

“SURGUTNEFTEGAS” PJSC

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
PREPARED IN ACCORDANCE WITH IAS 34**

30 JUNE 2018

Contents

Interim condensed consolidated statement of financial position	3
Interim condensed consolidated statement of profit and loss and other comprehensive income	4
Interim condensed consolidated statement of cash flows	5
Interim condensed consolidated statement of changes in equity	6
Notes to the interim condensed consolidated financial statements	7
1 General information	7
2 Basis of preparation of the financial statements	7
3 Summary of significant accounting policies and new financial reporting standards	7
4 Subsidiaries	9
5 Segment information	9
6 Related party transactions	12
7 Cash and cash equivalents, restricted cash	12
8 Deposits placed	12
9 Receivables	13
10 Advances issued	13
11 Inventories	13
12 Property, plant and equipment	14
13 Loans granted	16
14 Payables and accrued liabilities	16
15 Other tax liabilities	16
16 Provisions	16
17 Other financial liabilities	16
18 Export duties	17
19 Operating expenses	17
20 Finance income and expenses	17
21 Exchange differences	18
22 Factors of financial risks	18
23 Net earnings per share	19
24 Dividends	19
25 Fair value of assets and liabilities	19
26 Subsequent events	21

“Surgutneftegas” PJSC
Interim condensed consolidated statement of financial position
(in millions of Russian rubles, unless otherwise stated)

Notes	As of 30 June 2018 (unaudited)	As of 31 December 2017
ASSETS		
Current assets		
7 Cash and cash equivalents	207,676	217,501
7 Restricted cash	2,171	2,049
8 Deposits placed	773,442	829,500
13 Loans granted	17,218	17,239
Other financial assets	3,173	2,711
9 Receivables	104,561	91,268
11 Inventories	84,252	81,302
10 Advances issued	10,986	15,493
VAT recoverable	5,913	8,059
Income tax receivable	54	3,017
Other taxes recoverable	46	134
Total current assets	1,209,492	1,268,273
Non-current assets		
12 Property, plant and equipment	1,474,831	1,430,760
Intangible assets	9,034	9,081
8 Deposits placed	1,913,002	1,488,934
Other financial assets	8,766	9,440
Deferred tax assets	29	19
13 Loans granted	30,274	29,111
9 Receivables	1,165	1,205
Other non-current assets	1,833	2,867
Total non-current assets	3,438,934	2,971,417
Total assets	4,648,426	4,239,690
LIABILITIES AND EQUITY		
Current liabilities		
14 Payables and accrued liabilities	78,990	47,696
17 Other financial liabilities	182,055	184,462
Advances received	8,065	22,336
15 Other tax liabilities	75,396	65,937
Income tax liabilities	6,812	16
16 Provisions	3,319	3,324
Total current liabilities	354,637	323,771
Non-current liabilities		
17 Other financial liabilities	12,959	3,850
Deferred tax liabilities	177,204	162,732
16 Provisions	140,062	134,763
Other non-current liabilities	1,007	1,377
Total non-current liabilities	331,232	302,722
Equity		
Share capital	154,666	154,666
Additional paid-in capital	4	4
Treasury shares	(30)	(30)
Share premium	57,809	57,809
Retained earnings	3,749,522	3,400,441
Other reserves	296	9
Total equity attributable to shareholders	3,962,267	3,612,899
Non-controlling interests	290	298
Total equity	3,962,557	3,613,197
Total liabilities and equity	4,648,426	4,239,690

A.N.Bulanov

Acting Director General
“Surgutneftegas” PJSC

27 August 2018

A.V.Druchinin

Chief Accountant
“Surgutneftegas” PJSC

27 August 2018

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

“Surgutneftegas” PJSC

Interim condensed consolidated statement of profit and loss and other comprehensive income

(in millions of Russian rubles, unless otherwise stated)

Notes		Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
5	Sales	856,753	638,807
18	less export duties	(126,559)	(90,873)
5	Total sales revenue:	730,194	547,934
	sales of oil	460,928	326,859
	sales of oil products	250,412	201,733
	sales of gas and gas products	11,850	11,805
	sales of other products and finished goods	3,619	3,938
	other sales	3,385	3,599
19	Operating expenses	(531,528)	(425,298)
	Operating profit	198,666	122,636
20	Finance income	58,277	56,638
20	Finance expenses	(9,374)	(7,537)
21	Exchange differences, net	225,164	(56,387)
	Gain on sale and other disposal of financial assets	12	15
	Other income / (expenses)	586	(3,547)
	Profit before tax	473,331	111,818
	Income tax		
	Current income tax	(67,176)	(6,575)
	Changes in deferred income tax	(16,155)	(16,191)
	Total income tax expense	(83,331)	(22,766)
	Net profit	390,000	89,052
	Other comprehensive income / (expense) that may be reclassified subsequently to profit / (loss), net of income tax		
	Income from changes in financial assets measured at fair value	289	6
	Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax		
	Remeasurements of post-employment benefit obligations	(65)	(644)
	Total other comprehensive income / (expense), net of income tax	224	(638)
	Total comprehensive income	390,224	88,414
	Net profit		
	attributable to shareholders	389,988	89,029
	attributable to non-controlling interests	12	23
	Total comprehensive income		
	attributable to shareholders	390,210	88,391
	attributable to non-controlling interests	14	23
	Net earnings attributable to shareholders per one ordinary share (in rubles)		
23	basic and diluted	10.92	2.49

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

“Surgutneftegas” PJSC
Interim condensed consolidated statement of cash flows
(in millions of Russian rubles, unless otherwise stated)

Notes	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Operating activities		
Profit before tax	473,331	111,818
Adjustments:		
19 Depreciation, depletion and amortisation	30,458	31,980
19 Losses from disposal of exploration and production properties	563	785
Expected credit losses allowance	3,014	863
Provision accrual / (recovery)	(22)	719
Exchange differences	(217,526)	54,164
Gain on sale and other disposal of financial assets	(12)	(15)
Loss from sale of a subsidiary	83	-
20 Interest expenses from discounting, net	3,134	182
20 Interest receivable	(58,153)	(54,887)
20 Interest payable	6,116	5,604
Loss from sale and disposal of property, plant and equipment, and intangible assets	1,614	2,663
Others, net	117	(242)
Cash flows from operating activities before changes in working capital and income tax	242,717	153,634
Change in receivables	(16,153)	25,331
Change in advances issued	4,506	3,980
Change in inventories	(2,178)	537
Change in other assets	1,033	196
Change in trade and other payables	(2,737)	(3,542)
Change in advances received	(14,269)	(9,634)
Change in restricted cash	(122)	(629)
Change in other taxes (other than income tax)	11,693	(7,551)
Change in other liabilities	(415)	(52)
Cash from operating activities before income tax	224,075	162,270
Income tax refund (income tax paid)	(57,418)	15,607
Net cash from operating activities	166,657	177,877
Investing activities		
Capital expenditures	(74,462)	(75,833)
Deposits placed	(481,451)	(366,573)
Deposits refunded	326,862	233,500
Loans granted	(20,143)	(21,182)
Loans collected	17,671	19,279
Interest received	51,681	39,136
Proceeds from sale of a subsidiary	156	-
Proceeds from sale of financial assets	3,978	3,064
Acquisition of financial assets	(525)	(2,761)
Proceeds from sale of property, plant and equipment	194	187
Net cash used for investing activities	(176,039)	(171,183)
Financing activities		
Net acquisition of other financial liabilities	5,863	64,817
Dividends paid (incl. tax)	(43)	(61)
Interest paid	(5,579)	(5,492)
Net cash from financing activities	241	59,264
Net change in balances of cash and cash equivalents	(9,141)	65,958
Effect of exchange rate changes against ruble on cash and cash equivalents	(684)	(1,323)
7 Cash and cash equivalents at the beginning of the period	217,501	107,453
7 Cash and cash equivalents at the end of the period	207,676	172,088

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

“Surgutneftegas” PJSC

Interim condensed consolidated statement of changes in equity

(in millions of Russian rubles, unless otherwise stated)

Notes	Share capital	Additional paid-in capital	Treasury shares	Share premium	Retained earnings	Other reserves	Total equity attributable to shareholders	Non-controlling interests	Total equity	
	Balance as of 31 December 2016	154,666	4	(30)	57,809	3,232,704	14	3,445,167	245	3,445,412
	Net profit for the period	-	-	-	-	89,029	-	89,029	23	89,052
	Other comprehensive income / (expense)	-	-	-	-	(644)	6	(638)	-	(638)
	Total comprehensive income	-	-	-	-	88,385	6	88,391	23	88,414
	Dividends declared	-	-	-	-	(26,056)	-	(26,056)	(6)	(26,062)
	Balance as of 30 June 2017 (unaudited)	154,666	4	(30)	57,809	3,295,033	20	3,507,502	262	3,507,764
	Balance as of 31 December 2017	154,666	4	(30)	57,809	3,400,441	9	3,612,899	298	3,613,197
3	Effect from the first application of IFRS 9	-	-	-	-	(6,992)	-	(6,992)	-	(6,992)
	Balance as of 1 January 2018 subject to IFRS 9 impact	154,666	4	(30)	57,809	3,393,449	9	3,605,907	298	3,606,205
	Net profit for the period	-	-	-	-	389,988	-	389,988	12	390,000
	Other comprehensive income / (expense)	-	-	-	-	(65)	287	222	2	224
	Total comprehensive income	-	-	-	-	389,923	287	390,210	14	390,224
	Change in ownership interests in subsidiaries	-	-	-	-	-	-	-	(13)	(13)
24	Dividends declared	-	-	-	-	(33,850)	-	(33,850)	(9)	(33,859)
	Balance as of 30 June 2018 (unaudited)	154,666	4	(30)	57,809	3,749,522	296	3,962,267	290	3,962,557

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1 General information

“Surgutneftegas” Public Joint Stock Company (the Company) is one of the leading Russian oil companies in terms of hydrocarbon production.

The core activities of the Company and its subsidiaries (together – “the Group”) are exploration, production, processing and sale of hydrocarbons produced as well as sale of oil and gas products.

Other financial and business activities include banking and insurance activities and provision of other goods, works and services.

The Company’s location: ul.Grigoriya Kukuyevitskogo, 1, bld. 1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation, 628415.

2 Basis of preparation of the financial statements

These interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 “Interim financial reporting” and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These interim condensed consolidated financial statements are unaudited and do not include certain information and disclosures required for annual financial statements. Separate disclosures which duplicate the information contained in the annual consolidated financial statements for the year ended 31 December 2017 and as of that date have been deleted or condensed.

The preparation of interim condensed consolidated financial statements requires from the management to make judgements, estimates and assumptions which affect application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The critical accounting judgements applied by the management in the process of preparation of interim condensed consolidated financial statements and the key sources of estimation uncertainty coincided with those applied in consolidated financial statements for the year ended 31 December 2017.

3 Summary of significant accounting policies and new financial reporting standards

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied and described in the Group’s IFRS consolidated financial statements for 2017, except for calculations of income tax, new standards, amendments thereto and interpretations effective since 1 January 2018 represented below.

IFRS 9 “Financial instruments”: The final version of the standard issued in 2014 shall replace IAS 39 “Financial instruments: recognition and measurement” as well as the previous versions of IFRS 9. The new standard brings together new requirements for classification, measurement and impairment of financial instrument, as well as for hedge accounting. IFRS 9 introduces a new model for the recognition of impairment losses: an expected credit losses model intended to ensure timely recognition of expected losses on financial assets.

Starting from 1 January 2018, the Group divides financial assets into the following three categories: financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost.

Financial assets allocated in the financial statements for the year ended 31 December 2017 to “Loans and receivables” and “Held-to-maturity investments”, were classified as “Financial assets measured at amortised cost” as of 1 January 2018.

Financial assets allocated in the financial statements for the year ended 31 December 2017 to “Assets available-for-sale”, were classified as “Financial assets measured at fair value through other comprehensive income” as of 1 January 2018.

As per the new standard, provisions for accounts receivable and placed deposits were measured based on credit risk of counterparties. Effect from additional provisions through equity (without an impact on net profit) as of 1 January 2018 equalled RUB 6,992 million.

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

For trade receivables, the Group applies a simplified approach in measurement of expected credit losses which provides for losses allowance in the amount equal to the expected credit losses for the whole period. Expected credit losses allowance for trade receivables and other receivables is calculated subject to the ratio including probability of default, outstanding period, debts repaid after the reporting date. An individual basis analysis is applied to receivables with low probability of debt recovery.

IFRS 15 “Revenue from contracts with customers” The new standard is a uniform guidance for revenue accounting which also defines financial statements disclosure requirements. IFRS 15 shall replace IAS 18 “Revenue”, IAS 11 “Construction contracts” and a number of interpretations of revenue. The analysis made by the Group’s Management shows that the application of IFRS 15 does not have a material impact on the consolidated financial statements of the Group.

For interim periods income tax is calculated based on the expected weighted average rate to be applied to annual profit or loss.

The Group did not accept ahead of schedule new standards and interpretations which are disclosed in Note “New interpretations and standards” in the annual financial statements for 2017 and effective for reporting periods beginning on and after 1 January 2019.

Seasonality of operations

The Group’s operations are not seasonal. Income and expenses are recognised evenly during the year.

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***4 Subsidiaries**

The Company has the following subsidiaries registered and doing business in the Russian Federation:

Description	Area of activity	As of 30 June 2018 Ownership interest (%)	As of 31 December 2017 Ownership interest (%)
<i>Oil and gas exploration and production</i>			
“Surgutneftegas” PJSC	Oil and gas exploration and production	Parent company	Parent company
<i>Oil refining</i>			
LLC “KINEF”	Oil refining	100%	100%
<i>Oil products sales</i>			
LLC “Novgorodnefteproduct”	Oil products sales	100%	100%
LLC “Pskovnefteproduct”	Oil products sales	100%	100%
LLC “Kaliningradnefteproduct”	Oil products sales	100%	100%
LLC “MA “Tvernefteproduct”	Oil products sales	100%	100%
LLC “KIRISHIAVTOSERVIS”	Oil products sales	100%	100%
<i>Other companies</i>			
LLC “Insurance Company “Surgutneftegas”	Insurance	100%	100%
Joint Stock Company “Surgutneftegasbank”	Banking operations	97.7591%	97.7591%
LLC “Surgutmebel”	Manufacture of wood construction items	100%	100%
OJSC “Sovkhoz “Chervishevsky”	Agriculture	-	94.9996%
LLC “Media-Invest”	Regional and corporate television and radio broadcasting	100%	100%
LLC “Lengiproneftekhim”	Engineering	100%	100%
LLC “DmitrovMontazhGrupp”	Construction of buildings and structures	97.7591%	97.7591%

This list of subsidiaries is complete; the Group has no subsidiaries outside the Russian Federation.

In June 2018, the Group disposed of its subsidiary OJSC “Sovkhoz “Chervishevsky”. Disposal of this entity had no material impact on the consolidated financial statements.

As of 30 June 2018, non-controlling interests in the amount of RUB 290 million (as of 31 December 2017: RUB 298 million) are not material for the Group.

5 Segment information

Individual executive body represented by director general of the Company and deputies of director general covering different operations (the Management) act as a manager making operational decisions and consider the information about the Group to comprise the following operating segments:

“Exploration and production” is part of the Company’s activity related to exploration, evaluation, production of oil and gas, and oil and gas sale;

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

“Refining and sale” is part of the Company’s activity related to oil and gas processing, and sale of refined products, and the activity of the Group’s subsidiaries involved in refining and refined products sales;

“Other activities” represents other non-significant activities and segments having no similar economic performance and includes banking operations, insurance and production of other goods, jobs and services.

On a monthly basis the Management estimates performance results of the segments based on the revenue, profit and operating expenses to resolve on resource distribution and operating efficiency.

Results of separate significant operations and a number of adjustments required to bring accounting (financial) statements of the Company prepared in accordance with Russian Accounting Statements (RAS) in line with the relevant IFRS amounts are considered by the Management across the whole Group without breakdown by operational segments.

Sales operations among operational segments recorded as intersegment sales are performed based on market prices.

Performance results of operational segments for the six months ended 30 June 2018 (unaudited):

	Exploration and production	Refining and sale	Other activity	Intersegment sales	Total
Sales revenue					
Export , including:	354,763	184,912	-	-	539,675
revenues from oil sales	354,763	-	-	-	354,763
revenues from oil products sales	-	184,912	-	-	184,912
Domestic market , including:	130,376	108,021	1,402	(49,280)	190,519
revenues from oil sales	118,426	-	-	(12,261)	106,165
revenues from oil products sales	-	102,079	-	(36,579)	65,500
revenues from gas and gas products sales	7,870	3,985	-	(5)	11,850
sales of other products and finished goods	1,715	1,472	733	(301)	3,619
other sales	2,365	485	669	(134)	3,385
Total sales revenue	485,139	292,933	1,402	(49,280)	730,194
Operating expenses	(335,377)	(240,658)	(3,565)	48,072	(531,528)
Operating profit / (loss)	149,762	52,275	(2,163)	(1,208)	198,666
Finance income					58,277
Finance expenses					(9,374)
Exchange differences, net					225,164
Gain on sale and other disposal of financial assets					12
Other income					586
Profit before tax					473,331
Income tax					(83,331)
Net profit					390,000

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

Performance results of operational segments for the six months ended 30 June 2017 (unaudited):

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue					
Export , including:	254,050	141,069	1	-	395,120
revenues from oil sales	254,050	-	-	-	254,050
revenues from oil products sales	-	141,069	-	-	141,069
sales of other products and finished goods	-	-	1	-	1
Domestic market , including:	94,114	98,902	1,614	(41,816)	152,814
revenues from oil sales	81,225	-	-	(8,416)	72,809
revenues from oil products sales	-	93,362	-	(32,698)	60,664
revenues from gas and gas products sales	8,451	3,358	-	(4)	11,805
sales of other products and finished goods	1,886	1,638	697	(284)	3,937
other sales	2,552	544	917	(414)	3,599
Total sales revenue	348,164	239,971	1,615	(41,816)	547,934
Operating expenses	(255,785)	(206,910)	(3,959)	41,356	(425,298)
Operating profit / (loss)	92,379	33,061	(2,344)	(460)	122,636
Finance income					56,638
Finance expenses					(7,537)
Exchange differences, net					(56,387)
Gain on sale and other disposal of financial assets					15
Other expenses					(3,547)
Profit before tax					111,818
Income tax					(22,766)
Net profit					89,052

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***6 Related party transactions**

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in its financial and business activities as well as in making financial and operational decisions. While considering each possible related party's relationship, the economic essence of such relationship, not merely the legal form, is taken into account.

Related parties may enter into transactions, which unrelated parties might not exercise, and transactions between related parties may not be affected on the same terms and conditions as transactions between unrelated parties.

For the six months ended 30 June 2018 and 30 June 2017, the Group entered into transactions with JSC “NPF “Surgutneftegas” to finance pensions of employees retired within the last six months ended 30 June 2018 and 30 June 2017, and other related parties.

For the six months ended 30 June 2018, the Group contributed to JSC “NPF “Surgutneftegas” RUB 741 million (for the six months ended 30 June 2017: RUB 697 million).

As of 30 June 2018, the Group had RUB 3,008 million (as of 31 December 2017: RUB 3,206 million) of loans received from the related parties (funds of the customers of the Group's bank).

Information about the employee benefits for the key management personnel will be disclosed in the consolidated financial statements for 2018.

7 Cash and cash equivalents, restricted cash

Cash and cash equivalents represent the following:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Cash in hand and at settlement accounts	12,272	20,505
Deposits and other cash equivalents with original maturity under contract less than 3 months	195,404	196,996
Total cash and cash equivalents	207,676	217,501

Restricted cash represents obligatory reserves of the Group's bank at the accounts of the Central Bank of the Russian Federation.

8 Deposits placed

Placed deposits comprise the following:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Bank deposits:		
short-term	773,442	829,500
long-term	1,913,002	1,488,934
Total deposits placed	2,686,444	2,318,434

The amount of deposits interest received at settlement accounts of the Group for the six months ended 30 June 2018 is RUB 41,510 million (for the six months ended 30 June 2017: RUB 28,565 million).

The amount of placed deposits includes expected credit losses allowance as of 30 June 2018 in the amount of RUB 9,944 million. (Note 3).

The Group's Management believes that in the foreseeable future the Group will not need to withdraw funds from financial instruments.

Information on the fair value of deposits is presented in Note 25.

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

9 Receivables

Accounts receivable include:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Trade receivables	101,868	86,345
expected credit losses allowance	(205)	(178)
Other receivables	4,366	6,507
expected credit losses allowance	(303)	(201)
Total receivables:	105,726	92,473
short-term	104,561	91,268
long-term	1,165	1,205

As of 30 June 2018, trade receivables in the amount of RUB 101,573 million (as of 31 December 2017: RUB 86,003 million) are not overdue or impaired. The greater part of trade receivables is mainly formed by receivables due from large Russian and foreign buyers of oil and oil products.

10 Advances issued

Advances issued include:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Export customs duties	6,018	8,797
Oil transport	2,505	4,860
Other advances issued	2,463	1,836
Total advances issued	10,986	15,493

11 Inventories

Inventories include:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Oil and oil products	20,043	17,592
<i>impairment provision</i>	(4)	(3)
Materials and supplies	55,647	55,253
<i>impairment provision</i>	(4,296)	(4,008)
Other reserves	7,453	7,829
<i>impairment provision</i>	(100)	(116)
Goods for resale	1,649	1,740
<i>impairment provision</i>	(3)	(6)
Work in progress	3,834	2,984
Gas and gas products	29	37
Total inventories	84,252	81,302

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***12 Property, plant and equipment**

Flow of property, plant and equipment during the six months ended 30 June 2018:

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Historical cost as of 31 December 2017	1,463,358	289,481	190,985	14,296	1,958,120
Construction and acquisition	75,142	1,127	8,890	1,512	86,671
Reclassifications		2,461	228	(2,689)	
Internal movements	(453)	(458)	911	-	-
Changes in asset retirement (decommissioning) obligations	3,384	-	-	-	3,384
Disposals, retirements and other movements	(4,878)	(270)	(1,288)	(153)	(6,589)
Historical cost as of 30 June 2018 (unaudited)	1,536,553	292,341	199,726	12,966	2,041,586
Accumulated depletion, depreciation and amortisation as of 31 December 2017	(352,105)	(113,280)	(61,975)	-	(527,360)
Accrual for the period	(29,042)	(7,847)	(5,990)	-	(42,879)
Internal movements	131	128	(259)	-	-
Disposals, retirements and other movements	2,418	130	936	-	3,484
Accumulated depletion, depreciation and amortisation as of 30 June 2018 (unaudited)	(378,598)	(120,869)	(67,288)	-	(566,755)
Carrying amount as of 31 December 2017	1,111,253	176,201	129,010	14,296	1,430,760
Carrying amount as of 30 June 2018 (unaudited)	1,157,955	171,472	132,438	12,966	1,474,831

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

Flow of property, plant and equipment during the six months ended 30 June 2017:

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Historical cost as of 31 December 2016	1,312,771	251,026	173,487	40,351	1,777,635
Construction and acquisition	72,748	2,502	6,702	7,445	89,397
Reclassifications	-	879	3,115	(3,994)	-
Internal movements	(211)	(46)	257	-	-
Changes in asset retirement (decommissioning) obligations	2,805	-	-	-	2,805
Disposals, retirements and other movements	(5,098)	(454)	(845)	(101)	(6,498)
Historical cost as of 30 June 2017 (unaudited)	1,383,015	253,907	182,716	43,701	1,863,339
Accumulated depletion, depreciation and amortisation as of 31 December 2016	(295,154)	(99,348)	(51,540)	-	(446,042)
Accrual for the period	(31,193)	(7,623)	(5,640)	-	(44,456)
Internal movements	59	49	(108)	-	-
Disposals, retirements and other movements	2,764	260	600	-	3,624
Accumulated depletion, depreciation and amortisation as of 30 June 2017 (unaudited)	(323,524)	(106,662)	(56,688)	-	(486,874)
Carrying amount as of 31 December 2016	1,017,617	151,678	121,947	40,351	1,331,593
Carrying amount as of 30 June 2017 (unaudited)	1,059,491	147,245	126,028	43,701	1,376,465

As of 30 June 2018, property, plant and equipment included advances for purchase and construction of property, plant and equipment in the amount of RUB 667 million (as of 31 December 2017: RUB 1,673 million).

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. As of 30 June 2018, no impairment has been identified.

Depreciation on property, plant, and equipment includes the amount capitalised in construction in progress for the six months ended 30 June 2018, in the amount of RUB 12,920 million (for the six months ended 30 June 2017: RUB 12,890 million).

The cost of oil and gas exploration and production licences included in exploration and production properties changed as follows:

	2018	2017
Historical cost as of 1 January	67,149	67,119
Impairment	-	(379)
Accrued amortisation	(3,471)	(2,674)
Carrying amount as of 1 January	63,678	64,066
Acquisition	7	201
Depreciation accrual	(332)	(453)
Carrying amount as of 30 June (unaudited)	63,353	63,814

Exploration and evaluation assets included in the cost of property, plant and equipment as of 30 June 2018 equalled RUB 57,493 million (as of 31 December 2017: RUB 51,859 million).

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***13 Loans granted**

Short-term and long-term loans granted are represented by credits of the Group's bank and other loans. As of 30 June 2018, the amount of the credits and loans granted was RUB 47,492 million (as of 31 December 2017: RUB 46,350 million). Including expected credit losses allowance which as of 30 June 2018 equalled RUB 7,720 million (as of 31 December 2017: RUB 6,111 million).

14 Payables and accrued liabilities

Accounts payable and accrued liabilities include:

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Accounts payable to employees of the Company	22,118	28,405
Trade payables	13,507	10,375
Accounts payable for acquired property, plant and equipment	6,830	6,430
Dividends payable	35,080	1,263
Other accounts payable	1,455	1,223
Total payables and accrued liabilities	78,990	47,696
Including the financial part of the accounts payable	56,840	19,265

15 Other tax liabilities

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Mineral extraction tax	57,196	47,172
Value added tax	7,223	7,193
Property tax	3,772	3,530
Other	7,205	8,042
Total other tax liabilities	75,396	65,937

16 Provisions

	As of 30 June 2018 (unaudited)	As of 31 December 2017
Asset retirement (decommissioning) obligations	122,598	117,360
Post-employment benefit obligations	18,733	18,669
Other liabilities	2,050	2,058
Total provisions, including:	143,381	138,087
short-term	3,319	3,324
long-term	140,062	134,763

17 Other financial liabilities

Other short-term and long-term financial liabilities are settlement accounts and customer deposits of the Group's bank. As of 30 June 2018, the amount of the liabilities was RUB 195,014 million (as of 31 December 2017: RUB 188,312 million). The growth of financial liabilities is due to the changes in deposit balances of clients.

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***18 Export duties**

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Export duty on oil sales	96,256	68,110
Export duty on oil products sales	30,303	22,763
Total export duties	126,559	90,873

19 Operating expenses

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Taxes, excluding income tax	323,519	216,845
Employee benefits	55,757	53,473
Sales and storage expenses	47,767	46,194
Depreciation, depletion and amortisation	30,458	31,980
Production services	27,591	32,469
Supplies	20,414	19,625
Utility and electricity expenses	13,307	13,452
Goods for resale	5,487	5,606
Expected credit losses allowance	3,014	863
Losses from disposal of exploration and production properties	563	785
Changes in inventory and work in progress	(1,913)	(688)
Other expenses	5,564	4,694
Total operating expenses	531,528	425,298

Taxes, excluding income tax, include:

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Mineral extraction tax	305,087	199,705
Excise	10,111	9,522
Property tax	7,880	7,233
Other taxes	441	385
Total taxes, excluding income tax	323,519	216,845

Employee benefits include:

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Salary and social charges	55,087	52,892
Contributions to post-employment benefit funds	670	581
Total employee benefits	55,757	53,473

20 Finance income and expenses

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Interest receivable	58,153	54,887
Interest income from discounting	124	1,751
Total finance income	58,277	56,638

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)*

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Interest payable	(6,116)	(5,604)
Interest expense from discounting	(3,258)	(1,933)
Total finance expenses	(9,374)	(7,537)

21 Exchange differences

Exchange differences arise mainly in the result of accounting for trade receivables from buyers of oil and oil products and financial assets in a foreign currency.

The official exchange rates of the Central Bank of the Russian Federation for foreign currencies against ruble are presented in rubles below:

	As of 30 June 2018	As of 31 December 2017
Australian Dollar	46.36	44.96
Hungarian Forint	0.22	0.22
Danish crown	9.79	9.25
US Dollar	62.76	57.60
Euro	72.99	68.87
Canadian dollar	47.47	45.93
Chinese Yuan	9.48	8.85
Norwegian Krone	7.70	7.00
British Pound	82.35	77.67
Swedish crown	7.01	7.00
Swiss Franc	63.07	58.97
Japanese Yen	0.57	0.51

Average exchange rates for the six months ended 30 June 2018 and 30 June 2017 equalled:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Australian Dollar	45.78	43.69
Hungarian Forint	0.23	0.20
Danish crown	9.64	8.43
US Dollar	59.35	57.99
Euro	71.82	62.72
Canadian dollar	46.47	43.42
Chinese Yuan	9.32	8.43
Norwegian Krone	7.48	6.84
British Pound	81.65	72.93
Swedish crown	7.08	6.54
Swiss Franc	61.39	58.27
Japanese Yen	0.55	0.52

Exchange differences include:

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Income from exchange differences	328,534	144,432
Expense from exchange differences	(103,370)	(200,819)
Total exchange differences	225,164	(56,387)

22 Factors of financial risks

The Group's activity is exposed to different financial risks among which are market risk, credit risk and liquidity risk.

These interim condensed consolidated financial statements do not include information and comments to financial risks management which are disclosed in the annual consolidated financial statements, so these

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)*

statements shall be considered together with the annual consolidated financial statements of the Group as of 31 December 2017.

Since 31 December 2017, there were no changes in the risk management system.

23 Net earnings per share

Basic earnings per share were calculated based on profit, attributable to holders of the Company's ordinary shares and the weighted average number of outstanding ordinary shares. The Company has no potential ordinary shares that have a dilutive effect.

	2018	2017
Shares outstanding as of 30 June, thousand	35,725,995	35,725,995
Effect of treasury shares, thousand	(650)	(650)
Weighted average number of shares for the six months ended 30 June, thousand	35,725,345	35,725,345
Net profit for the reporting period attributable to shareholders	389,988	89,029
Dividends on preference shares	-	-
Basic and diluted earnings per share, rubles	10.92	2.49

The Company neither declared nor paid out any dividend for the six months ended 30 June 2018 and 30 June 2017.

24 Dividends

On 29 June 2018, the annual general shareholders' meeting of the Company declared dividends for the year ended 31 December 2017 in the amount of RUB 0.65 per one ordinary share and RUB 1.38 per one preference share.

On 29 June 2017, the annual general shareholders' meeting of the Company declared dividends for the year ended 31 December 2016 in the amount of RUB 0.6 per one ordinary share and RUB 0.6 per one preference share.

25 Fair value of assets and liabilities

Fair value measurements are analysed and distributed by levels in the fair value hierarchy as follows: (a) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (b) Level 2 measurements are valuations techniques with all significant inputs observable for the asset or liability, either directly (e.g. price) or indirectly (e.g. calculated on the basis of the price); and (c) Level 3 measurements are valuations not based only on observable market data (i.e. a significant amount of unobservable data is required for assessment).

(a) Recurring fair value measurements

Recurring fair value measurements are those that the financial reporting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the hierarchy of the fair value measurement for financial instruments recorded at fair value are given below:

As of 30 June 2018 (unaudited)	Quoted prices in active markets (Level 1)	Valuation technique based on observable data (Level 2)	Valuation technique based on a significant amount of non- observable data (Level 3)
Financial assets measured at fair value through profit or loss	-	-	-
Financial assets measured at fair value through other comprehensive income	3,056	-	6,135
Total financial assets measured at fair value on a recurring basis	3,056	-	6,135

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

As of 31 December 2017	Quoted prices in active markets (Level 1)	Valuation technique based on observable data (Level 2)	Valuation technique based on a significant amount of non-observable data (Level 3)
Financial assets measured at fair value through profit or loss	47	-	1
Financial assets measured at fair value through other comprehensive income	5,955	-	5,857
Total financial assets measured at fair value on a recurring basis	6,002	-	5,858

As of 30 June 2018 and 31 December 2017, the Group has no liabilities measured at fair value on a recurring basis.

The estimated fair value of a financial instrument is determined by the Group with reference to available market information (if any) and other valuation techniques as considered appropriate. The Management has used all available market information in measurement of the fair value of financial instruments.

Valuation techniques such as discounted cash flow models and also models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of financial instruments for which external market pricing information is not available.

Within the six months ended 30 June 2018, there were no changes in valuation technique for Level 3 recurring fair value measurements.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets measured at amortised cost. The estimated fair value of instruments with the fixed interest rate is based on discounting of expected cash flows coupled with applying interest rates to new instruments with the similar credit risk and similar maturity period. The discount rate used depends on the credit risk of the counterparty. Fair value of financial assets measured at amortised cost has been determined by quotations of the demand.

The comparison of the fair value and carrying amount of deposits and other financial assets measured at amortised cost is presented below. The carrying amounts of the remaining financial assets are approximately equal to their fair value.

	As of 30 June 2018 (unaudited)		As of 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits placed	2,686,444	2,697,038	2,318,434	2,322,898
Financial assets measured at amortised cost	2,748	2,796	291	290

A reconciliation of classes of financial assets with the estimated categories is presented below:

As of 30 June 2018 (unaudited)	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost	Total
Cash and cash equivalents	-	-	207,676	207,676
Restricted cash	-	-	2,171	2,171
Deposits placed	-	-	2,686,444	2,686,444
Loans granted	-	-	47,492	47,492
Other financial assets	9,191	-	2,748	11,939
Receivables	-	-	105,726	105,726
Total financial assets	9,191	-	3,052,257	3,061,448

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)*

As of 31 December 2017	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost	Total
Cash and cash equivalents	-	-	217,501	217,501
Restricted cash	-	-	2,049	2,049
Deposits placed	-	-	2,318,434	2,318,434
Loans granted	-	-	46,350	46,350
Other financial assets	11,812	48	291	12,151
Receivables	-	-	92,473	92,473
Total financial assets	11,812	48	2,677,098	2,688,958

Liabilities measured at amortised cost

All financial liabilities of the Group are measured at amortised cost. Financial liabilities are mainly funds of the Group's bank customers, accounts payable to suppliers and contractors and other accounts payable.

The fair value of liabilities is determined by valuation techniques. The estimated fair value of instruments with the fixed interest rate and fixed maturity period is based on expected discounted cash flows coupled with applying interest rates to new instruments with the similar credit risk and similar maturity period.

The carrying amount of liabilities measured at amortised cost is approximately equal to their fair value.

26 Subsequent events

Significant events, which have influenced or may influence the financial performance, the cash flow and operating results of the Group, did not take place in the period between the reporting date and the date these interim condensed consolidated financial statements of the Group were issued.