Neft (Gazprom Neft PJSC).	FBK, LLC.
Address of the legal entity within its location:	**Address of the legal entity within its location:**
3-5 Pochtamtskaya St, St. Petersburg, 190000, Russian Federation.	44/1 Myasnitskaya St, Bldg 2AB, Moscow, 101990, Russian Federation.
State registration:	**State registration:**
Registered on 6 October 1995 by the Omsk Registration Chamber. Statutory registration certificate No. 38606450. Primary state registration number 1025501701686.	Registered by the Moscow Registration Chamber on 15 November 1993, registration number 484.583. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number 1027700058286.
	Membership in a self-regulatory organization of auditors:
	Member of the Self-regulatory organization of auditors Association "Sodruzhestvo".
	Primary number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.

Gazprom Neft Group

Consolidated Financial Statements
As of and for the year ended 31 December 2019

Contents

Currency – RUB millions

	Notes	31 December 2019	31 December 2018
Assets			
Current assets			
Cash and cash equivalents	*6*	202,404	247,585
Short-term financial assets		19,906	847
Trade and other receivables	*7*	205,272	129,150
Inventories	*8*	173,674	149,956
Current income tax prepayments		6,622	3,179
Other taxes receivable	*9*	104,918	91,929
Other current assets	*10*	55,052	40,483
Total current assets		**767,848**	**663,129**
Non-current assets			
Property, plant and equipment	*11*	2,469,338	2,366,069
Right-of-use assets	*12*	79,073	-
Goodwill and other intangible assets	*13*	88,620	80,139
Investments in associates and joint ventures	*14*	341,115	328,937
Long-term trade and other receivables		829	980
Long-term financial assets	*16*	11,037	10,345
Deferred income tax assets	*17*	18,492	19,127
Other non-current assets	*18*	49,131	52,200
Total non-current assets		**3,057,635**	**2,857,797**
Total assets		**3,825,483**	**3,520,926**
Liabilities and equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*19*	30,198	90,923
Current lease liabilities	*25*	9,927	-
Current finance lease liabilities	*25*	-	1,829
Trade and other payables	*20*	307,439	307,604
Other current liabilities	*21*	40,741	39,510
Current income tax payable		2,247	3,328
Other taxes payable	*22*	96,401	99,085
Provisions and other accrued liabilities	*23*	23,741	20,043
Total current liabilities		**510,694**	**562,322**
Non-current liabilities			
Long-term debt	*24*	685,030	684,530
Non-current lease liabilities	*25*	77,868	-
Non-current finance lease liabilities	*25*	-	23,654
Other non-current financial liabilities	*26*	21,504	44,857
Deferred income tax liabilities	*17*	148,253	127,448
Provisions and other accrued liabilities	*23*	119,004	67,192
Other non-current liabilities	*27*	49,933	19,104
Total non-current liabilities		**1,101,592**	**966,785**
Equity			
Share capital	*28*	98	98
Treasury shares	*28*	(1,170)	(1,170)
Additional paid-in capital		36,044	60,397
Retained earnings		1,943,523	1,680,978
Other reserves		78,711	99,874
Equity attributable to Gazprom Neft shareholders		**2,057,206**	**1,840,177**
Non-controlling interest	*38*	155,991	151,642
Total equity		**2,213,197**	**1,991,819**
Total liabilities and equity		**3,825,483**	**3,520,926**

A. V. Dyukov
Chief Executive Officer
PJSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
PJSC Gazprom Neft

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

Currency – RUB millions (except per share data)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue			
Crude oil, gas and petroleum products sales		2,393,444	2,418,717
Other revenue		91,864	70,575
Total revenue from sales	***40***	**2,485,308**	**2,489,292**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(663,068)	(617,306)
Production and manufacturing expenses		(260,688)	(228,618)
Selling, general and administrative expenses		(125,592)	(114,882)
Transportation expenses		(143,474)	(147,182)
Depreciation, depletion and amortisation	***11,12,13***	(181,372)	(175,451)
Taxes other than income tax	***22***	(591,193)	(652,784)
Export duties		(71,601)	(94,916)
Exploration expenses		(1,752)	(1,411)
Total operating expenses		**(2,038,740)**	**(2,032,550)**
Operating profit		**446,568**	**456,742**
Share of profit of associates and joint ventures	***14***	83,906	90,704
Net foreign exchange gain / (loss)	***31***	10,518	(33,558)
Finance income	***32***	22,906	7,506
Finance expense	***33***	(32,772)	(21,476)
Other loss, net	***30***	(23,292)	(19,796)
Total other income		**61,266**	**23,380**
Profit before income tax		**507,834**	**480,122**
Current income tax expense		(52,502)	(59,585)
Deferred income tax expense		(33,244)	(19,544)
Total income tax expense	***34***	**(85,746)**	**(79,129)**
Profit for the period		**422,088**	**400,993**
Other comprehensive (loss) / income - may be reclassified to profit or loss			
Currency translation differences		(29,674)	36,937
Cash flow hedge, net of tax	***35***	319	14,630
Other comprehensive (loss) / income		(319)	95
Total other comprehensive (loss) / income - may be reclassified to profit or loss		**(29,674)**	**51,662**
Other comprehensive loss - will not be reclassified to profit or loss			
Remeasurement of provision for post-employment benefits		(2,411)	-
Total other comprehensive loss - will not be reclassified to profit or loss		**(2,411)**	**-**
Other comprehensive (loss) / income		**(32,085)**	**51,662**
Total comprehensive income for the period		**390,003**	**452,655**
Profit attributable to:			
- Gazprom Neft shareholders		400,201	376,667
- Non-controlling interest		21,887	24,326
Profit for the period		**422,088**	**400,993**
Total comprehensive income attributable to:			
- Gazprom Neft shareholders		379,038	416,399
- Non-controlling interest		10,965	36,256
Total comprehensive income for the period		**390,003**	**452,655**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		84.82	79.84
Diluted earnings (RUB per share)		84.82	79.84
Weighted-average number of common shares outstanding (millions)		4,718	4,718

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

Currency – RUB millions

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 31 December 2018	**98**	**(1,170)**	**60,397**	**1,680,978**	**99,874**	**1,840,177**	**151,642**	**1,991,819**
Effect of changes in accounting policies (Note 4)	-	-	-	(14,565)	-	(14,565)	-	(14,565)
Balance as of 1 January 2019	**98**	**(1,170)**	**60,397**	**1,666,413**	**99,874**	**1,825,612**	**151,642**	**1,977,254**
Profit for the period	-	-	-	400,201	-	400,201	21,887	422,088
Other comprehensive (loss) / income								
Currency translation differences	-	-	-	-	(18,752)	(18,752)	(10,922)	(29,674)
Cash flow hedge, net of tax	-	-	-	-	319	319	-	319
Remeasurement of provision for post-employment benefits	-	-	-	-	(2,411)	(2,411)	-	(2,411)
Other comprehensive loss	-	-	-	-	(319)	(319)	-	(319)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**400,201**	**(21,163)**	**379,038**	**10,965**	**390,003**
Transactions with shareholders, recorded in equity								
Dividends to equity holders	-	-	-	(123,091)	-	(123,091)	(6,616)	(129,707)
Transactions with shareholder (Note 11)	-	-	(24,353)	-	-	(24,353)	-	(24,353)
Total transactions with shareholders	**-**	**-**	**(24,353)**	**(123,091)**	**-**	**(147,444)**	**(6,616)**	**(154,060)**
Balance as of 31 December 2019	**98**	**(1,170)**	**36,044**	**1,943,523**	**78,711**	**2,057,206**	**155,991**	**2,213,197**

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 1 January 2018	**98**	**(1,170)**	**62,256**	**1,431,931**	**60,142**	**1,553,257**	**105,876**	**1,659,133**
Profit for the period	-	-	-	376,667	-	376,667	24,326	400,993
Other comprehensive income								
Currency translation differences	-	-	-	-	25,007	25,007	11,930	36,937
Cash flow hedge, net of tax	-	-	-	-	14,630	14,630	-	14,630
Other comprehensive income	-	-	-	-	95	95	-	95
Total comprehensive income for the period	**-**	**-**	**-**	**376,667**	**39,732**	**416,399**	**36,256**	**452,655**
Transactions with shareholders, recorded in equity								
Dividends to equity holders	-	-	-	(127,620)	-	(127,620)	(11,769)	(139,389)
Transaction under common control	-	-	(2,819)	-	-	(2,819)	-	(2,819)
Change of non-controlling interest in subsidiaries (Note 38)	-	-	960	-	-	960	21,279	22,239
Total transactions with shareholders	**-**	**-**	**(1,859)**	**(127,620)**	**-**	**(129,479)**	**9,510**	**(119,969)**
Balance as of 31 December 2018	**98**	**(1,170)**	**60,397**	**1,680,978**	**99,874**	**1,840,177**	**151,642**	**1,991,819**

Currency – RUB millions

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Profit before income tax		507,834	480,122
Adjustments for:			
Share of profit of associates and joint ventures	***14***	(83,906)	(90,704)
Net foreign exchange (gain) / loss	***31***	(10,518)	33,558
Finance income	***32***	(22,906)	(7,506)
Finance expense	***33***	32,772	21,476
Depreciation, depletion and amortisation	***11,12,13***	181,372	175,451
Other non-cash items		10,804	12,386
Operating cash flow before changes in working capital		**615,452**	**624,783**
Changes in working capital:			
Accounts receivable		(41,927)	(10,661)
Inventories		(23,453)	(27,688)
Taxes receivable		(13,531)	(33,855)
Other assets		(8,165)	(4,339)
Accounts payable		83,185	51,826
Taxes payable		(1,974)	13,175
Other liabilities		45,370	11,868
Total effect of working capital changes		**39,505**	**326**
Income tax paid		(53,087)	(61,157)
Interest paid		(59,057)	(46,492)
Dividends received		65,404	20,063
Other cash flows from operating activities		859	-
Net cash provided by operating activities		**609,076**	**537,523**
Cash flows from investing activities			
Increase in cash due to subsidiary acquisition		-	(920)
Acquisition of investments in joint ventures		(210)	(440)
Bank deposits placement		(97,090)	(640)
Repayment of bank deposits		82,000	7,350
Acquisition of other investments		(474)	(70)
Proceeds from sales of other investments		1,425	-
Short-term loans issued		(532)	(143)
Repayment of short-term loans issued		661	218
Long-term loans issued		(7,148)	(984)
Repayment of long-term loans issued		1,313	12,490
Purchases of property, plant and equipment and intangible assets		(453,011)	(370,067)
Purchases of oil and gas licences		(9,623)	(5,130)
Proceeds from sale of property, plant and equipment, net of tax		115,710	4,413
Interest received		17,155	18,885
Other cash flows from investing activities		(13,765)	-
Net cash used in investing activities		**(363,589)**	**(335,038)**
Cash flows from financing activities			
Proceeds from short-term borrowings		15,592	442
Repayment of short-term borrowings		(343)	(220)
Proceeds from long-term borrowings		243,371	366,102
Repayment of long-term borrowings		(292,036)	(360,840)
Transaction costs directly attributable to the borrowings received		(375)	(158)
Dividends paid to Gazprom Neft shareholders		(227,120)	(70,774)
Dividends paid to non-controlling shareholders		(6,609)	(11,864)
Proceeds from sale of non-controlling interest in subsidiaries	***38***	-	22,348
Repayment of principal portion of lease liabilities		(9,200)	-
Repayment of principal portion of finance lease liabilities		-	(1,579)
Net cash used in financing activities		**(276,720)**	**(56,543)**
(Decrease) / increase in cash and cash equivalents		**(31,233)**	**145,942**
Effect of foreign exchange on cash and cash equivalents		(13,948)	11,035
Cash and cash equivalents as of the beginning of the period		**247,585**	**90,608**
Cash and cash equivalents as of the end of the period		**202,404**	**247,585**

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

1. General

Description of business

PJSC Gazprom Neft (the "Company") and its subsidiaries (together referred to as the "Group") is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group's principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. PJSC Gazprom ("Gazprom", a state controlled entity), the Group's ultimate parent company, owns 95.7% of the shares in the Company.

2. Summary of significant accounting policies

Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

Subsequent events occurring after 31 December 2019 were evaluated through 21 February 2020, the date these Consolidated Financial Statements were authorised for issue.

The principal accounting policies are set out below. Apart from the accounting policies changes and additions resulting from adoption of IFRS 16 and Tax Code changes effective from 1 January 2019, these policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, equity investments at fair value through other comprehensive income (OCI) and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of the reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in Other Reserves line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

<u>Principles of consolidation</u>

The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified as financial assets measured at fair value through other comprehensive income or through profit or loss.

<u>Business combinations</u>

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

Goodwill

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interest

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposals of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisitions from entities under common control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the Consolidated Financial Statements of the highest entity that has common control for which Consolidated Financial Statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity. When these transactions represent transactions with owners in their capacity as owners, the effect on such transactions is included in Additional paid-in capital in Equity.

Investments in associates

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Joint operations and joint ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice.

Cash equivalents include all highly liquid short-term investments with initial maturity within three months that can be converted to a certain cash amount and are subject to an insignificant risk of changes in value. They are initially recognised based on the cost of acquisition which approximates fair value and carried at amortised cost as are readily convertible to known amounts of cash.

The Group uses the additional highly liquid instruments for cash management that are recognised as cash equivalents:

- deposits with initial maturity more than three months if the Group has the right to early withdraw it without significant interest loss and penalties;

- cash transferred under the repurchase agreements with the maturity within one months if the risks and rewards do not transferred to the Group, cash returns at the fixed interest rate and do not linked to the securities market value;

- short-term loans issued to the parent company ("cash pooling") if the Group has the right for early redemption of loans without significant interest loss and penalties.

Non-derivative financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and

- those to be measured at amortised cost.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset (in the case of the financial asset not at fair value through profit or loss (FVPL)). Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group initially recognises financial assets on trade-date (the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

For assets measured at fair value gains and losses will either be recorded in profit or loss or OCI. The classification of financial assets depends on:

- the entity's business model for managing the financial assets and

- the contractual cash flow characteristics of the financial asset.

In particular, debt financial assets in the Group are usually held to obtain contractual cash flows that are solely payments of principal and interest. In rare cases, debt financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

Equity securities at initial recognition are usually accounted at fair value through other comprehensive income (FVOCI). These are strategic investments and the Group considers this classification to be more relevant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss if material. Financial assets at amortised cost comprise trade receivables, other financial assets, cash and cash equivalents.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses) and impairment expenses are presented as separate line item in the statement of profit or loss if material. The changes in fair value will no longer be reclassified to profit or loss when they are impaired or disposed. These assets are non-material for the Group.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises. These assets are non-material for the Group.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Other equity instruments are recognised at FVPL. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. The assets are not significant for the Group.

Non-derivative financial liabilities

The Group initially recognises debt securities issued, loans and borrowings on the date that they are originated (in particular, date of bond issue or receiving of cash). Financial liabilities also include bank overdrafts, trade and other payables. These financial liabilities recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The financial liabilities are recognised initially at fair value minus (in the case of a financial liability that is not at fair value through profit or loss (FVTPL)) transaction costs that are directly attributable to issuing the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Derivative financial instruments

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit or loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit or loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets (IA). Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss. Amortisation has been included within depreciation, depletion and amortisation line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

Intangible asset group	Average useful life
Licenses and software	1-5 years
Land rights	25 years

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit or loss.

Oil and gas properties

Exploration and evaluation assets

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological and geophysical studies and rights of access to properties to conduct those studies that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

Development costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

<u>Depreciation, depletion and amortisation</u>

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset group	Average useful life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as other fixed assets.

<u>Capitalisation of borrowing costs</u>

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of non-current assets

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generating units - CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit or loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Impairment of non-derivative financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk till the initial recognition.

For all trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, in respect of credit risk see note 36 for further details.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates.

The Group has the following types of financial assets that are subject to the expected credit loss model: trade receivables, debt investments carried at amortised cost and cash and cash equivalents.

The Group recognises any impairment loss including impairment loss reversal in the selling, general and administrative expenses in the costs and other deductions line.

Decommissioning obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, marketing and distribution: the Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income taxes

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

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

From 1 January 2019 due to changes in the Tax Code the new excise duties on dark bunker fuel and crude oil materials with appropriate double deductions and dempfer part are introduced. The Group applies separate accounting policy for excise deductions and dempfer part that bring economic benefit to the Group by analogy to the government grants and other assistance, i.e. by deducting them from related expenses.

Additional income tax for hydrocarbon producers

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

Export duties

Export duties, which are charged by the government on the volumes of crude oil and petroleum products transferred abroad by the Group, are included in operating expenses.

Share capital

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders' meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.

Earnings per share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-based compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit or loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and other benefit obligations

In the normal course of business the Group contributes to the Russian Federation State pension scheme on behalf of its employees, and contributions by the employer are calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred.

The Group has also recognised defined benefit plans, which cover the majority of employees of the Group. The cost of providing post-employment benefits is accrued and charged to other employee costs and compensation included in the Consolidated Statement of Profit or Loss and other comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. Actuarial gains and losses on liabilities arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise and are included in Other reserves line of equity in the Consolidated Statement of Financial Position.

Leases

Accounting policies for leases applied starting 1 January 2019

For any new contracts entered into on or after 1 January 2019 the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition, the Group assessed whether:

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

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

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

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

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension

option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

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

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

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

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

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

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

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

Accounting policies for leases applied until 31 December 2018

Leases under the terms of which the Group assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset.

Other leases were operating leases and the leased assets were not recognised in the Group's Consolidated Statement of Financial Position. The total lease payments were charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of revenues

Revenue is an income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

The Group recognizes Revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due. Specifically:

- For export contracts control generally passes to buyer on the border of the Russian Federation, the Group is not responsible for transportation,
- For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on delivery to customer transportation is not considered as a distinct performance obligation. In most contracts when control passes on dispatch the Group is not responsible for transportation or transportation is a distinct service provided to customer within a separate contract. In case of sales of petroleum products and transportation by railway performance obligation for transportation is considered to be distinct and excluded from contract price. The Group recognizes this type of revenue within Other revenue line.

The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax. The Group doesn't consider export duties as a part of transaction price and includes expenses with regard to export duties within operating expenses.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

The contract liability balance presented as advances received at the beginning of the reporting period was short-term by nature and was recognized as revenue during the period.

The Group applies a practical expedient which allows entity not to disclose the information of its remaining performance obligations at the end of the reporting period as the performance obligation is part of a contract that has an original expected duration of less than one year.

Buy / sell transactions

Purchases and sales under the same contract with a specific counterparty (buy / sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

Transportation costs

Transportation expenses recognised in profit or loss represent expenses incurred to transport crude oil and oil products through the PJSC "AK "Transneft" pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Other comprehensive income / loss

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related income tax.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Impairment of non-current assets

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money.

Estimation of oil and gas reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful lives of property, plant and equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Accounting for liabilities of the defined benefit pension plan

The assessment of the obligations of the defined benefit plan is based on the use of actuarial techniques and assumptions. Actual results may differ from estimates, and the Group'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 cost of future benefits is determined on the basis of actuarial techniques and assumptions.

Joint arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

Acquisition of Gazprom Resource Northgas LLC

Gazprom Resource Northgas LLC is a subsidiary of the Group in which the Group holds an 18.2% share. Starting 2015 the Group has obtained control over Gazprom Resource Northgas LLC based on signed management agreement and charter documents which provided the Group with a majority of voting rights which differ from the Group's share in equity.

4. Application of new IFRS

The following standards or amended standards became effective for the Group from 1 January 2019:

- IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual improvements 2015-2017 Cycle (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Impact of adoption

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

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

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4.2 % to 9.3%.

Currency – RUB millions (unless otherwise stated)

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

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

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

5. New accounting standards

The following other new standards and amendments to the existing standards do not have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effectivefor annual periods beginning on or after 1 January 2020);
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods on or after January 2020);
- Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 (issued in January 2020 and effective for annual periods on or after January 2022).

Currency – RUB millions (unless otherwise stated)

6. Cash and cash equivalents

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

	31 December 2019	31 December 2018
Cash on hand	587	753
Cash in bank	79,669	50,897
Bank deposits	51,485	185,589
Cash pooling to the parent entity	43,912	-
Cash transferred under repurchase agreements	24,709	6,238
Other cash equivalents	2,042	4,108
Total cash and cash equivalents	**202,404**	**247,585**

7. Trade and other receivables

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

	31 December 2019	31 December 2018
Trade receivables	153,738	129,520
Other receivables	53,637	2,060
Less credit loss allowance	(2,103)	(2,430)
Total trade and other receivables	**205,272**	**129,150**

8. Inventories

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

	31 December 2019	31 December 2018
Petroleum products and petrochemicals	62,891	70,385
Crude oil and gas	36,341	34,601
Materials and supplies	34,274	27,416
Other	40,168	17,554
Total inventory	**173,674**	**149,956**

9. Other taxes receivable

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

	31 December 2019	31 December 2018
Value added tax receivable	73,387	79,921
Prepaid custom duties	21,045	7,232
Other taxes prepaid	10,486	4,776
Total other taxes receivable	**104,918**	**91,929**

Currency – RUB millions (unless otherwise stated)

10. Other current assets

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

	31 December 2019	31 December 2018
Advances paid	40,413	25,191
Prepaid expenses	1,481	1,662
Other current assets	13,158	13,630
Total other current assets, net	**55,052**	**40,483**

11. Property, plant and equipment

Movements in property, plant and equipment for the year ended 31 December 2019 and 2018 are as follows:

	Oil and Gas properties	Refining assets	Marketing and distribution	Other assets	Assets under constru-ction	Total
Cost						
As of 31 December 2018	**2,084,208**	**387,099**	**237,386**	**27,658**	**655,772**	**3,392,123**
Effect of changes in accounting policies (Note 4)	(124)	-	(27,145)	-	-	(27,269)
As of 1 January 2019	**2,084,084**	**387,099**	**210,241**	**27,658**	**655,772**	**3,364,854**
Additions	9,014	5,225	-	-	433,655	447,894
Acquisitions through business combinations	221	-	-	-	-	221
Changes in decommissioning obligations	37,259	-	-	-	-	37,259
Capitalised borrowing costs	-	-	-	-	30,230	30,230
Transfers	266,344	24,166	18,575	5,144	(314,229)	-
Internal movement	(5,891)	(323)	249	(2,533)	8,498	-
Disposals	(15,049)	(4,481)	(2,904)	(960)	(161,266)	(184,660)
Translation differences	(54,029)	(9,121)	(9,551)	(325)	(7,696)	(80,722)
As of 31 December 2019	**2,321,953**	**402,565**	**216,610**	**28,984**	**644,964**	**3,615,076**
Depreciation, depletion and impairment						
As of 31 December 2018	**(815,875)**	**(125,189)**	**(75,809)**	**(9,181)**	**-**	**(1,026,054)**
Effect of changes in accounting policies (Note 4)	14	-	1,772	-	-	1,786
As of 1 January 2019	**(815,861)**	**(125,189)**	**(74,037)**	**(9,181)**	**-**	**(1,024,268)**
Depreciation and depletion charge	(130,316)	(18,309)	(14,811)	(3,026)	-	(166,462)
Internal movement	90	13	(717)	614	-	-
Disposals	3,132	2,943	1,925	960	-	8,960
Translation differences	28,969	3,219	3,656	188	-	36,032
As of 31 December 2019	**(913,986)**	**(137,323)**	**(83,984)**	**(10,445)**	**-**	**(1,145,738)**
Net book value						
As of 1 January 2019	**1,268,223**	**261,910**	**136,204**	**18,477**	**655,772**	**2,340,586**
As of 31 December 2019	**1,407,967**	**265,242**	**132,626**	**18,539**	**644,964**	**2,469,338**

Capitalised borrowing costs for the year ended 31 December 2019 include interest expense in the amount of RUB 29.0 billion and exchange losses arising from currency borrowing in the amount of RUB 1.2 billion (RUB 31.6 billion and RUB 6.1 billion for the year ended 31 December 2018 accordingly).

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

Currency – RUB millions (unless otherwise stated)

	Oil and Gas properties	Refining assets	Marketing and distribution	Other assets	Assets under constru-ction	Total
Cost						
As of 1 January 2018	**1,772,103**	**347,738**	**189,603**	**26,638**	**538,965**	**2,875,047**
Additions	9,029	1,699	-	-	395,112	405,840
Acquisitions through business combinations	-	-	1,108	-	-	1,108
Changes in decommissioning obligations	(8,885)	-	-	-	-	(8,885)
Capitalised borrowing costs	-	-	-	-	37,670	37,670
Transfers	251,966	25,450	35,969	3,447	(316,832)	-
Internal movement	137	(1,028)	1,167	98	(374)	-
Reclassification from other non-current assets	1,003	5,160	602	13	(2,040)	4,738
Disposals	(13,841)	(1,987)	(1,865)	(2,879)	(9,623)	(30,195)
Translation differences	72,696	10,067	10,802	341	12,894	106,800
As of 31 December 2018	**2,084,208**	**387,099**	**237,386**	**27,658**	**655,772**	**3,392,123**
Depreciation, depletion and impairment						
As of 1 January 2018	**(649,937)**	**(105,090)**	**(60,290)**	**(7,455)**	**-**	**(822,772)**
Depreciation and depletion charge	(131,293)	(16,930)	(12,801)	(2,600)	-	(163,624)
Impairment	(4,340)	-	-	-	-	(4,340)
Acquisitions through business combinations	-	-	(110)	-	-	(110)
Internal movement	229	102	(546)	215	-	-
Reclassification from other non-current assets	(175)	(1,600)	-	-	-	(1,775)
Disposals	7,891	1,569	1,511	849	-	11,820
Translation differences	(38,250)	(3,240)	(3,573)	(190)	-	(45,253)
As of 31 December 2018	**(815,875)**	**(125,189)**	**(75,809)**	**(9,181)**	**-**	**(1,026,054)**
Net book value						
As of 1 January 2018	**1,122,166**	**242,648**	**129,313**	**19,183**	**538,965**	**2,052,275**
As of 31 December 2018	**1,268,333**	**261,910**	**161,577**	**18,477**	**655,772**	**2,366,069**

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 7% for the year ended 31 December 2019 (6% for the year ended 31 December 2018).

The information regarding Group's exploration and evaluation assets (part of oil and gas properties) is presented below:

	2019	2018
Net book value as of 1 January	**114,286**	**94,027**
Additions	49,969	26,363
Unsuccessful exploration expenditures derecognised	(4,969)	(9,532)
Transfer to proved property	(4,240)	(2,886)
Disposals	(4,857)	(407)
Translation differences	(4,723)	6,721
Net book value as of 31 December	**145,466**	**114,286**

During 2019 the Group performed impairment testing. For impairment testing the cash flow forecast are in line with the usual period for budgeting and covered the period of expected useful life for analysed assets.

During 2019 there were no indicators of impairment in relation to upstream oil and gas assets (for the year ended 31 December 2018 the Group recognised impairment in relation to upstream oil and gas assets in the amount of RUB 4.3 billion). The impairment loss was included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Currency – RUB millions (unless otherwise stated)

12. Right-of-use assets

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

	Vessels	Land, buildings and premises	Total
As of 1 January 2019	62,455	6,568	69,023
Additions	16,189	2,047	18,236
Modification and remeasurement	(127)	434	307
Depreciation of right-of-use assets	(6,371)	(2,030)	(8,401)
Currency translation effect	-	(92)	(92)
As of 31 December 2019	**72,146**	**6,927**	**79,073**

13. Goodwill and other intangible assets

The information regarding movements in Group's intangible assets is presented below:

	Goodwill	Software	Land rights	Other IA	Total
Cost					
As of 1 January 2019	**37,027**	**40,679**	**16,794**	**21,583**	**116,083**
Additions	-	1,729	-	17,483	19,212
Internal movement	-	(570)	(23)	593	-
Disposals	-	(792)	(92)	(3,401)	(4,285)
Translation differences	(2,639)	(982)	(62)	(206)	(3,889)
As of 31 December 2019	**34,388**	**40,064**	**16,617**	**36,052**	**127,121**
Amortisation and impairment					
As of 1 January 2019	**(234)**	**(22,098)**	**(6,256)**	**(7,356)**	**(35,944)**
Amortisation charge	-	(5,235)	(663)	(1,051)	(6,949)
Internal movement	-	(18)	21	(3)	-
Disposals	-	742	-	2,662	3,404
Translation differences	37	827	2	122	988
As of 31 December 2019	**(197)**	**(25,782)**	**(6,896)**	**(5,626)**	**(38,501)**
Net book value					
As of 1 January 2019	**36,793**	**18,581**	**10,538**	**14,227**	**80,139**
As of 31 December 2019	**34,191**	**14,282**	**9,721**	**30,426**	**88,620**

Currency – RUB millions (unless otherwise stated)

Cost	Goodwill	Software	Land rights	Other IA	Total
As of 1 January 2018	**34,100**	**33,376**	**17,611**	**17,012**	**102,099**
Additions	-	5,781	824	5,307	11,912
Acquisitions through business combinations	-	-	-	99	99
Internal movement	-	788	11	(799)	-
Disposals	-	(373)	(1,727)	(261)	(2,361)
Translation differences	2,927	1,107	75	225	4,334
As of 31 December 2018	**37,027**	**40,679**	**16,794**	**21,583**	**116,083**
Amortisation and impairment					
As of 1 January 2018	**(201)**	**(16,708)**	**(5,916)**	**(5,087)**	**(27,912)**
Amortisation charge	-	(5,228)	(696)	(1,563)	(7,487)
Internal movement	-	328	-	(328)	-
Disposals	-	369	359	(246)	482
Translation differences	(33)	(859)	(3)	(132)	(1,027)
As of 31 December 2018	**(234)**	**(22,098)**	**(6,256)**	**(7,356)**	**(35,944)**
Net book value					
As of 1 January 2018	**33,899**	**16,668**	**11,695**	**11,925**	**74,187**
As of 31 December 2018	**36,793**	**18,581**	**10,538**	**14,227**	**80,139**

Goodwill acquired through business combinations has been allocated to Upstream and Downstream in the amounts of RUB 27.3 billion and RUB 6.9 billion as of 31 December 2019 (RUB 29.7 billion and RUB 7.1 billion as of 31 December 2018).

The Group has performed impairment test for CGUs to which goodwill related. In assessing whether goodwill has been impaired, the carrying amount is compared with the estimated value in use.

The value in use is determined as the discounted net cash flows based on the forecasts of oil prices and production quantities based on reserve report and confirmed long-term strategic plans. The forecasting period for determining the value in use is in line with the management assumptions for long-term planning and does not exceed the useful life of assets different from goodwill and included in the CGUs.

Key assumptions applied to the calculation of value in use:

- **The discount rate** calculation is based on the Company's weighted average cost of capital adjusted to reflect after-tax discount rate ranged from 7.88%-8.68% per annum in 2019 (for the 2018: 8.54%-9.86% per annum in real terms);
- **Oil prices** are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others;
- **The estimated annual RSD / USD exchange rate** was forecasted as RSD 104.35 and **the estimated average annual RUB / USD exchange rate** was forecasted as follows:

2020	2021	2022	2023	2024	Average for 2025-2039	2040 onwards
61.50	61.50	61.50	61.00	60.00	58.97	60.00

- **Estimated production volumes** were based on detailed data for the fields and refineries and the field development plans and refineries utilization rates approved by management through the long-term planning process were taken into account.

Goodwill was tested for impairment and no impairment was identified.

Currency – RUB millions (unless otherwise stated)

14. Investments in associates and joint ventures

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

		Ownership percentage	31 December 2019	31 December 2018
Slavneft	Joint venture	49.9	136,792	126,835
Arcticgas	Joint venture	50.0	136,262	146,246
Messoyakha	Joint venture	50.0	45,350	36,837
Northgas	Joint venture	50.0	10,307	7,767
Others			12,404	11,252
Total investments			**341,115**	**328,937**

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

Slavneft

PJSC NGK Slavneft and it's subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products in the Russian Federation. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

Arcticgas

JSC Arctic Gas Company (Arcticgas) is developing oil and gas condensate fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation. The control over Arcticgas is divided equally between the Group and PJSC NOVATEK.

In 2019 Arcticgas declared and paid dividends in the amount of RUB 92.0 billion, of which RUB 46.0 billion is attributable to the Group.

Northgas

CJSC Northgas (Northgas) is engaged in development of Severo-Urengoiskoe natural gas field. The Group's investment in Northgas is held through Gazprom Resource Northgas LLC which is controlled by the Group and owns a 50% share in Northgas. The control over Northgas is divided equally between the Group and PJSC NOVATEK.

In 2019 Northgas declared and paid dividends in the total amount of RUB 1.1 billion, of which RUB 0.6 billion is attributable to the Group.

Messoyakha

JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

In 2019 Messoyakha declared and paid dividends in the total amount of RUB 34.6 billion, of which RUB 17.3 billion is attributable to the Group.

Currency – RUB millions (unless otherwise stated)

The summarised financial information for the significant associates and joint ventures as of 31 December 2019 and 31 December 2018 and for the year ended 31 December 2019 and 2018 is presented in the tables below.

31 December 2019	**Slavneft**	**Arcticgas**	**Messoyakha**	**Northgas**
Cash and cash equivalents	2,771	2,978	2	1,267
Other current assets	97,774	34,148	26,122	3,358
Non-current assets	428,919	382,236	195,568	41,368
Current financial liabilities	(48,343)	(42,499)	(103,883)	(6,243)
Other current liabilities	(40,050)	(12,080)	(10,958)	(1,892)
Non-current financial liabilities	(122,010)	(66,197)	-	(9,701)
Other non-current liabilities	(53,648)	(50,394)	(16,576)	(6,170)
Net assets	**265,413**	**248,192**	**90,275**	**21,987**

31 December 2018	**Slavneft**	**Arcticgas**	**Messoyakha**	**Northgas**
Cash and cash equivalents	3,448	38,132	1	1,151
Other current assets	89,057	18,430	23,977	3,560
Non-current assets	379,881	382,586	178,452	41,785
Current financial liabilities	(31,609)	(40,645)	(10,063)	(8,002)
Other current liabilities	(30,902)	(11,055)	(8,810)	(83)
Non-current financial liabilities	(126,151)	(65,160)	(99,000)	(15,522)
Other non-current liabilities	(42,469)	(51,637)	(11,302)	(5,982)
Net assets	**241,255**	**270,651**	**73,255**	**16,907**

Year ended 31 December 2019	**Slavneft**	**Arcticgas**	**Messoyakha**	**Northgas**
Revenue	316,084	196,395	141,449	21,136
Depreciation, deplition and amortisation	(39,084)	(22,428)	(27,920)	(2,202)
Finance income	545	1,214	5	161
Finance expense	(12,562)	(8,520)	(12,278)	(1,600)
Total income tax expense	(8,644)	(15,866)	(10,878)	(1,559)
Profit for the period	24,732	79,696	51,632	6,179
Total comprehensive income for the period	24,212	79,696	51,632	6,179

Year ended 31 December 2018	**Slavneft**	**Arcticgas**	**Messoyakha**	**Northgas**
Revenue	314,332	195,581	125,521	23,337
Depreciation, deplition and amortisation	(38,713)	(21,100)	(19,692)	(2,554)
Finance income	371	1,243	-	679
Finance expense	(9,246)	(10,215)	(7,531)	(2,113)
Total income tax expense	(7,682)	(16,926)	(11,656)	(1,951)
Profit for the period	31,235	81,823	56,344	7,399
Total comprehensive income for the period	31,372	81,823	56,344	7,399

Others

The aggregate carrying amount of all individually immaterial associates and joint ventures as well as the Group's share of those associates' and joint ventures' profit or loss and other comprehensive income are not significant for both reporting dates and periods.

Currency – RUB millions (unless otherwise stated)

15. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in JSC "Tomskneft" VNC (Tomskneft) and Salym Petroleum Development N.V. (SPD) as Joint operations. Tomskneft and SPD are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

16. Long-term financial assets

Long-term financial assets as of 31 December 2019 and 31 December 2018 comprise the following:

	31 December 2019	31 December 2018
Long-term loans issued	9,919	7,846
Equity investments measured at fair value through OCI	1,562	3,083
Deposits with original maturity more than 1 year	93	-
Less expected credit loss allowance	(537)	(584)
Total long-term financial assets	**11,037**	**10,345**

17. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

As of 31 December 2019	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	3,097	(169,189)	(166,092)
Intangible assets	1	(3,783)	(3,782)
Investments	1,512	(23)	1,489
Inventories	595	(2,877)	(2,282)
Trade and other receivables	1,777	(1)	1,776
Long-term and short-term debt	19	(189)	(170)
Provisions	16,180	(47)	16,133
Tax loss carry-forwards	18,880	(1)	18,879
Lease	2,107	-	2,107
Other	8,127	(5,946)	2,181
Net-off	(33,803)	33,803	-
Total deferred income tax assets / (liabilities)	**18,492**	**(148,253)**	**(129,761)**
As of 31 December 2018			
Property, plant and equipment	3,869	(149,449)	(145,580)
Intangible assets	-	(3,875)	(3,875)
Investments	515	(9)	506
Inventories	1,047	(1,902)	(855)
Trade and other receivables	2,595	(15)	2,580
Long-term and short-term debt	-	(286)	(286)
Provisions	6,063	(251)	5,812
Tax loss carry-forwards	24,387	-	24,387
Finance lease	5,264	-	5,264
Other	5,002	(1,276)	3,726
Net-off	(29,615)	29,615	-
Total deferred income tax assets / (liabilities)	**19,127**	**(127,448)**	**(108,321)**

Currency – RUB millions (unless otherwise stated)

Movement in temporary differences during the period:

	As of 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Other	As of 31 December 2019
Property, plant and equipment	(145,580)	(33,770)	8,409	4,849	(166,092)
Intangible assets	(3,875)	93	-	-	(3,782)
Investments	506	1,063	(80)	-	1,489
Inventories	(855)	(1,427)	-	-	(2,282)
Trade and other receivables	2,580	(746)	(58)	-	1,776
Loans and borrowings	(286)	116	-	-	(170)
Provisions	5,812	10,401	(80)	-	16,133
Tax loss carry-forwards	24,387	(5,499)	(9)	-	18,879
Lease	-	(2,042)	-	4,149	2,107
Finance lease	5,264	-	-	(5,264)	-
Other	3,726	(1,433)	(112)	-	2,181
Total deferred income tax assets / (liabilities)	**(108,321)**	**(33,244)**	**8,070**	**3,734**	**(129,761)**

	As of 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2018
Property, plant and equipment	(121,877)	(21,073)	(2,479)	(151)	(145,580)
Intangible assets	(3,535)	(340)	-	-	(3,875)
Investments	18	2,293	(1,805)	-	506
Inventories	(541)	(314)	-	-	(855)
Trade and other receivables	2,810	(316)	86	-	2,580
Loans and borrowings	(276)	(10)	-	-	(286)
Provisions	6,574	(853)	91	-	5,812
Tax loss carry-forwards	23,255	1,098	34	-	24,387
Finance lease	4,866	398	-	-	5,264
Other	3,990	(427)	162	1	3,726
Total deferred income tax assets / (liabilities)	**(84,716)**	**(19,544)**	**(3,911)**	**(150)**	**(108,321)**

18. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 44.9 billion and RUB 42.8 billion as of 31 December 2019 and 31 December 2018, respectively).

Currency – RUB millions (unless otherwise stated)

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

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

	31 December 2019	31 December 2018
Current portion of long-term debt	14,317	90,263
Bank loans	14,981	-
Other borrowings	900	660
Total short-term debt and current portion of long-term debt	**30,198**	**90,923**

20. Trade and other payables

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

	31 December 2019	31 December 2018
Trade accounts payable	279,985	185,269
Dividends payable	2,362	106,713
Other accounts payable	25,092	15,622
Total trade and other payables	**307,439**	**307,604**

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

21. Other current liabilities

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

	31 December 2019	31 December 2018
Advances received	26,219	25,599
Payables to employees	3,896	3,878
Other non-financial payables	10,626	10,033
Total other current liabilities	**40,741**	**39,510**

Currency – RUB millions (unless otherwise stated)

22. Other taxes payable

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

	31 December 2019	31 December 2018
VAT	32,098	42,580
Mineral extraction tax	32,849	33,782
Excise tax	14,558	11,001
Social security contributions (social taxes)	7,868	6,051
Property tax	2,591	3,180
Additional income tax for hydrocarbon producers	3,954	-
Other taxes	2,483	2,491
Total other taxes payable	**96,401**	**99,085**

Taxes expense other than income tax expense for the year ended 31 December 2019 and 2018 comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Mineral extraction tax	464,773	487,492
Excise tax	70,125	126,779
Social security contributions (social taxes)	25,707	22,113
Property tax	12,580	13,098
Additional income tax for hydrocarbon producers	14,348	-
Other taxes	3,660	3,302
Total taxes other than income tax	**591,193**	**652,784**

Currency – RUB millions (unless otherwise stated)

23. Provisions and other accrued liabilities

Movement in provisions and other accrued liabilities for the years ended 31 December 2019 and 2018 is below:

	Decommissioning provision	Other	Total
Carrying amount as of 1 January 2018	**58,601**	**33,846**	**92,447**
Short-term part	*151*	*29,722*	*29,873*
Long-term part	*58,450*	*4,124*	*62,574*
New obligation incurred	9,323	9,917	19,240
Utilisation of provision / accrual	(2,422)	(16,972)	(19,394)
Change in estimates	(11,857)	-	(11,857)
Unwind of discount	3,809	-	3,809
Translation differences	2,176	814	2,990
Carrying amount as of 31 December 2018	**59,630**	**27,605**	**87,235**
Short-term part	*1,771*	*18,272*	*20,043*
Long-term part	*57,859*	*9,333*	*67,192*
New obligation incurred	10,074	19,122	29,196
Utilisation of provision / accrual	(2,444)	(2,082)	(4,526)
Change in estimates	28,856	-	28,856
Unwind of discount	4,083	-	4,083
Translation differences	(1,146)	(953)	(2,099)
Carrying amount as of 31 December 2019	**99,053**	**43,692**	**142,745**
Short-term part	*2,550*	*21,191*	*23,741*
Long-term part	*96,503*	*22,501*	*119,004*

Change in estimates was mainly caused by revision of discount and inflation rates.

24. Long-term debt

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

	31 December 2019	31 December 2018
Bank loans	335,690	424,447
Loan participation notes	186,775	209,426
Bonds	168,918	132,719
Other borrowings	7,964	8,201
Less current portion of long-term debt	(14,317)	(90,263)
Total long-term debt	**685,030**	**684,530**

Bank loans

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

In July 2012 the Group signed an ECA-covered term loan facility with the group of international banks (facility agent HSBC) with a final maturity date in December 2022. In June 2019 and December 2019 the Group performed a partial principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule.

In the first half 2015 the Group signed several long-term facility agreements with one of the Russian banks with maturity date in August 2019. In February and April 2019 the Group performed pre-scheduled principal repayment in the total amount of USD 202.4 million (RUB 13.3 billion) and USD 496.0 million (RUB 31.9 billion) respectively. The loan is fully repaid as of 31 December 2019.

In December 2018 the Group borrowed RUB 30.0 billion and in January 2019 RUB 20.0 billion under a long-term facility agreement with one of the Russian banks. In December 2019 the Group performed a pre-scheduled final repayment in the total amount.

In February 2019 the Group borrowed EUR 400.0 million (RUB 29.9 billion) under a long-term facility agreement due payable in February 2024. In July 2019 the Group performed pre-scheduled final repayment in to total amount.

In July 2019 the Group borrowed EUR 200.0 million (RUB 14.4 billion) under a long-term facility agreement due payable in July 2022.

In September 2019 the Group borrowed RUB 5.0 billion under a long-term facility agreement due payable in September 2024.

In December 2019 the Group borrowed RUB 10.0 billion under a long-term facility agreement due payable in December 2022.

In December 2019 the Group borrowed RUB 15.0 billion under long-term facility agreement due payable in December 2024.

In December 2019 the Group borrowed RUB 30.0 billion under a long-term facility agreement with one of the Russian banks due payable in December 2022.

In June-July 2018 the Group signed several long-term facility agreements with final maturity date in July 2022 – December 2023. In September, November and December 2019 the Group performed pre-scheduled partial principal repayment in the total amount of RUB 70.0 billion.

The loan agreements contain financial covenant that limits the Group's ratio of "Consolidated financial indebtedness to Consolidated EBITDA". The Group is in compliance with all covenants as of 31 December 2019 and 31 December 2018 and during the year ended 31 December 2019.

Bonds

In June 2016 the Group placed Ruble bonds (series BO-03) with the total par value of RUB 10.0 billion. In June 2019 the bond holders exercised the put option on Rouble bonds (series BO-03) with the 100% par value in amount of RUB 8.8 billion.

In November 2019 the Group placed five-year Rouble bonds (003P-01R series) with the total par value of RUB 25.0 billion. The bonds bear interest of 6.85% per annum. The issue has a two-year call option, allowing the early redemption of the bonds at the Group's decision.

In December 2019 the Group placed ten-year Rouble bonds (003P-02R series) with the total par value of RUB 20.0 billion. The bonds bear interest of 7.15% per annum.

Currency – RUB millions (unless otherwise stated)

25. Lease liabilities

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

	Lease liabilities
As of 31 December 2019	
Less than one year	15,599
Between one and five years	49,941
More than five years	53,791
Total undiscounted lease liabilities	**119,331**
Lease liabilities as of 31 December 2019	**87,795**
Current lease liabilities	9,927
Non-current lease liabilities	77,868

From lease liabilities the Group has excluded expenses related to variable lease payments and payments under short-term lease contracts in amount RUB 15,310 million for the year ended 31 December 2019.

Total cash outflow for leases equals RUB 14,768 million for the year ended 31 December 2019 and does not include payments for non-lease component.

For 2018 the Group has finance lease agreements regarding vessels. As of 31 December 2018 net book value of the leased assets which are pledged for finance lease is RUB 24.2 billion. At the end of lease term ownership title to the vessels transfers to the Group. The lease contract also contains an option for early purchase of the assets by the Group. Net book value of other items of property, plant and equipment under finance lease contracts is non significant.

The reconciliation between future minimum lease payments and their present value as of 31 December 2018 is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
31 December 2018		
Less than one year	3,392	3,282
Between one and five years	13,792	11,462
More than five years	17,627	10,739
Total minimum lease payments	**34,811**	**25,483**

26. Other non-current financial liabilities

Other non-current financial liabilities as of 31 December 2019 and 2018 comprise the following:

	31 December 2019	31 December 2018
Deferred consideration	20,269	43,407
Forward contracts - cash flow hedge	1,230	1,623
Other liabilities	5	(173)
Total other non-current financial liabilities	**21,504**	**44,857**

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

27. Other non-current liabilities

Other non-current liabilities are primarily comprised of advances received (RUB 48.0 billion and RUB 17.2 billion as of 31 December 2019 and 31 December 2018, respectively).

28. Share capital and treasury shares

Share capital as of 31 December 2019 and 2018 comprise the following:

	Ordinary shares		Treasury shares	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
On issue as of 31 December, fully paid (RUB million)	**8**	**8**	**(1,170)**	**(1,170)**

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 2 October 2019 the general shareholders' meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the six months ended 30 June 2019 in the amount of RUB 18.14 per share.

On 14 June 2019 the general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2018 in the amount of RUB 30.00 per share including an interim dividend on the ordinary shares in the amount of RUB 22.05 per share.

On 9 June 2018 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2017 in the amount of RUB 15.00 per share including an interim dividend on the ordinary shares in the amount of RUB 10.00 per share.

29. Employee costs

Employee costs for the years ended 31 December 2019 and 2018 comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	92,475	84,902
Other costs and compensations	18,130	12,269
Total employee costs	**110,605**	**97,171**
Social security contributions (social taxes)	25,707	22,113
Total employee costs (with social taxes)	**136,312**	**119,284**

30. Other loss, net

Other loss, net for the years ended 31 December 2019 and 2018 comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Disposal of intangible assets, property, plant and equipment	(11,679)	(13,330)
Other losses, net	(11,613)	(6,466)
Total other loss, net	**(23,292)**	**(19,796)**

Currency – RUB millions (unless otherwise stated)

31. Net foreign exchange gain / (loss)

Net foreign exchange gain / (loss) for the year ended 31 December 2019 and 2018 comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Net foreign exchange gain / (loss) on financing activities, including:	**32,846**	**(72,735)**
foreign exchange gain	43,499	5,506
foreign exchange loss	(10,653)	(78,241)
Net foreign exchange (loss) / gain on operating activities	**(22,328)**	**39,177**
Net foreign exchange gain / (loss)	**10,518**	**(33,558)**

Currency – RUB millions (unless otherwise stated)

32. Finance income

Finance income for the year ended 31 December 2019 and 2018 comprise the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income on loans issued	728	1,137
Interest on bank deposits	2,286	806
Interest income on cash and cash equivalents	14,798	5,118
Other financial income	5,094	445
Total finance income	**22,906**	**7,506**

33. Finance expense

Finance expense for the year ended 31 December 2019 and 2018 comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense	57,689	49,250
Decommissioning provision: unwinding of discount	4,083	3,809
Less: capitalised interest	(29,000)	(31,583)
Total finance expense	**32,772**	**21,476**

Interest expense includes expenses on the lease liabilities in the amount RUB 5,761 million for the year ended 31 December 2019.

34. Income tax expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended 31 December 2019		Year ended 31 December 2018	
	RUB million	%	RUB million	%
Total income tax expense including share of tax of associates and joint ventures	**104,652**	**20**	**98,701**	**20**
Profit before income tax excluding share of profit before tax of associates and joint ventures	423,928		389,418	
Profit before income tax of associates and joint ventures	102,808		109,676	
Profit before income tax	**526,736**		**499,094**	-
Tax at applicable domestic tax rate (20%)	105,347	20	99,819	20
Effect of tax rates in foreign jurisdictions	538	-	1,133	-
Difference in statutory tax rate in domestic entities	(9,335)	(2)	(9,423)	(2)
Non-deductible and deductible items (including Intragroup)	7,837	1	7,882	2
Adjustment for prior years	(1,137)	1	360	1
Change in tax rate	1,341	-	(1,167)	-
Foreign exchange loss of foreign non-operating units	61	-	97	-
Total income tax expense including share of tax of associates and joint ventures	**104,652**	**20**	**98,701**	**21**

Reconciliation of effective tax rate:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax expense		
Current year	54,020	60,177
Adjustment for prior years	(1,518)	(592)
	52,502	**59,585**
Deferred income tax expense		
Origination and reversal of temporary differences	31,903	20,711
Change in tax rate	1,341	(1,167)
	33,244	**19,544**
Total income tax expense	**85,746**	**79,129**
Share of tax of associates and joint ventures	18,906	19,572
Total income tax expense including share of tax of associates and joint ventures	**104,652**	**98,701**

35. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of 31 December 2019					
Forward exchange contracts and interest rate swaps					
Liabilities	(1,094)	-	-	(1,094)	-
Total	**(1,094)**	**-**	**-**	**(1,094)**	**-**
As of 31 December 2018					
Forward exchange contracts and interest rate swaps					
Liabilities	(1,493)	-	-	-	(1,493)
Total	**(1,493)**	**-**	**-**	**-**	**(1,493)**

Currency – RUB millions (unless otherwise stated)

As of 31 December 2019 and 2018 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of USD 105 million and USD 140 million respectively. During the year ended 31 December 2019 loss in the amount of RUB 576 million was reclassified from equity to net foreign exchange (loss) / gain in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (RUB 16,758 million for the year ended 31 December 2018).

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2019			2018		
	Before income tax	**Income tax**	**Net of tax**	**Before income tax**	**Income tax**	**Net of tax**
Total recognised in other comprehensive (loss) / income as of the beginning of the period	**(1,493)**	**298**	**(1,195)**	**(17,928)**	**2,103**	**(15,825)**
Foreign exchange effects recognised during the period	(177)	35	(142)	(323)	65	(258)
Recycled to Net foreign exchange gain / (loss) on operating activities	576	(115)	461	16,758	(1,870)	14,888
Total recognised in other comprehensive income / (loss) for the period	**399**	**(80)**	**319**	**16,435**	**(1,805)**	**14,630**
Total recognised in other comprehensive (loss) / income as of the closing of the period	**(1,094)**	**218**	**(876)**	**(1,493)**	**298**	**(1,195)**

The accumulated foreign exchange loss will be reclassified from other comprehensive income / (loss) to profit and loss in 2022.

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

36. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Currency – RUB millions (unless otherwise stated)

Market risk

Currency Risk

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated in are mainly USD and EUR.

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

The carrying amounts of the Group's financial instruments by currencies they are denominated in are as follows:

As of 31 December 2019

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Current					
Cash and cash equivalents	135,688	51,483	6,393	4,153	4,687
Bank deposits	15,076	-	-	-	-
Loans issued	4,829	-	-	1	-
Trade and other financial receivables	114,570	74,023	1,276	13,486	1,917
Non-current					
Trade and other financial receivables	696	-	133	-	-
Bank deposits	13	-	78	2	-
Loans issued	9,919	-	-	-	-
Equity investments at fair value through OCI	978	-	-	47	-
Financial liabilities					
Current					
Short-term debt	(26,031)	(1,673)	(2,467)	-	(27)
Trade and other financial payables	(264,299)	(19,830)	(4,506)	(16,765)	(2,039)
Forward exchange contracts	-	-	-	-	-
Current lease liabilities	(1,795)	(7,919)	(112)	-	(101)
Non-current					
Long-term debt	(406,858)	(185,819)	(92,223)	-	(130)
Forward exchange contracts	(136)	(1,094)	-	-	-
Non-current lease liabilities	(3,555)	(73,465)	(466)	-	(382)
Other non-current financial liabilities	(20,271)	-	-	-	(3)
Net exposure	**(441,176)**	**(164,294)**	**(91,894)**	**924**	**3,922**

Currency – RUB millions (unless otherwise stated)

As of 31 December 2018

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Current					
Cash and cash equivalents	144,352	88,487	6,304	4,896	3,546
Bank deposits	-	-	-	-	-
Loans issued	838	-	17	-	-
Trade and other financial receivables	33,389	76,676	1,503	15,624	1,958
Non-current					
Trade and other financial receivables	980	-	-	-	-
Loans issued	7,846	-	-	-	-
Equity investments at fair value through OCI	2,433	-	-	66	-
Financial liabilities					
Current					
Short-term debt	(21,077)	(67,171)	(2,683)	-	8
Trade and other financial payables	(269,489)	(20,452)	(4,944)	(10,387)	(2,332)
Finance lease liability	(38)	(1,742)	(48)	-	(1)
Non-current					
Long-term debt	(401,315)	(208,617)	(74,433)	-	(165)
Forward exchange contracts	(130)	(1,493)	-	-	-
Finance lease liability	(65)	(23,082)	(385)	-	(122)
Other non-current financial liabilities	(41,818)	(1,413)	-	-	(3)
Net exposure	**(544,094)**	**(158,807)**	**(74,669)**	**10,199**	**2,889**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2019	**31 December 2018**
USD 1	61.91	69.47
EUR 1	69.34	79.46
RSD 1	0.59	0.67

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical changes in the Group's profit or loss and equity that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

	Changes in the Group's profit or loss and equity
31 December 2019	
USD/RUB (20% increase)	(40,655)
EUR/RUB (20% increase)	(18,581)
RSD/RUB (20% increase)	(454)
31 December 2018	
USD/RUB (20% increase)	(37,950)
EUR/RUB (20% increase)	(15,008)
RSD/RUB (20% increase)	-

Currency – RUB millions (unless otherwise stated)

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit or loss of the Group.

Interest Rate Risk

Part of the Group's borrowings is at variable interest rates (linked to the Libor, Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group's treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

	Carrying amount	
	31 December 2019	**31 December 2018**
Fixed rate instruments		
Financial assets	232,322	256,286
Financial liabilities	(678,476)	(681,008)
	(446,154)	**(424,722)**
Variable rate instruments		
Financial liabilities	(124,547)	(119,928)
	(124,547)	**(119,928)**

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit / (loss)
31 December 2019	
Increase by 100 bp	(1,245)
31 December 2018	
Increase by 100 bp	(1,199)

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit or loss of the Group.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risks to an acceptable level.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group is exposed to credit risk due to sales with deferred payment terms which are usual and customary in the market. There is risk of non-timely receipt of payments for crude oil and petroleum products (risk of tiding up of working capital) and risk of default of counterparty.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- credit profile of the customer;
- duration of relationships with the Group, including ageing profile.

The compliance with credit limits by wholesale customers is automatically controlled.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge or third party guarantee.

The Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group. To assess whether there is a significant increase in credit risk the Group compares the solvency data occurring as at the reporting date with the same data as at the date of initial recognition. The Group considers available reasonable and supportable forwarding-looking information.

The Management believes that not impaired trade and other receivables are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables.

Currency – RUB millions (unless otherwise stated)

Trade receivables representing due from customers in the ordinary course of business are short-term by nature and do not contain the significant financial component. Lifetime expected credit loss estimation is equal 12-months measure. The Group makes forward looking information adjustment, if changes between prior year macroparameters' level and its forecast for next 12 months are significant.

Estimated provision matrixes have been prepared for separate portfolios of receivables, homogeneous in terms of credit risk. Types of products sold, geographical specificity of distributional channels, ageing period of receivables and other factors were taken into account to separate individual portfolios.

As of 31 December 2019 and 2018, the ageing analysis of financial receivables is as follows:

	Gross 31 December 2019	Impairment 31 December 2019	Gross 31 December 2018	Impairment 31 December 2018
Not past due	196,040	(101)	122,674	(65)
Past due 0 - 30 days	4,280	(1)	2,282	(3)
Past due 31 - 90 days	3,021	(5)	3,775	(31)
Past due 91 - 180 days	1,667	(10)	944	(70)
Past due 181 - 365 days	127	(23)	533	(124)
Past due more than 1 year	3,069	(1,963)	2,352	(2,137)
	208,204	**(2,103)**	**132,560**	**(2,430)**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables.

The movement in the credit loss allowance for impairment in respect of trade and other receivables during the period was as follows:

	2019	2018
Balance at the beginning of the period	**2,430**	**7,567**
Increase during the year	201	461
Amounts written off against receivables	(40)	(5,766)
Decrease due to reversal	(182)	(236)
Reclassification to other lines	(79)	191
Other movements	(30)	9
Translation differences	(197)	204
Balance at the end of the period	**2,103**	**2,430**

Other current assets

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

	2019	2018
Balance at the beginning of the period	**11,727**	**12,288**
Increase during the year	827	172
Amounts written off against receivables	(10,499)	(532)
Decrease due to reversal	(227)	(92)
Reclassification to other lines	83	(199)
Other movements	(7)	(7)
Translation differences	(54)	97
Balance at the end of the period	**1,850**	**11,727**

Currency – RUB millions (unless otherwise stated)

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any loans issued measured at amortized cost that were past due but not impaired as of 31 December 2019.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB	Less than BBB	Without rating	Total
As of 31 December 2019				
Cash and cash equivalents	82,848	87,992	31,564	**202,404**
Short-term loans issued	-	-	4,830	**4,830**
Deposits with original maturity more than 3 months less than 1 year	-	15,039	37	**15,076**
Deposits with original maturity more than 1 year	-	-	93	**93**
Long-terms loans issued	-	-	9,919	**9,919**
As of 31 December 2018				
Cash and cash equivalents	11,671	190,856	45,058	**247,585**
Short-term loans issued	-	-	855	**855**
Long-terms loans issued	-	-	7,846	**7,846**

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2019 and 2018 no significant credit loss allowance for impairment in respect of these assets was recognized.

Currency – RUB millions (unless otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
As of 31 December 2019							
Bank loans	350,671	416,818	25,975	10,945	27,395	350,166	2,338
Bonds	168,918	222,472	6,414	6,414	62,450	120,061	27,132
Loan Participation Notes	186,775	220,194	4,818	4,818	9,635	200,924	-
Other borrowings	8,864	9,328	6,538	485	265	650	1,390
Other non-current financial liabilities	20,274	32,724	-	-	3	30,175	2,547
Lease liabilities	87,795	118,841	7,724	7,586	14,017	36,030	53,483
Trade and other payables	307,439	307,439	282,108	14,785	10,513	10	22
	1,130,736	**1,327,816**	**333,577**	**45,033**	**124,278**	**738,016**	**86,912**
As of 31 December 2018							
Bank loans	424,447	526,423	32,310	63,181	27,733	398,655	4,544
Bonds	132,719	173,579	15,548	4,915	9,627	85,206	58,283
Loan Participation Notes	209,426	257,913	5,406	5,406	10,812	236,289	-
Other borrowings	8,861	13,249	9,487	981	333	710	1,738
Other non-current financial liabilities	43,234	62,643	5	-	11,057	34,779	16,802
Finance lease liabilities	25,483	34,809	1,694	1,697	3,414	10,080	17,924
Trade and other payables	307,604	307,604	296,839	10,552	28	163	22
	1,151,774	**1,376,220**	**361,289**	**86,732**	**63,004**	**765,882**	**99,313**

Currency – RUB millions (unless otherwise stated)

Reconciliation of liabilities arising from financing activities

The table below sets out the movements in the Group's liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the Consolidated Statement of Cash Flows:

	Short-term and long-term debt	Financial lease / Lease	Other liabilities from financing activities	Total
As of 1 January 2019	775,453	25,483	163,571	964,507
Cash flows, including:	(67,643)	(14,961)	(253,173)	(335,777)
Proceeds from borrowings	*258,963*	-	-	*258,963*
Repayment of borrowings	*(280,878)*	-	*(11,501)*	*(292,379)*
Repayment of lease liabilities	-	*(9,200)*	-	*(9,200)*
Interest paid	*(45,353)*	*(5,761)*	*(7,943)*	*(59,057)*
Transaction costs directly attributable to the borrowings received	*(375)*	-	-	*(375)*
Dividends paid	-	-	*(233,729)*	*(233,729)*
Finance expense	45,827	5,761	4,679	56,267
Dividends declared	-	-	129,707	129,707
Changes in fair values, cash flow hedge	-	-	(177)	(177)
Gain on foreign exchange differences	(33,279)	(8,945)	-	(42,224)
Currency translation differences	(5,591)	(122)	(329)	(6,042)
Implementation of IFRS 16	-	62,223	-	62,223
Additions under IFRS 16	-	18,369	-	18,369
Other non-cash movements	461	(13)	1,747	2,195
As of 31 December 2019	**715,228**	**87,795**	**46,025**	**849,048**

	Short-term and long-term debt	Financial lease	Other liabilities from financing activities	Total
As of 1 January 2018	680,414	22,223	122,332	824,969
Cash flows, including:	(16,432)	(3,129)	(105,822)	(125,383)
Proceeds from borrowings	*366,544*	-	-	*366,544*
Repayment of borrowings	*(340,459)*	-	*(20,601)*	*(361,060)*
Repayment of finance lease liabilities	-	*(1,579)*	-	*(1,579)*
Interest paid	*(42,359)*	*(1,550)*	*(2,583)*	*(46,492)*
Transaction costs directly attributable to the borrowings received	*(158)*	-	-	*(158)*
Dividends paid	-	-	*(82,638)*	*(82,638)*
Finance expense	41,302	1,550	5,269	48,121
Dividends declared	-	-	139,389	139,389
Changes in fair values, cash flow hedge	-	-	(323)	(323)
Gain on foreign exchange differences	63,651	4,361	-	68,012
Currency translation differences	6,073	61	442	6,576
Change in contract terms	-	-	2,819	2,819
Other non-cash movements	445	417	(535)	327
As of 31 December 2018	**775,453**	**25,483**	**163,571**	**964,507**

Currency – RUB millions (unless otherwise stated)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at of 31 December 2019 and 2018 and return on average capital employed for years ended 31 December 2019 and 2018 were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Long-term debt	685,030	684,530
Short-term debt and current portion of long-term debt	30,198	90,923
Less: cash, cash equivalents and deposits	(217,480)	(247,585)
Net debt	**497,748**	**527,868**
Total EBITDA	711,846	722,897
Net debt to EBITDA ratio at the end of the reporting period	**0.7**	**0.7**
Operating profit	446,568	456,742
Operating profit adjusted for income tax expense	356,243	363,933
less share of profit of associates and joint ventures	83,906	90,704
Average capital employed	2,615,316	2,381,424
ROACE	**16.8%**	**19.1%**

There were no changes in the Group's approach to capital management during the period.

Currency – RUB millions (unless otherwise stated)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements: derivative financial instruments, equity investments and Stock Appreciation Rights plan (SARs).

Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Equity investments represented by unlisted equity securities and refer to Level 3 of the fair value measurement hierarchy. The Group determines fair value for unlisted equity securities considering different scenarios of future capital distributions for such investments. There were no significant changes in fair values for the reporting period. There were no transfers between the levels of the fair value hierarchy during the years ended 31 December 2019 and 2018. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2019 the fair value of bonds and loan participation notes is RUB 371,410 million (RUB 338,324 million as of 31 December 2018). The fair value is derived from quotations in active market from external source of financial information and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities measured at amortised cost approximates their fair value. The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

	Level 2
As of 31 December 2019	
Forward exchange contracts	(1,094)
Total liabilities	**(1,094)**
As of 31 December 2018	
Forward exchange contracts	(1,493)
Other financial liabilities	(4,652)
Total liabilities	**(6,145)**

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

Currency – RUB millions (unless otherwise stated)

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period. During the reporting period there were no changes in conditions for SAR compensation plan.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2019 and 2018:

	31 December 2019	31 December 2018
Volatility	3.9%	3.2%
Risk-free interest rate	5.6%	8.1%
Dividend yield	11.9%	7.3%

In the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2019 and 2018 the Group accrued expenses related to SAR provision due to the growth in the value of Company's shares in the amount of RUB 8,111 million and RUB 4,652 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2019 and 31 December 2018 the Group recognised accrued liability in amount of RUB 12,764 million and RUB 4,652 million, respectively.

37. Commitments and contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. For the individual entities of the Group the field tax audit with regard to the years 2015-2017 is performing now, the years 2018-2019 are currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis.

The compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Twenty-two pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2019.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While Management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Economic environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017-2019, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by volatility of oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don't have significant impact on its activity.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

Capital commitments

As of 31 December 2019 the Group has entered into contracts to purchase property, plant and equipment for RUB 523,364 million (RUB 363,690 million as of 31 December 2018).

Currency – RUB millions (unless otherwise stated)

38. Group entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

Subsidiary	Country of incorporation	Ownership interest 31 December 2019	Ownership interest 31 December 2018
Exploration and Production			
JSC Gazpromneft-NNG	Russian Federation	100%	100%
Gazpromneft-Orenburg LLC	Russian Federation	100%	100%
Gazprom Neft Shelf LLC	Russian Federation	100%	100%
Gazpromneft-Khantos LLC	Russian Federation	100%	100%
Gazpromneft-Yamal LLC	Russian Federation	90%	90%
JSC Uzhuralneftegaz	Russian Federation	87.5%	87.5%
Gazpromneft-Vostok LLC	Russian Federation	51%	51%
Gazprom Resource Northgas LLC	Russian Federation	18.2%	18.2%
Refining			
JSC Gazpromneft Omsk Refinery	Russian Federation	100%	100%
JSC Gazpromneft Moscow Refinery	Russian Federation	100%	100%
Marketing			
Gazpromneft-Centre LLC	Russian Federation	100%	100%
Gazpromneft Regional Sales LLC	Russian Federation	100%	100%
JSC Gazpromneft-Aero	Russian Federation	100%	100%
Gazpromneft Marin Bunker LLC	Russian Federation	100%	100%
Gazpromneft Corporate Sales LLC	Russian Federation	100%	100%
Other Operations			
Gazpromneft-Lubricants LLC	Russian Federation	100%	100%
Gazpromneft-Bitumen Materials LLC	Russian Federation	100%	100%
Gazpromneft NTC LLC	Russian Federation	100%	100%
GPN-Finance LLC	Russian Federation	100%	100%
GPN-Invest LLC	Russian Federation	100%	100%
Gazpromneft Shipping LLC	Russian Federation	100%	100%
Multibusiness companies			
Naftna industrija Srbije A.D. (NIS)	Serbia	56.2%	56.2%

In September 2018 the Group completed deal on disposal of non-controlling interest equal to 49% of share capital of Gazpromneft-Vostok LLC to third parties. The Group maintained control over the Company. In result non-controlling interest in the amount of RUB 21.3 billion was recognized. Excess of the payment over non-controlling interest was recognized at additional paid-in capital attributable to Gazprom Neft shareholders.

Currency – RUB millions (unless otherwise stated)

The following table summarises the information relating to the non-controlling interest of Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.

	Carrying amount of non-controlling interest		Profit for the period attributable to non-controlling interest	
	31 December 2019	31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
Naftna industrija Srbije A.D. and its subsidiaries	79,636	87,815	4,144	6,641
Gazpromneft-Vostok LLC	24,938	24,176	2,232	909
Gazpromneft-Yamal LLC	28,300	19,506	11,820	12,450
Gazprom Resource Northgas LLC	21,493	18,374	3,119	3,806

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC as of 31 December 2019 and 2018 and for the years ended 31 December 2019 and 2018:

31 December 2019	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok LLC	Gazpromneft-Yamal LLC	Gazprom Resource Northgas LLC
Current assets	57,323	10,718	111,923	15,981
Non-current assets	241,009	64,206	363,111	10,307
Current liabilities	(38,463)	(5,565)	(26,991)	(13)
Non-current liabilities	(59,218)	(18,465)	(165,043)	-

31 December 2018	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok LLC	Gazpromneft-Yamal LLC	Gazprom Resource Northgas LLC
Current assets	66,310	9,631	85,475	14,715
Non-current assets	262,190	56,454	296,249	7,767
Current liabilities	(37,010)	(4,657)	(93,068)	(21)
Non-current liabilities	(69,569)	(12,091)	(93,597)	-

Year ended 31 December 2019	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok LLC	Gazpromneft-Yamal LLC	Gazprom Resource Northgas LLC
Revenue	258,908	34,851	240,878	-
Profit	9,460	4,556	118,198	3,813
Total comprehensive (loss) / income	(14,617)	4,556	118,198	3,813
Year ended 31 December 2018				
Revenue	270,427	34,268	236,008	-
Profit	15,166	5,922	124,501	4,652
Total comprehensive (loss) / income	(11,051)	5,922	124,501	4,652

The table below summarises net cash flows information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC, Gazpromneft-Yamal LLC and Gazprom Resource Northgas LLC for the years ended 31 December 2019 and 2018:

	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok LLC	Gazpromneft-Yamal LLC	Gazprom Resource Northgas LLC
Net Cash Flows				
Year ended 31 December 2019	(1,771)	(416)	6,791	1,265
Year ended 31 December 2018	(3,893)	6,163	(29,226)	867

Currency – RUB millions (unless otherwise stated)

Dividends paid in 2019 by Gazpromneft-Yamal LLC to the non-controlling share comprised RUB 3.0 billion (RUB 1.5 billion in 2018).

Dividends paid in 2019 by Gazpromneft-Vostok LLC to the non-controlling share comprised RUB 1.5 billion.

Dividends paid in 2018 by Gazprom Resource Northgas LLC to the non-controlling share comprised RUB 8.1 billion.

Dividends paid in 2019 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 1.8 billion (RUB 1.9 billion in 2018).

39. Related party transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 9, 22 and 34.

The tables below summarise transactions in the ordinary course of business with either the parent company or parent's subsidiaries and associates or associates and joint ventures of the Group.

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

31 December 2019	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Cash and cash equivalents	43,912	67,811	-
Short-term financial assets	-	-	4,455
Trade and other receivables	67,564	12,381	11,456
Other current assets	120	4,476	1,737
Long-term financial assets	-	443	9,897
Other non-current assets	-	595	-
Short-term debt and other current financial liability	-	-	278
Other current liabilities	2	360	265
Long-term debt and other non-current financial liability	20,269	20,000	-
Other non-current liabilities	35,007	-	-

Currency – RUB millions (unless otherwise stated)

31 December 2018	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Cash and cash equivalents	-	82,184	-
Short-term financial assets	-	3	-
Trade and other receivables	12	10,254	9,188
Other current assets	63	2,669	1,319
Long-term financial assets	-	-	7,827
Other non-current assets	-	498	-
Short-term debt and other current financial liability	-	48,519	627
Other current liabilities	10	398	250
Long-term debt and other non-current financial liability	43,618	20,000	-
Other non-current liabilities	17,055	-	-

For the year ended 31 December 2019 and 2018 the following transactions occurred with related parties:

Year ended 31 December 2019	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and petroleum products sales	90	92,950	57,741
Other revenue	19,790	2,702	6,886
Purchases of crude oil, gas and petroleum products	-	34,379	228,711
Unsettled operations as of the reporting date	22,346	3,683	146,493
Production related services	215	30,867	24,954
Transportation costs	2,146	2,460	11,614
Interest expense	4,679	2,069	35
Interest income	6,571	5,098	694

Year ended 31 December 2018	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and petroleum products sales	24,338	77,292	65,527
Other revenue	142	5,182	7,039
Purchases of crude oil, gas and petroleum products	-	48,579	211,626
Unsettled operations as of the reporting date	111,862	2,605	88,278
Production related services	49	26,795	23,341
Transportation costs	9,009	1,922	9,243
Interest expense	5,269	2,550	168
Interest income	-	619	1,063

During 2019 the Group has accrued dividends in the total amount of RUB 123.0 billion to the parent company (during 2018: RUB 127.6 billion).

Transactions with Key Management Personnel

For the year ended 31 December 2019 and 2018 remuneration of key management personnel (members of the Board of Directors and Management Committee) such as salary and other contributions amounted RUB 3,599 million and RUB 2,681 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

Currency – RUB millions (unless otherwise stated)

40. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in two operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group's operating segments for the year ended 31 December 2019 and 2018 is presented below:

Year ended 31 December 2019	**Upstream**	**Downstream**	**Eliminations**	**Total**
Revenue from sales:				
External customers	148,883	2,336,425	-	2,485,308
Inter-segment	1,027,079	31,796	(1,058,875)	-
Total revenue from sales	**1,175,962**	**2,368,221**	**(1,058,875)**	**2,485,308**
Adjusted EBITDA	640,931	154,198	-	795,129
Depreciation, depletion and amortisation	134,033	47,339	-	181,372
Capital expenditure	283,696	192,703	-	476,399

Year ended 31 December 2018	**Upstream**	**Downstream**	**Eliminations**	**Total**
Revenue from sales:				
External customers	57,575	2,431,717	-	2,489,292
Inter-segment	1,135,245	20,630	(1,155,875)	-
Total revenue from sales	**1,192,820**	**2,452,347**	**(1,155,875)**	**2,489,292**
Adjusted EBITDA	686,174	113,332	-	799,506
Depreciation, depletion and amortisation	137,076	38,375	-	175,451
Impairment of assets	4,340	-	-	4,340
Capital expenditure	209,788	165,409	-	375,197

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and petroleum products, and other adjustments.

Adjusted EBITDA represents the Group's EBITDA and its share in associates' and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, net foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

Currency – RUB millions (unless otherwise stated)

The geographical segmentation of the Group's revenue and capital expenditures for the year ended 31 December 2019 and 2018 is presented below:

Year ended 31 December 2019	**Russian Federation**	**CIS**	**Export and international operations**	**Total**
Sales of crude oil	88,797	41,067	614,696	744,560
Sales of petroleum products	1,046,521	86,752	484,857	1,618,130
Sales of gas	29,891	-	863	30,754
Other sales	79,076	2,749	10,039	91,864
Revenues from external customers, net	**1,244,285**	**130,568**	**1,110,455**	**2,485,308**
Year ended 31 December 2018				
Sales of crude oil	88,848	38,993	590,630	718,471
Sales of petroleum products	1,075,927	91,334	496,170	1,663,431
Sales of gas	35,805	-	1,010	36,815
Other sales	54,801	2,498	13,276	70,575
Revenues from external customers, net	**1,255,381**	**132,825**	**1,101,086**	**2,489,292**

For the year ended 31 December 2019 and 2018 export sales of crude oil include sales from upstream segment in the amount of RUB 128,840 million and RUB 36,981 million, respectively. The remaining amount of RUB 485,856 million for year ended 31 December 2019 (RUB 553,649 million for the year ended 31 December 2018) represents sales from downstream segment.

The geographical segmentation of the Group's non-current assets as of 31 December 2018 was adjusted for the amount of RUB 24.6 billion that was reclassified from Export and international operations to Russian Federation segment retrospectively. Investments in associates and joint ventures and other long-term financial assets are presented separately by geographical segmentation from non-current assets.

	Russian Federation	**CIS**	**Export and international operations**	**Total**
Non-current assets as of 31 December 2019	2,397,649	10,596	277,917	2,686,162
Investments in associates and joint ventures as of 31 December 2019	339,905	-	1,210	341,115
Other long-term financial assets as of 31 December 2019	11,593	-	273	11,866
Capital expenditures for the year ended 31 December 2019	448,512	846	27,041	476,399
Non-current assets as of 31 December 2018	2,164,360	12,228	321,820	2,498,408
Investments in associates and joint ventures as of 31 December 2018	327,562	-	1,375	328,937
Other long-term financial assets as of 31 December 2018	11,230	-	95	11,325
Capital expenditures for the year ended 31 December 2018	340,919	1,448	32,830	375,197

Currency – RUB millions (unless otherwise stated)

Adjusted EBITDA for the year ended 31 December 2019 and 2018 is reconciled below:

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the period	422,088	400,993
Total income tax expense	85,746	79,129
Finance expense	32,772	21,476
Finance income	(22,906)	(7,506)
Depreciation, depletion and amortisation	181,372	175,451
Net foreign exchange (gain) / loss	(10,518)	33,558
Other loss, net	23,292	19,796
EBITDA	**711,846**	**722,897**
less share of profit of associates and joint ventures	(83,906)	(90,704)
add share of EBITDA of associates and joint ventures	167,189	167,313
Total adjusted EBITDA	**795,129**	**799,506**

Currency – RUB millions (unless otherwise stated)

Supplementary information on oil and gas activities (unaudited)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

	31 December 2019	31 December 2018
Consolidated subsidiaries and share in joint operations		
Unproved oil and gas properties	136,620	103,983
Proved oil and gas properties	2,062,056	1,852,270
Less: Accumulated depreciation, depletion and amortisation	(878,357)	(783,343)
Net capitalised costs of oil and gas properties	**1,320,319**	**1,172,910**
Group's share of associates and joint ventures		
Proved oil and gas properties	706,622	623,845
Less: Accumulated depreciation, depletion and amortisation	(257,726)	(203,268)
Net capitalised costs of oil and gas properties	448,896	420,577
Total capitalised costs consolidated and equity interests	**1,769,215**	**1,593,487**

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

	2019	2018
Consolidated subsidiaries and share in joint operations		
Exploration costs	46,862	22,301
Development costs	203,584	191,420
Costs incurred	**250,446**	**213,721**
Group's share of associates and joint ventures		
Exploration costs	-	459
Development costs	82,777	69,833
Total costs incurred consolidated and equity interests	**333,223**	**284,013**

Currency – RUB millions (unless otherwise stated)

Results of operations from oil and gas producing activities for the years ended 31 December:

	2019	2018
Consolidated subsidiaries and share in joint operations		
Revenues:		
Sales	354,624	339,424
Transfers	587,996	629,183
Total revenues	**942,620**	**968,607**
Production costs	(111,268)	(104,072)
Exploration expenses	(1,752)	(1,411)
Depreciation, depletion and amortisation	(130,316)	(131,293)
Taxes other than income tax	(500,630)	(507,190)
Pretax income from producing activities	**198,654**	**224,641**
Income tax expenses	(59,501)	(65,969)
Results of oil and gas producing activities	**139,153**	**158,672**
Group's share of associates and joint ventures		
Total revenues	319,371	296,568
Production costs	(31,621)	(25,567)
Exploration expenses	(348)	(533)
Depreciation, depletion and amortisation	(54,162)	(36,237)
Taxes other than income tax	(131,358)	(122,260)
Pretax income from producing activities	**101,882**	**111,971**
Income tax expenses	(15,591)	(16,758)
Results of oil and gas producing activities	86,291	95,213
Total consolidated and equity interests in results of oil and gas producing activities	**225,444**	**253,885**

Proved oil and gas reserve quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities - in MMBbl	**31 December 2019**	**31 December 2018**
Consolidated subsidiaries and share in joint operations		
Beginning of year	*4,840*	*4,849*
Production	(359)	*(356)*
Change of assets	21	-
Revision of previous estimates	307	347
End of year	*4,809*	*4,840*
Minority's share included in the above proved reserves	(92)	(42)
Proved reserves, adjusted for minority interest	4,717	4,798
Proved developed reserves	2,588	2,630
Proved undeveloped reserves	2,221	2,210
Group's share of associates and joint ventures*		
Beginning of year	*1,562*	*1,445*
Production	(107)	(103)
Change of assets	(37)	-
Purchases of minerals in place	-	31
Revision of previous estimates	126	189
End of year	*1,544*	*1,562*
Proved developed reserves	778	735
Proved undeveloped reserves	766	826
Total consolidated and equity interests in reserves - end of year	**6,353**	**6,402**

Currency – RUB millions (unless otherwise stated)

Proved Gas Reserves Quantities - in Bcf	31 December 2019	31 December 2018
Consolidated subsidiaries and share in joint operations		
Beginning of year	*10,218*	*8,785*
Production	(794)	(665)
Change of assets	2,091	-
Revision of previous estimates	1,625	2,098
End of year	*13,140*	*10,218*
Minority's share included in the above proved reserves	(441)	(489)
Proved reserves, adjusted for minority interest	12,699	9,729
Proved developed reserves	4,304	4,006
Proved undeveloped reserves	8,836	6,212
Group's share of associates and joint ventures*		
Beginning of year	*13,930*	*12,972*
Production	(633)	(624)
Change of assets	(1,560)	-
Purchases of minerals in place	-	705
Revision of previous estimates	1,845	877
End of year	*13,582*	*13,930*
Proved developed reserves	9,311	8,435
Proved undeveloped reserves	4,271	5,495
Total consolidated and equity interests in reserves - end of year	**26,722**	**24,148**

*Including 82% NCI share in Gazprom Resource Northgas LLC

Currency – RUB millions (unless otherwise stated)

Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	31 December 2019	31 December 2018
Consolidated subsidiaries and share in joint operations		
Future cash inflows	17,144,989	18,695,537
Future production costs	(11,199,812)	(11,427,272)
Future development costs	(1,056,587)	(892,476)
Future income tax expenses	(1,209,796)	(2,057,005)
Future net cash flow	3,678,794	4,318,784
10% annual discount for estimated timing of cash flow	(1,939,797)	(2,188,299)
Standardised measure of discounted future net cash flow	**1,738,997**	**2,130,485**
Group's share of associates and joint ventures		
Future cash inflows	4,279,241	4,660,776
Future production costs	(2,795,981)	(2,867,502)
Future development costs	(249,513)	(251,088)
Future income tax expenses	(210,212)	(265,892)
Future net cash flow	1,023,535	1,276,294
10% annual discount for estimated timing of cash flow	(328,248)	(501,792)
Standardised measure of discounted future net cash flow	695,287	774,502
Total consolidated and equity interests in the standardised measure of discounted future net cash flow	**2,434,284**	**2,904,987**

The Group's office is

3-5 Pochtamtskaya St.,
St. Petersburg, Russian Federation
190000

Telephone:	+7 (812) 363-31-52
Hotline:	8-800-700-31-52
Fax:	+7 (812) 363-31-51

www.gazprom-neft.ru

Investor Relations

Tel.: +7 (812) 385-95-48
Email: ir@gazprom-neft.ru