

To the shareholders and the Board of Directors
"Surgutneftegas" Public Joint Stock Company

REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of "Surgutneftegas" Public Joint Stock Company and its subsidiaries (hereinafter – the "Group"), which comprise the interim condensed consolidated statement of financial position as of 30 June 2019, the interim condensed consolidated statement of profit and loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2019, and notes to the interim condensed consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.


Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion.


"Crowe Expertiza" LLC
28 August 2019

Director General

 A.V.Kozlov

A circular blue stamp from the 'Группа Экспертиза' (Expert Group). The outer ring contains the text 'ОТВЕТСТВЕННОСТЬ * ОТЧЕТ' (Responsibility * Report). The inner circle contains the text 'Группа Экспертиза' (Expert Group) and 'Группа Экспертиза' (Expert Group) repeated twice.

Deputy Director General

 **V.V.Potekhin**

Main registration number in the Register of Auditors and Audit Organizations 21603057726, a member of Self-Regulated Auditor Organization "Russian Union of Auditors (Association)".
Resolution on admission as a member of Self-Regulated Auditor Organization No. 277 dated 03.11.2016.

Details of the Company under review

Name: "Surgutneftegas" Public Joint Stock Company.
Main state registration number: 1028600584540.
Location: ul.Grigoriya Kukuyevitskogo, 1, bld. 1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation, 628415.

Details of the auditor

“Crowe Expertiza” Limited Liability Company,
Main state registration number: 1027739273946,
Main registration number in the Register of Auditors and Audit Organizations: 11603046778,
Legal address: ul.Mashi Poryvaevoy, 34, Moscow, 107078.
A member of Self-Regulated Auditor Organization “Russian Union of Auditors (Association)”.

“SURGUTNEFTEGAS” PJSC

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

30 JUNE 2019

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 | 10 |
| 5 Segment information | 11 |
| 6 Related party transactions | 13 |
| 7 Cash and cash equivalents, restricted cash | 14 |
| 8 Deposits placed | 14 |
| 9 Receivables | 14 |
| 10 Advances issued | 14 |
| 11 Inventories | 15 |
| 12 Property, plant and equipment | 15 |
| 13 Loans granted | 17 |
| 14 Payables and liabilities accrued | 17 |
| 15 Other tax liabilities | 17 |
| 16 Provisions | 17 |
| 17 Other financial liabilities | 17 |
| 18 Export duties | 18 |
| 19 Operating expenses | 18 |
| 20 Finance income and expenses | 18 |
| 21 Exchange differences | 19 |
| 22 Factors of financial risks | 19 |
| 23 Net earnings / (loss) per share | 20 |
| 24 Dividends | 20 |
| 25 Fair value of assets and liabilities | 20 |
| 26 Subsequent events | 22 |

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

| Notes | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|--|-----------------------------------|---------------------------|
| ASSETS | | |
| Current assets | | |
| 7 Cash and cash equivalents | 256,943 | 260,346 |
| 7 Restricted cash | 2,188 | 2,094 |
| 8 Deposits placed | 955,350 | 839,021 |
| 13 Loans granted | 10,075 | 14,968 |
| Other financial assets | 2,050 | 2,180 |
| 9 Receivables | 130,052 | 112,501 |
| 11 Inventories | 100,609 | 90,323 |
| 10 Advances issued | 9,905 | 23,941 |
| VAT recoverable | 10,998 | 9,337 |
| Income tax receivable | 3,792 | 30 |
| Other taxes recoverable | 1,690 | 145 |
| Total current assets | 1,483,652 | 1,354,886 |
| Non-current assets | | |
| 12 Property, plant and equipment | 1,525,700 | 1,472,101 |
| Intangible assets | 9,054 | 8,749 |
| 8 Deposits placed | 2,040,162 | 2,264,130 |
| Other financial assets | 3,154 | 5,552 |
| Deferred tax assets | 46 | 24 |
| 13 Loans granted | 35,377 | 28,010 |
| 9 Receivables | 995 | 1,093 |
| Other non-current assets | 1,205 | 1,246 |
| Total non-current assets | 3,615,693 | 3,780,905 |
| Total assets | 5,099,345 | 5,135,791 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| 14 Payables and liabilities accrued | 136,953 | 49,468 |
| 17 Other financial liabilities | 197,846 | 197,138 |
| Advances received | 11,060 | 32,255 |
| 15 Other tax liabilities | 71,026 | 67,720 |
| Income tax liabilities | 8 | 22,554 |
| 16 Provisions | 2,974 | 3,508 |
| Total current liabilities | 419,867 | 372,643 |
| Non-current liabilities | | |
| 17 Other financial liabilities | 20,361 | 18,933 |
| Deferred tax liabilities | 187,955 | 190,807 |
| 16 Provisions | 128,996 | 125,727 |
| Other non-current liabilities | 14,182 | 1,337 |
| Total non-current liabilities | 351,494 | 336,804 |
| 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 | 4,114,583 | 4,214,571 |
| Other reserves | 650 | (964) |
| Total equity attributable to shareholders | 4,327,682 | 4,426,056 |
| Non-controlling interests | 302 | 288 |
| Total equity | 4,327,984 | 4,426,344 |
| Total liabilities and equity | 5,099,345 | 5,135,791 |

A.N.Bulanov

Acting Director General
“Surgutneftegas” PJSC

27 August 2019

A.V.Druchinin

Chief Accountant
“Surgutneftegas” PJSC

27 August 2019

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 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|-------|---|---|
| | Sales | |
| 18 | less export duties | 933,668 |
| | | 856,753 |
| 5 | Total sales revenue: | (126,300) |
| | | (126,559) |
| | sales of oil | 807,368 |
| | sales of oil products | 730,194 |
| | sales of gas and gas products | 502,967 |
| | sales of other products and finished goods | 460,928 |
| | other sales | 284,775 |
| | | 250,412 |
| | | 12,719 |
| | | 11,850 |
| | | 3,258 |
| | | 3,619 |
| | | 3,649 |
| | | 3,385 |
| 19 | Operating expenses | (584,931) |
| | Operating profit | (531,528) |
| | | 222,437 |
| | | 198,666 |
| 20 | Finance income | 73,495 |
| 20 | Finance expenses | 58,277 |
| 21 | Exchange differences, net | (11,514) |
| | Gain on sale and other disposal of financial assets | (9,374) |
| | Other income / (expenses) | (304,689) |
| | | 225,164 |
| | | 12 |
| | | 586 |
| | Profit / (loss) before tax | (18,357) |
| | | 473,331 |
| | Income tax | |
| | Current income tax | (295) |
| | Changes in deferred income tax | (67,176) |
| | Total income tax income / (expense) | 3,132 |
| | | (16,155) |
| | Net profit / (loss) | 2,837 |
| | | (83,331) |
| | | (15,520) |
| | | 390,000 |
| | Other comprehensive income / (expense) that may be reclassified subsequently to profit / (loss), net of income tax | |
| | Changes in fair value of financial assets | 5 |
| | | 289 |
| | Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax | |
| | Changes in fair value of financial assets | 42 |
| | Remeasurements of post-employment benefit obligations | - |
| | | (577) |
| | | (65) |
| | Total other comprehensive income / (expense), net of income tax | (530) |
| | | 224 |
| | Total comprehensive income / (expense) | (16,050) |
| | | 390,224 |
| | Net profit / (loss) | |
| | attributable to shareholders | (15,544) |
| | attributable to non-controlling interests | 389,988 |
| | | 24 |
| | | 12 |
| | Total comprehensive income / (expense) | |
| | attributable to shareholders | (16,074) |
| | attributable to non-controlling interests | 390,210 |
| | | 24 |
| | | 14 |
| 23 | Net earnings / (loss) attributable to shareholders per one ordinary share (in rubles) | |
| | basic and diluted | (0.44) |
| | | 10.92 |

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 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|--|---|---|
| Operating activities | | |
| Profit / (loss) before tax | (18,357) | 473,331 |
| Adjustments: | | |
| 19 Depreciation, depletion and amortisation | 33,711 | 30,458 |
| 19 Losses from disposal of exploration and production properties | 226 | 563 |
| 19 Loss allowance for expected credit losses accrual / (recovery) | (555) | 3,014 |
| Provision accrual / (recovery) | 635 | (22) |
| Exchange differences | 293,521 | (217,526) |
| Gain on sale and other disposal of financial assets | (1,933) | (12) |
| Loss from sale of a subsidiary | - | 83 |
| 20 Interest expenses / (income) from discounting, net | (396) | 3,134 |
| 20 Interest receivable | (69,358) | (58,153) |
| 20 Interest payable | 7,773 | 6,116 |
| Loss from sale and disposal of property, plant and equipment, and intangible assets | 1,097 | 1,614 |
| Others, net | (1) | 117 |
| Cash flows from operating activities before changes in working capital and income tax | 246,363 | 242,717 |
| Change in receivables | (15,012) | (16,153) |
| Change in advances issued | 14,036 | 4,506 |
| Change in inventories | (10,621) | (2,178) |
| Change in other assets | 43 | 1,033 |
| Change in trade and other payables | (166) | (2,737) |
| Change in advances received | (21,195) | (14,269) |
| Change in restricted cash | (94) | (122) |
| Change in other taxes (other than income tax) | 100 | 11,693 |
| Change in other liabilities | (1,807) | (415) |
| Cash from operating activities before income tax | 211,647 | 224,075 |
| Income tax paid | (26,603) | (57,418) |
| Net cash from operating activities | 185,044 | 166,657 |
| Investing activities | | |
| Capital expenditures | (69,379) | (74,462) |
| Deposits placed | (386,634) | (481,451) |
| Deposits refunded | 219,868 | 326,862 |
| Loans granted | (17,995) | (20,143) |
| Loans collected | 15,635 | 17,671 |
| Interest received | 54,929 | 51,681 |
| Proceeds from sale of a subsidiary | - | 156 |
| Proceeds from sale of financial assets | 3,000 | 3,978 |
| Acquisition of financial assets | (1,296) | (525) |
| Proceeds from sale of property, plant and equipment | 271 | 194 |
| Net cash used for investing activities | (181,601) | (176,039) |
| Financing activities | | |
| Net acquisition of other financial liabilities | 1,862 | 5,863 |
| Dividends paid (incl. tax) | (34) | (43) |
| Interest paid | (7,075) | (5,579) |
| Lease liabilities settlement | (18) | - |
| Net cash from / net cash (used for) financing activities | (5,265) | 241 |
| Net change in balances of cash and cash equivalents | (1,822) | (9,141) |
| Effect of exchange rate changes against ruble on cash and cash equivalents | (1,581) | (684) |
| 7 Cash and cash equivalents at the beginning of the period | 260,346 | 217,501 |
| 7 Cash and cash equivalents at the end of the period | 256,943 | 207,676 |

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 1 January 2018 | 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) |
| 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 |
| Balance as of 31 December 2018 | 154,666 | 4 | (30) | 57,809 | 4,214,571 | (964) | 4,426,056 | 288 | 4,426,344 |
| Net profit / (loss) for the period | - | - | - | - | (15,544) | - | (15,544) | 24 | (15,520) |
| Other comprehensive income / (expense) | - | - | - | - | (577) | 47 | (530) | - | (530) |
| Total comprehensive income / (expense) | - | - | - | - | (16,121) | 47 | (16,074) | 24 | (16,050) |
| 23 Dividends declared | - | - | - | - | (81,911) | - | (81,911) | (10) | (81,921) |
| Reclassification of the accumulated profit / (loss) from remeasurement of disposed financial assets | - | - | - | - | (1,956) | 1,567 | (389) | - | (389) |
| Balance as of 30 June 2019 (unaudited) | 154,666 | 4 | (30) | 57,809 | 4,114,583 | 650 | 4,327,682 | 302 | 4,327,984 |

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 referred to as the Group) are oil and gas exploration, production and processing, 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 2019 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and shall be considered together with the consolidated financial statements for the year ended 31 December 2018, 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 2018 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 the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparation of the interim condensed consolidated financial statements, the critical accounting judgements applied by the management when using the accounting policies and the key sources of estimation uncertainty coincided with those applied in consolidated financial statements for the year ended 31 December 2018.

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 annual consolidated financial statements for 2018, except for calculations of income tax, new standards, amendments thereto and interpretations effective since 1 January 2019 represented below.

Since 1 January 2019 the following significant changes in the Tax Code of the Russian Federation have entered into force:

Tax on additional income. In accordance with Federal Law No. 199-FZ “On amending parts one and two of the Tax Code of the Russian Federation” enacted on 19 July 2018, tax on additional income from production of hydrocarbons (hereinafter – AIT) was introduced for a number of fields. The AIT rate is 50% charged on income from production of hydrocarbons calculated as the difference between the estimated revenues and certain costs associated with production, treatment and transportation of hydrocarbons, and the estimated export duty. At the same time, mineral extraction tax for these fields is charged at a reduced rate. Several Group's fields have implemented the new tax regime starting from 1 January 2019.

AIT is classified as the expense from the ordinary course of business similarly to mineral extraction tax in the cost from sales and is presented in the interim condensed consolidated statement of profit and loss and other comprehensive income in operating expenses within “Taxes, excluding income tax”.

Excise tax on crude oil feedstock. In accordance with changes, the new excisable goods were outlined: crude oil feedstock, and application of the deduction on excise taxes using the increasing coefficient. The “regressive (negative) excise tax” mechanism represents a regression of the tax from the budget with the increasing coefficient. Regressive (negative) excise tax decreases the amount of the excise tax accrued

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

to payment which is reflected in operating expenses within “Taxes, excluding income tax” in the interim condensed consolidated statement of profit and loss and other comprehensive income.

IFRS 16 “Leases”: The new standard establishes principles for recognition, measurement, presentation and disclosure of information on leases in the financial statements. 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 in obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee is 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 statement of profit and loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements stipulated in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to reflect those two types of leases differently in the financial statements.

At the commencement date of the lease, the Group shall recognise a right-of-use asset and a lease liability.

The right-of-use asset shall be initially measured at cost which comprises the amount of the lease liability at the commencement date of the lease, adjusted for any lease payments made at or before the commencement date plus initial direct costs and an estimate of costs of dismantling, removing and restoring the underlying asset on the site of its location, less the received payments. After the commencement date of the lease, the Group shall measure the right-of-use asset applying a historical cost model, less accumulated depreciation and accumulated impairment losses, and adjusted for remeasurement of the carrying amount due to lease modifications or to reflect revised in-substance fixed lease payments.

At the commencement date, the lease liability shall be measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group shall use the incremental borrowing rate. Subsequently, lease liabilities shall be measured at amortised cost using the effective interest method.

The right-of-use asset shall be reflected in “Property, plant and equipment”, current and non-current lease liabilities in “Payables and liabilities accrued” and “Other non-current liabilities” of the interim condensed consolidated statement of financial position.

The Group’s Management took a decision to apply the standard from the date of its mandatory application 1 January 2019, using a modified retrospective method without recalculation of comparative figures. Right-of-use assets shall be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised before the date of initial application. The analysis made by the Group’s Management showed that application of IFRS 16 did not have a material impact on the consolidated financial statements of the Group.

When transferring to IFRS 16, the Group has recognised lease liabilities which were previously classified as operating leases in accordance with IAS 17. Lease liabilities shall be measured at the present value of future lease payments discounted using the incremental borrowing rate as of 1 January 2019 (unaudited):

| | |
|--|---------------|
| Future minimum lease payments for operating leases as of 31 December 2018 | 46,183 |
| Effect from discounting at the incremental borrowing rate at the date of initial application | (32,970) |
| Total lease liability as of 01 January 2019 | 13,213 |

The impact of initial application of IFRS 16 on the interim condensed consolidated statement of financial position is presented in the table below (unaudited):

| | As of 31 December 2018 | Effect from initial application of IFRS 16 | As of 01 January 2019 |
|----------------------------------|-----------------------------------|---|----------------------------------|
| Property, plant and equipment | 1,472,101 | 13,213 | 1,485,314 |
| Payables and liabilities accrued | 49,468 | 1,252 | 50,720 |
| Other non-current liabilities | 1,337 | 11,961 | 13,298 |

IFRIC 23 “Uncertainty over Income Tax Treatments”. IAS 12 specifies guidance for current and deferred tax treatments, but there is no guidance for recognition of uncertainty effects. The interpretation clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

This interpretation had no material impact on the Group’s consolidated financial statements.

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19. The amendments specify how to determine post-employment benefits when changes in the defined benefit plan occur. When the plan is being amended – revision, curtailment or settlement – IAS 19 requires to remeasure the net defined benefit liabilities or assets. The amendments require to use updated assumptions of such a remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the plan amendment.

These amendments had no material impact on the Group’s consolidated financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 – these amendments had no material impact on the Group’s consolidated financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 – these amendments had no material impact on the Group’s consolidated financial statements.

Annual improvements to IFRSs, 2015-2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – these amendments had no material impact on the Group’s consolidated financial statements.

For interim periods income tax is calculated based on the expected weighted average tax 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 consolidated financial statements for 2018 and effective for reporting periods beginning on and after 1 January 2020.

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 2019, ownership interest (%) | As of 31 December 2018, 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% |
| 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.

As of 30 June 2019, non-controlling interests in the amount of RUB 302 million (as of 31 December 2018: RUB 288 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;

“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 Standards (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.

“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 2019 (unaudited):

| | Exploration and production | Refining and sale | Other activities | Intersegment sales | Total |
|---|----------------------------------|----------------------|---------------------|-----------------------|-----------------|
| Sales revenue, including: | | | | | |
| <i>revenues from oil sales</i> | 502,967 | - | - | - | 502,967 |
| <i>revenues from oil products sales</i> | - | 318,486 | - | (33,711) | 284,775 |
| <i>revenues from gas and gas products sales</i> | 7,757 | 4,967 | - | (5) | 12,719 |
| <i>sales of other products and finished goods</i> | 1,742 | 1,333 | 705 | (522) | 3,258 |
| <i>other sales</i> | 2,586 | 560 | 786 | (283) | 3,649 |
| Total sales revenue | 515,052 | 325,346 | 1,491 | (34,521) | 807,368 |
| Operating expenses | (359,606) | (257,122) | (2,984) | 34,781 | (584,931) |
| Operating profit / (loss) | 155,446 | 68,224 | (1,493) | 260 | 222,437 |
| Finance income | | | | | 73,495 |
| Finance expenses | | | | | (11,514) |
| Exchange differences, net | | | | | (304,689) |
| Gain on sale and other disposal of financial assets | | | | | 1,933 |
| Other expenses | | | | | (19) |
| Loss before tax | | | | | (18,357) |
| Income tax | | | | | 2,837 |
| Net loss | | | | | (15,520) |

“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 2018 (unaudited):

| | Exploration and production | Refining and sale | Other activities | Intersegment sales | Total |
|---|----------------------------------|----------------------|---------------------|-----------------------|----------------|
| Sales revenue | | | | | |
| revenues from oil sales | 473,189 | - | - | (12,261) | 460,928 |
| revenues from oil products sales | - | 286,991 | - | (36,579) | 250,412 |
| 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 |

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 2019 and 30 June 2018, the Group entered into transactions with JSC “NPF “Surgutneftegas” to provide post-employment benefits to employees retired within the six months ended 30 June 2019 and 30 June 2018, and other related parties.

For the six months ended 30 June 2019, the Group contributed to JSC “NPF “Surgutneftegas” RUB 718 million (for the six months ended 30 June 2018: RUB 741 million).

As of 30 June 2019, the Group had RUB 11,415 million (as of 31 December 2018: RUB 6,221 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 2019.

“Surgutneftegas” PJSC**Notes to the interim condensed consolidated financial statements (unaudited)***(in millions of Russian rubles, unless otherwise stated)***7 Cash and cash equivalents, restricted cash**

Cash and cash equivalents represent the following:

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|---|---|-----------------------------------|
| Cash in hand and at settlement accounts | 13,491 | 13,379 |
| Deposits and other cash equivalents with original contractual maturity less than three months | 243,452 | 246,967 |
| Total cash and cash equivalents | 256,943 | 260,346 |

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 2019 (unaudited) | As of 31 December 2018 |
|---|---|-----------------------------------|
| Short-term deposits | 956,596 | 840,222 |
| loss allowance for expected credit losses | (1,246) | (1,201) |
| Long-term deposits | 2,045,152 | 2,269,757 |
| loss allowance for expected credit losses | (4,990) | (5,627) |
| Total deposits placed, including: | 2,995,512 | 3,103,151 |
| short-term | 955,350 | 839,021 |
| long-term | 2,040,162 | 2,264,130 |

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

9 Receivables

Accounts receivable include:

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|---|---|-----------------------------------|
| Trade receivables | 112,839 | 108,140 |
| loss allowance for expected credit losses | (204) | (184) |
| Other receivables | 18,795 | 5,975 |
| loss allowance for expected credit losses | (383) | (337) |
| Total receivables, including: | 131,047 | 113,594 |
| short-term | 130,052 | 112,501 |
| long-term | 995 | 1,093 |

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 2019 (unaudited) | As of 31 December 2018 |
|------------------------------|---|-----------------------------------|
| Export customs duties | 5,278 | 15,914 |
| Oil transport | 3,043 | 5,763 |
| Other advances issued | 1,584 | 2,264 |
| Total advances issued | 9,905 | 23,941 |

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

11 Inventories

Inventories include:

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|-----------------------------|-----------------------------------|---------------------------|
| Oil and oil products | 27,276 | 24,474 |
| <i>impairment provision</i> | - | (1) |
| Materials and supplies | 64,674 | 55,615 |
| <i>impairment provision</i> | (4,958) | (3,418) |
| Other reserves | 8,384 | 8,450 |
| <i>impairment provision</i> | (94) | (65) |
| Goods for resale | 1,242 | 1,527 |
| <i>impairment provision</i> | - | (2) |
| Work in progress | 4,036 | 3,714 |
| Gas and gas products | 49 | 29 |
| Total inventories | 100,609 | 90,323 |

12 Property, plant and equipment

Flow of property, plant and equipment during the six months ended 30 June 2019 (unaudited):

| | Oil and gas exploration and production | Refining and sale | Other properties | Construction in progress | Total |
|--|---|----------------------|---------------------|-----------------------------|------------------|
| Historical cost as of 31 December 2018 | 1,592,062 | 297,042 | 207,709 | 13,255 | 2,110,068 |
| Initial application of IFRS 16 “Leases” (unaudited) | 6,740 | 4,982 | 1,491 | - | 13,213 |
| Historical cost as of 1 January 2019 (unaudited) | 1,598,802 | 302,024 | 209,200 | 13,255 | 2,123,281 |
| Construction and acquisition | 75,206 | 1,441 | 4,552 | 4,440 | 85,639 |
| Reclassifications | - | 58 | 548 | (606) | - |
| Internal movements | 73 | (70) | (3) | - | - |
| Changes in asset retirement (decommissioning) obligations | 435 | - | - | - | 435 |
| Disposals, retirements and other movements | (5,054) | (514) | (968) | (124) | (6,660) |
| Historical cost as of 30 June 2019 (unaudited) | 1,669,462 | 302,939 | 213,329 | 16,965 | 2,202,695 |
| Accumulated depletion, depreciation and amortisation as of 31 December 2018 | (436,407) | (128,884) | (72,676) | - | (637,967) |
| Accrual for the period | (29,866) | (7,200) | (6,084) | - | (43,150) |
| Internal movements | - | - | - | - | - |
| Disposals, retirements and other movements | 3,063 | 231 | 828 | - | 4,122 |
| Accumulated depletion, depreciation and amortisation as of 30 June 2019 (unaudited) | (463,210) | (135,853) | (77,932) | - | (676,995) |
| Carrying amount as of 31 December 2018 | 1,155,655 | 168,158 | 135,033 | 13,255 | 1,472,101 |
| Carrying amount as of 30 June 2019 (unaudited) | 1,206,252 | 167,086 | 135,397 | 16,965 | 1,525,700 |

“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 2018 (unaudited):

| | 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 |

As of 30 June 2019, property, plant and equipment included advances for acquisition of property, plant and equipment directly related to construction projects and construction of property, plant and equipment in the amount of RUB 450 million (as of 31 December 2018: RUB 718 million).

As of 30 June 2019, property, plant and equipment included right-of-use assets in the amount of RUB 14,359 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 2019, 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 2019, in the amount of RUB 9,941 million (for the six months ended 30 June 2018: RUB 12,920 million).

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

| | 2019 | 2018 |
|--|---------------|---------------|
| Historical cost as of 1 January | 67,037 | 67,149 |
| Impairment | (17) | - |
| Depreciation accrued | (4,205) | (3,471) |
| Carrying amount as of 1 January | 62,815 | 63,678 |
| Acquisition | 1,469 | 7 |
| Depreciation accrual | (335) | (332) |
| Carrying amount as of 30 June (unaudited) | 63,949 | 63,353 |

Exploration and evaluation assets included in the cost of property, plant and equipment as of 30 June 2019 equalled RUB 68,567 million (as of 31 December 2018: RUB 63,098 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 2019, the amount of the credits and loans granted was RUB 45,452 million (as of 31 December 2018: RUB 42,978 million). Including the loss allowance for expected credit losses which as of 30 June 2019 equalled RUB 11,070 million (as of 31 December 2018: RUB 11,150 million).

14 Payables and liabilities accrued

Accounts payable and accrued liabilities include:

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|---|---|-----------------------------------|
| Accounts payable to employees of the company | 23,239 | 29,460 |
| Trade payables | 15,713 | 11,654 |
| Accounts payable for acquired property, plant and equipment | 12,355 | 6,262 |
| Dividends payable | 82,613 | 726 |
| Other accounts payable | 1,615 | 1,366 |
| Lease liabilities | 1,418 | - |
| Total payables and liabilities accrued | 136,953 | 49,468 |
| Including the financial part of the accounts payable | 113,690 | 19,984 |

15 Other tax liabilities

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|--|---|-----------------------------------|
| Mineral extraction tax | 53,043 | 48,221 |
| Tax on additional income from production of hydrocarbons | 3,989 | - |
| Value added tax | 2,274 | 7,495 |
| Property tax | 3,764 | 3,742 |
| Other | 7,956 | 8,262 |
| Total other tax liabilities | 71,026 | 67,720 |

16 Provisions

| | As of 30 June 2019 (unaudited) | As of 31 December 2018 |
|--|---|-----------------------------------|
| Asset retirement (decommissioning) obligations | 116,905 | 114,414 |
| Post-employment benefit obligations | 13,336 | 12,625 |
| Other obligations | 1,729 | 2,196 |
| Total provisions | | |
| including: | 131,970 | 129,235 |
| short-term | 2,974 | 3,508 |
| long-term | 128,996 | 125,727 |

17 Other financial liabilities

Other current and non-current financial liabilities are settlement accounts and customer deposits of the Group's bank. As of 30 June 2019, the amount of the liabilities was RUB 218,207 million (as of 31 December 2018: RUB 216,071 million). The growth of financial liabilities is due to the changes in deposit balances of the customers of the Group's bank.

“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 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|-----------------------------------|---|---|
| Export duty on oil sales | 98,309 | 96,256 |
| Export duty on oil products sales | 27,991 | 30,303 |
| Total export duties | 126,300 | 126,559 |

19 Operating expenses

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|---|---|---|
| Taxes, excluding income tax | 365,564 | 323,519 |
| Sales and storage expenses | 55,026 | 47,767 |
| Employee benefits | 53,434 | 55,757 |
| Depreciation, depletion and amortisation | 33,711 | 30,458 |
| Supplies | 29,690 | 20,414 |
| Production services | 27,096 | 27,591 |
| Utility and electricity expenses | 14,910 | 13,307 |
| Goods for resale | 4,606 | 5,487 |
| Losses from disposal of exploration and production properties | 226 | 563 |
| Loss allowances for expected credit losses | (555) | 3,014 |
| Changes in inventory and work in progress | (3,516) | (1,913) |
| Other expenses | 4,739 | 5,564 |
| Total operating expenses | 584,931 | 531,528 |

Taxes, excluding income tax, include:

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|--|---|---|
| Mineral extraction tax | 349,483 | 305,087 |
| Tax on additional income from production of hydrocarbons | 7,764 | - |
| Property tax | 7,528 | 7,880 |
| Excise | 223 | 10,111 |
| Other taxes | 566 | 441 |
| Total taxes, excluding income tax | 365,564 | 323,519 |

Employee benefits include:

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|--|---|---|
| Salary and social charges | 52,892 | 55,087 |
| Contributions to post-employment benefit funds | 542 | 670 |
| Total employee benefits | 53,434 | 55,757 |

20 Finance income and expenses

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|----------------------------------|---|---|
| Interest receivable | 69,358 | 58,153 |
| Interest income from discounting | 4,137 | 124 |
| Total finance income | 73,495 | 58,277 |

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|-----------------------------------|---|---|
| Interest payable | (7,773) | (6,116) |
| Interest expense from discounting | (3,741) | (3,258) |
| Total finance expenses | (11,514) | (9,374) |

21 Exchange differences

Exchange differences arise mainly from 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 2019 | As of 31 December 2018 |
|-------------------|-----------------------|---------------------------|
| Australian Dollar | 44.23 | 48.94 |
| Hungarian Forint | 0.22 | 0.25 |
| Danish Crown | 9.62 | 10.65 |
| US Dollar | 63.08 | 69.47 |
| Euro | 71.82 | 79.46 |
| Canadian Dollar | 48.18 | 50.96 |
| Chinese Yuan | 9.18 | 10.10 |
| Norwegian Krone | 7.41 | 7.97 |
| British Pound | 79.91 | 88.28 |
| Czech Koruna | 2.82 | 3.09 |
| Swedish Crown | 6.81 | 7.75 |
| Swiss Franc | 64.73 | 70.58 |
| Japanese Yen | 0.59 | 0.63 |

Average exchange rates for the six months ended 30 June 2019 and 30 June 2018 equalled:

| | Six months ended 30 June 2019 | Six months ended 30 June 2018 |
|-------------------|----------------------------------|----------------------------------|
| Australian Dollar | 46.15 | 45.78 |
| Hungarian Forint | 0.23 | 0.23 |
| Danish Crown | 9.89 | 9.64 |
| US Dollar | 65.34 | 59.35 |
| Euro | 73.84 | 71.82 |
| Canadian Dollar | 48.95 | 46.47 |
| Chinese Yuan | 9.63 | 9.32 |
| Norwegian Krone | 7.59 | 7.48 |
| British Pound | 84.51 | 81.65 |
| Czech Koruna | 2.87 | 2.82 |
| Swedish Crown | 7.03 | 7.08 |
| Swiss Franc | 65.36 | 61.39 |
| Japanese Yen | 0.59 | 0.55 |

Exchange differences include:

| | Six months ended 30 June 2019 (unaudited) | Six months ended 30 June 2018 (unaudited) |
|-----------------------------------|---|---|
| Income from exchange differences | 33,790 | 328,534 |
| Expense from exchange differences | (338,479) | (103,370) |
| Total exchange differences | (304,689) | 225,164 |

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.

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

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 statements shall be considered together with the annual consolidated financial statements of the Group as of 31 December 2018.

Since 31 December 2018, there were no changes in the risk management system.

23 Net earnings / (loss) per share

Basic earnings / (loss) per share were calculated based on profit / (loss), 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.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| 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 / (loss) for the reporting period attributable to shareholders | (15,544) | 389,988 |
| Dividends on preference shares | - | - |
| Basic and diluted earnings / (loss) per share, rubles | (0.44) | 10.92 |

The Company neither declared nor paid out any dividend for the six months ended 30 June 2019 and 30 June 2018.

24 Dividends

On 28 June 2019, the annual general shareholders' meeting of the Company declared dividends for the year ended 31 December 2018 in the amount of RUB 0.65 per one ordinary share and RUB 7.62 per one preference share.

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.

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 non-observable 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:

“Surgutneftegas” PJSC

Notes to the interim condensed consolidated financial statements (unaudited)

(in millions of Russian rubles, unless otherwise stated)

| As of 30 June 2019 (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 | 2,686 | - | 1,311 |
| Total financial assets measured at fair value on a recurring basis | 2,686 | - | 1,311 |
| As of 31 December 2018 | 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 | 3,116 | - | 3,588 |
| Total financial assets measured at fair value on a recurring basis | 3,116 | - | 3,588 |

As of 30 June 2019 and 31 December 2018, 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 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 2019, 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 2019 (unaudited) | | As of 31 December 2018 | |
|---|---|-------------------|-------------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Deposits placed | 2,995,512 | 3,001,220 | 3,103,151 | 3,108,233 |
| Financial assets measured at amortised cost | 1,207 | 1,214 | 1,028 | 1,025 |

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

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

| As of 30 June 2019 (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 | - | - | 256,943 | 256,943 |
| Restricted cash | - | - | 2,188 | 2,188 |
| Deposits placed | - | - | 2,995,512 | 2,995,512 |
| Loans granted | - | - | 45,452 | 45,452 |
| Other financial assets | 3,997 | - | 1,207 | 5,204 |
| Receivables | - | - | 131,047 | 131,047 |
| Total financial assets | 3,997 | - | 3,432,349 | 3,436,346 |

| As of 31 December 2018 | 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 | - | - | 260,346 | 260,346 |
| Restricted cash | - | - | 2,094 | 2,094 |
| Deposits placed | - | - | 3,103,151 | 3,103,151 |
| Loans granted | - | - | 42,978 | 42,978 |
| Other financial assets | 6,704 | - | 1,028 | 7,732 |
| Receivables | - | - | 113,594 | 113,594 |
| Total financial assets | 6,704 | - | 3,523,191 | 3,529,895 |

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 using appropriate 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 signed.