



ANNUAL REPORT

2018

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"Surgutneftegas" PJSC, "Company", "Surgutneftegas", "we", "our", "us" and "joint stock company" used in the text are interchangeable terms that relate to "Surgutneftegas" PJSC and/or "Surgutneftegas" PJSC and its subsidiaries for core activities subject to the context.



MESSAGE FROM DIRECTOR GENERAL

Dear fellow shareholders!

We have good grounds for saying that in the reporting year 2018, the Company showed solid production and financial performance. The Company provided all conditions to fulfill its own potential, find and efficiently use the internal reserves and opportunities for development. This allows us to perform steadily in the midst of the great macroeconomic uncertainty and the changing environment in the oil and gas sector.

It is essential for us to fulfill the scheduled production and investment programs. We continued developing and implementing innovations, upgrading production facilities and improving business processes in all segments of our activity.

In the reporting year, in the upstream sector, we provided the biggest amount of reserves additions for the last five years due to exploration – more than 86 million tonnes of AB1C1 oil reserves, which is 41% higher than the level of production. In 2018, prospecting and exploratory drilling totaled 211.5 thousand meters. Two new fields (in Khanty-Mansiysky Autonomous Okrug – Yugra and Nenetsky Autonomous Okrug), and 26 new oil deposits were discovered.

Over the last 5 years, with the total volume of 306 million tonnes of oil produced we added 378 million tonnes of reserves due to exploration, the reserve replacement ratio amounted to 123%. Despite the objective reserves deterioration, we manage to maintain a stable level of high effectiveness of geological exploration and an extensive replacement of the reserve base. At the same time, the Company has a significant potential for further growth of recoverable reserves: according to our estimates there is more than 400 million tonnes in the current

reserve base. We see good prospects for the reserves additions and increase in hydrocarbon production at the Company's license blocks in Eastern Siberia.

At the moment, “Surgutneftegas” PJSC develops six fields in Eastern Siberia, the volume of production continues to increase: in 2018, oil production was 9.1 million tonnes, making 15% of the Company's total oil production. In 2019, the Company expects to put on stream one more field in the Republic of Sakha (Yakutia) – the Lenskoye field, where we are actively engaged in building the infrastructure. In the next 3-4 years, oil production at this field is expected to reach 1.5-2 million tonnes per year.

In the reporting year, the Company operated 68 fields in Western Siberia – the main region where the Company operates, oil production was 51.8 million tonnes, or 0.3% up from 2017. This result was achieved due to newly formed centers of oil production – the Rogozhnikov and the Uvat fields as well as effective work at the mature fields in Western Siberia.

The Company's fields and license blocks in the south of Tyumenskaya Oblast and Khanty-Mansiysky Autonomous Okrug – Yugra are among the promising areas of oil production development. We expect to bring into development new fields at the Yugansk fields located on the border with Yugra in the vicinity of the Demyanskoye and Yuzhno-Nyuryskoye fields located in Uvatsky District of Tyumenskaya Oblast. In the next 3-4 years, the Company expects to put on stream three new fields.

Along with the development of created oil production clusters, the Company consistently implements a strategy aimed at intensifying oil production at the mature fields through the use of a wide range of enhanced oil recovery

methods and the implementation of a large-scale drilling program. In 2018, development drilling in the Company amounted to 4,846 thousand meters, or 3.4% up compared to 2017, with 2,164 wells brought online, including 1,437 new oil wells, which is 15% up against 2017.

In the context of the results in the oil refining sector, it should be noted that in 2018 we managed to significantly improve the motor gasolines slate of the Company due to the high-octane gasoline plant LK-2B being brought to the required processing mode. In the reporting year, the volume of hydrocarbon processing amounted to 18.2 million tonnes, the yield of light oil products increased to 55.7%.

It should be highlighted, that due to implementation of two large-scale projects – the deep conversion plant and the LK-2B plant we completely switched to producing only motor gasolines and diesel fuel belonging to environmental Class 5 and significantly increased the volumes of their production.

The positive trend is observed in the sector of sales of oil products as well. In the reporting year, the Company sold over 1.2 million tonnes of oil products, with the average daily retail trade turnover at one gas station increasing by 13.8% as compared to 2017. This comes along with the growing sales of related products and services at the gas stations. Over the last five years, the growth of revenue of the Company’s marketing subsidiaries in the non-fuel business amounted to 38%. In the reporting year, it reached RUB 2.6 billion.

The resource saving approach to the production operations has ensured success in the energy and environmental sector. We continue to increase the volume of electrical energy generated at our own power generating facilities. In the reporting year, it amounted to 5.8 billion kWh and satisfied about 49%

of the demand for electrical energy in the upstream sector. Due to significant energy expenditures, we annually implement the program on energy saving and enhancement of energy efficiency of production. As a result, the Company gradually reduced the energy consumption – the electrical energy consumption by the Company has gone down by 2.8% over the five-year period. An economic benefit from the program for five years has exceeded RUB 8.6 billion.

Apart from electrical energy supply, gas turbine power plants and gas reciprocating engine power plants solve the problem of utilization of associated petroleum gas. In the reporting year, the level of APG utilization was 99.56%, we have maintained this indicator above 99% for seven years. The Company annually directs substantial funds (in the reporting year, the investments equaled RUB 19.7 billion) to implement environmental programs which allows us to be the industry leader in many aspects of environmental protection. The efficiency of the Company’s policy in this area is annually recognized in various environmental contests and highly ranked in authoritative ratings.

The rise in operating results, continuous cost control and favorable trends in the oil and oil product market ensured better financial performance in the reporting year: the operating profit increased by 69% as compared to 2017 and equaled RUB 391.8 billion. The effectiveness of the Company’s cost control should be particularly noted. In the reporting year, the growing expenditures were caused entirely by external factors, primarily the increase in taxes and transportation costs for oil and oil products.

Based on the financial performance of the Company in the reporting year, the Board of Directors resolved to propose to the general shareholders’ meeting of “Surgutneftegas” PJSC to pay dividends in

the amount of RUB 7.62 on one preference share and RUB 0.65 on one ordinary share. The total amount of paid dividends will increase by 2.4 times as compared to 2017 and will equal RUB 81.9 billion.

In the reporting year, the financial performance and operating results of “Surgutneftegas” PJSC are the outcome of well-coordinated work of all business units and subsidiaries of our Company. We have managed to create a solid foundation for further development, and it is ultimately our numerous employees who deserve credit for this, they are ready to deal with any production tasks, no matter how complicated they are, and to take up new technical and technological challenges.

In its turn, the Company does its best to ensure comfortable and safe working conditions, offers a decent salary and social guarantees, implements a set of corporate social programs, provides the necessary conditions to reveal the creative potential of personnel and shape a favorable environment for innovation. We invest heavily in the development of the regions of the Company’s presence, we are one of

the largest Russian taxpayers. Investments in social infrastructure are primarily investments in people which in the long run, lead to an increase in the efficiency of our production.

We entered the year 2019 with a good financial standing, having all the opportunities for further implementation of production programs and stable development regardless of external conditions. The set tasks include striving for maximum efficiency of all business processes while maintaining the high quality of the work performance and efficient use of the innovation potential to increase the oil recovery ratio that is one of the ways to maintain oil production. I am sure that our team will respond to these challenges and reach new development frontiers for “Surgutneftegas” PJSC taking into consideration the interests of shareholders, employees and the Company.

Director General
“Surgutneftegas” PJSC
Vladimir L. Bogdanov



01

The Company's Profile

Key performance indicators
of "Surgutneftegas" PJSC

The Company today

Events of the year

The Company and the oil and gas sector

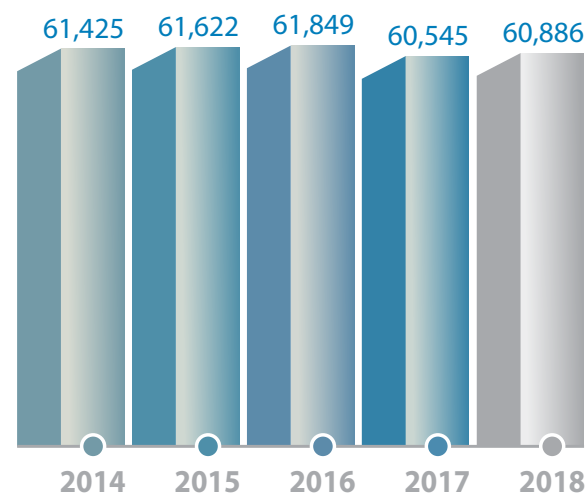
Business priorities

Key risks related to the Company's operations

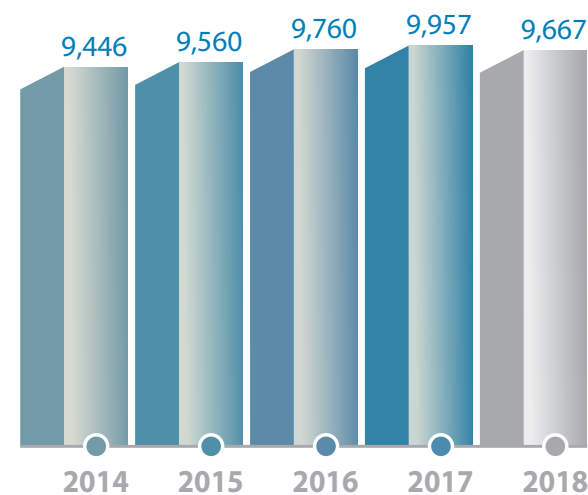




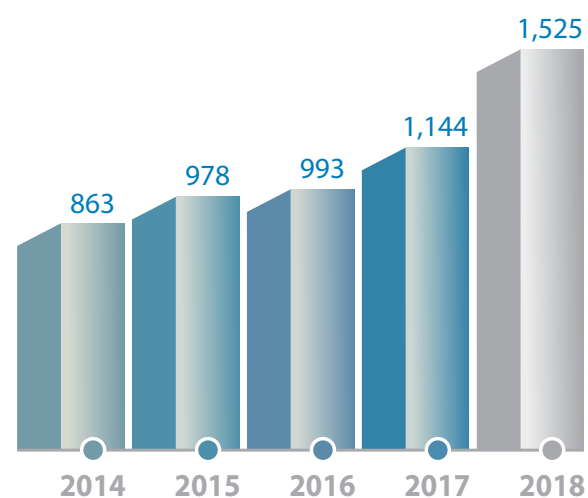
Oil production
'000 tonnes



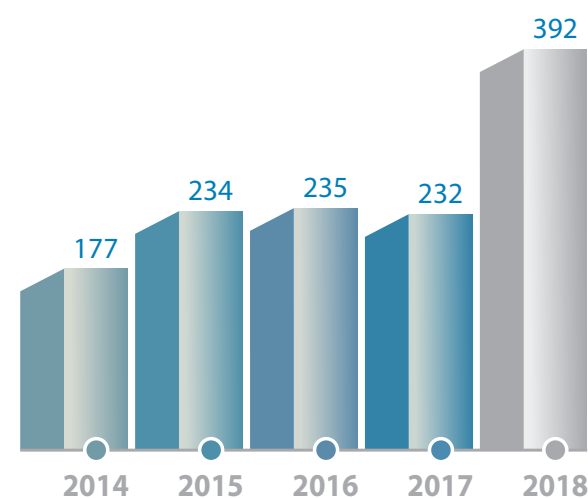
Gas production
mn cub m



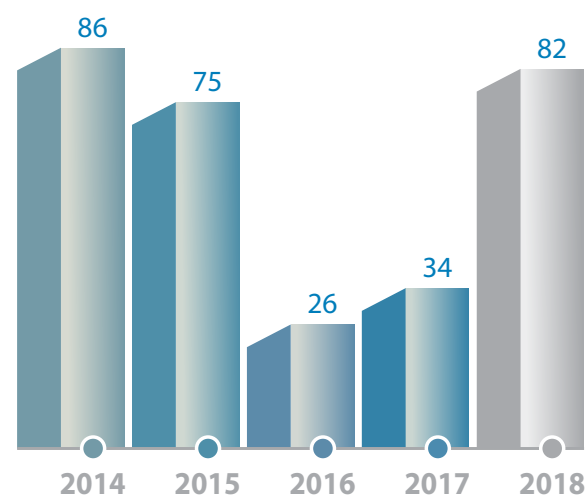
Revenue (RSBU)
RUB bn



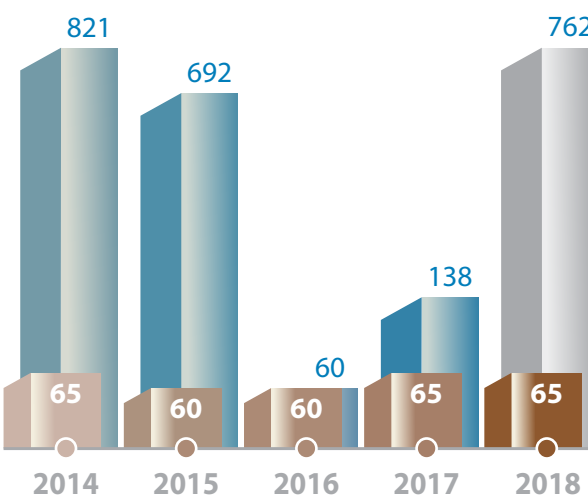
Sales profit (RSBU)
RUB bn



Total dividends declared
RUB bn



Dividend per share
kop.



■ Dividend per one preference share
■ Dividend per one ordinary share

Key performance indicators of “Surgutneftegas” PJSC

CONSOLIDATED OPERATING RESULTS

Indicator	Unit	2018
Oil production	mn tonnes	60.9
Gas production	bcm	9.7
Primary hydrocarbon processing	mn tonnes	18.2
Yield of main types of oil products:	mn tonnes	17.6
– motor gasoline		2.5
– diesel fuel		7.0
– jet kero		0.6
– mazut		6.3
– others		1.2
Power generation (output)	mn kWh	5,775
Gas processing	bcm	6.0
Investments:	RUB mn	209,917
– oil production		203,123
– oil refining		6,168
– marketing		626
New oil wells brought online	wells	1,437
Injection wells brought online	wells	727
Average number of production wells online	wells	22,708
Gas stations in operation	stations	292
Average number of personnel:	people	112,809
– oil production		101,540
– oil refining		7,824
– marketing		3,445

FINANCIAL PERFORMANCE (RSBU)

Revenue	RUB mn	1,524,948
Cost of sales	RUB mn	1,033,857
Net profit (loss)	RUB mn	827,641
Average annual value of assets	RUB mn	4,121,824
Sales margin	%	25.7
Dividend on one share:		
– ordinary share	kop.	65
– preference share	kop.	762

The Company today



"Surgutneftegas" Public Joint Stock Company is one of the largest private vertically integrated oil companies in Russia



EXPLORATION AND PRODUCTION OF HYDROCARBONS

WESTERN SIBERIA

In 2018, oil production was **51.8** mn tonnes

KEY PRODUCTION FACILITIES OF THE COMPANY ARE LOCATED IN THE REGION:

- R&D center "SurgutNIPneft" (the city of Surgut, the city of Tyumen);
- 3 drilling divisions and 1 prospecting and exploration division;
- 7 oil and gas production divisions and 1 intra-field petroleum gas gathering and utilization division;
- 5 construction trusts;
- 7 transport organizations;
- 1 gas processing plant;
- auxiliary and service divisions

EASTERN SIBERIA

In 2018, oil production was **9.1** mn tonnes

PRODUCTION OPERATIONS ARE PERFORMED BY THE COMPANY'S SUBDIVISIONS:

- oil and gas production division;
- intra-field petroleum gas gathering and utilization division;
- drilling, prospecting and exploration division;
- 2 construction trusts;
- 1 transport organization;
- auxiliary and service division

TIMAN-PECHORA

11 license blocks

THE COMPANY PERFORMS PROSPECTING AND EXPLORATORY DRILLING

OIL REFINING AND MARKETING OF OIL PRODUCTS

NORTH-WEST OF RUSSIA

In 2018, **18.2** mn tonnes of hydrocarbons were processed

The biggest oil refinery in the region is located in the city of Kirishi, Leningradskaya Oblast

292 gas stations
11 oil storage depots

Oil products supply subsidiaries



Events of the year

JANUARY

The gas turbine power plant at the Yuzhno-Nyuryskoye field, which was commissioned in June 2017 and now provides production facilities of the Company in the Uvat fields with electrical energy, reaches 10 million kWh of the total amount of generated electrical energy.



FEBRUARY

The Company is among the organizers of the first International youth scientific and practical forum "Oil Capital". Representatives of 26 regions of Russia and eight foreign countries visit Surgut in order to participate in the Forum and discuss topical issues of the oil and gas sector.

In order to increase its candidate pool, the Company performs a career-guiding event "Days of "Surgutneftegas" PJSC" in Ufa State Petroleum Technological University (the Republic of Bashkortostan) during which students are acquainted with the Company's operations.

The Company obtains a license for geological study of subsurface that includes hydrocarbon fields prospecting and appraisal at the Tyumyatinsky subsoil block in the Republic of Sakha (Yakutia).



MARCH

The Company announces the results of economic competition held among oil and gas production shops where more than 5.5 thousand employees from 56 oil and gas productions shops and blocks take part.

The women's water polo team KINEF-Surgutneftegas wins the Russian championship title for the 16th time.



APRIL

The Company sums up the results of the economic competition held among well servicing and workover crews. Two hundred seventy one crews from 10 Company's business units take part in the competition.



At the meeting of "Surgutneftegas" PJSC toolpushers, the winners of the contest among the Company's drilling crews are awarded. For the right to become the winners of Alexander Usoltsev Award, 67 drilling crews compete.

"Surgutneftegas" PJSC holds the XXXVIII scientific and technical conference for young scientists and professionals. Over one thousand of the Company's employees present their developments and innovative solutions.

At the Company's refinery, the production cycle of the high-octane gasoline plant LK-2B starts. Due to the commissioning of the plant all produced motor gasolines are in compliance with the standards for environmental Class 5 of Technical regulations "On requirements for automobile and aviation gasoline, diesel and marine fuel, jet fuel and fuel oil" and European Standards Euro-5.

KINEF-Surgutneftegas women's water polo team wins the water polo Russian cup on for the 11th time and also successfully defends the title of the strongest team in Europe. The team wins the Euroleague Cup, season 2017-2018.



MAY

It is a 10th anniversary since the commissioning of the gas turbine power plant at the Talakanskoye oil field, which fully covers the needs of the Company for electrical energy at the oil fields of Eastern Siberia. The capacity of the gas turbine power plant at the Talakanskoye oil field is 144 MW. Since the time it was commissioned it generated more than 3.5 billion kWh of electrical energy.



JUNE

The Company obtains licenses for geological study, prospecting and appraisal of hydrocarbon deposits at the Vostochno-Konitlorsky and Yuzhno-Aykurusky subsoil blocks in Khanty-Mansiysky Autonomous Okrug – Yugra.



JULY

"Surgutneftegas" PJSC holds the finals of competitions of professional skills "Best-in-Profession" in which 1,320 employees representing 96 professions and specialties take part. In the reporting year, 58 thousand employees of the Company took part in 63 competitions.



Events of the year

AUGUST

On the occasion of the Day of Oil and Gas Industry Workers, 1,129 employees of "Surgutneftegas" PJSC and its subsidiaries receive state, industry and other awards.



SEPTEMBER

At regional contest "Black Gold of Yugra", "Surgutneftegas" PJSC is recognized as the Company of the year for the thirteenth time. A commemorative plaque to the Company's staff is opened at the memorial "Stars of Yugra" on the site in front of the Museum of Geology, Oil and Gas (the city of Khanty-Mansiysk).



At Tyumen oil and gas forum, Director General of "Surgutneftegas" PJSC Vladimir Leonidovich Bogdanov and the governor of Tyumenskaya Oblast Alexander Viktorovich Moor conclude a cooperation agreement. According to the signed document, an extension of the Company's cooperation with enterprises in Tyumenskaya Oblast, involvement of industrial, scientific and human resources in operations of "Surgutneftegas" PJSC, strengthening of partnership with regional authorities are expected. This allows the Company to continue the implementation of long-term projects on hydrocarbon exploration and production.

OCTOBER

The Company enters into an agreement with National Research Tomsk Polytechnic University that defines aspects of educational, scientific and technological as well as professional cooperation.

"Surgutneftegas" PJSC wins the XIV All-Russia contest "Leader of environmental protection in Russia – 2018" in category "Best environmentally responsible company in the oil and gas production industry".

In the regional contest of implemented projects in the sphere of energy saving and energy efficiency ENES – 2018, the Company is recognized as a winner in two categories: "Best implemented comprehensive program in the fuel and energy complex aimed at promotion of energy saving and energy efficiency" and "Efficient management system in the sphere of energy saving and energy efficiency at facilities in the fuel and energy complex".



NOVEMBER

World Wildlife Fund (WWF) and CREON Group sum up the results of oil and gas companies transparency rating in Russia in the sphere of environmental responsibility. "Surgutneftegas" PJSC is awarded a certificate in section "Environmental management". According to the results of the rating, the Company is in top five.

"Surgutneftegas" PJSC receives Commendation from the Ministry of Agriculture of the Russian Federation for intensive work in artificial reproduction of aquatic biological resources.



DECEMBER

LLC "KINEF" is the winner of the All-Russia contest of the program "100 best products of Russia" in category "Industrial and technical products". Arctic diesel fuel (DT-A-K5) produced by the Company's refinery is in top one hundred of the best Russian products in 2018 and also receives a certificate "Golden hundred".

For the first time in its six-year history, airport Talakan handles more than 300 thousand passengers per year. The passenger traffic in the airport – built by "Surgutneftegas" PJSC in Eastern Siberia – since the beginning of operation of the airport in 2012 and till the present time has increased by 146%. In 2018, 2,542 sorties have been carried out, 313,688 passengers, 4,196.7 tonnes of baggage and 850.2 tonnes of cargo have been transported.

The accumulated volume of electrical energy generated (output), by the Company's gas turbine power plants since their commissioning in the reporting year reaches 55 billion kWh.

By the end of 2018, the cumulative oil production of "Surgutneftegas" PJSC at the Uvat fields reaches 1.5 million tonnes.





The Company and the oil and gas sector

DEVELOPMENT TRENDS IN THE SECTOR IN THE REPORTING YEAR

In 2018, the global oil and gas market was mainly influenced by the agreement between the OPEC countries and other oil producing countries (OPEC+) aimed at recovery of the supply and demand balance as well as by the unstable geopolitical situation in some producing countries. The prices in the oil market showed the growth for the greater part of the year, which was replaced by a rapid decline in price in the last quarter. As a result, the annual average Brent price increased by 31.6% (more than 17 USD/bbl) as compared to 2017 and amounted to 71.31 USD/bbl. At the same time at the end of the reporting year, a high volatility was observed in the market: in October, the Brent quotation peaked at 86.16 USD/bbl and in December it bottomed at 50.21 USD/bbl. The Brent price swings reached 35.95 USD/bbl.

In 2018, the global demand for liquid fuel increased by 1.6% as compared to 2017. This growth was driven by countries that are not members of the Organization for Economic Cooperation and Development (OECD). Their total oil consumption increased by 2.4%. The biggest

growth of demand is observed in China and India. These countries account for almost 9% of the global oil consumption. In China, due to the growth of processing and refining capacities and development of the petrochemical industry, the demand for liquid fuel, the significant part of which is covered by Russia for the third year in a row, increased by 3.8%. The share of the largest oil consuming countries (the USA, Russia, Japan, China and India) in the global amount of consumption increased to 46.6%.

In 2018, the global production of liquid hydrocarbons, including production of oil and gas condensate, liquid gas processing components and other hydrocarbon liquids, increased by 2.4% as compared to 2017 and almost reached 5 billion tonnes. The biggest growth is observed in the USA and in the Middle East. In OPEC countries oil production decreased by 2.3% due to the OPEC+ agreement and adverse political and economic conditions in some countries. In three countries (Venezuela, Iran, Libya), there is the largest decrease in oil production and in order to compensate for it, Saudi Arabia increased its production. However, an increase in oil production in the USA (by 16.8%) was higher and led to

changes in distribution of countries-leaders in the amount of oil production. The list of these countries is still dominated by Russia followed by the USA and Saudi Arabia.

In 2018, the global oil reserves increased by 0.8% as compared to 2017 and amounted to about 227 billion tonnes. In the reporting year, the increase in oil reserves is far below the global oil production growth rates. The share of OPEC countries in global reserves is 72.7% with Venezuela still being the absolute leader in the amount of oil reserves due to inclusion of data on heavy oil reserves from Orinoco Oil Belt in statistics.

In 2018, the global gas reserves amounted to about 200 trillion cubic meters and increased by 1% compared to 2017. In the reporting year, key changes in the gas sector are due to the development of the liquefied natural gas (LNG) market. The growing demand for this energy resource by more than 12% was observed in Asian countries. The largest increase was in China where the import of LNG was higher than the volume of gas supply via pipelines and the volume of China's own production. In the reporting year, previously formed LNG trade flows were changed due to the higher demand for LNG and the development of new facilities in Australia and the USA. During the year, Qatar, one of the biggest world exporters, decreased its export to Europe and Egypt and increased LNG sales to Turkey, South Korea, China and South Asia.

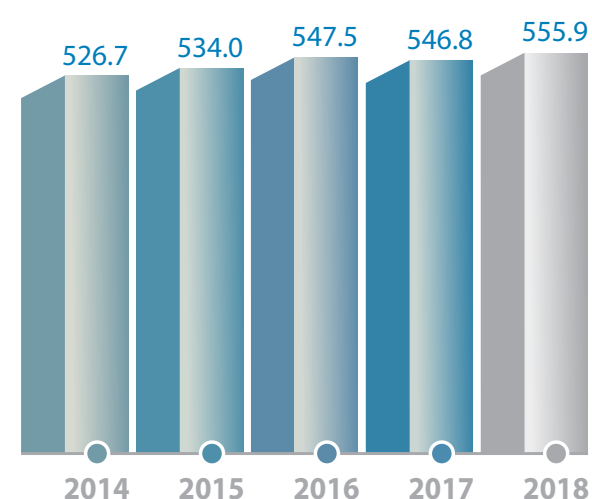
At the end of 2018, Russian oil production increased by 1.7% to 555.9 million tonnes – a record high for the last 10 years. During the year, oil production in Russia was regulated by the OPEC+ agreement. More than 80% of oil production falls on vertically integrated oil companies (VIOCs), however, their share continues to decrease. Independent producers continue to increase the volume of production. In the reporting year, the growth amounted to 4%. The increase in production was observed in almost every main oil producing regions of the country, including the key one – Khanty-Mansiysky Autonomous Okrug – Yugra, amounting to more than 1 million tonnes. The biggest increase in oil production was in the Republic of Sakha (Yakutia) due to putting new fields on stream.

The volume of development drilling by Russian oil companies remained at the level of the previous year and amounted to 27.6 million meters, with 7,946 new oil wells brought online. At the end of the reporting period, the total number of production wells amounted to 177,459 and the share of idle wells decreased to 12.6%.

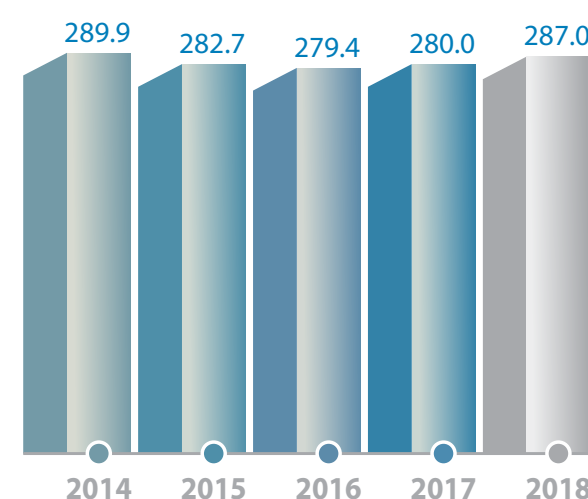
In the reporting year, the volume of prospecting and exploratory drilling exceeded 1 million meters, the growth of penetration rates remained at the level of the previous year (+8%).

In the reporting year, the export of Russian oil increased by 0.3% to 257,7 million tonnes,

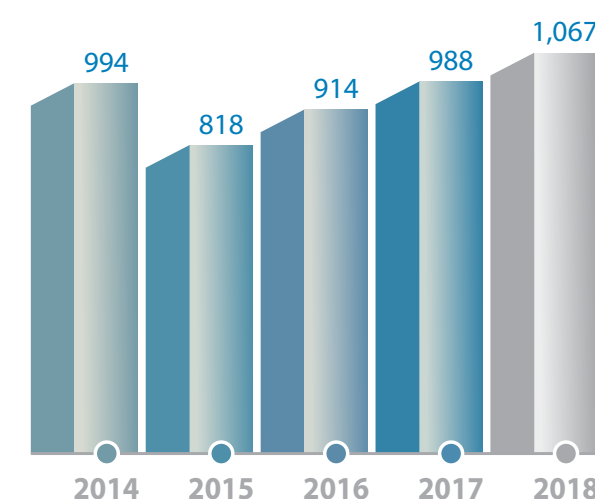
Oil production in Russia
mn tonnes



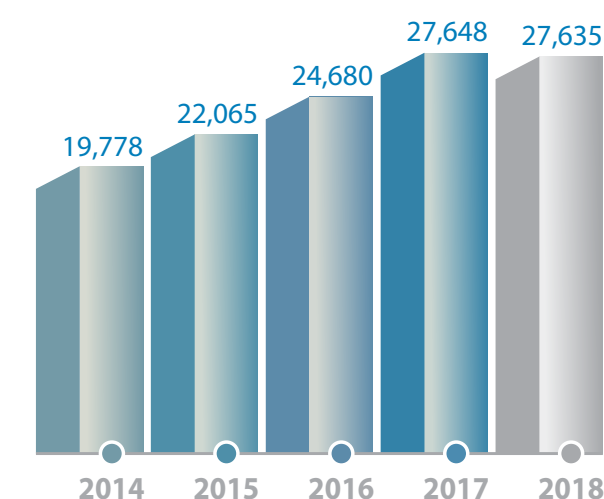
Oil refining in Russia
mn tonnes



Prospecting and exploratory drilling in Russia
'000 meters



Development drilling in Russia
'000 meters





including the volume of export to non-CIS countries increasing to 240 million tonnes. An increase in export to the Asian-Pacific region was observed, with the largest increase (about 20%) in export to China due to an increased demand and decreased exports from other countries.

In 2018, primary crude oil distillation increased by 2.5% to 287 million tonnes. Oil refineries continued their comprehensive modernization of production made in recent years. This process results in a gradual improvement of the refining quality: the volume of fuel oil production continues to decrease and the volume of diesel fuel production increases. In the motor gasoline output slate, the share of ecology Class 5 motor gasolines increased due to modernization of refineries as well as higher requirements for the quality of fuel. In the reporting year, the conversion ratio at refineries increased by 2.4% to 83.4%, the yield of light oil products increased to 62.2%.

In the reporting year, the volume of gas production in Russia amounted to 725.3 billion cubic meters, 5% higher against the result of 2017, with the volume of production of associated petroleum gas increasing to 89.5 billion cubic meters. The level of APG utilization on the sector scale continued to decrease due to putting new fields on stream, which have no infrastructure for utilization yet and equals to 85.1%.

In the reporting year, the following development trends of the Russian oil and gas sector were observed:

- influence of the OPEC+ agreement on volumes of oil production;
- improvement of the oil market pricing environment;
- growing oil export, mainly to the Asian-Pacific region;
- increased volume of oil refining, continued upgrading of refining capacities that improves the hydrocarbons conversion ratio and the light oil products yield, improvement in the oil product slate;
- increased volume of associated petroleum gas production due to putting new fields on stream combined with the decreased level of APG utilization.

THE COMPANY AMONG ITS PEERS

"Surgutneftegas" PJSC is one of the largest vertically integrated oil companies (VIOCs). It accounts for 11% of Russian oil production, 6.3% of oil refining and about 14% of associated petroleum gas production by Russian VIOCs.

In 2018, oil production of "Surgutneftegas" PJSC reached 60.9 million tonnes and gas production – 9.7 billion cubic meters. The Company steadily increases production in Eastern Siberia. In the reporting year, oil production at the fields in Eastern Siberia amounted to 9.1 million tonnes and the share of the region in the Company's total volume of production reached 15%.

In terms of drilling "Surgutneftegas" PJSC is one of the leaders among Russian oil and gas production companies. In the reporting year, the share of the Company in Russian development drilling was 17.5%, in exploratory drilling – 19.8%. Development drilling by the Company increased by 3.4% and reached 4,846 thousand meters. Exploratory drilling increased to 211.5 thousand meters, a 4.5% increase from the previous year.

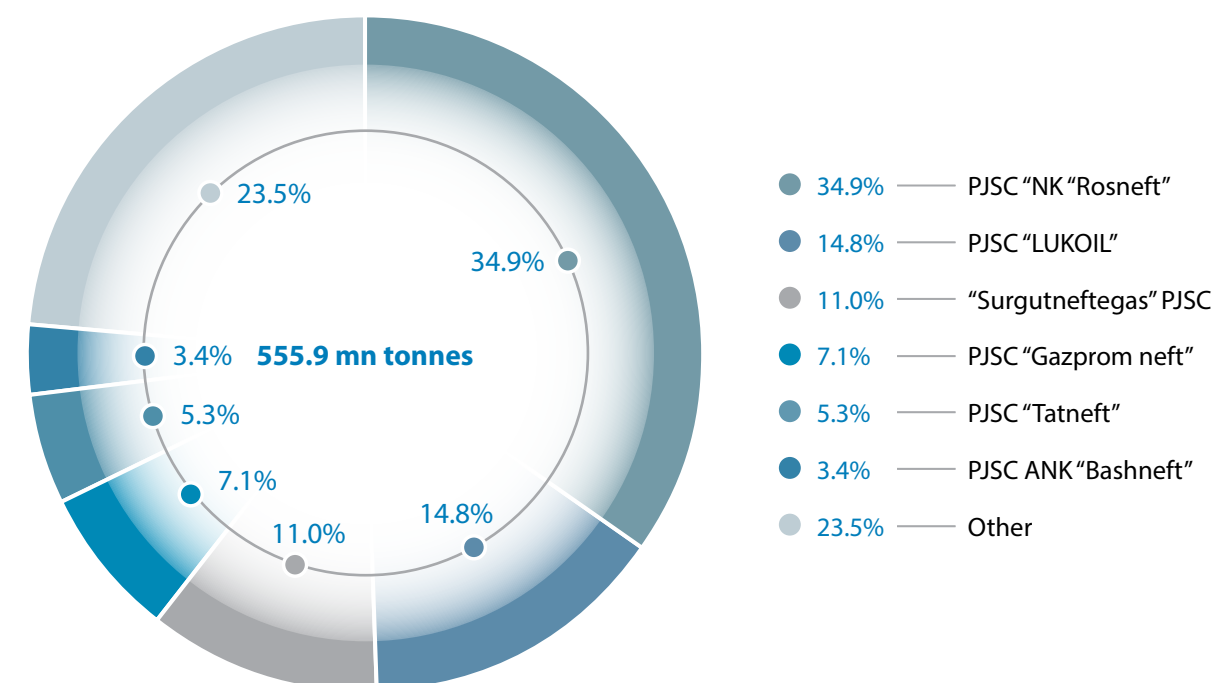
At the end of 2018, there were 24,457 oil production wells in the operating well stock of the Company. The Company brought online 2,164 wells, including 1,437 new oil wells. The Company maintains the lowest idle well stock ratio in the sector, in the reporting year, its share was 7.8%.

In 2018, the volume of oil refining at the Company's refinery amounted to 18.2 million tonnes. It produced 17.6 million tonnes of oil products, including 10.1 million tonnes of light oil products. In the reporting year, the Company's gas processing plant processed 6 billion cubic meters of gas – more than 59% of the total volume of gas produced by the Company.

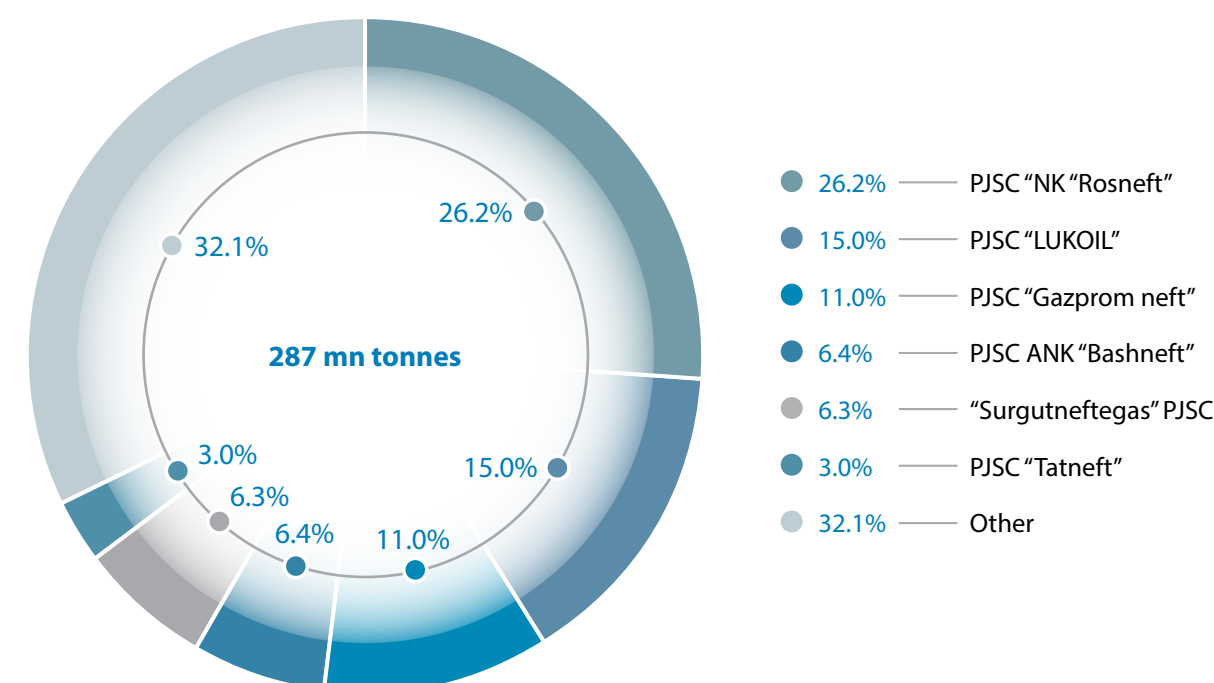
"Surgutneftegas" PJSC has a leading position in the sector in terms of utilization of associated petroleum gas thanks to the efficient infrastructure for gas gathering and utilization at the producing fields. In the reporting year, the Company achieved a record level in APG utilization – 99.56%.

A network of the Company's marketing subsidiaries works in the North-West of Russia. At the end of the reporting year, 292 gas stations of the Company were active, the volume of sales of oil products via these stations amounted to more than 851 thousand tonnes.

Oil production by Russian companies in 2018

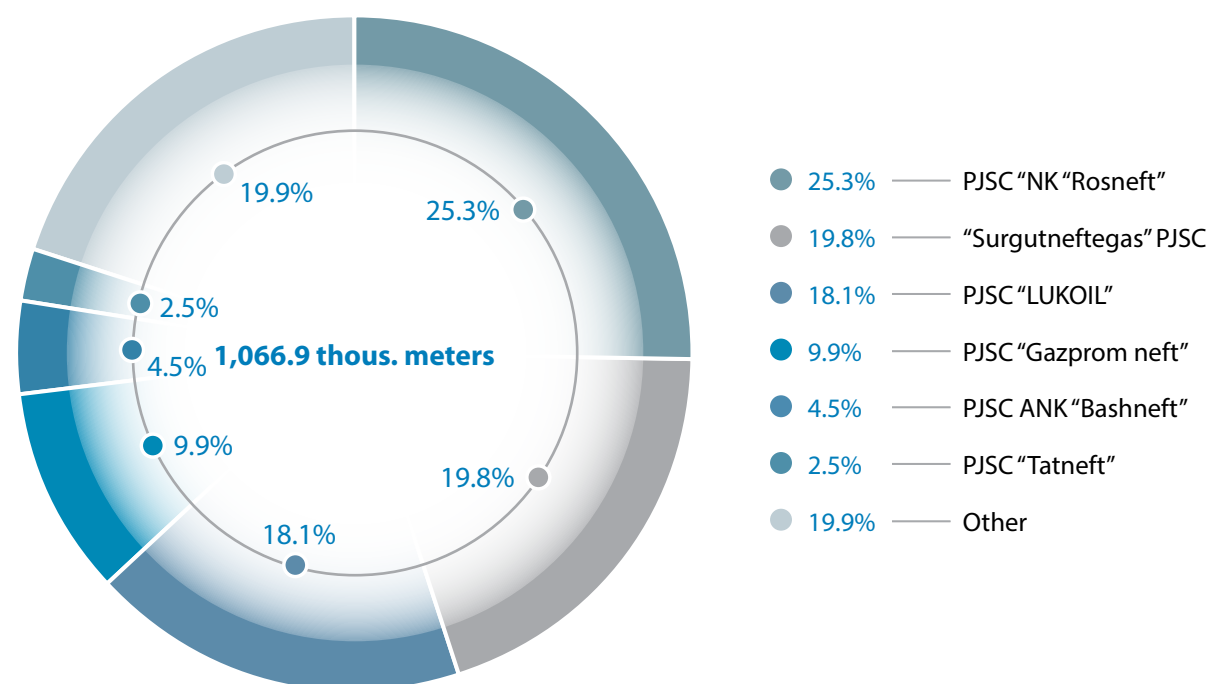


Oil refining by Russian companies in 2018

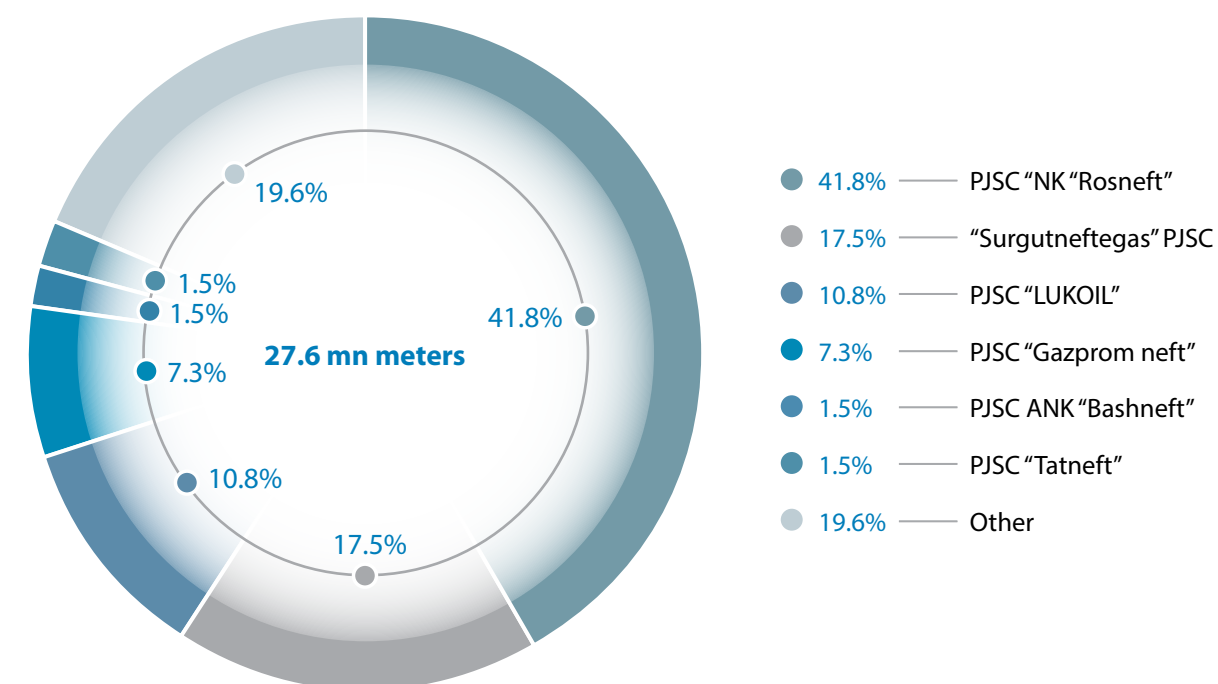




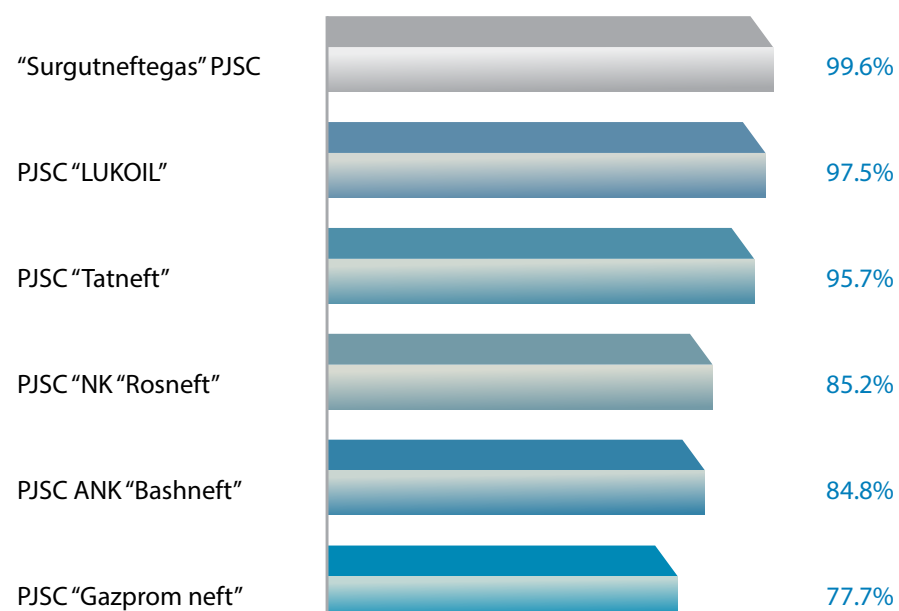
Prospecting and exploratory drilling by Russian companies in 2018



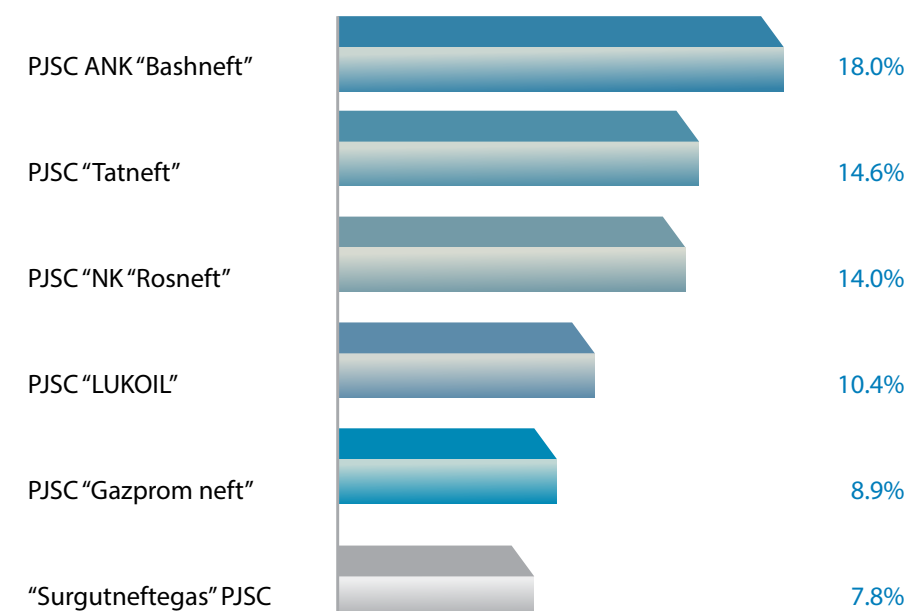
Development drilling by Russian companies in 2018



Level of APG utilization by Russian companies in 2018



Idle wells in total well stock of Russian oil companies at the end of 2018



Average for the industry – 12.6%



Business priorities

OIL AND GAS PRODUCTION:

- to strengthen and enlarge the Company's mineral resource base through geological exploration and acquisition of new promising subsoil blocks;
- to develop and apply innovative solutions, extend the introduction of advanced technologies and equipment enhancing the efficiency of geological exploration and field development, including fields with marginal reserves;
- to provide the volume of hydrocarbon production according to the current conditions in the oil and gas market;
- to form and develop new centers of hydrocarbon production;

- to use the produced associated petroleum gas in the most efficient way;
- to provide a high quality of work and control costs.

OIL REFINING AND GAS PROCESSING:

- to enhance refining and processing efficiency through modernization and reconstruction of production facilities;
- to increase an oil conversion ratio, share of the light oil products yield and to reduce the volume of low-margin products;
- to provide an extensive range of products in accordance with the market needs.

MARKETING:

- to increase sales of high-margin products;
- to attract and retain consumers by providing high-quality products;
- to increase the efficiency of retail sales, namely by expanding the range of related services.

POWER GENERATION:

- to develop the energy complex which ensures generation, transmission and sales of electrical and thermal energy;
- to introduce energy saving and energy efficient solutions and technologies within every area of the Company's operations.

SOCIAL RESPONSIBILITY:

- to mitigate the negative environmental impact, ensure environmental safety of production facilities and use natural resources in a rational way;
- to assure high industrial and occupational safety standards;
- to maintain the reputation of an attractive and responsible employer, creating environment for personnel development;
- to contribute to balanced social and economic development of the areas where the Company operates and preserve the status of a reliable partner and supplier of high-quality products;
- to offer extra social benefits and guarantees for the employees, their families and retired employees.





Key risks related to the Company's operations

In the course of its activities "Surgutneftegas" PJSC is exposed to risks realization of which may affect its production and financial performance, lead to a review of investment plans and a decrease in financial sustainability of the Company.

"Surgutneftegas" PJSC applies a comprehensive risk management system which helps to identify them, evaluate their influence in a quality and quantity manner and timely take measures to minimize their adverse effect. The responsibility for the certain risks management is assigned to the various departments of the Company in accordance with their functions. The evaluation of the efficiency of the risk management system is carried out by the Internal Audit Service. The Audit Committee the basic functions of which are to control the reliability and efficiency of the risk management system and internal control operates in the Board of Directors of "Surgutneftegas" PJSC. The current risk management system of the Company is continually updated, new efficient approaches and means of risk mitigation are developed.

INDUSTRY RISKS

"Surgutneftegas" PJSC is exposed to many risks typical of the oil and gas industry, the major of which are the drop in oil and oil products prices and the growth of prices for raw materials and services purchased.

Oil and oil products prices are characterized by their high volatility and depend on a vast number of market factors over which the Company has no influence. The drop in hydrocarbon prices may lead to a decrease in the revenue, income and cash flow of "Surgutneftegas" PJSC. An extended period of low oil and oil products prices may influence the implementation of the scheduled projects in production and processing of hydrocarbons and lead to reduced investments and impairment of the Company's assets.

In order to manage this risk when planning its current activities and taking decisions on the implementation of new projects,

"Surgutneftegas" PJSC considers different scenarios for oil and oil products prices, determines projects which are the most vulnerable to the realization of this risk.

Risk of an increase in operational and capital expenditures resulting from the growing cost of raw materials and supplies, equipment, fuel and power as well as of transportation of the finished products (oil and oil products) may significantly influence the efficiency of the Company's activities. The Company implements measures to mitigate the influence of this risk, including purchase of materials, machinery and equipment on a tender basis, monitors the quality of products and services purchased, develops in-house power generation facilities. Besides, the Company thoroughly evaluates the efficiency of investment in projects on production and processing of hydrocarbons, diversifies the ways and routes of transportation of the finished products.

COUNTRY AND REGIONAL RISKS

"Surgutneftegas" PJSC carries out its operating activities in several subjects of the Russian Federation and is exposed to the country and regional risks.

The Russian economy is affected by development trends of the global economy and depends on the level of global hydrocarbon prices. An adverse change in the global economic situation may lead to unstable economy in the Russian Federation and affect the operating and financial performance of the Company. In order to mitigate this risk, "Surgutneftegas" PJSC uses a diversified approach to finished products sales avoiding excessive concentration of the revenue on the level of regional markets and some counterparties.

Basic production assets of "Surgutneftegas" PJSC are located in the regions with stable social and economic conditions and steady labor market. Besides, investments of "Surgutneftegas" PJSC have a positive effect on the economic situation in the regions of its operation.

"Surgutneftegas" PJSC operates in the regions with stable weather conditions and low probability of natural hazards like hurricanes, floods and other natural disasters. Extremely low temperatures may influence the course of the Company's production activities. The Company is exposed to the risk of untimely delivery of materials and equipment in the regions with underdeveloped infrastructure. There is risk of failure of production equipment and machinery functioning at the Company's facilities in case of adverse weather conditions. When abnormal situations occur on the typical transport routes or due to storms in the seaports there are risks of deviation from the planned production level and violation of delivery terms of the finished products.

"Surgutneftegas" PJSC is striving to mitigate these risks taking into account the weather conditions at the stage of design and construction of infrastructure facilities by optimization of the terms and times of the delivery of materials and equipment using machinery and equipment that are designed to operate at low temperatures.

FINANCIAL RISKS

"Surgutneftegas" PJSC is typically exposed to such financial risks as currency risk, interest rate risk, inflation risk, credit risk and liquidity risk. These risks can have an adverse effect on the financial performance of "Surgutneftegas" PJSC due to an increase in expenses, impairment of assets, a decrease in profitability and the cash flow of the Company.

Currency risk related to exchange rate fluctuations may influence the Company's financial performance. "Surgutneftegas" PJSC takes into consideration the impact of currency risk on efficiency of its current activities and investments in new projects. In order to mitigate this risk, the Company monitors the key parameters and the structure of financial assets, carries out an analysis and operational planning of cash flows.

Interest rate risk has no material impact on the financial performance of "Surgutneftegas" PJSC as operational expenses and capital expenditures are financed by the Company from its own funds.

"Surgutneftegas" PJSC carries out an analysis of the actual level of interest rates and their dynamics, evaluates profitability and the level of risk in money and capital markets to determine the best options for placement of the Company's financial assets.

Inflation risk may lead to the growth of expenses, lower profitability of current activities and failure to reach the expected profitability from projects in implementation. "Surgutneftegas" PJSC considers different scenarios of actual inflation rates fluctuation from the expected parameters, controls the cost increase at all stages of production activities, evaluates investment in production, processing and sales of finished products with consideration of inflation risk. Besides, the Company regularly holds tenders to select appropriate options for goods and services delivery considering the purchase cost and reliability of the counterparty.

The Company's exposure to credit risk occurs in relation to trade receivables and financial assets in case counterparties fail to fulfill contract obligations. In order to mitigate this risk, when concluding contracts for products and services delivery "Surgutneftegas" PJSC carries out the integrated assessment of counterparties with the analysis of their financial position, credit history and the state of budget settlement. To secure the payback when making advance payments to counterparties the Company uses bank guarantees. Besides, in order to mitigate credit risk in relation to financial assets, "Surgutneftegas" PJSC monitors the credit quality of financial organizations on the basis of its own formalized method of analysis of different aspects of their activities and financial position.

Liquidity risk has no significant influence on "Surgutneftegas" PJSC as the Company owns a sufficient amount of cash and does not raise borrowed funds in money and credit markets to finance its current operating activities and implement long-term investment projects. The budgeting system of the Company helps to build the appropriate structure of cash flows and keep the sufficient level of liquidity to settle all liabilities in a timely manner.

"Surgutneftegas" PJSC does not apply derivative financial instruments to hedge financial risks, but the Company takes into consideration their possible application when taking investment



decisions on new projects and making plans and budgets. In order to mitigate financial risks, the Company insures assets and operations as part of its property interests protection in the course of its financial and business activities.

LEGAL RISKS

“Surgutneftegas” PJSC is exposed to risks of a change in the legislation in the field of currency, tax, customs and antimonopoly regulation as well as licensing in the oil and gas industry. The outcomes of realization of these risks may be the growth of expenses, a decrease in operating efficiency and financial performance of the Company.

Changes in the current currency legislation of the Russian Federation in the field of currency regulation may result in higher foreign trade transaction expenses, lower competitiveness of the Company and lower efficiency of its operating activities. “Surgutneftegas” PJSC fully meets all requirements of the current currency legislation of the Russian Federation.

Changes in the tax legislation may significantly influence financial performance and long-term development plans of the Company. “Surgutneftegas” PJSC duly fulfills its obligations on tax payment and mandatory payments as per the current legislation. The Company regularly monitors possible changes in the field of taxation of the oil and gas industry, takes them into consideration when planning its financial and business activities. The Company’s representatives take part in discussions and make proposals related to the development of the tax legislation of the Russian Federation.

Being a party to foreign economic relations, “Surgutneftegas” PJSC is exposed to risks of tightening the customs control procedures when transferring goods through the customs border of the Russian Federation. The realization of these risks may lead to growing time expenditures, finance diversion and decreasing operating efficiency of the Company. When planning the foreign trade transactions, “Surgutneftegas” PJSC takes into consideration possible risks related to customs administering, forecasts the level of their influence on the operating and financial activities.

Change in regulations in the field of subsoil licensing is a significant risk for

“Surgutneftegas” PJSC and can have an adverse effect on the Company’s plans for extension of the territory of its operations, lead to the growth of expenses and a decrease in profitability. The Company monitors draft laws, it allows to timely evaluate the outcomes of the proposed changes and take them into consideration in the plans. The Company has a great experience in implementing projects in the field of production and processing of hydrocarbons and also has finance, materials and equipment, and personnel needed to perform its obligations on license agreements.

REPUTATION RISK

Reputation risk for “Surgutneftegas” PJSC is forming a bad image and a decrease in trust from the Company’s key stakeholders in case of non-conformity of the manufactured products with the declared quality, violation of the agreed periods of payment for goods and services, non-fulfillment of other contractual obligations, business customs and principles of professional ethics.

“Surgutneftegas” PJSC sells products the quality of which is strictly in conformity with the existing standards. The Company provides the quality control of produced and sold oil and gas products by means of monitoring conformity of their specifications with the existing requirements. “Surgutneftegas” PJSC timely informs its clients and counterparties about the quality of the manufactured products, communicates with consumers.

“Surgutneftegas” PJSC annually takes a range of measures intended to provide a high level of technological and ecological production safety. The Company controls the technical condition of motor vehicles and equipment, special vehicles, production and transport infrastructure facilities which minimizes the risks of technological accidents, an adverse effect on the environment and harm to the personnel health. “Surgutneftegas” PJSC strictly complies with obligations on tax payment and non-tax payment, salary payment and settlements with counterparties minimizing reputation risk. The Company is a stable and reliable party to the economic relations performing its production activities on the basis of high social and ecological standards.

STRATEGY RISK

Strategy risk is related to making incorrect management decisions on key development directions of the Company the result of which may be failure to achieve its long-term strategic goals.

“Surgutneftegas” PJSC is exposed to the risk of late detection and response to possible internal and external threats which may lead to an insufficient operating change in current business processes and a decrease in financial and operating performance of the Company.

The Company regularly evaluates the external environment, it carries out the macroeconomic and competitive analysis, takes into consideration current and forecasted changes when planning investment projects, evaluates the pricing policy of goods and services suppliers.

Making incorrect management decisions related to investment in new projects may lead to an increase in costs and periods of their implementation, disruption of current activities, a decrease in operating efficiency of the Company and cause the lack of materials and equipment, as well as labor force, finance and management.

The Company has a sufficient amount of resources for successful implementation of current and planned projects. “Surgutneftegas” PJSC applies the investment decision making system which takes into consideration different scenarios of changing the key parameters of projects in question and helps to minimize risks related to the lack of resources for the implementation of current tasks and achievement of long-term goals.



02

REPORT OF THE BOARD OF DIRECTORS OF "SURGUTNEFTEGAS" PJSC
ON THE COMPANY'S PERFORMANCE AND PROSPECTS FOR DEVELOPMENT
OF BUSINESS PRIORITIES

Production Operations

Resource policy

Oil and gas production

Oil refining and gas processing

Sales of oil products

Power generation





Resource policy

The strategic goal of “Surgutneftegas” PJSC is the formation of a reliable resource base to ensure a sustainable volume of hydrocarbon production. The Company enlarges its mineral resource base through extensive exploration activities aimed at finding new fields and deposits as well as further exploration of the operated fields. Moreover, the Company increases its hydrocarbon potential by acquiring new subsoil blocks.

At the end of 2018, “Surgutneftegas” PJSC had 164 licenses for subsoil use, including 142 licenses for hydrocarbon production and 22 licenses for geological study and hydrocarbon fields prospecting and appraisal. Geographically, the Company’s license blocks are located in eight regions of the Russian Federation in three oil and gas provinces: Western Siberia, Eastern Siberia and Timan-Pechora.

In 2018, “Surgutneftegas” PJSC acquired three licenses for geological study, exploration and appraisal of fields: two in Khanty-Mansiysky Autonomous Okrug – Yugra and one in the Republic of Sakha (Yakutia). Moreover, in the reporting year, “Surgutneftegas” PJSC won an auction for subsoil use title at the Yuzhno-Sanlorsky license block in Khanty-Mansiysky Autonomous Okrug – Yugra.

As a result of the resource base update, the Company terminated three licenses for geological study, prospecting and appraisal of hydrocarbon fields due to inexpediency of further subsoil study.

“Surgutneftegas” PJSC annually performs a significant volume of prospecting and exploratory works at the existing license blocks, which ensures the extensive replacement of

the reserve base. The increased efficiency of the Company’s operations is ensured by use of advanced technologies, the work of experienced and qualified personnel and developments of the Company’s own R&D Institute.

In 2018, the Company performed geological exploration at 65 license blocks. Prospecting and exploratory drilling totaled 211.5 thousand meters, 82 wells were built. The exploration drilling success rate reached 80%.

In the reporting year, the Company performed seismic surveys in four regions, their volume amounted to 875.5 linear kilometers for 2D and 546.1 square kilometers for 3D. In seven wells in Khanty-Mansiysky Autonomous Okrug – Yugra and the Republic of Sakha (Yakutia) the Company performed vertical seismic profiling. In Irkutskaya Oblast electrical surveys were performed in the amount of 508.5 linear kilometers. The volumes of work performed allowed the Company to prepare 62 targets in 12 structures with a total of 12.2 million tonnes of recoverable D0 oil reserves for deep prospecting drilling.

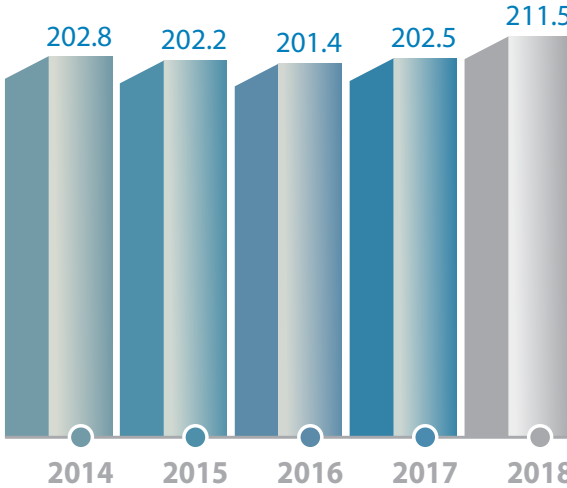
In 2018, in order to increase the oil production from the reserves and to further

explore the underlying beds, 20 production wells were deepened with the amount of drilling being equal to 14.7 thousand meters and the other 20 production wells were deepened by sidetracking with 17 thousand meters drilled.

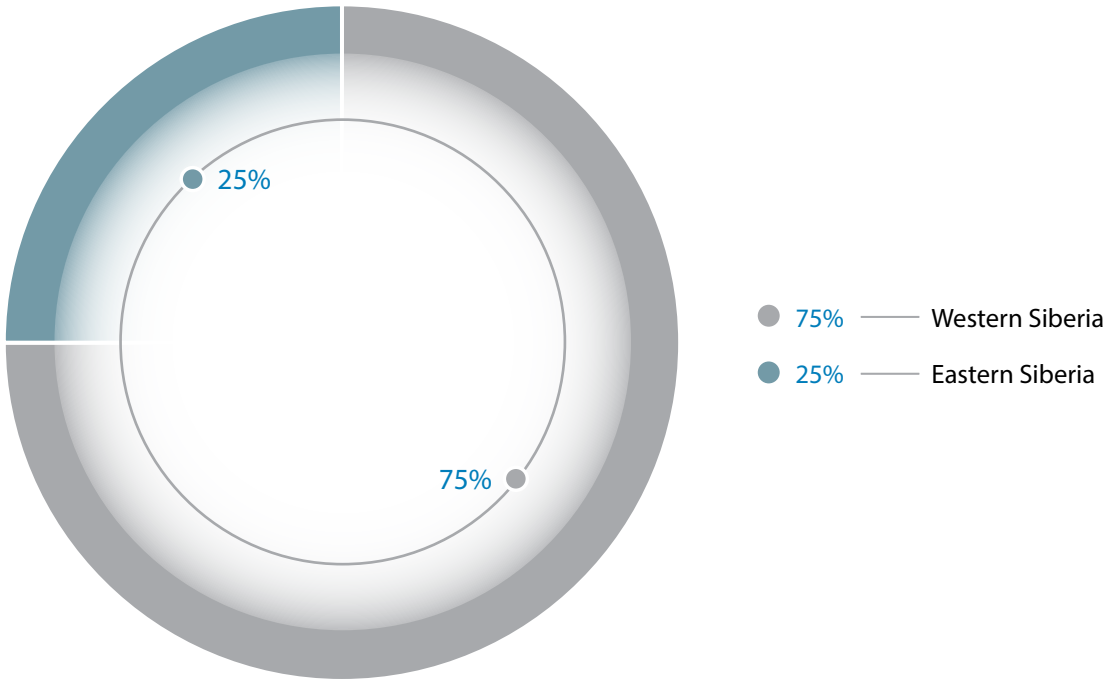
In 2018, the Company’s specialists completed 71 research studies: made oil and gas reserves estimation for 12 fields, drew up projects for prospecting, evaluation and exploration of 31 license blocks. The Company prepared and submitted to the Federal budgetary institution “State Commission on Mineral Reserves” information on the current reserves estimates for 48 fields (140 targets). For 12 oil and gas fields reserves estimation reports were approved.

Through exploration performed in the reporting year, “Surgutneftegas” PJSC registered a discovery of two fields. Twenty six new deposits were discovered and the Federal budgetary institution “State Commission on Mineral Reserves” reviewed the reports on them. Thanks to these discoveries, the additions of the recoverable C1+C2 oil reserves totaled 13.2 million tonnes.

Prospecting and exploratory drilling of the Company ‘000 m



Prospecting and exploratory drilling by region in 2018

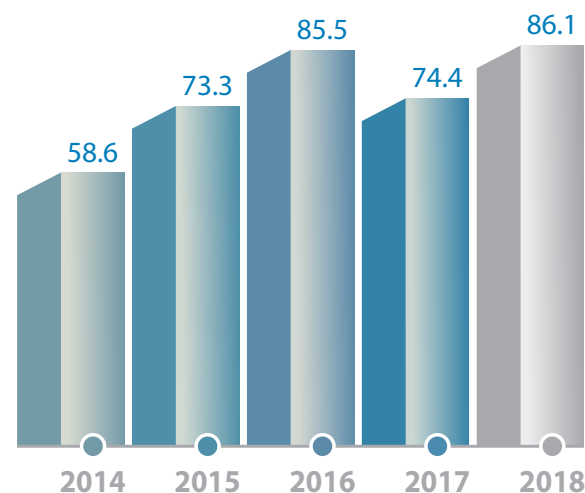


LICENSES OF “SURGUTNEFTEGAS” PJSC BY REGION

Region	Number of licenses
Western Siberia	127
Eastern Siberia	26
Timan-Pechora	11



Additions of recoverable AB1C1 oil reserves (due to exploration) mn tonnes



In the reporting year, due to prospecting and exploration activities performed by the Company, the additions of recoverable AB1C1 oil reserves totaled 86.1 million tonnes and the reserve replacement rate amounted to 141.4%. For a five-year period, the additions of the AB1C1 oil reserves resulted from prospecting and exploration amounted to 377.9 million tonnes replacing the production by 123.4%.

Western Siberia

Western Siberia is a foundation of the resource base for "Surgutneftegas" PJSC. Over 77% of the Company's license blocks are located in Khanty-Mansiysky Autonomous Okrug – Yugra, Yamalo-Nenetsky Autonomous Okrug, the south of Tyumenskaya Oblast and Novosibirskaya Oblast. The enlargement of the region's resource base is ensured by prospecting and exploratory activities, advanced drilling, discovery of new fields and deposits, acquisition of new blocks. In the reporting year, 75% of total exploratory drilling and more than 85% of additions of recoverable AB1C1 oil reserves in the Company accounted for this region due to prospecting and exploratory drilling.

In the territory of Khanty-Mansiysky Autonomous Okrug – Yugra, "Surgutneftegas" PJSC holds 115 licenses, including 70 – for hydrocarbon exploration and production, 34 – for geological study, exploration and production, 11 – for geological study, prospecting and appraisal of hydrocarbon fields. In 2018, the Company obtained two new licenses for geological study, prospecting and appraisal of hydrocarbon fields – the Vostochno-Konitlorsky and Yuzhno-Aykurussky license blocks.

In 2018, the volume of prospecting and exploratory drilling performed by "Surgutneftegas" PJSC in the region amounted to 151.2 thousand meters, a 9.3% increase against the last year. The Company constructed 52 wells, 42 of them proved productive. The success rate reached 81%. The volume of 2D seismic acquisition reached 400 thousand linear kilometers. Four wells underwent vertical seismic profile survey. In order to further explore the underlying beds at the fields under development, 37 production wells were deepened, 20 of which were sidetracked.

In the reporting year, the Company performed oil and dissolved gas reserves

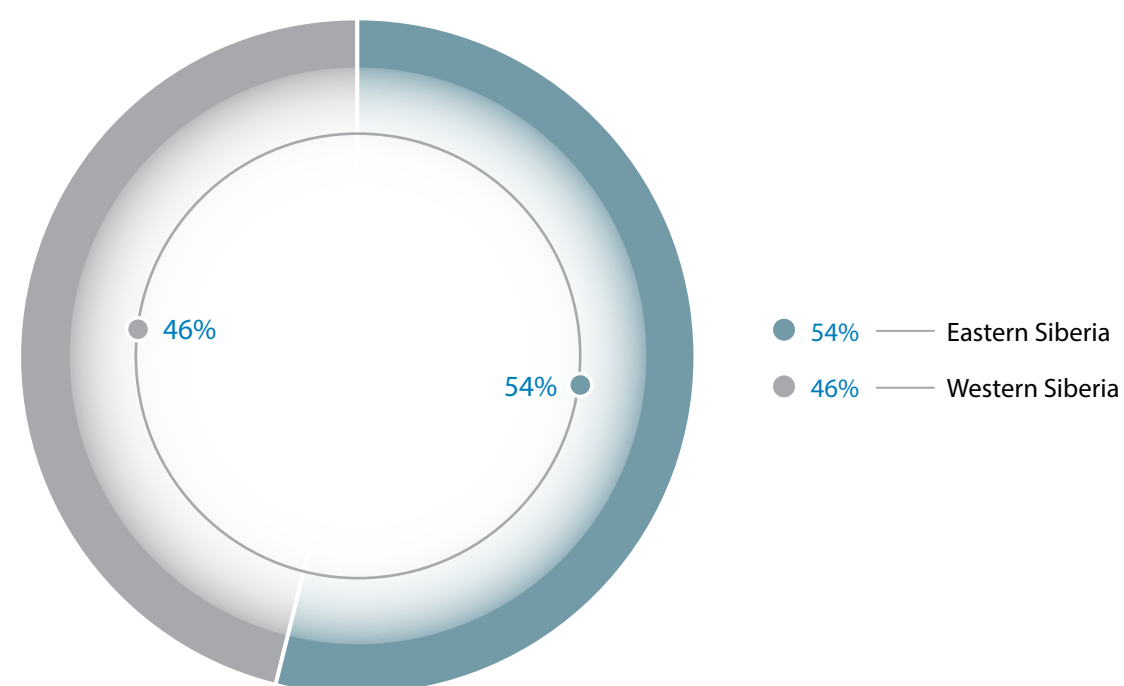
estimation for 10 fields and the Federal budgetary institution "State Commission on Mineral Reserves" reviewed the reports on them. Updated geological models were created and reviewed for 32 fields as well as 21 exploration projects for 19 license blocks were prepared.

As a result of geological exploration a new oil field named after Yu.E.Baturin was discovered as well as 24 new oil deposits at previously discovered fields. Due to these discoveries, the additions of the recoverable C1+C2 oil reserves totaled 12.1 million tonnes.

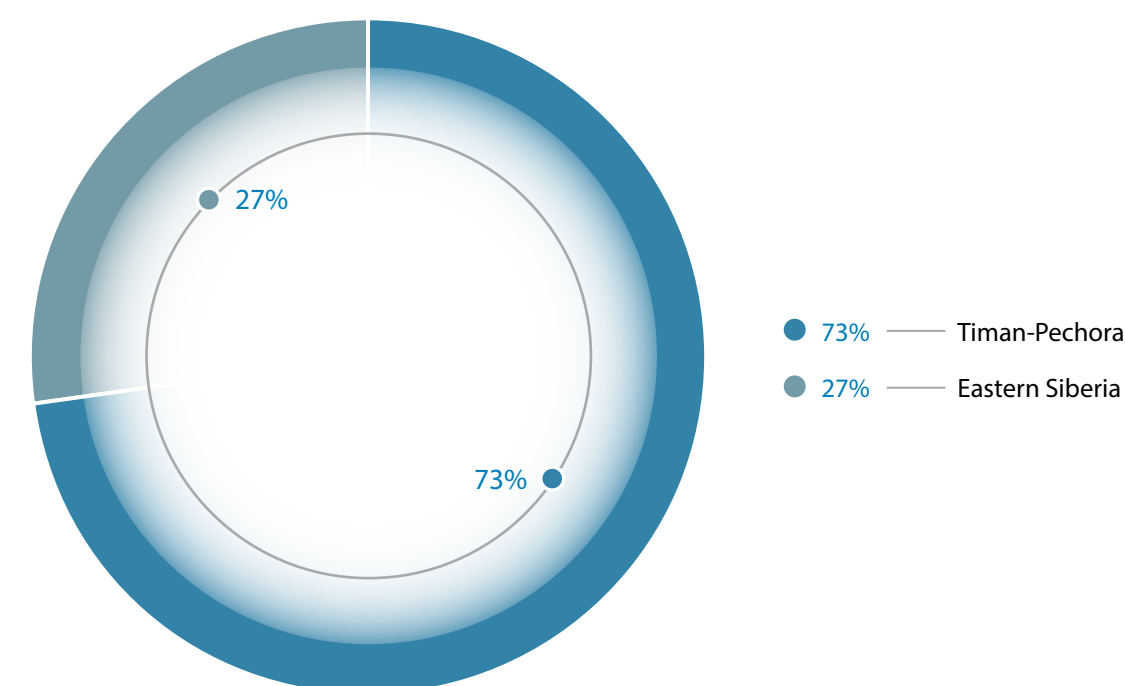
For Khanty-Mansiysky Autonomous Okrug – Yugra, due to prospecting and exploration activities, the additions of the recoverable AB1C1 oil reserves totaled 71.4 million tonnes.

In Yamalo-Nenetsky Autonomous Okrug "Surgutneftegas" PJSC owns eight licenses for subsoil use, including one license – for exploration and production, five licenses – for geological study, exploration and production and two – for geological study, prospecting and appraisal of fields. In the reporting year, the area of operation included one license block: prospecting and exploratory drilling was performed in the amount of 3.4 thousand meters, one well was built.

2D Seismics in 2018



3D Seismics in 2018





"Surgutneftegas" PJSC holds three licenses for geological study, hydrocarbons exploration and production in the south of Tyumenskaya Oblast. In 2018, prospecting and exploratory drilling totaled 1.7 thousand meters, one exploratory well was built. The cumulative addition of recoverable C1 oil reserves amounted to 2.1 million tonnes. Two geological exploration projects were prepared for two license blocks. The Federal budgetary institution "State Commission on Mineral Reserves" reviewed and approved the reserves estimation reports on the Demyanskoye field.

"Surgutneftegas" PJSC holds one license for geological study, exploration and production of hydrocarbons in Novosibirskaya Oblast. In the reporting year, prospecting and exploratory drilling in this region reached 2.9 thousand meters with one exploratory well built.

Eastern Siberia

In Eastern Siberia, the Company holds 26 licenses for blocks located in the Republic of Sakha (Yakutia), Irkutskaya Oblast and Krasnoyarsky Krai. The Company's activity is aimed at development and enlargement of its resource base to provide the growth of oil production in the region.

The major part of the Company's resource base in Eastern Siberia is located in the Republic of Sakha (Yakutia). In this region "Surgutneftegas" PJSC owns 21 licenses for subsoil use, 17 of which with the right to produce mineral resources, four – with the right to perform geological survey aimed at prospecting and appraisal of hydrocarbon fields, including one license for the Tyumyatinsky subsoil block obtained in 2018.

In 2018, the Company performed geological exploration at 13 blocks in this region and, as a result, the additions of the recoverable AB1C1 oil reserves totaled 12.2 million tonnes. The amount of prospecting and exploratory drilling totaled 49.9 thousand meters, 26 wells were built, including 22 producing well, the drilling success rate reached 85%. 3D seismic survey covered 146.1 square kilometers, vertical seismic profiling was performed in three wells. In the reporting year, the Company started drilling at four new structures, three production

wells were deepened in order to further explore the underlying beds. The Company obtained new geological and geophysical data which helped to ascertain the hydrocarbon reserves at three fields, six exploration projects were prepared.

In Krasnoyarsky Krai, "Surgutneftegas" PJSC owns two license blocks. In the reporting year, the Company started preparatory works for prospecting drilling at one of those blocks.

In Irkutskaya Oblast, the Company holds two licenses for geological study, exploration and production of hydrocarbons and one for geological study, prospecting and appraisal of fields. In 2018, geological exploration was performed at two license blocks, an exploration project was prepared for one license block. Prospecting and exploratory drilling totaled 2.5 thousand meters, one well was built. The Company performed 2D seismic surveys covering 475.5 linear kilometers and electrical survey covering 508.5 linear kilometers.

Timan-Pechora

In Timan-Pechora oil and gas province, "Surgutneftegas" PJSC holds 11 licenses for subsoil blocks located in Nenetsky Autonomous Okrug, including eight – with the right to produce hydrocarbons, three – for geological survey, prospecting and appraisal of fields.

In 2018, one project to perform geological exploration was prepared, 3D seismic surveys covering 400 square kilometers at the Severo-Liginsky license block were performed. An oil field with over 1 million tonnes of recoverable C1+C2 oil reserves was discovered at the Kamyshinsky license block.

PLANS AND PROSPECTS

"Surgutneftegas" PJSC expects to continue the replacement of its reserve base by means of prospecting and exploration activities at license blocks and further exploration of the existing fields and participation in auctions for the right to use new promising subsoil blocks.

In 2019, the Company expects to perform prospecting and exploratory drilling amounting to 217 thousand meters, build 77 prospecting and exploratory wells, perform 2D seismic surveys covering 2,298 linear kilometers and 3D seismic surveys covering 120 square kilometers.

Oil and gas production

In the upstream sector, the policy of "Surgutneftegas" PJSC is to ensure target levels of production combined with rational use of the resource base and economic efficiency of operations. The Company actively increases the production potential of new oil production centers and applies modern technologies at mature fields, which enhances oil recovery and allows low margin reserves to be involved in development.

The oil and gas production operations of "Surgutneftegas" PJSC are concentrated in the oil and gas provinces of Western and Eastern Siberia. In 2018, the Company was commercially developing 74 fields. In 2018, oil production reached 60.9 million tonnes and gas production – 9.7 billion cubic meters. Investments in oil and gas production amounted to RUB 203.1 billion, with Western Siberia accounting for 88.2%, Eastern Siberia – 11.6% and Timan-Pechora oil and gas province – 0.2%.

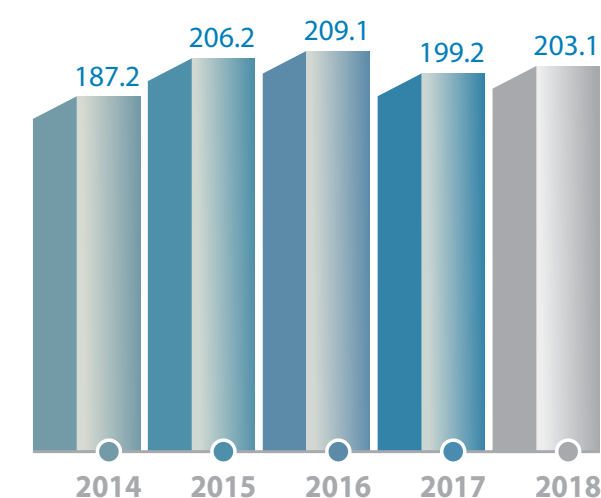
OIL PRODUCTION

In 2018, "Surgutneftegas" PJSC increased oil production by 0.6% against 2017 and produced 60.9 million tonnes. This performance indicator is in the range of medium-term target levels of production. Due to the production potential and the availability of the necessary resources, "Surgutneftegas" PJSC has the ability to ensure an efficient, rational approach to the development of the subsoil and achievement of the target volumes of oil production in the conditions of external constraints caused by the OPEC+ agreement.

The Company brings new fields into development, forms and develops production clusters in new territories; it continuously improves approaches to operate the existing fields, including through the extensive use of enhanced oil recovery methods, targeted work with the well stock and the accumulated experience of its own service divisions.

In the reporting year, the Company was intensively building the infrastructure and preparing for putting new fields on stream, in particular, the Lenskoye oil and gas condensate field which will be added to production assets in Eastern Siberia in 2019. This region has been developing by "Surgutneftegas" PJSC for 15 years,

Company's investment in oil production
RUB bn



and it provides the bulk of oil production growth. Eastern Siberia accounted for 15% of the total oil production of the Company by the end of 2018.

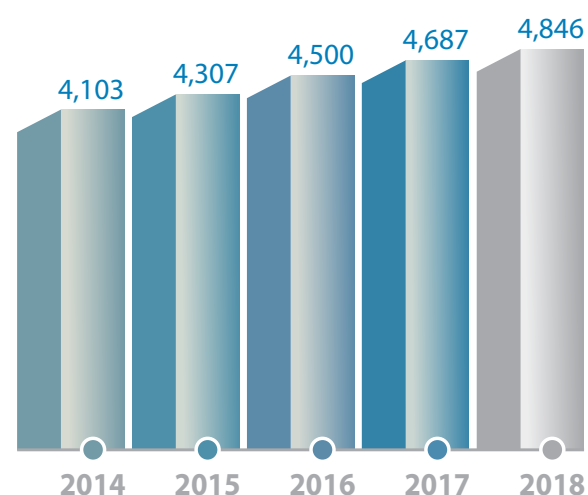
Most fields in Western Siberia, the main region of the Company's operations, are mature, being operated at the late stage of development. In 2018, the Company continued to involve low margin reserves in development and extensively used the enhanced oil recovery methods to maintain the production levels at these fields. Also, during the reporting year, the Company worked on reaching the planned production levels at the oil production centers: the Rogozhnikov and the Uvat fields. In 2018, they yielded over 5 million tonnes, or 8.3% of the total oil produced by the Company. The development of these centers, as well as work at mature fields, allowed the Company to increase oil production in Western Siberia in the reporting year.



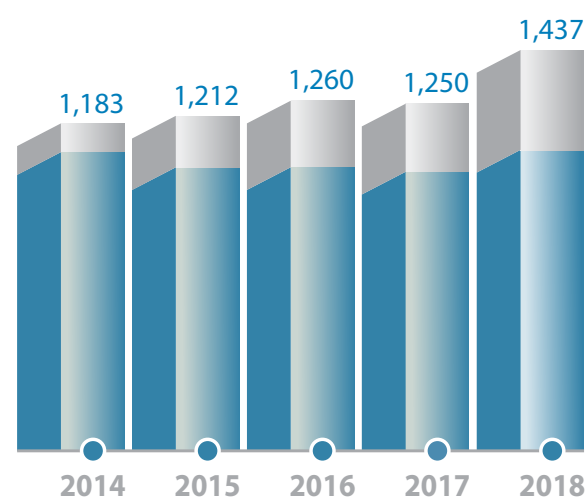
The main bulk of the Company's oil production – more than 64% – comes from 10 key fields: Fedorovskoye, Severo-Labatyuganskoye, Central Block of the Talakanskoye oil and gas condensate field, Lyantorskoye, Vostochno-Surgutskoye, Russkinskoye, Rogozhnikovskoye, Zapadno-Surgutskoye, Bystrinskoye and Severo-Talakanskoye.

At the end of 2018, the increase of more than 100 thousand tonnes of oil production was achieved at eight fields of the Company as compared to 2017, with the maximum growth at the Fedorovskoye, Demyanskoye, Vostochno-Alinskoye, Verkhnekazymskoye and Dunaevskoye fields.

Development drilling
'000 m



New oil wells brought online
wells



■ Deviated
■ Horizontal

In 2018, development drilling of "Surgutneftegas" PJSC totaled 4,846 thousand meters, or 3.4% up compared to 2017. Western Siberia accounted for the main bulk of the Company's drilling – 94.2% – and for the growth in drilling. In the reporting year, the Company brought online 2,164 wells, including 1,437 new oil wells, which is 15% up against 2017.

At the end of the reporting year, there were 24,457 oil production wells in the operating well stock of the Company. The share of idle wells among the production well stock is kept stable at a low level of 7.8%.

The Company makes extensive use of enhanced oil recovery methods at the fields under development, considering the state of field development and the parameters of a specific reservoir, optimizing the operation of the well stock. All operations are performed in accordance with the program targeted at well stock operations and taking into account not only the volume of additional oil production, but also an expected economic benefit. In 2018, "Surgutneftegas" PJSC performed about 10 thousand various well intervention operations which made it possible to produce over 8.5 million tonnes of additional oil.

Western Siberia

In 2018, the Company operated 68 fields in Western Siberia, oil production was 51.8 million tonnes, or 0.3% up against 2017. One of the growth factors was the development of oil production clusters formed in the region – the Rogozhnikov and the Uvat fields.

At the end of the reporting year, two fields were under development among the Uvat fields. During the year, the Company increased its infrastructure potential: a booster pump station with an initial water separation unit was commissioned at the Demyanskoye field, and a site for the industrial waste decontamination was built at the Yuzhno-Nyuryskoye field. In the reporting year, development drilling at the Uvat fields grew by 23% to 229.6 thousand meters, with 63 new oil wells brought online, 58 of which are horizontal. At the end of the year, there were 142 oil production wells in the operating well stock. In 2018, oil production was 935 thousand tonnes.

"Surgutneftegas" PJSC was developing five fields among the Rogozhnikov fields. The Company achieved a target oil production level for the fields, which is about 4 million tonnes per year, and expects to maintain this volume. In 2018, oil production was 4.1 million tonnes,

development drilling amounted to 253.1 thousand meters, and there were 1,102 oil production wells at the end of the year.

Along with work at developed oil production clusters, the Company consistently adheres to a strategy aimed at intensifying oil production at mature fields through the use of a wide range of enhanced oil recovery methods and the implementation of a large-scale drilling program.

In 2018, the Company invested about RUB 179.1 billion in the region, most of which was spent on drilling. Development drilling, against the previous year, increased by 3.3% to 4,563 thousand meters, with 1,319 new oil wells brought online. Most drilling was performed at the Fedorovskoye, Severo-Labatyuganskoye and Savuyskoye fields.

At the end of 2018, the total number of the oil production wells of "Surgutneftegas" PJSC in Western Siberia was 23,538. The share of idle wells reached 7.8%, which is the lowest indicator over the last five years. The operating rate for the oil wells was 0.970, the utilization rate – 0.918.

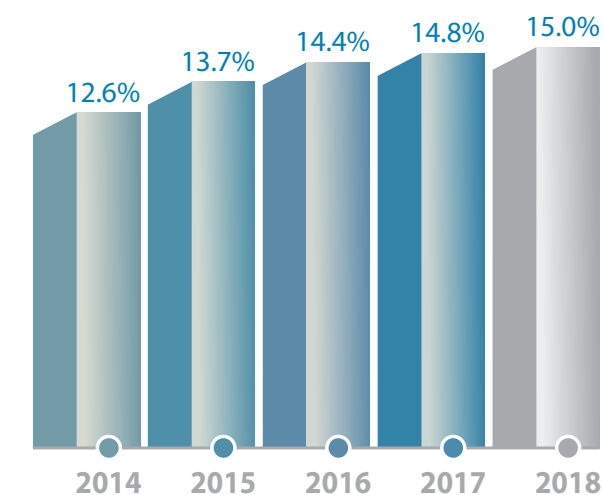
Eastern Siberia

In Eastern Siberia, "Surgutneftegas" PJSC operates six fields. The Company is intensively developing deposits in the region, considering it a priority for increasing oil production. Over the 15-year period of its presence in the region, the Company has created the potential for production growth and formed an independently functioning oil cluster.

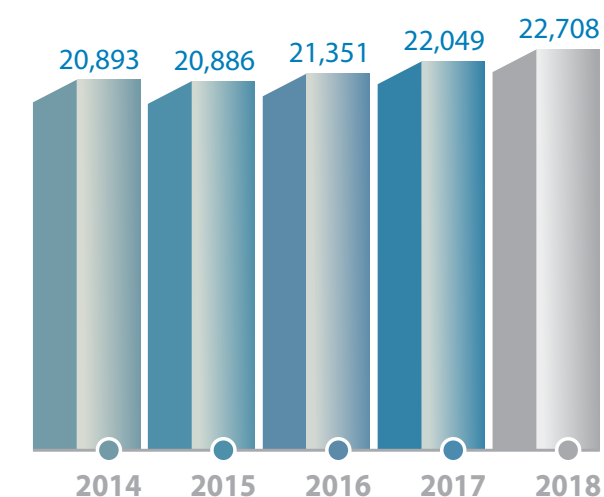
In 2018, the oil production of "Surgutneftegas" PJSC in Eastern Siberia totaled 9.1 million tonnes, or 1.8% up compared to 2017. Over 15 years, cumulative oil production of the Company in the region has amounted to 68.95 million tonnes.

In 2018, development drilling of the Company in the region grew by 4.5% to 283 thousand meters, with 118 new oil wells brought online, 32 of which

The share of Eastern Siberia in the Company's total oil production



Average producing well stock
wells



are horizontal. At the end of the year, the operating well stock of the Company grew up to 919 wells. The Company's investment in the fields of Eastern Siberia amounted to RUB 23.6 billion in the reporting year.

DEVELOPMENT OF THE COMPANY IN EASTERN SIBERIA

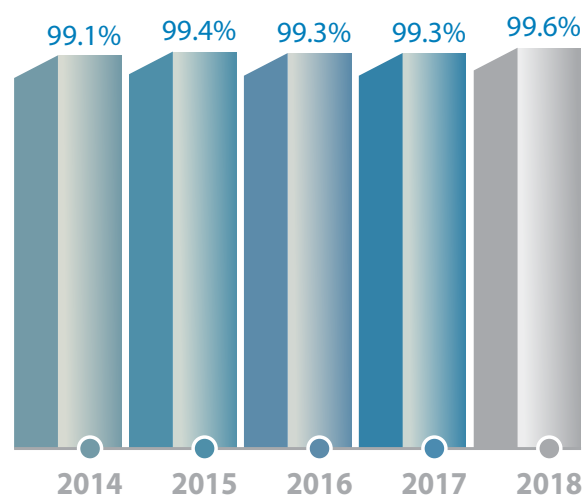
Field	Put on stream, year
Central Block of the Talakanskoye oil and gas condensate field	2004
Alinskoye	2009
Severo-Talakanskoye	2011
Vostochno-Alinskoye	2012
Eastern Block of the Talakanskoye oil and gas condensate field	2013
Yuzhno-Talakanskoye	2016



GAS PRODUCTION

In 2018, "Surgutneftegas" PJSC produced 9.6 billion cubic meters of associated petroleum gas (APG) and 0.1 billion cubic meters of natural gas. Following the principle of rational use of the resources, the Company continuously improves and develops the existing infrastructure for gas gathering and utilization. The level of APG utilization in "Surgutneftegas" PJSC has been one of

Gas utilization by the Company



the highest in the industry over the last few years, and amounted to 99.56% in the reporting year.

In 2018, the Company performed maintenance of 29 compressor stations, one gas compression and treatment unit, one gas treatment unit and 22 operating gas turbine power plants. The following gas pipelines were built and commissioned: a 40.9 km field gas pipeline from the low pressure separation compressor station at the Yuzhno-Vatlorskoye field to the gas turbine power plant at the Tromyeganskoye field and a 20 km field gas pipeline at the Uvat fields – from the booster pump station at the Demyanskoye field to the gas turbine power plant at the Yuzhno-Nyurymyskoye field. The construction of a 21.4 km field gas pipeline from the booster pump station at the Logachev field has been accomplished. A low pressure separation compressor station at the Yuzhno-Vatlorskoye field has been built and commissioned. Technical reequipping of the 16 MW gas turbine power plant has been accomplished at the Talakanskoye field.

The environmentally friendly engineering solutions for the utilization of associated petroleum gas in the Company allow us to systematically reduce emissions into the atmosphere, develop electrical energy generation, thereby successfully implement

the energy saving program and increase production efficiency as a whole. The associated petroleum gas has been mainly utilized for the following purposes: treatment at the Company's gas processing plant, supplies to outside consumers, the Company's own consumption, including consumption by power generating facilities.

"Surgutneftegas" PJSC processes the main bulk of the produced gas at its gas processing plant to produce dry stripped gas that is supplied to consumers in the domestic market, natural gas liquids (NGL), propane butane mix and propane. Output options and the range of finished products vary depending on the needs of the market. Overall sales of the Company's gas to the domestic market account for 60% of production, including supplies from the field facilities.

Utilization of the produced gas is specified in the production process layouts: for the Company's needs at the booster pump stations with initial water separation units (IWSU), oil treatment units, for electrical energy generation, transport heating and operation of oil sludge recycle landfills. More than 21% of the produced gas is utilized by the Company's gas turbine power plants and gas reciprocating engine power plants to generate electrical energy, and about 17% is consumed as fuel and process feedstock.

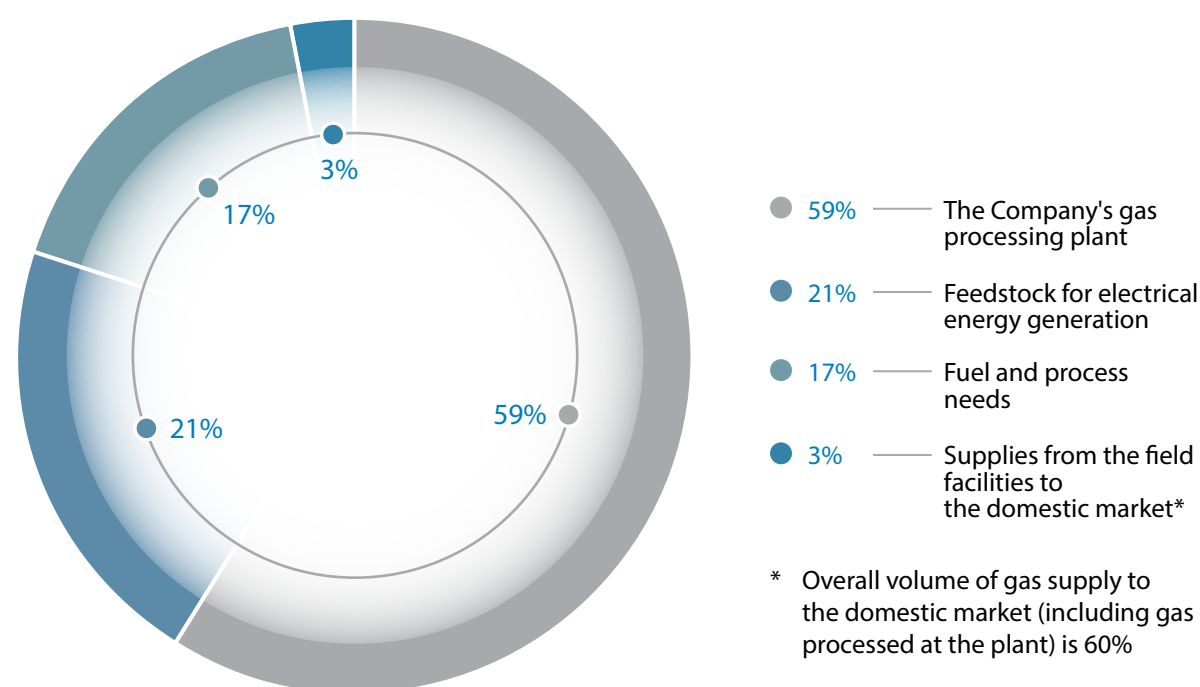
COST REDUCTION PROGRAM

"Surgutneftegas" PJSC pays great attention to production efficiency and cost reduction. The Company implements its programs of import substitution, reuse of materials and equipment, energy saving, continuously improves technological processes, introduces new machinery and equipment, increases the efficiency of operating fixed assets.

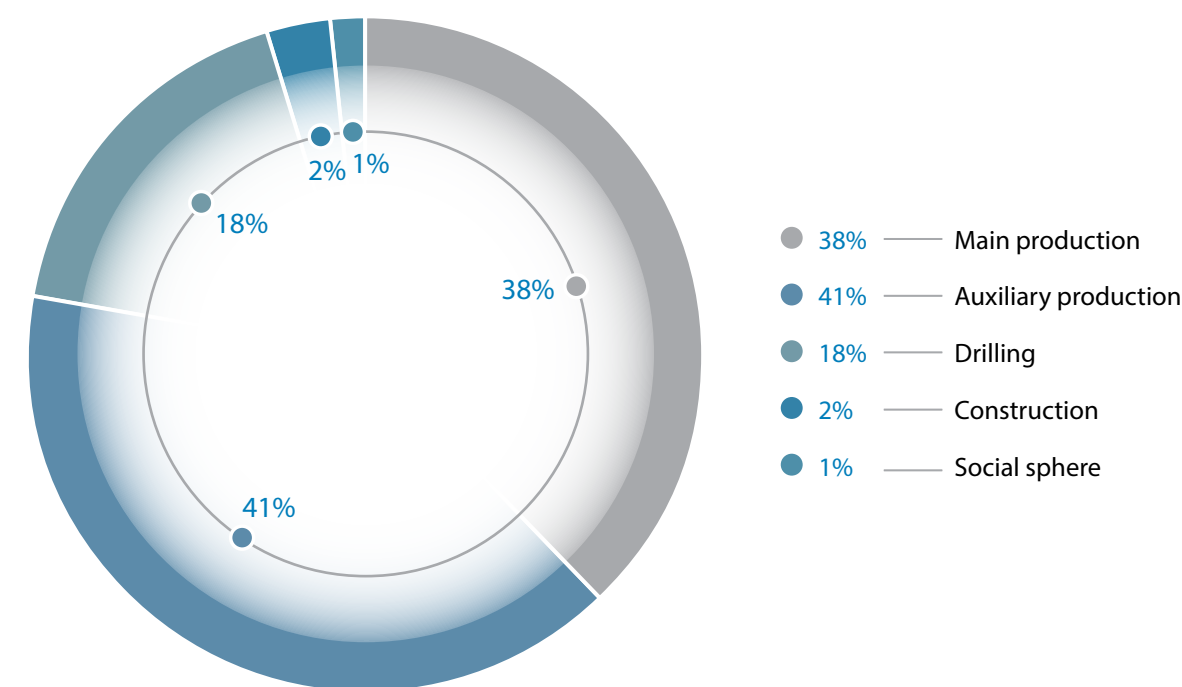
In 2018, the amount of an overall economic benefit from the cost reduction program was nearly RUB 5 billion, or more than RUB 81 per tonne of the produced oil. In the reporting year, the main bulk of the Company's cost savings occurred in auxiliary production and amounted to 41%, and in main production – 38%. Cost reduction share in drilling was 18%, in construction – 2%, and savings in the social sphere were 1%. Due to the import substitution program, an overall economic benefit from the implementation of the cost reduction program compared to 2017 increased in main production and construction.

In the reporting year, an economic benefit from the Company's program on energy saving and enhancement of energy efficiency of the facilities and equipment of "Surgutneftegas" PJSC exceeded RUB 1.83 billion. The main areas of the program were

Applications of gas in 2018



Benefit pattern of cost reduction program in 2018



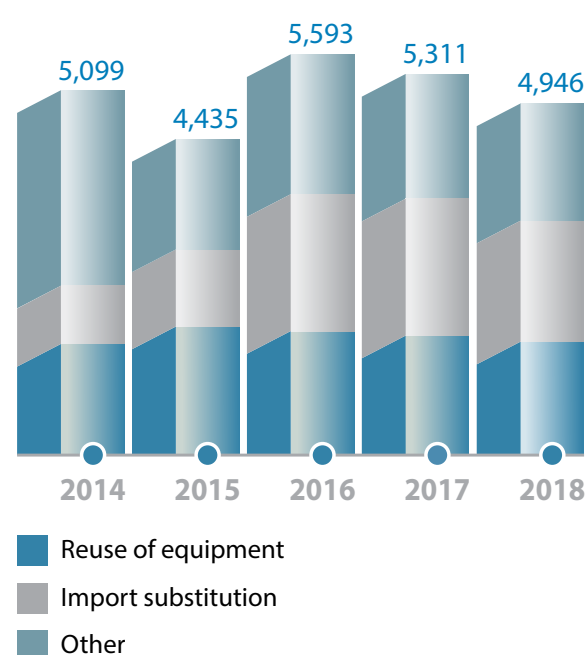


the introduction of energy saving technologies and new energy efficient equipment, measures to optimize the operation of electrical and heat equipment and to regulate power consumption.

In 2018, reuse of equipment and materials in “Surgutneftegas” PJSC yielded an economic benefit of RUB 1.61 billion. Owing to its production and repair facilities, the Company performs timely and high-quality repair of machinery and equipment using its own resources, introduces new types of equipment and technologies, which allows us to reduce the consumption of materials and time when performing certain types of work.

The Company has an import substitution program that involves interaction with domestic manufacturers of machinery, equipment and software. Such cooperation gives additional incentives for the development of the scientific and technical spheres of the Russian economy where investment is attracted, and it allows the Company to achieve a significant economic benefit. In 2018, “Surgutneftegas” PJSC substituted imported parts and equipment with 823 Russian-made items with a resulting economic benefit of over RUB 1.72 billion.

Total economic benefit from the comprehensive cost reduction program
RUB mn



The in-house service divisions play a very important role for the Company and ensure high efficiency when introducing advanced technologies at all stages of the production process, reduce the risks of oil and gas production and allow the Company to closely control costs.

PLANS AND PROSPECTS

In the coming years, “Surgutneftegas” PJSC is planning to keep the volumes of oil production at the level of 60-62 million tonnes per year depending on the hydrocarbon market trends and provisions of agreements of the oil producing countries on the volume of oil production. In 2019, the Company’s efforts will focus on improving the efficiency of the existing fields and bringing into development new ones.

In 2019, development drilling will amount to 4.8 million meters, with 1,210 new oil wells to be brought online, well intervention services aimed at enhancing well productivity are scheduled.

Plans of “Surgutneftegas” PJSC for 2019 include putting on stream two new fields – the Lenskoye field in Eastern Siberia and the Vostochno-Rogozhnikovskoye field in Western Siberia. Oil production at the Lenskoye field is expected to reach 1.5-2 million tonnes annually in 3-4 years.

Besides, the Company plans to develop oil production in the south of Tyumenskaya Oblast and Khanty-Mansiysky Autonomous Okrug – Yugra. At a relatively short distance from the Uvat fields, the Company will begin to develop the deposits of the Yugansk fields. Based on the Uvat and Yugansk fields, the Southern cluster of oil production will appear where three new fields are expected to be put on stream in the next 3-4 years.

In the gas sector, “Surgutneftegas” PJSC will keep developing the system for gathering, transportation and utilization of associated petroleum gas at the existing fields and construct new facilities at the new ones. The plans for 2019 include building infrastructure for utilization of APG from the Uvat fields, namely, construction of a low pressure separation compressor station for the Yuzhno-Nyurymyskoye field. A field gas pipeline, 74.5 km long, from the compressor station 1 of the Lyantorskoye field to the gas treatment unit of the Zapadno-Surgutskoye field, and a gas processing unit at the Lukyavinskoye field will also be built.

Oil refining and gas processing

The priorities of “Surgutneftegas” PJSC in the sector of oil refining and gas processing include making environmentally friendly products with high performance characteristics and increasing operational efficiency of processing enterprises. The Company systematically implements projects to introduce new processes and upgrade existing production, which allows us to improve the product slate and achieve the most efficient use of hydrocarbons.

The refining and processing sector of “Surgutneftegas” PJSC includes refinery LLC “KINEF” with a refining capacity of 20.1 million tonnes of oil per year located in Leningradskaya Oblast and a gas processing complex with a capacity of 7.3 billion cubic meters per year located in Khanty-Mansiysky Autonomous Okrug – Yugra. The Company provides optimal levels of loading of its own processing and refining facilities based on market needs and economic conditions.

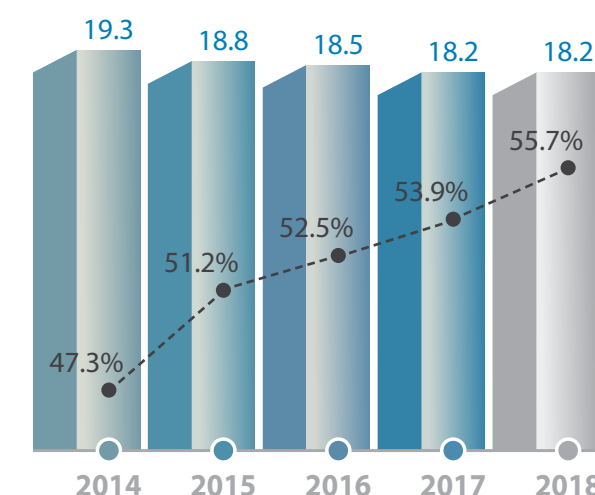
OIL REFINING

LLC “KINEF” is one of the largest refineries in Russia in terms of hydrocarbon processing. The range of oil products produced by the refinery includes motor gasoline, diesel fuel, jet kero, mazut, petrochemical products, bitumen for road construction and other products. The quality management system at LLC “KINEF” covers all stages of the production process from the moment crude feedstock comes to the refinery to the moment finished products are sold.

The high quality of commercial products of LLC “KINEF” has been repeatedly noted in various competitions and ratings. In 2018, LLC “KINEF” became the winner of the All-Russia contest of the program “100 best products of Russia” in category “Industrial and technical products – 2018”, and the Arctic diesel fuel (DT-A-K5) entered the first hundred of the best Russian products in 2018 and was awarded the honorary diploma “GOLDEN HUNDRED”.

In 2018, the volume of hydrocarbon processing and production of oil products at the refinery remained at the level of 2017. The volume of processing amounted to 18.2 million tonnes of hydrocarbons, with 17.6 million tonnes of oil products yielded,

LLC «KINEF» crude processing volumes and yield of light oil products
mn tonnes





including: 2.5 million tonnes of motor gasolines, 7 million tonnes of diesel fuel, 0.6 million tonnes of jet kero, 6.3 million tonnes of mazut and 1.2 million tonnes of other oil products. The percentage of light oil products yielded in the reporting year grew by 1.8% and reached 55.7%. The improvement in the oil product slate, in particular, the lower share of mazut in favor of the higher share of diesel fuel, has been achieved by optimizing technological processes and increasing the load on the installations of the deep conversion plant.

Implementation of projects aimed at improving the efficiency of feedstock processing and improving the industrial and environmental safety of the refinery continued at LLC “KINEF”.

In 2018, the high-octane gasoline plant LK-2B for the production of high-octane gasoline components at the refinery was commissioned and put to a processing mode. The main production processes of the LK-2B plant include separation of a wide gasoline fraction, hydrotreating of light and heavy naphtha, isomerization and reforming with continuous catalyst regeneration. The plant with a design capacity of 2.3 million tonnes per year is intended for the processing of straight-run gasoline fractions and gasolines of secondary origin into high-octane components of commercial motor gasolines. The commencement of the plant operation allowed the Company to significantly improve the slate of gasolines it produces: the plant

switched to the production of only high-octane gasolines compliant with environmental Class 5. In addition, the operation of the LK-2B plant allowed LLC “KINEF” to significantly cut costs by reducing the use of methyl tertiary butyl ether (MTBE) in the production of high-octane fuels.

In parallel with the construction of new facilities, the refinery is constantly striving to maintain and develop existing production, optimize the functioning of the units. In the reporting period, LLC “KINEF” performed maintenance at 16 facilities, including crude oil distillation units, catalytic reforming units, benzene reforming units, hydrotreating and hydrodewaxing units, paraffin production unit.

In 2018, the LAB-LABS unit (synthetic detergents manufacture) produced 13.9 thousand tonnes of LAB and 56.2 thousand tonnes of ABSA. The products of the unit have high environmental characteristics and are in demand as raw materials among manufacturers of synthetic detergents.

GAS PROCESSING

The gas processing plant is the main link in the system of associated petroleum gas utilization of “Surgutneftegas” PJSC. Every year, the plant processes about 60% of the APG coming from the Company’s fields. The gas processing complex consists of three gas processing and compression units, tank farms with loading ramps, a gas-filling station, a module for producing nitrogen and other facilities. The main volume of finished products produced at the plant includes dry stripped gas and liquid hydrocarbons.

In 2018, the Company’s gas processing plant handled 6 billion cubic meters of gas and produced 5.7 billion cubic meters of dry stripped gas and 561 thousand tonnes of liquid hydrocarbons. The gas processing product slate is determined by the market condition for the products. In the reporting year, the main bulk of the production of liquid hydrocarbons was represented by natural gas liquids (NGL) (72%) and propane butane mix (25%). The plant also produced propane and stable casing-head gasoline. Liquid hydrocarbons produced at the gas processing plant are widely used in the manufacture of petrochemical products, and also as fuel for domestic consumption and for industrial purposes.

“Surgutneftegas” PJSC annually invests in the development of the gas processing plant,

upgrades existing equipment and introduces advanced technologies for the control and management of technological processes at the Company’s production facilities. In the reporting period, the Company carried out technical reequipment of gas compression and processing unit No. 1, replaced electrical equipment and took some other measures.

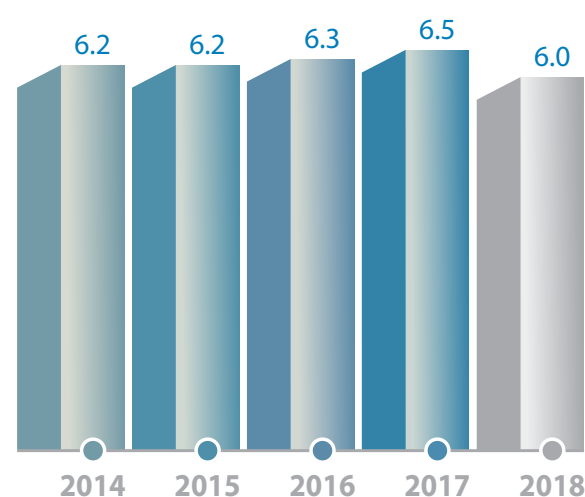
PLANS AND PROSPECTS

In 2019, LLC “KINEF” is planning to refine 18.2 million tonnes of oil. The refinery will continue to implement measures to optimize technological processes, improve operating efficiency and increase the production of light

oil products. In order to uphold high operational reliability and renew the existing production facilities, maintenance is scheduled for crude oil distillation units, paraffin production units, ortoxtylene and paraxylene production units, deep conversion plant units and other facilities. In 2019, the construction (stages 2 and 3) and commissioning of a gasoline and diesel fuel pumphouse will be completed.

The gas processing plant is scheduled to process 5.8 billion cubic meters of gas, to produce 5.4 billion cubic meters of stripped gas, 598.6 thousand tonnes of liquid hydrocarbons in 2019. Capital investments will be directed to update the monitoring and control systems of the plant technological processes.

Gas processing
bcm





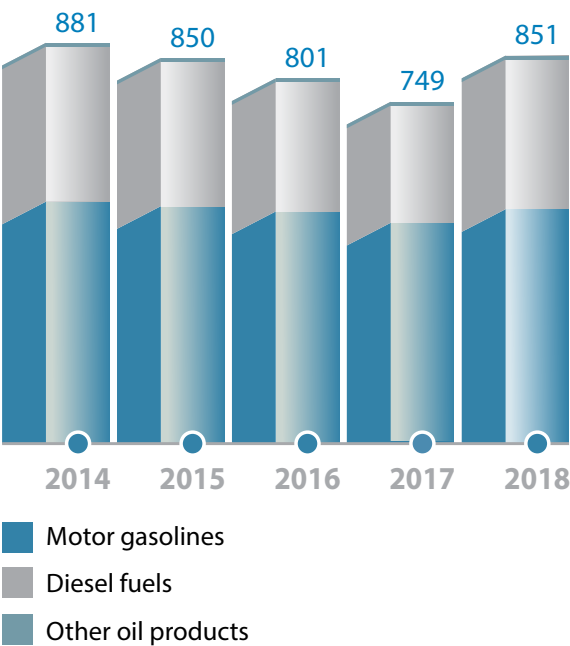
Sales of oil products

Priorities of “Surgutneftegas” PJSC in the sector of sales of oil products include providing the customers with the types of fuel in demand and a range of high-quality services. The Company develops a network of gas stations, actively expanding related service, optimizes logistic flows and production assets.

The marketing subsidiaries of the Company operating in the North-West of Russia carry out wholesale and retail sales of motor fuels. The sales network includes modern gas stations, some of which offer a wide range of related products and services. In order to improve the operational efficiency indicators, the marketing subsidiaries take measures to reduce costs, improve the mechanisms for the supply of goods and wholesales, apply modern technology to improve the convenience and quality of customer service.

In 2018, the marketing subsidiaries of the Company sold more than 1.2 million tonnes of oil products, with 851 thousand tonnes through retail channels. At the end of the reporting year, the Company’s marketing network included

Retail turnover of the Company’s marketing subsidiaries
‘000 tonnes



292 active gas stations and 11 oil storage depots. The average daily fuel sales at one gas station grew by 13.8% and equaled 7.98 t/day. The growth in sales was due to an increase in sales volumes of diesel fuel (+27.7%) and measures taken to optimize and improve the efficiency of gas stations.

In order to strengthen the position of the Company’s sales sector in the oil products market, a pilot project was implemented to rebrand the gas stations according to the new corporate style of “Surgutneftegas” PJSC. In addition, an integrated automated process control system for gas stations is being introduced; for customers’ convenience of, gas stations are equipped with self-service terminals. As part of the customer-oriented policy, the introduction of charging stations for electric vehicles was launched in 2018. The amount of capital investments in construction and reconstruction of the gas stations in the reporting period equaled RUB 625.7 million.

In recent years, the Company has been actively developing sales of related products and services at the gas stations. The revenue growth from non-fuel business has equaled 38% over the five-year period. In the reporting year, revenue from related goods and services sales at the gas stations increased by 2% and reached RUB 2.6 billion. There were 273 shops and 213 catering points, as well as car washes, parking lots and recreation areas functioning at the gas stations. The gas stations of the marketing network provide customers with catering and recreation services, the possibility of acquiring the necessary goods. The line of fast food and coffee sales is actively developing, including the expansion of self-service coffee machines. The Company regularly conducts marketing campaigns to stimulate fuel sales, offers various products with the brand name of marketing subsidiaries, monitors the timely rotation of seasonal products and goods. To reduce the cost

of purchasing related products in the reporting period, the Company continued work on optimizing supply chains, including entering into contracts directly with manufacturers and official distributors.

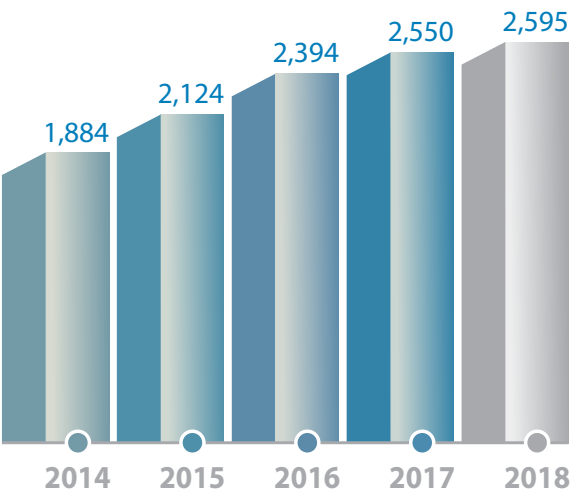
The existing loyalty programs represent one of the ways to increase sales, retain permanent customers and attract new ones. Program members receive privileges in the form of discounts, special terms of service, the possibility of participating in various promotions. In the reporting year, a personal approach aimed at encouraging the purchase of related products and services was carried out with program members. According to the results of 2018, the Company’s marketing subsidiaries saw a significant increase in numbers of active members of their loyalty programs.

“Surgutneftegas” PJSC maintains a reputation as a supplier of oil products with high-quality characteristics. The marketing subsidiaries include modern accredited laboratories for assessing the quality of oil products. The equipment upgrade is regularly performed in laboratories, filtration systems, the tank farm and other facilities of the production infrastructure of the marketing network. The high quality of oil products is also ensured by the fuel supply scheme for the marketing subsidiaries: the main supplier of products is the Company’s refinery.

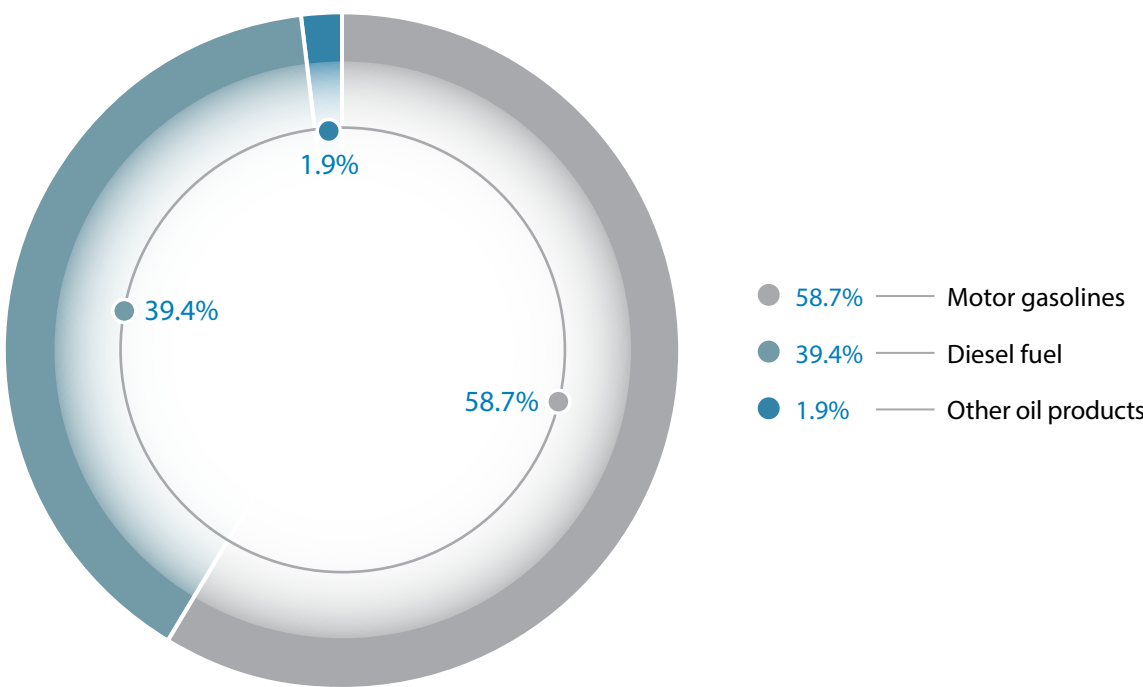
PLANS AND PROSPECTS

In 2019, “Surgutneftegas” PJSC intends to continue work on improving the efficiency of the marketing network. The Company plans to implement projects to improve the quality of service, develop sales channels for related products and services, further promote loyalty programs among existing and potential customers of the marketing network.

Revenues from the sales of related products and services at gas stations
RUB mn



Turnover of the Company’s marketing subsidiaries in 2018





Power generation

“Surgutneftegas” PJSC follows the policy of rational use of energy resources at all stages of the production operations. Taking into account energy intensity of technological processes, the Company pays much attention to energy consumption management and systematic work to improve energy efficiency, which makes it possible to reduce energy expenditures.

In the upstream sector, the Company boasts a powerful energy complex which involves generation and transmission of electrical and thermal energy. Development of the Company’s in-house power generating facilities improves the efficiency of its operations, mitigates the environmental impact and provides reliable electrical energy generation and cost reduction.

At the end of 2018, the Company’s power generating facilities included 23 gas turbine power plants and seven gas reciprocating engine power plants with the installed capacity of 789.6 MW. In the reporting year, the total electrical energy generation (supply) increased by 1% to 5,774.6 million kWh which satisfied 48.9% of the upstream demand of “Surgutneftegas” PJSC.

Gas turbine power plants and gas reciprocating engine power plants allow the Company to take a comprehensive approach towards energy supply of production facilities and utilization of associated petroleum gas. Operation of such gas turbine power plants is most effective in the development of new regions and fields that are remote from the well-developed infrastructure. Power generating facilities commissioned in Eastern Siberia in 2008 allowed “Surgutneftegas” PJSC to start commercial development of the fields within a short period of time and still remain the only source of electrical energy to all Company’s production facilities in the region.

The Company’s thermal energy facilities are equipped with 440 boilers with the installed capacity of 1,457.7 Gcal/hour which provide over 90% of the Company’s demand for this resource. In 2018, in-house thermal energy generation accounted for 1,603.7 thousand Gcal. The Company continuously improves the equipment and the processes of thermal energy generation. In the reporting year, the Company commissioned three stationary automated boilers and overhauled 10 boilers.

“Surgutneftegas” PJSC annually develops and implements the program for energy saving and energy efficiency. The program includes introduction of energy saving technologies and new energy efficient equipment as well as organizational and technical measures to reduce energy consumption. In the reporting year, the Company increased load on power units at gas turbine power stations, improved operation modes of the equipment at the production facilities, introduced energy efficient and energy saving equipment, which allowed the Company to save 812 million kWh of electrical energy and 17.4 thousand Gcal of thermal energy.

Special attention is paid to raise employees’ awareness of rational use of energy resources. To this end, the Company regularly informs its employees of techniques and methods of energy saving. These activities result in a gradual reduction in energy consumption – over a five-year period, the amount of energy consumption by the Company decreased by 2.8% while oil production remained at the same level.

The Company’s activities in the sphere of energy efficiency and energy saving once again were recognized at the regional contest ENES-2018. “Surgutneftegas” PJSC won the contest in the nominations “The best implemented comprehensive program in

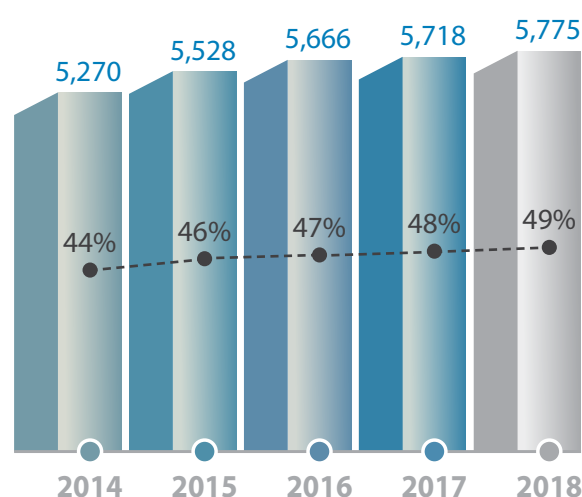
the fuel and energy complex to promote energy saving and energy efficiency” and “Effective management system in the sphere of energy saving and energy efficiency at the enterprises of fuel and energy complex”.

PLANS AND PROSPECTS

The Company plans to further develop and improve the energy complex and search for new solutions in the sphere of energy saving and energy efficiency.

In 2019, it is planned that in-house electrical energy generation will reach 5,826.1 million kWh and thermal energy production will account for 1,682.4 thousand Gcal.

Electrical energy generated in-house and its share of total demand mn kWh



03

Research and technology

R&D profile

Innovations

Information technologies





R&D profile

Constant enhancement of the scientific and technical potential of the Company together with its production capacity serve as the basis for efficient and sustainable operation of "Surgutneftegas" PJSC. Among the Company's priorities are innovative development of production, rational consumption of energy resources and strengthening of the research and technology base represented by two scientific and project centers: Surgut R&D and Project Design Institute "SurgutNIPIneft" with a branch in Tyumen and Oil Refining and Petrochemical Facilities Design Institute "Lengiproneftekhim" (Saint Petersburg).

Over many years, "SurgutNIPIneft" has been carrying out necessary researches and developing geological models and feasibility studies of the Company's fields development. At present, the efforts of the specialists of the Institute are aimed at finding new technologies and systems for development of proved and undeveloped reserves which are characterized by complex geology. In 2018, Institute "SurgutNIPIneft" carried out 111 projects for "Surgutneftegas" PJSC, including eight projects on a laboratory based core and formation fluids analysis, 31 projects – on geology, 49 projects – on field development, 14 projects – on oil recovery enhancement and nine projects on construction of oil and gas wells. In the reporting year, in the sphere of well construction the Company carried out 1,886 studies of changes in the petrophysical properties of reservoir rocks when interacting with process liquids, developed four modifications of drilling fluids for high-quality tapping of reservoirs as well as developed and

implemented technologies for controlling the loss of circulation of varying intensity during drilling in Eastern Siberia. In 2018, the Company performed monitoring of geological and hydrodynamic models at 28 fields in terms of enhanced oil recovery and made geological and hydrodynamic models for six fields.

LLC "Lengiproneftekhim" focuses on development of design estimate documentation for new construction, reconstruction and technical reequipment of units, oil and gas condensate processing complexes and plants as well as scientific research in oil refining. The enterprise actively cooperates with a number of the Russian refineries. In the reporting year, it accomplished works under 70 contractor agreements for design, services and designer supervision.

The Institute carries out works for LLC "KINEF" to improve processing units modes, predict catalyst performance, optimize the oil products yield as well as improve the quality and extend the range of products. In the reporting year, LLC "Lengiproneftekhim" performed activities for LLC "KINEF" to prepare the main part of engineering documents for technical reequipment of the deep conversion plant facilities and to develop engineering documents for the III–V stages of technical reequipment of crude oil tank farms. LLC "Lengiproneftekhim" fully completed development of engineering documents and designer supervision of technical reequipment with partial replacement of equipment of the hydrodewaxing unit processing a mixture of atmospheric gasoil and visbreaker gasoline.

Innovations

An innovative approach to every area of its operations helps "Surgutneftegas" PJSC reach high production results. Implementation of innovative technologies is focused on better energy efficiency and resource saving and creates conditions for accelerated development in allied areas of production.

In the reporting year, 280 measures were taken by the Company to adopt new technological processes, new types of production and equipment with a total economic benefit of RUB 11 billion. The Company conducted 176 tests of new equipment and technologies, including tests of 93 models of new equipment which were completed with positive results.

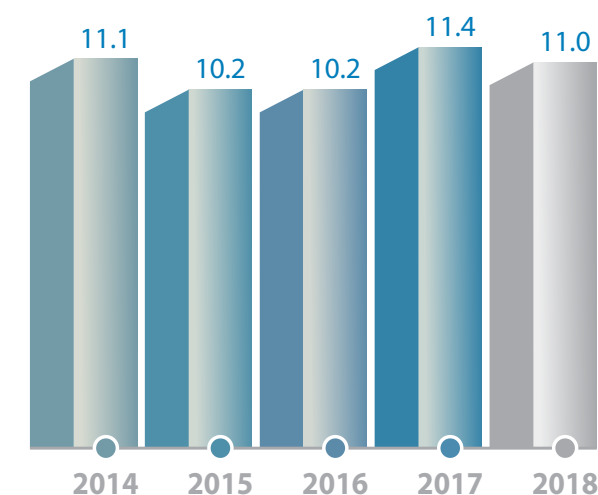
In the drilling sector, in 2018, the Company performed works to select new types of motors with improved energy and resource characteristics. In order to reduce costs, new technologies of horizontal drilling were tested, geophysical studies were carried out using telemetry systems and the laser hardening technology was introduced to repair drilling tools.

In 2018, in the power generation sector, the Company introduced energy efficient automated non-circulation boiler working without the constant presence of operating personnel. Flexible preinsulated pipes made of cross-linked polyethylene were used in construction of underground heat networks.

In the reporting year, in the sphere of ecology, specialists of "Surgutneftegas" PJSC developed an innovative method of examination of wastewater using an ion chromatograph which will reduce the labor cost of measuring almost eight times and eliminate the use of specific chemical reagents. As a result, the use of the new technology and equipment will significantly reduce the financial cost of researches.

In the reporting year, the Company's refinery tested new jet fuel samples and made a technical conclusion on the possibility of its use. The Company's marketing subsidiaries carried out work to modernize and increase reliability of telecommunications data transmission channels, modernize self-service terminal equipment at the gas stations and install modern video control systems.

Economic benefit from new technological processes, new types of production and equipment
RUB bn

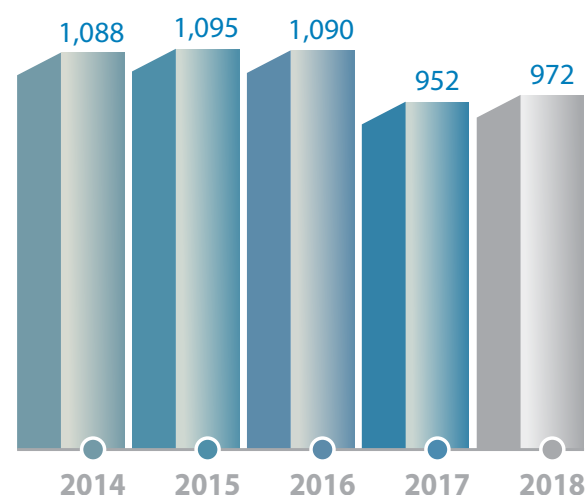


In 2018, "Surgutneftegas" PJSC supported the XXIII International specialized exhibition "Surgut. Oil and Gas – 2018" which hosted 120 enterprises from 11 countries. At the exhibition Russia was represented by the companies from 20 regions. Over many years, the exhibition has been playing the role of a dialog platform between oil and gas production and oilfield service companies. Representatives of "Surgutneftegas" PJSC took part in the discussion of professional training issues, held a procurement session for potential suppliers and a job fair for job seekers. Moreover, the Company participated in the forum of the International exhibition "Oil and Gas – 2018".

Involving employees in innovation and inventive activity makes it possible to efficiently use and build up the innovative potential of



Economic benefit from innovation proposals RUB mn



the Company. In 2018, 3,559 employees of "Surgutneftegas" PJSC participated in innovation activity and 2,368 innovation proposals were implemented producing an economic benefit of RUB 972 million, including the savings of materials and equipment amounting to RUB 568 million, electrical energy – RUB 30 million and drilling costs – RUB 48 million.

The Company pays attention to protection of its scientific and technical developments. In the reporting year, the Company drew up and submitted eight intellectual property applications to the Federal Institute of Industrial Property (Rospatent), including four applications for a utility model, two applications for official software registration and two applications for trademark. To this end, the Company obtained 16 documents of title.

Information technologies

Comprehensive development of information technologies in all production processes of "Surgutneftegas" PJSC is aimed at automated data collection, quick information processing, improved system of management decisions adoption as well as reliable and environmentally safe operation of equipment.

Online control of technological processes of oil and gas production and oilfield equipment operation at all fields of the Company is exercised by such information systems which conduct a real-time analysis and systematization of live information received from the field remote metering systems. In 2018, the Company connected 605 injection wells, 1,411 pumping wells and 186 automated group remote metering stations to the remote metering systems. The Company's operating well stock equipped with production rate remote metering systems, the artificial-lift well stock controlled remotely and the operating injection well stock equipped with water injection flow meters account for 100%.

As part of the development of the geoinformation system, in 2018, "Surgutneftegas" PJSC created an archive for

storing photographic materials obtained via unmanned drones and used by the Company as an alternative to space imagery and aerial photography. In the reporting year, the Company updated the information system: temporary logistics release points of materials and equipment were added, which makes it possible to plan works with high accuracy and efficiency using GIS maps.

The Company carried out work to update the version of the corporate information system of the document flow, perform migration of the information systems to the next generation platform and import substitution of the software and equipment.

The refinery of "Surgutneftegas" PJSC carried out work to modify its software and dataware in automated systems of core production and shipment of oil products, and integrate primary accounting with the information systems of the Company's marketing subsidiaries.

In the reporting year, the Company's marketing subsidiaries continued to develop its automated systems of production processes management and extend the range of its software products.



04

Social responsibility

Environmental safety

HR policy

Social activity,
charity and sponsorship





Environmental safety

Modern environmental technologies and solutions, constant monitoring of production facilities and corporate environmental culture determine the high level of environmental safety operations of “Surgutneftegas” PJSC. A significant amount of investment in the implementation of environmental programs ensures a systematic reduction of the negative environmental impact of production.

“Surgutneftegas” PJSC pays considerable attention to environmental protection and annually implements a range of measures to ensure environmental safety of the Company’s production facilities, protect land, ambient air and water resources as well as construct environmental facilities. In 2018, the Company’s investments in environmental protection totaled RUB 17.4 billion and RUB 2.3 billion in the upstream and downstream sectors respectively.

The efficiency of the decisions and the responsibility of the Company in the sphere of environmental safety of production and environmental protection is highly appreciated and recognized at environmental competitions and in compiling ratings.

- In 2018, the Company took first place in category “Environmental management” of the Environmental Transparency Rating of Oil and Gas Companies operating in Russia which is annually compiled with the participation of the World Wildlife Fund (WWF).
- “Surgutneftegas” PJSC won the All-Russia contest “Leader of environmental protection in Russia – 2018” in category “Best environmentally responsible company in the oil and gas production industry”.

“Surgutneftegas” PJSC is open for interaction in the area of environmental protection with various public organizations, stakeholders and the mass media. The Company provides wide accessibility of information on environmental safety of production and decisions made in this area. The Company’s environmental requirements apply to contractors with which it cooperates.

Since 2017, the Ecological Council has been functioning in the Company’s upstream

sector, which was established to make strategic decisions in the sphere of ecology and environmental management. In the reporting year, the Ecological Council considered the issues related to minimization of the environmental impact of technological processes and developed recommendations to mitigate environmental risks when planning and carrying out work in specially protected natural reservations.

RELIABILITY CONTROL OF PRODUCTION EQUIPMENT

Environmental safety of oil production facilities is determined to a large extent by reliability of field pipeline systems. The Company annually implements a range of measures to ensure and improve their reliability, including:

- receipt inspection of pipe products;
- use of pipes and fittings with an internal coating;
- inhibitor protection and cleaning of pipelines inner surface;
- dehydration of oil in initial water separation units (IWSUs);
- timely field pipelines routine repairs and overhaul;
- maintenance of field pipeline databases, collection and analysis of technological parameters, computer modeling of the existing systems of field pipelines for the purpose of their optimization.

To ensure good quality of pipe products used in construction and overhaul of pipelines, the Company performs destructive and

non-destructive receipt inspection of pipes and checks their compliance with technical requirements. In 2018, 26.6% of the total number of the delivered pipes underwent receipt inspection by destructive methods.

One of the most effective methods of pipeline accidents prevention is the use of pipes with improved corrosion resistance and especially with an internal anti-corrosion coating. In 2018, the Company constructed 879.4 kilometers of pipelines and by the end of the year the length of in-field pipelines with an internal coating was 54%. In the reporting year, the Company produced 547.7 kilometers of pipes and over 31 thousand fittings at its own production capacities for the application of an internal anti-corrosion coating. The total area covered by the internal coating amounted to 345 thousand square meters.

In the areas of high environmental risk the Company applies inhibitor protection of pipelines. In 2018, the Company treated 2,268 kilometers of pipelines with corrosion inhibitors. Corrosion inhibitors are injected by chemical injection units. Improved use of inhibitors is ensured by the receipt inspection of the purchased reagents by means of infra-red spectrometry and online compliance control of operating procedures.

The rate of a pipeline internal corrosion process is reduced due to oil dehydration in 112 initial water separation units (IWSUs) mounted at booster pump stations.

The Company operates a system of corrosion monitoring: pipeline pigging, thickness gauging, aggressiveness monitoring of transported mediums using a gravimetric method. The received information helps the Company develop a schedule of field pipelines routine repairs and overhaul.

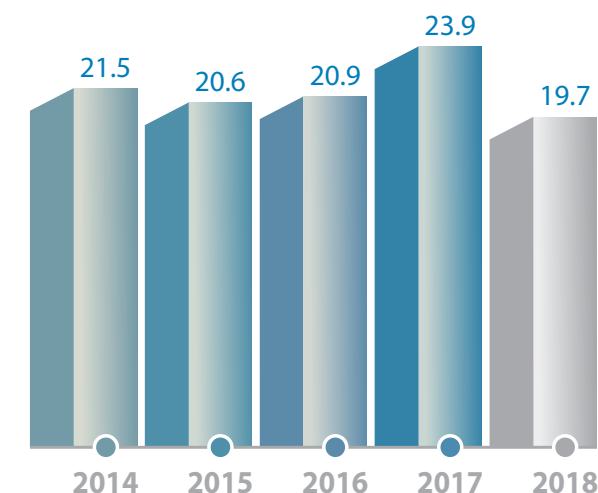
The refinery of LLC “KINEF” underwent an annual comprehensive chemical treatment of circulating water to protect equipment and pipelines from corrosion, scaling and biofouling.

The Company’s marketing subsidiaries regularly perform anti-corrosion works on equipment and annually carry out inspection of the infrastructure facilities.

PROTECTION AND RATIONAL USE OF LAND

“Surgutneftegas” PJSC closely monitors the prevention of lands contamination. Oil and oil products spills are eliminated by an out-of-staff

Environmental investments of the Company
RUB bn



accident rescue unit of “Surgutneftegas” PJSC consisting of eight squads. The Company possesses qualified personnel and high-performance equipment for mitigation of accidents and is ready for immediate elimination of oil and oil products spills of any complexity in any type of area under any circumstances and high-quality reclamation of contaminated lands.

“Surgutneftegas” PJSC annually implements measures on technical and biological reclamation of lands. Disturbed lands are reclaimed to a state suitable for returning them to their applicable use and timely returned to the Forest Fund of the Russian Federation. In 2018, works on reclamation were performed over the area of 1.21 ha, and 1.26 ha of previously reclaimed oil contaminated lands were inspected and excluded from the Register of oil contaminated sites of Khanty-Mansiysky Autonomous Okrug – Yugra. In the reporting year, the Company completed the technical stage of reclamation at 190 sites of development and prospecting and exploratory drilling. The biological stage was completed at 29 sludge pits.

“Surgutneftegas” PJSC annually takes measures to provide forest protection and fire protection of its facilities. There are stationary and mobile stations with fire-fighting equipment at all Company’s production sites.



WATER RESOURCES PROTECTION

"Surgutneftegas" PJSC implements measures to provide water resources protection aimed at resource saving, rational water management and prevention of water bodies pollution and depletion.

"Surgutneftegas" PJSC keeps records of the volume of consumption of fresh water from groundwater bodies for drinking and household as well as for production and technological supply of production facilities. In the reporting year, the Company estimated reserves at all water intake points of fresh groundwater and appropriate additions to the license agreements for subsoil use were made. The Company developed sanitary protection zone projects for five water intake points and obtained sanitary and epidemiological approvals.

All treated wastewater from the field facilities of the Company serves as injectant for a reservoir pressure maintenance system. This ensures saving of fresh water taken from the surface and underground water bodies for the Company's process needs. In the reporting year, the Central Base Laboratory for Ecoanalytical and Technological Studies of "Surgutneftegas" PJSC developed an innovative method of examination of wastewater allowing us to expand its spectrum and reduce the time of diagnostics.

In 2018, the Company provided 18 well pads with drain tanks, reconstructed ramps at 81 well pads. The Company's actions towards rational use of water resources, including reemployment of wastewater, allow us to maintain specific water consumption at the level of less than 2 cubic meters of water per tonne of oil produced. Capital investments of "Surgutneftegas" PJSC in construction of water protective facilities exceeded RUB 269 million.

In the downstream sector, a reagent supply unit for wastewater dephosphatation was commissioned at wastewater treatment facilities of the city of Kirishi, the efficiency of which was 97.4% in 2018.

In the reporting year, the marketing subsidiaries of "Surgutneftegas" PJSC conducted regular maintenance of local wastewater treatment facilities, cleaned oil traps, replaced filters and carried out other activities necessary for stable functioning of the system of wastewater collection and treatment as well as the protection of surface and groundwater reserves.

AIR PROTECTION

A complex of air protection measures of "Surgutneftegas" PJSC is aimed at diminishing air pollutant emissions into the atmosphere and rational use of associated petroleum gas (APG).

The Company has complete infrastructure for APG utilization at the existing facilities due to which the level of utilization of associated petroleum gas has been over 99% since 2012, and at the end of 2018 it reached 99.56%. "Surgutneftegas" PJSC zealously develops all effective ways of utilization of associated petroleum gas: it is processed, used as feedstock to generate electrical energy at gas turbine power plant and gas reciprocating engine power plant, injected into a formation and supplied to consumers (see more information on application of gas in Gas Production section).

To diminish air pollutant emissions to the atmosphere of the residential areas where the Company operates, "Surgutneftegas" PJSC performs regular operating setup of fuel-fired equipment, controls operational effectiveness of gas treatment units, inspects them as well as performs current repair and scheduled preventive maintenance. The Company provides total control of air pollutant emissions into the atmosphere at all stationary and mobile units.

The refinery of LLC "KINEF" employs gas and dust removal facilities operating with a high degree of pollutants decontamination, elemental sulphur production unit and other air protection facilities. LLC "KINEF" carries out works to systematically reduce the consumption of mazut used in process furnaces replacing it with gas fuel and reducing, as a result, the environmental impact. Over five years, the Company has reduced sulphur dioxide emissions by 25%.

In order to maintain air pollutant emissions at the established standards, the Company carried out maintenance of infrastructure facilities of its marketing subsidiaries that impact on the air.

MANAGEMENT OF PRODUCTION AND CONSUMPTION WASTES

The measures of "Surgutneftegas" PJSC for production and consumption waste management are aimed at reduction of waste production and disposal.

Drill cuttings make up a greater part of the Company's production waste. To minimize

the negative environmental impact, "Surgutneftegas" PJSC excludes toxic chemicals and oil in preparation of drilling fluids. The pitless drilling technology with drill cuttings utilized as soil for earth filling of the drilling pads, which allows us to reach the level of utilization of drill cuttings over 75% as well as drill wells in the areas with a special mode of management proves to be an effective method. The above-mentioned technology is certified by the State Environmental Expert Commission as environmentally friendly and resource saving.

Recycling of oil sludge generated during oil production when cleaning specialized equipment, pipelines, tubing and other production facilities is performed by a thermal method with 10 "Szhigatel" incineration units and by a panning method at six centers and four upgraded lines for fluid phase recycling. These technologies allow "Surgutneftegas" PJSC to prevent the burial of over 60 thousand cubic meters of oil sludge and oily soils every year resulting in their 100%-decontamination. The Company utilizes special sludge storage ponds in order to ensure the all year round continuous accumulation of oil sludge and drill cuttings, oil containing fluids and contaminated soils for their subsequent processing and decontamination using single and multiple cell sludge storage ponds.

Solid oily waste is decontaminated with the help of "Forsazh" thermal destruction units.

"Surgutneftegas" PJSC has its in-house processing of worn-out car tires which enables a complete recycle of waste generated by maintenance of the Company's vehicles and, as a result, making a certified product – rubber chips which are then used as feedstock to improve the characteristics of the asphalt bitumen mixture used when building roads.

The Company strives for maximum recycling and reuse of paper, cardboard and polymer-containing wastes. Their shredding at specialized equipment allows us to reduce waste disposed at the landfills and receive an income from their sale to consumers as secondary raw materials.

LLC "KINEF" performs selective wastes collection for disposal at the refinery. A greater part of wastes generated at the refinery are reused and applied mostly to strengthen dams of the refinery's water-side structures. Wastes are disposed at the waste storage and disposal site of LLC "KINEF" and at the city's landfill.

ENVIRONMENTAL MONITORING

"Surgutneftegas" PJSC runs production environmental monitoring allowing the Company to control and timely identify negative changes that occur under the influence of anthropogenic factors. Environmental monitoring is conducted over license blocks and man-made facilities of the Company.

In 2018, the Company conducted environmental monitoring at 126 license blocks and inspected environment at 3,839 locations. Monitoring of the Company's man-made facilities includes well sites, waste landfills, sludge storage ponds, flares, pipeline crossings over the watercourses. The sample analysis is performed as part of the monitoring by the Company's laboratories with the latest equipment installed and by laboratories of independent third-party organizations.

"Surgutneftegas" PJSC practices remote monitoring of the areas of its production activities by air patrolling, large-scale aerial photography and ultra-high resolution space imagery. Based on the information of remote sensing data, the Company makes an inventory of disturbed lands, develops and improves projects for sludge pit reclamation, projects for local environmental monitoring of the license blocks, carries out monitoring of vegetation, evaluates the current environmental situation within the license blocks and solves various problems to strengthen environmental safety.

As part of production environmental monitoring LLC "KINEF" implements a range of measures to perform a continuous analysis of such environmental components as air, land and water resources. The Company monitors the ambient air condition and noise pollution on the borders of the agreed sanitary-hygienic zone surrounding the refinery. The Company performs sanitary-hygienic, bacteriological and parasitological studies of the treated household wastewater and conducts hydrological and morphometric research of the characteristics of water bodies. We continuously monitor the effect of the complex of waste disposal and burial on ambient air, surface and groundwaters and soil.

The Company's marketing subsidiaries measure noise pollution and pollutant emissions along the borders of the sanitary-hygienic zones, in the settlements and emission sources. Condition of soil, water bodies and their water protection



zones is routinely monitored, the air and noise pollution in the sanitary protection zone is analyzed, the amount of emissions of pollutants into the atmosphere is checked and the safety of treated wastewater is assessed.

PLANS AND PROSPECTS

In 2019, “Surgutneftegas” PJSC will continue implementation of its policy to ensure environmental safety of the Company’s current lines of business.

In order to increase reliability of the field pipelines, it is planned to manufacture over

540 kilometers of pipes and over 31 thousand fittings with an internal anti-corrosion coating as well as construct over 900 kilometers of pipelines with such a coating. The Company plans to apply inhibitor protection to over 1,800 kilometers of field pipelines.

In 2019, the Company is to construct water protecting facilities – IWSUs – based on Heater-Treater three-phase separators, a wastewater treatment unit and wastewater networks.

Production environmental monitoring of the environment parameters will be completed in full.

HR policy

HR policy of “Surgutneftegas” PJSC is aimed at building a highly professional team able to ensure effective and stable production development. The Company promotes conditions to reveal an intellectual, professional and creative potential of its employees and development of the training base for the professionals of the oil and gas industry.

“Surgutneftegas” PJSC is one of the largest employers in Russia. In 2018, the average number of employees equaled 112.8 thousand people, 90% of which are engaged in exploration and production, 6.9% – in refining and 3.1% – in marketing.

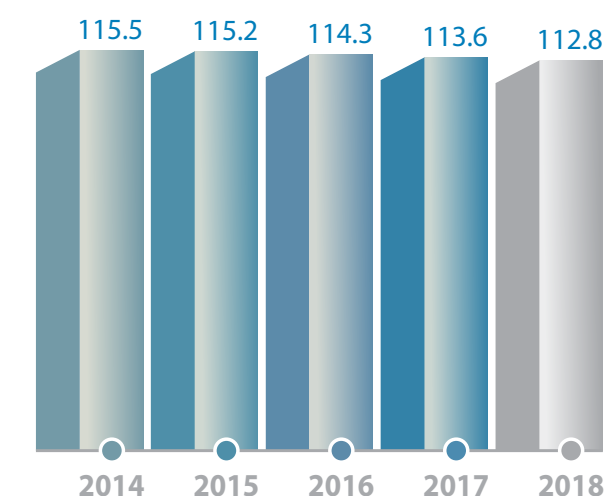
The Company implements a wide range of HR activities, including training and advanced training, mentoring program, recruitment of young professionals and support of their professional development as well as creation of an effective comprehensive incentive program.

PERSONNEL TRAINING AND DEVELOPMENT

The personnel development policy of “Surgutneftegas” PJSC is targeted at improving professional skills of the employees and realizing their full potential. The Company implements the advanced training programs and encourages cooperation with training institutions.

Professional training of the Company’s employees is provided by both its in-house training centers and the best Russian and foreign training institutions. The training programs are designed to fulfill the Company’s priority goals and objectives as well as the requirements of the legislation of the Russian Federation, and develop the professional and management competencies of its personnel. The corporate training base is represented by the Polytechnic Training Center (PTC) and Center of Vocational Training and Retraining of LLC “KINEF”. The employees are provided with intramural, extramural and distance training, including off-site workshops and trainings. In the reporting year, 81.2% of the Company’s employees were trained in its in-house training centers.

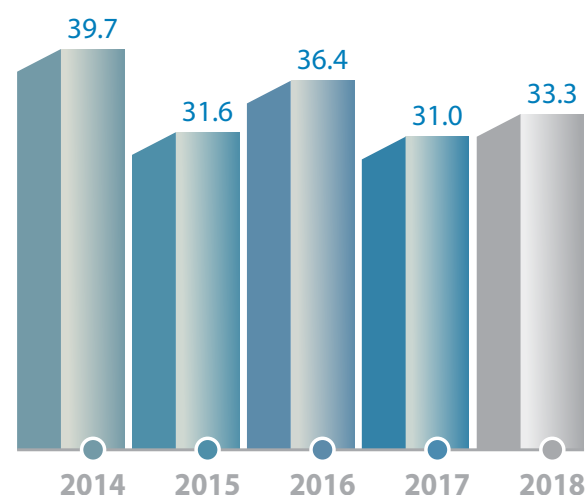
Average number of employees of the Company thousand people



The Polytechnic Training Center is one of the largest and unique centers of the professional training in the industry. It is outfitted with modern training equipment and devices enabling to simulate real production processes to provide extremely practice-oriented training. The branches of the Polytechnic Training Center are located in close proximity to the production sites: Zapadno-Surgutskoye, Fedorovskoye, Lyantorskoye and Nizhnesortymyskoye branches in Khanty-Mansiysky Autonomous Okrug – Yugra and Talakanskoye branch in the Republic of Sakha (Yakutia). The trainees practice skills which correspond with all Company’s core production operations. Annually, the Polytechnic Training Center provides over 50 thousand persons with training on 350 professions.

Given the intensive introduction of new technologies, the Company is continuously modernizing the training base of the Polytechnic



In-house training
thousand people

Training Center. In the reporting year, to provide its employees with practical training on the required activity areas and aspects of simultaneous operations to be performed by the related business units at a well pad, the Company introduced testing ground "Simulated well pad", finished equipping the well servicing and workover facilities with new equipment and instruments, upgraded training simulator "KAMAZ-ATK-12" at "Autodrome" testing ground.

It was decided to construct an exhibition pavilion of 1,500 square meters in the territory of the Polytechnic Training Center to create a regular venue to explore the innovative technologies, improve skills of the Company's personnel and provide professional adaptation of its young employees.

Surgut branch of the Polytechnic Training Center hosted the annual regional skills championship WorldSkills Russia "Young Professionals of KhMAO-Yugra" within competence "Oil Industry. Oil and gas production operator". The Company actively encourages development of regional movement "Young Professionals" designed to enhance importance and prestige to blue-collar vocations, help the professional orientation of schoolchildren and identify the best representatives of professions.

In the oil refining sector, the personnel training is conducted at the premises of the vocational training center under the programs of vocational training, retraining and advanced training of workers and office employees. There are 12 classrooms in the training center which are

equipped with up-to-date teaching facilities. As part of training, the Company extensively holds workshops and uses simulators and an automated training system. In 2018, 24 educational programs for professional development in blue-collar vocations were reviewed and approved; 2,643 persons underwent training. Assessment of the training effectiveness is conducted on the basis of the results of the qualification examinations and testing as well as the feedback from the trainees.

In the marketing sector, in the reporting year, personnel were trained to enhance focus on customer requirements in service delivery at the gas stations.

In 2018, 33.3 thousand persons, or about 30% of the average number of the employees, were trained under various programs in the Company's corporate training centers. The third-party centers trained 9.7 thousand specialists of the Company.

COMPETENCE DEVELOPMENT AND MENTORING

The Company operates a comprehensive system of evaluation of professional and managerial competencies to effectively use labor of each employee of the Company, determine the need to develop skills of the employees as well as exclude the admission of the employees who do not meet the adequate level of the competence development.

In 2018, the Company carried out a comprehensive assessment of performance and professional and managerial competencies of 34,564 employees.

The professional and managerial competencies are assessed with the objective tools, such as a fund of assessment tools, the monitoring system of vocational competencies, professional testing in blue-collar vocations, "Business Profile" testing, "360-degrees" method and universal psycho-diagnostic complex – MK "Professional".

In the reporting year, the Company developed new modules of the monitoring system of vocational competencies – "Supervisors of hydrocracking operations" and "Human Resources", and updated "Transport", "Geophysics" and "SurgutNIPIneft" modules.

The Polytechnic Training Center conducted computer-aided testing of 7,539 candidates for 100 blue-collar vocations pursuing the goal to

staff the Company with qualified personnel of the required professions and qualifications.

Having started in 2017, the Company continued the centralized testing of the vehicle operators and candidates for the correspondent vacancies using psycho-diagnostic complex – MK "Professional". As many as 2,925 persons were tested.

To ensure better development and adaptation of newly employed personnel and those who have been transferred from other business units, "Surgutneftegas" PJSC applies a mentoring system. In the reporting year, 1,709 interns of the Company's business units were assigned to 1,889 mentors; 1,629 interns completed the mentoring course, the annual competition "Best Mentor" was held where the prize-winners were given certificates and prize money.

The Company is making a candidate pool. In the reporting year, the candidate pool included 2,128 persons.

To improve professional and managerial competencies of the employees of the Company's upstream sector, in the reporting year, the Company implemented comprehensive programs on eight functional areas of the Company's activities for 1,971 persons.

WORK WITH THE YOUTH

The Company's youth policy focuses on involvement of the motivated specialists with a high level of expertise and skills, their rapid adaptation and realization of their professional potential. As part of cooperation with educational institutions, "Surgutneftegas" PJSC takes actions to promote professions and specialties of the oil and gas complex: theme classes on the lines of the Company's activity, familiarization trips to the production facilities and the museum of "Surgutneftegas" PJSC and open days.

In the reporting year, "Surgutneftegas" PJSC ran an exhibition stand at "Education and Career – 2018", the exhibition which hosted over 700 schoolchildren. "Surgutneftegas" PJSC also took part in the information and introductory campaign "School-University-Enterprise" organized by Federal State Budgetary Educational Institution of Higher Education "Industrial University of Tyumen" in the city of Surgut in which over 300 schoolchildren and students of the institutions of vocational training participated. The schoolchildren were

given an opportunity to learn about business lines of the Company's activity, its geographical presence, possibilities of receiving personal scholarships and referrals to training as well as specifics of adaptation of the young professionals in their workplace in employment and work with the youth. The Company ran an exhibition stand and career orientation quest dedicated to the Day of Oil and Gas Industry Workers for 114 schoolchildren.

Over many years, "Surgutneftegas" PJSC has been collaborating with the leading Russian educational institutions of higher professional education and vocational training to enhance effectiveness of training through development and implementation of special programs adapted to working conditions. In return, "Surgutneftegas" PJSC provides financial support to educational institutions to develop the facilities, build new training laboratories and introduce advanced teaching methods as well as participates in open days and events of prior distribution of graduates to the employers.

Over many years, Industrial University of Tyumen has been the key university to train main oil and gas professionals for the Company. At the end of 2018, more than nine thousand graduates were working in the Company, 95 students are granted personal scholarships of "Surgutneftegas" PJSC. Twelve students of the university branch in Surgut are engaged in the project of practical and modular training under the educational program "Oil and Gas Industry" provided by the Polytechnic Training Center and Institute "SurgutNIPIneft".

In the reporting year, as part of the collaboration with educational institutions of higher professional education, the Company arranged the Days of "Surgutneftegas" PJSC for the undergraduates of Ufa State Petroleum Technological University, Surgut State University and National Research Tomsk Polytechnic University which included a job fair, meeting with the representatives of the Company's business units, testing, case tasks, stand with multimedia equipment, business and intellectual games. The students were invited to intern and be employed as the Company's young professionals following up the arrangements. At the end of the reporting year, 142 students of the educational institutions were granted personal scholarships of "Surgutneftegas" PJSC based on their academic



progress, research works and participation in academic competitions, contests, conferences and workshops.

"Surgutneftegas" PJSC organized meetings of the students of Ufa Fuel and Energy College, Tomsk Polytechnic College, Tomsk State University and its representatives on the aspects of training that are in demand by the Company and conducted testing.

The Company annually provides its specialists with referrals to the institutions of vocational training and higher education. At the end of 2018, as many as 1,413 students studied under such programs, including 433 students who received such referrals in the reporting year. Besides, there are 22 students who study under the Treaty on Cooperation in Economic Development of Lensky District Municipal Unit, the Republic of Sakha (Yakutia).

The Company also offers the students internship to reinforce and improve their professional knowledge, learn the ins and outs of the job and acquire work experience. In 2018, 2,564 students successfully completed internship in the Company's business units, including 120 students who were given an opportunity to meet with the Company's executives, visit the museum of "Surgutneftegas" PJSC and participate in business game "The Company of My Dream" and a questionnaire survey. At the end of the reporting year, young employees make over one third of the Company's staff. In the reporting year, 586 young professionals were employed by the Company. The graduates of educational institutions of higher education and vocational training who have obtained employment in "Surgutneftegas" PJSC have access to personal development and implementation of the creative ideas, scientific and technical projects. The Company's youth organization offers them an adaptation program and arranges various events and meetings with the Company's executives. In the reporting year, "Surgutneftegas" PJSC organized 90 events attended by about seven thousand young employees. The Company arranged meetings of the young professionals with the top management; trainings and workshops aimed at cohesion among the youth and team building; forum of young professionals, including master classes and business games; corporate competition "My Company"; business training "Oil profile"; an innovation forum to tackle feasibility analysis

issues with participation of the Company's leading specialists as experts.

"Surgutneftegas" PJSC annually holds Scientific and technical conference for young scientists and professionals that gives an opportunity to engage younger employees in improvement of technological processes, introduction of new technologies and enhancement of production efficiency. As many as 1,083 persons attended the XXXVIII Conference in 2018. The winners were given an opportunity to visit the leading foreign oil and gas companies to learn about their experience.

Three young professionals received the Viktor Deshura Award that is presented to those participants of the last year conference whose scientific developments gave a greater economic benefit. An expected economic benefit from their innovative projects is RUB 12.3 million.

Commitment to work and high professionalism of the youth are confirmed by the results of young professionals at national and regional scientific and specialized conferences, forums and contests. In the reporting year, 19 young professionals of the Company took part in the All-Russia contest "New Idea", led by the Ministry of Energy of the Russian Federation, where they competed for the best research and development project among young professionals working in the fuel and energy sphere. As many as 45 young employees of the Company took part in the XVIII regional scientific conference for young professionals of the companies engaged in subsoil development within Khanty-Mansiysky Autonomous Okrug – Yugra, 16 of them won prizes.

In the reporting year, the Company co-organized the first International youth research and practical forum "Oil Capital", the goals of which are to advance the applied science in the oil and gas industry, bring together scientists and professionals to support the youth science as well as to develop innovative environment. The Forum was held in Surgut State University and attracted about 700 professionals from 26 regions of Russia and eight foreign countries. The delegates represented over 80 enterprises and organizations as well as scientific centers and universities. "Surgutneftegas" PJSC was represented by its young employees who introduced their reports and presentations on innovative projects, managers and specialists who were invited as experts.

PERSONNEL MOTIVATION

To achieve best performance results through personnel commitment and meet its strategic objectives, the Company developed the comprehensive incentive program that includes material and moral stimulation of its employees.

The material incentive program for the Company's personnel includes salaries with annual adjustment for inflation, annually and quarterly paid premiums to recognize strong production, technical and economic performance, and also incentive payments for accomplishment of the most important tasks, innovative work, import substitution, introduction of new technological processes, new production methods and equipment.

The Company annually holds various competitions between the teams of its business units: competitions of professional skills for the title "Best-in-Profession", economic competitions between its main production units, and contests between the Company's drilling crews for the Alexander Usoltsev Award. They contribute to enhanced staff performance, bring up interesting topics and help find creative solutions to the relevant production issues. Personal and collective contribution

of the employees to production efficiency, their professionalism, deep knowledge and commitment to the chosen occupation are highly appreciated and rewarded by the Company.

In 2018, 3,016 employees of "Surgutneftegas" PJSC were awarded for many years of conscientious work, professionalism and successful performance, including 586 persons who received national and industry awards of the Russian Federation, 245 – awards of municipal and constituent entities of the Russian Federation and public organizations, 1,263 – awards of "Surgutneftegas" PJSC and 922 – subsidiaries awards. Besides, in 2018, as many as 7,104 employees received awards of the Company's business units.

In 2018, in connection with celebration of the Day of Geologist, 15 employees of "Surgutneftegas" PJSC were awarded by the Ministry of Natural Resources and Ecology of the Russian Federation. The Ministry of Industry and Trade of the Russian Federation awarded five employees of the Company to celebrate the Day of Retail. In 2018, eight employees of "Surgutneftegas" PJSC became holders of the Viktor Muravlenko Award for great personal contribution to the introduction of new technologies and achievement of high performance in drilling, oil and gas production and well workover.





Social activity, charity and sponsorship

“Surgutneftegas” PJSC carries out its activities exercising socially responsible policy to ensure comfortable working conditions, contribute to the social and economic development of the areas of its presence and carefully consider the interests of its partners and the society.

The Company always pays attention to social and labor spheres. “Surgutneftegas” PJSC annually implements a range of programs and measures to improve work and leisure environment of its employees, provide recreation opportunities to the employees and their families, maintain staff morale, develop sports, support pensioners and veterans and perform charity and sponsorship activities.

The collective agreements of “Surgutneftegas” PJSC provide social benefits and guarantees for employees, their families and retired employees of the Company.

The high level of the Company’s social responsibility is annually proved by regional and federal awards. In 2018, “Surgutneftegas” PJSC once again was recognized as the Company of the Year at the regional contest “Black Gold of Yugra” and a winner in category “Efficient use of mineral resources” and won the award in category “Cooperation with indigenous population”.

In the reporting year, there was a grand opening of the commemorative plaque to the staff of “Surgutneftegas” PJSC at the memorial “Stars of Yugra” in the city of Khanty-Mansiysk during the commemoration of the distinguished persons of the oil and gas industry and labor groups who had significantly contributed to the development of the autonomous okrug.

HEALTH CARE

The Company’s social programs focus primarily on prevention and treatment of professional diseases as well as health improvement of its employees, their family members and retired employees. The corporate health care program for the employees includes regular preventive medical examinations, health resort treatment and voluntary medical insurance.

The Company provides the ongoing monitoring of its employees’ health to prevent

and early detect the initial signs of diseases through preliminary and periodic medical examinations as well as single medical check-ups. In 2018, the Company arranged examination of 80.2 thousand employees, including 14.5 thousand medical on-site check-ups at mobile medical units. In order to monitor the health of employees the Company organized comprehensive examinations at “On-site medical centers” for 1.3 thousand employees. The outpatient clinics of the city of Surgut and Surgutsky District conducted additional mass health examination for 12.3 thousand employees. In the oil and gas production sector of the Company, in 2018, to detect cardiovascular diseases, “Surgutneftegas” PJSC performed on-site cardiovascular screening of about one thousand employees at risk. The Company gave vaccination to 14.5 thousand employees and carried out 6.8 million pre-trip and post-trip medical examinations of the driving staff.

The Company considers disease prevention to be the most vital area of its health care program. The Company’s employees, their family members and retired employees are offered health resort treatment under favorable terms. In the reporting year, 39.8 thousand persons received rest and treatment in 28 Russian resorts located in various climatic zones and having the diversity of treatment programs.

The majority of vacationers (94%) underwent health resort treatment at the Company’s recreation facilities: health center “Kedrov Log” in Surgut, a group of health resorts on the Black Sea coast in Krasnodarsky Krai and health resort in Leningradskaya Oblast. All the Company’s health resorts have modern diagnostic and treatment centers fitted with the latest equipment and employing highly-qualified medical personnel. Annually, the centers implement new diagnostic and treatment methods, new equipment and

master new technological processes of disease treatment and prevention.

The Company’s health resorts on the Black Sea coast in Krasnodarsky Krai combine both the advanced treatment and diagnostic technologies and unique natural factors of Tuapsinsky District. In the reporting year, 14.6 thousand employees, their family members and retired employees of the Company visited health resorts “Neftyanik Sibiry” and “Lermontovo”. In 2018, as many as 3.9 thousand children stayed at the children’s health resort “Yuny Neftyanik” to receive treatment and enjoy active rest.

The multi-service health center “Kedrov Log” functions all year round. In 2018, the health resort, which offers various treatment programs, comprehensive diagnostics and an individual approach to the treatment, delivered medical services of health maintenance, recovery and rehabilitation to 7.2 thousand employees and retired employees of the Company.

The recreation complex of the Company’s refinery is represented by the health resort “Priozhnyy” and recreation center “Mechta” which

functions as a health camp for children in summer time. In the reporting year, the complex offered rest and treatment to 11.7 thousand employees, their family members and retired employees of LLC “KINEF”.

Besides, the Company arranged rest and treatment for 2.3 thousand of its employees, their family members and retired employees in different health resorts of Russia.

WORK SAFETY AND PRODUCTION STANDARDS

The priority tasks of “Surgutneftegas” PJSC related to occupational health and safety are to provide safe working conditions to each employee, reduce occupational injuries, protect the personnel health and mitigate accident risks. The Company regularly organizes training for its employees, provides instructions on the safe performance of works, takes actions to improve working conditions and assess them for compliance with safety standards as well as identifies occupational hazards.

The Company annually takes organizational and technical measures to prevent injuries and





accidents and increase the level of occupational, industrial, fire and electrical safety. They include enhancement of the process equipment reliability, introduction of new technologies and automated ESD systems, compulsory training in safe working operations and assessment of employees' safety awareness. The safety training is compulsory for all categories of the Company's employees. During the training and instruction, to make safety measures available to the public the Company widely applies the audio and video demonstrations in places of mass attendance of its employees.

In 2018, in the oil and gas production sector, the Company held various working safety and electrical safety trainings for its employees at all levels, introduced “Hazardous Operations Permit” and “Operating Electrical Installations Permit” which allow the Company to detect and eliminate risks in preparation for the relevant operations. Together with the Main Directorate of the Ministry for Emergency Situations of Russia for Khanty-Mansiysky Autonomous Okrug – Yugra, 12 fire and tactical exercises were conducted at the Company's facilities. In the reporting year, “Surgutneftegas” PJSC developed training and skills testing programs for the personnel engaged in hazardous operations which include practical exercises and safe work drills performed in its in-house training center.

In the reporting year, to improve the efficiency and quality of work and share positive experience in the safe work, the Company arranged competitions of professional skills devoted to occupational, industrial, fire and electrical safety as well as the section “Technospheric Security” at the scientific and technical conference for young scientists and professionals.

The Company carries out multi-level control of compliance with regulations for ensuring occupational, industrial, fire and electrical safety. The Company performs comprehensive and targeted inspections of safety rules and requirements on a regular basis.

The Company is striving to improve work and leisure environment for its employees. The Company's production facilities have well-developed infrastructure: modern office buildings, comfortable recreation facilities and canteens. At the end of the reporting year, there were 211 recreation facilities for 13,181 shift workers with necessary sanitary premises and amenities located in the residential areas and at the oil fields and industrial sites of the Company. The Company's

catering network has 432 canteens: 214 are stationary and 218 are mobile which daily serve meals for 26 thousand people.

REGIONAL DEVELOPMENT PROMOTION

“Surgutneftegas” PJSC significantly contributes to the social and economic development of the regions where it operates. Being a large employer and taxpayer, the Company adheres to the policy of high social responsibility before the society. Under the agreements on cooperation concluded with the regional authorities, the Company has constructed dozens of community facilities, develops infrastructure and supports educational, cultural and health institutions. In the reporting year, “Surgutneftegas” PJSC and the Government of Tyumenskaya Oblast concluded the agreement which provides for the exchange of experience in utilization of scientific and technical, educational, innovation and production potential and increased number of the efficient technologies, equipment and materials of the enterprises of Tyumenskaya Oblast, including those that can replace the imported ones, as well as attraction of human resources of the region to work for the Company.

The Company has been cooperating with the representatives of the small-numbered indigenous peoples of the North who live in the territory where it operates. They are provided with financial support and assistance in holding national festivals. The Company is engaged in development of infrastructure and provision of education of children in higher and secondary vocational educational institutions. “Surgutneftegas” PJSC procures healthcare, transportation, communication services and supplies (snowmobiles, chainsaws, motorboats, construction materials, fuel and lubricants) for the small-numbered indigenous peoples of the North.

The Company furnishes sponsorship, corporate and charitable assistance to national villages and communities to hold important social events. In the reporting year, to preserve and develop deer breeding and cultural traditions of the local communities, the Company provided the prizes for the IV Competition of Herders Professional Skills for the Cup of the Governor of Yugra in the city of Khanty-Mansiysk and assisted in transportation of the deer teams

from Beloyarsky District and Surgutsky District, contributed the prize fund for the 79th Skills Contest of the small-numbered indigenous peoples of the North in the village of Kazym, Beloyarsky District.

“Surgutneftegas” PJSC is engaged in dialog with the state supervisory bodies, representatives of the scientific organizations and the indigenous people of Yugra to tackle issues arising in the course of development of the specially protected natural reservations. The Company applies the latest environmental technologies, provides constant monitoring of the environment, biological and hydrological regimes of wetlands in Numto nature park which has a conservation status due to its unique natural and cultural significance. In the reporting year, “Surgutneftegas” PJSC continued constructing house residences, made a winter road, provided transportation of people and oversized cargoes and gave targeted aid to the locals in Numto national village. The experience of building partnership of oilmen and the representatives of the small-numbered indigenous peoples of the North as well as information on implementation of environmental protection programs of “Surgutneftegas” PJSC in Numto nature park were shared at scientific and practical conference “Indigenous peoples. Environment. Oil. Law” as a positive example.

In the reporting year, the Company was awarded Acknowledgment of the Ministry of Agriculture of Russia in recognition of the intensive work on artificial reproduction of aquatic biological resources.

The Company continues to develop transport infrastructure in Eastern Siberia contributing to the social and economic development of the region. In the reporting year, “Surgutneftegas” PJSC commissioned a road to the village of Tolon, Lensky District of the Republic of Sakha (Yakutia). The road will support development of the settlements which are inhabited by 460 persons. In the reporting year, the airport Talakan constructed by “Surgutneftegas” PJSC processed over 300 thousand passengers.

SPORTS FOR ALL

The Company attaches great importance to the programs aimed at development and promotion of mass sports and physical development of employees of “Surgutneftegas” PJSC and their children. The Company provides ample opportunities to attend specialized sports sections, organizes various sports competitions, tournaments and meetings.





The Company has 22 sports facilities which include 15 sports halls and seven sports centers. The established sports facilities provide conditions for more than 20 kinds of athletic disciplines. Over 23 thousand employees visit the Company's gyms, sports centers and swimming pools on a regular basis. Every year more than 13 thousand employees actively participate in the Company's sports life.

In 2018, "Surgutneftegas" PJSC conducted the 36th sports festival. In the reporting year, four sports competitions were held among the Company's oil and gas production divisions; with 29 final contests in 14 kinds of popular athletic disciplines, including basketball, cross-country skiing, volleyball, swimming, track and field athletics, chess, table tennis, mini football and kettlebell lifting. About six thousand employees from 52 Company's business units took part in the final contests. At the end of the sports festival the competition "Sporting Elite – 2018" was held followed by the award ceremony in 55 categories. On the occasion of the professional holiday, the Day of Oil and Gas Industry Workers, the Company arranged three sports contests in darts, kettlebell lifting and chess.

The Company pays special attention to children's sports. With an active assistance of "Surgutneftegas" PJSC, 700 young athletes go in for indoor soccer, swimming, skiing in Surgut Specialized Children and Youth Sports School of the Olympic Reserve "Neftyanik".

In the reporting year, the Company's refinery organized the 31st sports festival for its employees and their family members which included contests in 12 kinds of athletic disciplines for 1,275 contestants. A traditional sports festival was also held for the Company's managers. The refinery's employees take active part in various contests. In the reporting year, for the first time, there was field-and-track relay race "City-Refinery" organized, with 120 employees taking part. In 2018, as many as 58 sportsmen of LLC "KINEF" team received international competition awards, 146 – national awards in various sports. KINEF-Surgutneftegas women's water polo team is one of the leaders in this sport in Russia and abroad. In 2018, the team defended its title by becoming Russia's champion for the sixteenth time, an eleven-time winner of the Russian Cup. And for the second year running, it won the European Champions Cup and defended its title of

the European top-rank team. Seven players of KINEF-Surgutneftegas team in the Russian national team won silver at the World Cup 2018.

Sports complex "Neftyanik" in Kirishi has become one of the most important domestic centers for the development of water polo, a place for training the Russian national team as well as for conducting official sports competitions at the national and international levels.

SUPPORT OF RETIRED EMPLOYEES

The social policy of "Surgutneftegas" PJSC covers the retired employees. At the end of the reporting period, their number amounted to 37.4 thousand people, including 195 veterans of the Great Patriotic War.

The Association of Retired Employees of "Surgutneftegas" PJSC, with more than 5.7 thousand people, strives to protect the rights and interests of elderly people, improve their social status and provide practical, psychological and social support. Among them there are 447 veterans who pioneered development of oil production in the 70s of the XX century, 1,574 veterans of labor of the Russian Federation, 572 veterans of labor of Khanty-Mansiysky Autonomous Okrug – Yugra and 1,826 veterans of labor of "Surgutneftegas" PJSC. The Company actively advances initiatives on various aspects of social life of its retired employees, offers proposals with regard to the collective agreement, interacts with the Company's executives, the United Primary Trade Union Organization of "Surgutneftegas" PJSC and Russian Oil, Gas and Construction Workers' Union. It runs clubs and talent groups cooperating the retired persons according to their interests and fitness groups, holds exhibitions, art contests and meetings, workshops, trips and excursions.

The Company's collective agreement provides retired employees of "Surgutneftegas" PJSC, veterans of the Great Patriotic War, combat veterans and physically challenged people with benefits and guarantees, including the financial support on special occasions and vouchers to health centers and targeted aid.

The non-state pension scheme being in effect over many years adds to the social security coverage of the Company's employees. At the end of 2018, the Company opened around 38 thousand retirement savings accounts with payouts amounted to about RUB 854.8 million.

CHARITY AND SPONSORSHIP

Charitable and sponsoring work of "Surgutneftegas" PJSC is an important tool for formation of a favorable social environment in the regions of its presence. Over the years, the Company has established strong traditions of rendering assistance aimed at promoting culture and sports, science and education, social protection of the population and at preserving national values.

Adhering to the principles of social responsibility, the Company supports and provides targeted aid to the socially vulnerable population groups, orphans and children without parental care, low-income and large families. As part of such assistance, "Surgutneftegas" PJSC made it possible to purchase special medical equipment and implement several social projects.

Special regard is shown to the veterans and disabled veterans of the Great Patriotic War and other wars. The Company finances various festivals and provides financial support to the public organizations of veterans.

The Company's aid is received by public initiatives and projects aimed at preservation of the history of Western Siberia oil and gas province, cultivating respect and concern for the pioneers and veterans of the oil and gas production industry.

Traditionally, the Company collaborates with institutions of culture and art, science and education in all regions of its presence helping them develop new areas, implement projects and preserve cultural traditions and spiritual heritage. Over many years, "Surgutneftegas" PJSC has been sponsoring drama theaters and museums, public funds for development and preservation of the cultural values so that it became possible to implement various creative projects. Collaboration with educational institutions contributes to promotion of industry research institutions and

is aimed at improving the quality of education of graduates and facilities of the educational institutions and creating conditions for development of the scientific and creative initiatives of children and young people.

The Company cooperates with the organizations engaged in preservation of ethnic heritage, representatives of the small-numbered indigenous peoples of the North who live in the territory where "Surgutneftegas" PJSC operates. The Company provides support to families of the Khanty and Mansi, including financing of education, treatment, purchase of snowmobiles, fuel and lubricants and construction of public facilities. As part of its sponsorship activities, "Surgutneftegas" PJSC contributes financially to celebration of national festivals of the indigenous population.

Collaboration with religious institutions and national associations is an integral part of the charitable program of "Surgutneftegas" PJSC. By supporting different confessions the Company gets involved in preservation of religious traditions and spiritual culture of the society.

Over the years, the Company has been focusing on promoting sports and a healthy lifestyle. "Surgutneftegas" PJSC supports sports organizations, finances development of sports for physically challenged people and children's sport as well as participates in conducting various contests and events to promote a sporty and healthy lifestyle. The Company considers development of the national sports to be the part of its financial support to the sports projects.

The high degree of responsibility of "Surgutneftegas" PJSC is caused not only by its large-scale production, but also by a conscious desire to maintain and develop the social potential of the employees and residents of the regions where the Company operates.

05

Corporate governance and securities

The Board of Directors

Individual executive body

Remuneration paid to the members of the Company's Board of Directors

Report on the Company's compliance with the principles and recommendations of the Corporate Governance Code

Report on declared (accrued) dividends on shares of "Surgutneftegas" PJSC





The Board of Directors

THE COMPOSITION OF THE COMPANY’S BOARD OF DIRECTORS AS OF 31.12.2018



VLADIMIR P. EROKHIN

Chairperson of the Board of Directors of “Surgutneftegas” PJSC

Born in 1949.
Higher education.

Share in the charter capital as of 31.12.2018	0.0104%
Ordinary shares as of 31.12.2018	0.0126%



Nikolai I. MATVEEV

Vice Chairperson of the Board of Directors of “Surgutneftegas” PJSC

Born in 1942.
Higher education.

Share in the charter capital as of 31.12.2018	0%
Ordinary shares as of 31.12.2018	0%



Vladimir L. BOGDANOV

Member of the Board of Directors of “Surgutneftegas” PJSC

Born in 1951.
Higher education.
Doctor of Economics.
Director General of “Surgutneftegas” PJSC.

Share in the charter capital as of 31.12.2018	0.3028%
Ordinary shares as of 31.12.2018	0.3673%



Alexander N. BULANOV

Member of the Board of Directors of “Surgutneftegas” PJSC

Born in 1959.
Higher education.
Chief Engineer – First Deputy
Director General of “Surgutneftegas” PJSC

Share in the charter capital as of 31.12.2018	0.0005%
Ordinary shares as of 31.12.2018	0.0002%



Ivan K. DINICHENKO

Member of the Board of Directors of “Surgutneftegas” PJSC

Born in 1946.
Higher education.

Share in the charter capital as of 31.12.2018	0.0003%
Ordinary shares as of 31.12.2018	0%



Valery N. EGOROV

Independent member of the Board of Directors of “Surgutneftegas” PJSC

Born in 1949.
Higher education.

Share in the charter capital as of 31.12.2018	0.0057%
Ordinary shares as of 31.12.2018:	0.0063%

The Board of Directors



Viktor M. KRIVOSHEEV

Member of the Board of Directors of "Surgutneftegas" PJSC

Born in 1953.
Higher education.

Share in the charter capital as of 31.12.2018	0.0064%
Ordinary shares as of 31.12.2018	0.0072%



Georgy R. MUKHAMADEEV

Independent member of the Board of Directors of "Surgutneftegas" PJSC

Born in 1948.
Higher education.

Share in the charter capital as of 31.12.2018	0.0044%
Ordinary shares as of 31.12.2018	0.0050%



Ildus Sh. USMANOV

Member of the Board of Directors of "Surgutneftegas" PJSC

Born in 1954.
Higher education.

Share in the charter capital as of 31.12.2018	0.0018%
Ordinary shares as of 31.12.2018	0.0022%

In 2018, the powers of two members of the Board of Directors – V.I. Raritsky and V.A. Shashkov were terminated. The annual general shareholders meeting held on 29.06.2018 elected new members to the Board of Directors – V.N. Egorov and G.R. Mukhamadeev.

In the reporting year, transactions in acquisition or disposal of shares of "Surgutneftegas" PJSC by the members of the Company's Board of Directors did not take place.

Individual executive body

Vladimir L. BOGDANOV
 Director General of "Surgutneftegas" PJSC.
 Born in 1951, higher education; Doctor of Economics.
 Share in the charter capital as of 31.12.2018: 0.3028%.
 Ordinary shares as of 31.12.2018: 0.3673%.
 In 2018, transactions in acquisition or disposal of the Company's shares by Director General of "Surgutneftegas" PJSC did not take place.

Remuneration paid to the members of the Company's Board of Directors

The procedure of remuneration and compensation for the members of the Board of Directors (policy of remuneration) is defined by the Charter and the Regulations on the Board of Directors of Surgutneftegas" PJSC and applies to the members of the Company's Board of Directors who are not employed by the Company. In the reporting year, there were no changes in the Company's policy of remuneration.

It was resolved that the members of the Company's Board of Directors who do not act as the Chairperson of the Board of Directors or Director General of "Surgutneftegas" PJSC and who are not employees of "Surgutneftegas" PJSC shall be paid remuneration, the amount of which is determined in accordance with the resolution of the general shareholders' meeting of "Surgutneftegas" PJSC, during the period when they perform their duties.

The basic remuneration for each member of the Board of Directors specified in the previous paragraph is RUB 4,000,000 (four million). The members of the Board of Directors who acted as the chairpersons of the committees of the Board of Directors shall be paid additional remuneration in the amount of RUB 1,000,000 (one million). The Board of Directors has

the right to recommend to the general shareholders' meeting to reduce the amount of remuneration to individual members of the Board of Directors in relation to the basic remuneration, if they participated in less than half meetings of the Board of Directors during the period when they performed their duties.

During the period of performance of his/her duties, the Chairperson of the Board of Directors shall be paid remuneration according to the Regulations on the Board of Directors of "Surgutneftegas" PJSC.

According to the Regulation on the Board of Directors of "Surgutneftegas" PJSC, the Company reimburses the expenses of the members of the Board of Directors of "Surgutneftegas" PJSC in full provided that they are duly documented and incurred in performance of their duties.

Remuneration and reimbursement of expenses paid to the members of the Board of Directors of "Surgutneftegas" PJSC in 2018 totaled RUB 53,596.7 thousand, including:

- remuneration: RUB 48,557.1 thousand
- reimbursement of expenses: RUB 5,039.6 thousand



Report on the Company's compliance with the principles and recommendations of the Corporate Governance Code

This report on the Company's compliance with the principles and recommendations of the Corporate Governance Code was considered at the meeting of the Company's Board of Directors (Minutes No. 7 dated 17 May 2019).

The Company's Board of Directors (hereinafter – the Board of Directors) confirms that data stated in this report contain complete and accurate information on the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2018.

The Company continuously improves the system of corporate governance and runs its business under the principles of the Russian Corporate Governance Code. The Company adheres to the principles of the Corporate Governance Code, standards and requirements of the current legislation of the Russian Federation.

The general shareholders' meeting is the supreme management body of the Company. Its terms of reference are determined by the Company's Charter and comply with the requirements of the current legislation of the Russian Federation.

The Board of Directors carries out overall management of the Company's activities and has the right to adopt resolutions on any issues concerning the Company's activities except those which the Company's Charter limits to the terms of reference of the general shareholders' meeting.

As stipulated by the Company's Charter, the members of the Board of Directors are elected by the annual general shareholders' meeting for a term lasting till the next annual general shareholders' meeting, and from the number of candidates nominated by the Company's shareholders, and in the absence of such persons – candidates nominated by the Board of Directors. The members of the Board of Directors can be reelected an unlimited number of times.

The Company's Charter does not provide for the formation of the collective executive body.

Director General is the individual executive body of the Company and manages the Company's current activities in the manner and within the terms of reference determined by the Company's Charter as well as in accordance with the resolutions adopted by the Board of Directors and the general shareholders' meeting. The Board of Directors appoints Director General of the Company for a five-year period.

At expiration of Director General's term of office, the Board of Directors may appoint this person for the same period an unlimited number of times. Director General shall report to the Board of Directors and the general shareholders' meeting of the Company.

The powers of the Company's management bodies are determined by the Company's Charter.

SHAREHOLDERS' RIGHTS AND EQUAL CONDITIONS FOR ALL SHAREHOLDERS WHEN EXERCISING THEIR RIGHTS

The Company provides equal and fair treatment of all shareholders when they exercise their rights to participate in the Company's management.

In the reporting year, in accordance with the current legislation of the Russian Federation, the Company's Charter and internal documents, the Company created favorable conditions for its shareholders for participation in general shareholders' meeting, development of reasonable position on the agenda of the general meeting and coordination of their actions as well as the opportunity to express their opinions on the considered issues.

The internal document of the Company – Regulations on the general shareholders' meeting of “Surgutneftegas” PJSC approved by the general shareholders' meeting of the Company – regulates the procedure for conducting the general shareholders' meeting and is publicly available on the Company's official website in the information

and telecommunication network “Internet” (hereinafter – the Internet).

The Company provides an opportunity for shareholders to apply to the Company (orally or in writing as well as via e-mail to the addresses listed as contacts for requests from shareholders and investors), express his/her opinions and submit proposals and issues on the agenda while preparing for the general shareholders' meeting. The Company doesn't use such methods of communication between shareholders and the Company as a hot line or an Internet forum because an established practice has proved that the existing means of communication between shareholders and the Company ensure the enforcement of the shareholders' rights.

The procedure for notifying the general shareholders' meeting of the Company and provision of materials for the general meeting give to the shareholders an opportunity to properly prepare for the meeting.

For many years, notices of the general shareholders' meetings have been posted on the Company's official website at least 30 days before the general shareholders' meeting is held. Such notices contain the venue for the meeting and the documents required for admission to the premises where the meeting is held.

Information about the Company's shareholders who nominated candidates to the Board of Directors and the Auditing Committee of the Company and proposed items to be placed on the agenda is not disclosed due to the absence of consent of such shareholders to disclose such information.

In the reporting period, the shareholders were given an opportunity to readily and timely receive information about the annual general shareholders' meeting of the Company and the materials for it as well as put questions to Director General of the Company and the members of the Board of Directors while preparing and holding the annual general meeting. Every shareholder of the Company had the opportunity to apply to the Company, express his/her opinion and direct questions (orally or in writing as well as via e-mail to the addresses listed as contacts for requests from the Company's shareholders and investors).

The position of the Board of Directors on any issue on the agenda of the annual general shareholders' meeting of the Company held in the reporting period was included in the materials

for the general shareholders' meeting in the form of the approved list of draft resolutions of the general shareholders' meeting.

The Company provided the shareholders who had the right thereof with access to the list of persons entitled to participate in the general shareholders' meeting from the day of its receipt by the Company while preparing for the annual general shareholders' meeting.

Exercising the shareholders' rights to demand the general shareholders' meeting to be convened, nominate candidates to the management bodies and propose items to be placed on the agenda of the general meeting does not involve unjustified difficulties and is fully compliant with the current legislation of the Russian Federation and the Company's Charter.

In accordance with the Company's Charter and the internal document of the Company – Regulations on the general shareholders' meeting of “Surgutneftegas” PJSC – the shareholders had the opportunity to propose items to the agenda of the annual general shareholders' meeting within 30 days after the end of the calendar year. Given the established practice of shareholders' introduction of items to the agenda of the annual general shareholders' meetings, the Company considers such a period as sufficient.

In the reporting period, the Company did not refuse to include proposed items in the agenda or accept nominees to the Company's bodies due to misprints or other non-essential flaws in the shareholders' proposals.

Each shareholder of the Company was provided with an opportunity to freely exercise the right to vote in the way which is the easiest and the most convenient for him/her and which is determined by the current legislation of the Russian Federation and the internal documents of the Company.

In order to create the most favorable conditions for shareholders' participation in the general meetings, the Company applies a registration procedure of the participants of the general meeting which doesn't create obstacles to the participation of all shareholders wishing to attend the meeting in person or by proxy.

Though the internal documents of the Company do not contain provisions stipulating that any member of the general meeting may request a copy of his/her completed ballot papers certified by the ballot committee prior



to the end of the general shareholders’ meeting, each member of the meeting may apply to the Company and receive the requested copies of the documents.

The Company’s procedure for conducting the general shareholders’ meeting established by the internal document of the Company provides equal opportunities for all persons present at the meeting to express his/her opinion, ask questions and get answers.

In the reporting period, while holding the annual general shareholders’ meeting sufficient time was provided for the reports on the agenda items as well as discussion of these items.

The candidates to the management and control bodies of the Company were ready to answer the shareholders’ questions at the annual general shareholders’ meeting at which the nominees were put to vote.

The Company’s shareholders did not apply to the Company with a proposal to use telecommunications for remote access to the general shareholders’ meetings.

The shareholders have an equal and just opportunity to participate in profits of the Company by way of receiving dividends.

The Company has a transparent and clear mechanism for determining the amount of dividends and payment on them which is defined by the Company’s Charter, Regulations on Dividend Policy of “Surgutneftegas” PJSC and resolutions on dividends adopted by the general shareholders’ meeting of the Company.

While developing recommendations for the annual general shareholders’ meeting in respect of the amount of dividends, the Board of Directors uses accounting (financial) statements of the Company as required by the current legislation of the Russian Federation and the Company’s Charter.

In the reporting year, the Company adopted no resolution on the payment of dividends which, not violating formally the restrictions established by the legislation, was economically unjustified and could lead to misconceptions about the Company’s activity.

Clear indications of financial/economic circumstances in which the Company shall not pay dividends are defined by the current legislation of the Russian Federation, the Company’s Charter and Regulations on Dividend Policy of “Surgutneftegas” PJSC.

In the reporting period, the Company took no actions leading to deterioration of the dividend rights of the existing shareholders.

The internal documents of the Company contain no information about special controlling mechanisms providing for the procedure of approval by the Board of Directors or the general shareholders’ meeting for transactions with persons affiliated (associated) with significant shareholders (persons entitled to the dispose of votes assigned to the voting shares) in cases when the Federal Law “On Joint Stock Companies” does not formally recognize such transactions as interested party transactions. Despite this, the Company ensures equal treatment of all counterparties through various procedures (tenders, competitions, auctions).

During the reporting period, there were no conflicts of interests between the Company’s shareholders. At the same time, the Company has created conditions for equal treatment of all shareholders by the Company’s management bodies and the Company’s officers.

The Company undertakes no actions which lead or may lead to artificial redistribution of corporate control.

In accordance with the current legislation of the Russian Federation, the Company ensures equal conditions for voting on shares for all shareholders who own shares of one category (type), including minority and foreign shareholders.

The shareholders of the Company are provided with reliable and effective methods of recording stock ownership rights as well as the possibility of free and easy disposal of shares held by them.

The registrar of the Company carries out activities related to keeping the register of securities holders, and the quality and reliability of his/her actions comply with the needs of the Company and its shareholders.

THE COMPANY’S BOARD OF DIRECTORS

The terms of reference of the Board of Directors include adoption of resolutions related to the appointment to the position of an individual executive body (Director General) of the Company. The Board of Directors monitors compliance of Director General’s actions with the Company’s development strategy and the key areas of its activity.

While preparing for the annual general shareholders’ meeting, the Board of Directors reviews the annual report on the results achieved by the Company in the reporting year as well as plans for further development of the Company.

The Board of Directors determines major principles and approaches to the Company’s risk management and internal control systems. The Board of Directors approved Regulations on the Audit Committee of the Board of Directors of “Surgutneftegas” PJSC and Regulations on Internal Audit Service of “Surgutneftegas” PJSC. The Company established the Auditing Committee and business units ensuring the functioning of risk management and internal control systems. The Internal Audit Service of the Company annually reports to the Board of Directors on the work done. While preparing this report, the Board of Directors has assessed risk management and internal control systems of the Company and believes that in the reporting year risk management and internal control systems served the interests of the Company.

The Company has no special internal document to determine the policy on remuneration and reimbursement of expenses of the members of the Board of Directors, Director General and other key personnel of the Company. Despite this, the Company has established and operates an effective system of remuneration of its employees. The system of remuneration and compensation for the members of the Board of Directors is defined by the Company’s Charter and the Regulations on the Board of Directors of “Surgutneftegas” PJSC.

In the reporting year, there were amendments to the Company’s policy on remuneration and reimbursement of expenses of the members of the Board of Directors.

The Board of Directors plays a key role in prevention, detection and settlement of internal conflicts, if any, between the management bodies, shareholders and employees of the Company. The Company has established and operates the system of identification of transactions related to conflicts of interest as well as the system of measures aimed at resolving such conflicts.

The Company has no regulations on information policy in the form of a special document approved by the Board of Directors. However, in the course of its activity, the Board of Directors focuses on timely and full provision or disclosure of information about the Company

in the securities market. The Company has determined persons responsible for provision or disclosure of information about the Company’s activity. The Board of Directors recognizes the scope and time of information disclosure as sufficient to inform the shareholders about the Company’s activity.

To assess how the Company complies with the principles of the Corporate Governance Code the following key measures are taken:

- distribution of powers between the management bodies of the Company;
- work flow management for the Board of Directors, including its cooperation with governing and controlling bodies of the Company;
- control over the implementation of the Company’s development strategy;
- coordination of risk management;
- prevention of corporate disputes and conflicts of interest;
- relations with controlled entities;
- definition of rules and procedures ensuring compliance with the principles of corporate governance;
- coordination of information disclosure about the Company;
- monitoring of the internal control system.

The Company implements measures to eliminate flaws discovered during the examination of corporate governance status.

The Board of Directors monitors the practices of corporate governance in the Company and plays a key role in significant corporate events of the Company.

Information about attendance of the meetings of the Board of Directors and voting in the meetings is disclosed by the Company in accordance with the procedure established by the legislation of the Russian Federation in the form of statements of significant facts (about resolutions adopted by the Board of Directors).

There were eight meetings of the Board of Directors in 2018. Five meetings were attended by all nine members of the Board of Directors and three – by eight members of the Board of Directors.



The Board of Directors analyzed the results of its activities performed in the reporting year to assess its effectiveness in performing the duties of the Board of Directors and identify opportunities for its better work as well as evaluate professional expertise of the members of the Board of Directors. Self-assessment of the Board of Directors was performed during the preliminary approval of this report at joint meetings. Based on its results, the Board of Directors noted that the activity of the Board of Directors was in compliance with the current legislation of the Russian Federation, addressed the interests of the Company and its shareholders and enabled the Company to minimize current economic risks and potential conflicts of interests. The work of the Board of Directors for 2018 was recognized as satisfactory.

The Chairperson of the Board of Directors is available for communication with the Company's shareholders. The Company has a transparent procedure providing the shareholders with the opportunity to direct their questions and position (opinion) on the issues to the Chairperson of the Board of Directors.

The Board of Directors is an effective and professional management body of the Company which can make objective independent judgments and adopt resolutions that meet the interests of the Company and its shareholders.

In the reporting year, while discussing the proposals submitted by the shareholders for nominating candidates to be elected to the Company's Board of Directors, the Board of Directors considered the nominee candidates whether they had required professional knowledge, skills and experience to perform as a member of the Board of Directors as well as their business and personal reputation. The Board of Directors concluded that all candidates nominated to be elected to the Company's Board of Directors had impeccable business and personal reputation as well as knowledge, skills and experience required to adopt resolutions related to the terms of reference of the Board of Directors and effective performance of its functions and no conflict of interest.

There are no significant changes in the personal composition of the Board of Directors which allows the Company to remain stable, adhere to progressive and gradual development as well as mitigate corporate disputes and conflicts of interest and shape strategic plans and

successfully implement them. Professionalism and integrity of the Board of Directors are proved by their longstanding and excellent work. The Company provides the shareholders with information about the availability of the candidates' written consent to their election to the Board of Directors. While preparing for the general shareholders' meeting and its holding, the shareholders have the opportunity to address questions to the Chairperson of the Board of Directors or the candidates to be elected to the Board of Directors in order to get a view of their personal and professional qualities.

In 2019, 14 candidates are nominated to the Board of Directors, nine of them are the acting members of the Board of Directors. V. N. Egorov and G. R. Mukhamadeev fully qualify for the criteria of independence defined in the Corporate Governance Code as they are not associated with the Company, a significant shareholder, contractor or competitor of the Company and with the state (the Russian Federation, a constituent territory of the Russian Federation) or municipality.

In 2018, information about the eligibility of the candidates to be elected to the Board of Directors with the criteria of independence was also presented to the shareholders within the report of the Company's compliance with the principles and recommendations of the Corporate Governance Code.

The composition of the Board of Directors is balanced, including its members' skills, experience, knowledge and business proficiency, and enjoys confidence of the shareholders of the Company.

The number of the members of the Board of Directors makes it possible to arrange its activity in the most efficient manner, including the possibility to form its committees, as well as provides the significant minority of shareholders of the Company with the opportunity to elect the candidate to the Board of Directors they wish to vote for. As part of the assessment procedure of the Board of Directors conducted in preparation of this report, the Board of Directors recognized its number of members as satisfying the requirements of the Company and its shareholders' interests.

The Board of Directors is formed at the general shareholders' meeting from the number of candidates nominated by the Company's shareholders as prescribed by the current legislation of the Russian Federation and the Company's Charter.

Each member of the Board of Directors gives due preliminary assessment of the significant corporate actions, including their analysis in terms of a potential conflict of interests. This allows all the members of the Board of Directors to perform their functions most effectively.

According to the current requirements of PJSC “Moscow Exchange” to level II issuers (the Company is among them), the Board of Directors includes two independent directors.

In the reporting year, the Board of Directors considered independence of the acting members of the Board of Directors. V. N. Egorov and G. R. Mukhamadeev met all the criteria of independence set by the Listings Rules of PJSC “Moscow Exchange”.

The Chairperson of the Board of Directors arranges the effective work of the Board of Directors and its interaction with other bodies of the Company. The Chairperson of the Board of Directors has impeccable business and personal reputation and considerable experience in management positions and is committed to the Company's interests.

The role, rights and responsibilities of the Chairperson of the Board of Directors are duly defined in the internal documents of the Company.

While approving this report, the Board of Directors assessed the performance of the Chairperson of the Board of Directors. The results of assessment proved that the Chairperson of the Board of Directors provides a constructive environment of the meetings, free discussion of issues on the agenda and control over the execution of resolutions adopted by the Board of Directors.

The Chairperson of the Board of Directors creates conditions to ensure effective performance of the Audit Committee of the Board of Directors (hereinafter – the Audit Committee) and takes the initiative to nominate the members of the Board of Directors to the Audit Committee considering their professional and personal qualities as well as taking into account the proposals of the members of the Board of Directors for the formation of the Audit Committee.

The Chairperson of the Board of Directors maintains regular contacts with other bodies and officers of the Company in order to timely obtain the most comprehensive and accurate information required for the Board of Directors to consider issues and adopt resolutions on them.

The Chairperson of the Board of Directors takes necessary measures to provide the Board of Directors with information required for adopting resolutions on the agenda items within the time limits defined in the Regulations on the Board of Directors of “Surgutneftegas” PJSC.

The members of the Board of Directors act in good faith and in a reasonable manner and in best interests of the Company and its shareholders with due diligence, adequate assessment of the risks they assume and awareness of their personal responsibility for the decision they make. The Company's internal documents do not provide for the obligation of any member of the Board of Directors to notify the Board of Directors of the conflict of interest arising in regard to any issue on the agenda of the meeting of the Board of Directors or the Audit Committee. Nevertheless, the Board of Directors adopts its resolutions with due account to all information available and equal treatment of the Company's shareholders and under standard business risk. The Board of Directors may get professional advice within the terms of its reference at the Company's expense when necessary.

The Company has approved and posted on the Company's official website in the Internet the Regulations on the Board of Directors of “Surgutneftegas” PJSC which together with the Company's Charter clearly define rights and responsibilities of the members of the Board of Directors.

Based on assessment of attendance of the meetings of the Board of Directors and the Audit Committee performed when approving this report, the Board of Directors concluded that each member of the Board of Directors had sufficient time to prepare for the meetings of the Board of Directors and participate therein.

Pursuant to the requirements of Article 82 of the Federal Law “On Joint Stock Companies”, any member of the Company's Board of Directors shall notify the Board of Directors in writing of his/her election (nomination) as a member of the management bodies of other legal entities. The Company's internal documents do not directly provide for the obligation of any member of the Board of Directors to notify the Board of Directors of his/her intention to be elected as a member of the management bodies of other legal entities. However, the members of the Board of Directors are aware of having such obligation.



Any member of the Board of Directors, including any newly elected members of the Board of Directors, has equal access to any Company's documents and information. Despite the absence of the formalized program of introductory activities, any newly elected member of the Board of Directors is furnished with sufficient information on the Company and activity of the Board of Directors as soon as practicable.

The meetings of the Board of Directors are held when necessary and in regard to the Company's scope of business and tasks the Company faces in a certain period of its lifetime. The meetings of the Board of Directors in the Company may be conducted in the form of joint presence as well as by absentee voting. It is the practice that the first meeting of the newly elected Board of Directors to elect the Chairperson of the Board of Directors, the Audit Committee and the Chairperson of the Audit Committee is held in the form of joint presence immediately after the election of the new Board of Directors at the annual general shareholders' meeting of the Company.

According to the Regulations on the Board of Directors of “Surgutneftegas” PJSC approved by the general shareholders' meeting of the Company, the notification of the meeting of the Board of Directors shall be made not later than three days before such a meeting is conducted. In certain circumstances depending on the scope and significance of information to be prepared for such a meeting, the notification of the meeting of the Board of Directors is delivered to the members of the Board of Directors prior to the stated minimum period. The work of the Board of Directors proves that the established period and procedure used to notify of the meeting of the Board of Directors allow the members of the meeting of the Board of Directors properly prepare for the forthcoming meeting.

The form of a meeting of the Board of Directors is defined with due account to the significance of the agenda items. The most important issues are considered at the meetings which are held in the form of joint presence. In particular, these items include: convening the annual general shareholders' meeting of the Company and adopting resolutions on items related to convening and holding such a meeting; the preliminary approval of the Company's annual report; the election of the Chairperson of the Board of Directors, the appointment of

Director General of the Company; the approval of major transactions or interested party transactions; increasing the charter capital of the Company.

The number of votes to be obtained to adopt resolutions by the Board of Directors is determined in accordance with the current legislation of the Russian Federation, the Company's Charter and the Regulations on the Board of Directors of “Surgutneftegas” PJSC. Regular practice has shown that over many past years all resolutions of the Board of Directors have been approved by a large majority of all elected members of the Board of Directors.

Every year the Board of Directors establishes the Audit Committee which tasks are determined by the Regulations on the Audit Committee of the Board of Directors.

In the reporting year, the meetings of the Audit Committee were held when it was necessary to consider issues related to its terms of reference. Thus, in the reporting year, the Board of Directors conducted two meetings of the Audit Committee of the Board of Directors.

The composition of the Audit Committee makes it possible to conduct comprehensive discussion of the preliminarily considered issues and take into account different opinions. The Audit Committee is headed by an independent director, and independent directors constitute its majority. To adopt more effective resolutions of the Audit Committee, the meetings of the Audit Committee can be attended by the invited outside experts as provided by the Regulations on the Audit Committee of the Board of Directors.

The Chairperson of the Audit Committee regularly informs the Board of Directors and its Chairperson on the performance of the Audit Committee.

Considering the scope of the Company's activities and risk level, in this report the Board of Directors expresses an opinion that the number and composition of its committees entirely serve the Company's objectives. At the current stage of its performance the Company does not require other committees of the Board of Directors to be established.

The Board of Directors assesses its efficiency on its own, without engaging an external independent qualified organization (consultant). The results of the assessment are considered by the Board of Directors when preliminarily approving the annual report at the meetings which are held in the form of joint presence.

THE CORPORATE SECRETARY OF THE COMPANY

The Board of Directors has approved and posted on the Company's official website in the Internet the Regulations on the Corporate Secretary of “Surgutneftegas” PJSC which determine the status and authorities of the corporate secretary of the Company in compliance with the Listings Rules of PJSC “Moscow Exchange” based on the recommendations of the Corporate Governance Code. In accordance with the mentioned Regulations, the corporate secretary of the Company shall be appointed by order of Director General of the Company after preliminary approval of the Board of Directors.

THE SYSTEM OF REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS, DIRECTOR GENERAL AND OTHER KEY PERSONNEL OF THE COMPANY

The Company has developed and operates an effective system of remuneration of the Company's employees that provides the level of remuneration sufficient to attract, motivate and retain persons of high competence and skills who meet the Company's requirements. The system of remuneration and compensation for the members of the Board of Directors is defined by the Charter and the Regulations on the Board of Directors of “Surgutneftegas” PJSC.

The Company reimburses the expenses of the members of the Board of Directors in full provided that they are duly documented and incurred in the course of their duties.

The annual remuneration for the members of the Board of Directors was fixed under the current Regulations on the Board of Directors of “Surgutneftegas” PJSC. The amount of the fixed annual remuneration was differentiated depending on the scope of duties a member of the Board of Directors fulfills to reflect the additional time spent by the Chairperson of the Audit Committee in the course of his/her duties. It was also resolved that payment of such fixed annual remuneration in full is determined by the number of times when a member of the Board of Directors personally participated in such meetings, which shall be not less than one half of all the meetings of the Board of Directors.

The Company applies neither short-term motivation nor additional financial incentives of

any kind towards the members of the Company's Board of Directors. Fixed annual remuneration was the only form of money remuneration to the members of the Board of Directors during the reporting year.

The majority of the members of the Board of Directors have been the Company's shareholders for many years. The members of the Board of Directors are entitled to dispose of their shares regardless of certain performance indicators the Company has reached.

In case of early termination of powers of any member of the Board of Directors caused by change in control over the Company or other circumstances, the Company shall not provide any additional payments or compensations.

According to the Company's remuneration policy, the amount of the remuneration paid to Director General and other key executives of the Company correlates with the Company's operating results and personal contribution made to achieve them.

The remuneration of Director General and other key executives of the Company is determined to ensure reasonable and justified correlation of the fixed and variable parts thereof depending on the Company's operating results and individual contribution of an employee to the final result.

The Board of Directors believes that the Company applies the methods which provide an effective ratio of the fixed and variable parts of remuneration.

The Company applies no long-term remuneration program for Director General and other key executives of the Company which includes a stock option plan or financial instruments based on the Company's shares. At present, implementation of such programs is considered inappropriate and can present significant risks and high expenses for both the Company and the participants of such programs.

When more favorable conditions occur, the Company may reconsider the implementation of the long-term remuneration program based on a stock option plan for Director General and other key executives of the Company.

The Company's internal documents provide no compensation (so called “golden parachutes”) in case the authority of Director General or any key executives of the Company is early terminated by the Company and when there are no unfair actions on their part.



THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company has developed and effectively operates the system of risk management and internal control aimed at providing reasonable assurance that objectives set by the Company will be achieved.

The Auditing Committee shall be elected by the general shareholders' meeting to supervise the Company's financial and business activities. To have annual accounting (financial) statements audited and confirmed, the Company engages an independent external auditor. An independent auditor shall be approved by the general shareholders' meeting of the Company.

The Company has established and operates the internal audit service. Regulations on the internal audit service are approved by the Board of Directors and posted on the Company's official website in the Internet.

Functions of the Company's business units within the risk management and internal control system are clearly defined in the Company's internal local documents. There is distribution of functions and powers relating to risk management and internal control between heads of the Company's business units.

The Company has the Corporate Ethics Regulations approved by the Board of Directors which together with other internal documents of the Company sufficiently regulate issues related to informing the Board of Directors and the Audit Committee on the violation of the current legislation of the Russian Federation, including anti-corruption laws and internal procedures.

Every year the Audit Committee reviews the report of the internal audit service and informs the Board of Directors on the efficiency of the risk management and internal control system.

Based on assessment of the efficiency of the risk management and internal control system conducted during the consideration of this report, the Board of Directors expresses its opinion that the existing system of risk management and internal control of the Company facilitates true, fair and clear presentation of the Company's current state and prospects as well as integrity and accuracy of the Company's statements and soundness and acceptability of its risks.

The Company's internal audit service – a separate business unit to perform internal audit (internal audit service) – functionally reports to the Board of Directors and performs internal auditing of the Company.

The Company adheres to generally accepted standards of the internal control and risk management which are implemented taking into account the specifics of the Company's activity. During the reporting period, the internal audit service assessed the efficiency of the internal control system as positive.

DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND INFORMATION POLICY OF THE COMPANY

The Company's information policy was not approved by the Board of Directors as a separate document. Nevertheless, in terms of disclosure and provision of its information the Company's activity is committed to observance of legal rights and interests of stakeholders as well as strict compliance with the current legislation of the Russian Federation and principal recommendations of the Corporate Governance Code.

In the reporting year, the Company's Board of Directors approved the Regulations on Submission of the Documents and Information to the Shareholders of “Surgutneftegas” PJSC.”

The Company applies various means of communication with its shareholders and other stakeholders. Contact information, including email addresses and telephone numbers, of the persons responsible for relations with investors and shareholders can be found on the Company's official website in the Internet. In addition, shareholders and investors can timely receive current information during presentations and meetings with the members of management bodies and other key executives of the Company, including those related to major investment projects, the Company's strategic development plans and significant corporate events.

In 2018, the Company disclosed information on the system and practice of the Company's corporate governance, including detailed information on compliance with the principles and recommendations of the Corporate Governance Code under the current legislation of the Russian Federation, and also information on the members of the Company's management bodies as well as information on independence of the members of the Board of Directors and their membership in the Audit Committee in the statements of significant facts, quarterly reports of the issuer and the annual report of the Company for 2017 posted on the Company's official website.

The Company's policy on disclosure and provision of information is based on the principles of regularity, continuity and promptness as well as availability, reliability, completeness and comparability of disclosed information through implementation of the following guidelines:

- continuous information disclosure;
- the possible shortening of information disclosure which may significantly affect valuation of the Company and (or) market price of its securities;
- simultaneous and equivalent disclosure of significant information in the Russian Federation and abroad;
- prompt provision of the Company's position on rumors or false information which can distort the Company's value and (or) market price of its securities;
- various channels and means of information disclosure, including electronic, available for the majority of stakeholders;
- information distribution through the channels providing the stakeholders with free and easy access to information disclosed by the Company;
- free-of-charge access to disclosed information requiring no special procedures (obtaining passwords, registration or other technical constraints);
- disclosure of clear and coherent information;
- provision of objective and balanced information;
- impartiality when disclosing financial and other information (independence from the interests of any persons or their groups when disclosing such information).

The Company furnishes all required information in compliance with the rules of stock exchanges on which its securities are traded and in connection with the existing programs of the depository receipts issued for the Company's shares.

The Company discloses information on the Company's official website in the Internet both in Russian and English.

In the reporting period, the Company strictly adhered to the current legislation of the Russian Federation on disclosure of the annual and interim

consolidated financial statements prepared according to the International Financial Reporting Standards (IFRS), published on the Company's official website in the Internet and included in the quarterly reports. The annual general shareholders' meeting held in 2018 approved the Company's annual accounting (financial) statements prepared according to the Russian Accounting Standards (RSBU) as well as the auditor's report.

The Company discloses information on the Company's equity structure in the quarterly reports of the issuer available on the Company's official website in the Internet in compliance with the current legislation of the Russian Federation.

The Company's annual report is one of the most important information tools of interaction between the Company, shareholders and other stakeholders. It contains information which enables to assess the Company's operating results for the relevant reporting year, including the key aspects of the Company's operation, its financial performance and environmental and socially significant activities.

The Company's information policy (defined as a range of measures allowing the Company to achieve its goals stipulated by the Corporate Governance Code) is to ensure easy access to information (documents) upon request of the shareholders, including information on the Company's subsidiaries, within the limits of and under the current legislation of the Russian Federation.

During the reporting period, the Company complies with shareholders' requests for information except when such requests were reasonably refused.

To ensure the sound balance of interests of the Company's shareholders and the Company itself, when providing the shareholders with information which can significantly affect the Company's competitiveness, the Company notifies the shareholders of the confidential character of such information and the shareholders agree to accept responsibility not to disclose it in compliance with the current legislation of the Russian Federation.

SIGNIFICANT CORPORATE ACTIONS

The actions which significantly affect or may affect the equity structure and (or) financial standing of the Company and, as the result, the interests of its shareholders (significant



Report on declared (accrued) dividends on shares of “Surgutneftegas” PJSC

The Company’s management body which adopted a resolution (declared) to pay dividends on shares of “Surgutneftegas” PJSC: the annual general shareholders’ meeting.

Date of the meeting (session) of the Company’s management body when the resolution to pay (declare) dividends for 2017 was adopted: 29.06.2018.

Date and number of the minutes of the meeting of the Company’s management body which adopted the resolution to pay (declare) dividends for 2017: 29.06.2018, No. 29.

The date as of which the persons entitled to dividends for 2017 are determined: 19.07.2018.

Dividend rates for 2017:

- dividends declared (accrued) on one ordinary share (RUB): 0.65;
- dividends declared (accrued) on one preference share (RUB): 1.38;
- dividends declared (accrued) on all ordinary shares (RUB): 23,221,896,558.25;
- dividends declared (accrued) on all preference shares (RUB): 10,628,757,564.30;
- total dividends paid on all ordinary shares of the Company as of 31.12.2018 (RUB): 23,196,110,494.01;
- total dividends paid on all preference shares of the Company as of 31.12.2018 (RUB): 10,516,324,657.43.

The due period for declared dividend payment: not later than on 23 August 2018.

Form and other payment terms for declared dividends for 2017: electronic money transfer.

In 2018, the dividends were paid for 2014-2016. The total dividends for 2014-2016 paid on all ordinary shares of the Company in 2018 amounted to RUB 3,659,512.62; on all preference shares of the Company – RUB 44,430,989.13

Obligations to pay dividends on the Company’s shares were fulfilled except when “Surgutneftegas” PJSC does not bear responsibility in accordance with Clause 16, Article 8.2 of Federal Law No. 39-FZ “On Securities Market” dated 22.04.1996.

corporate actions) are performed by the Company under equitable conditions promoting strict adherence to the rights and interest of all shareholders and other stakeholders in accordance with the current legislation of the Russian Federation and the Company’s Charter.

The Company recognizes the following as the significant corporate actions: the Company’s reorganization, acquisition of 30 and more percent of the voting shares of the Company (takeover), major transactions conducted by the Company, increase or decrease in the charter capital of the Company, listing and delisting of the Company’s shares as well as other actions which may substantially modify the shareholders’ rights or violate their interests. When performing significant corporate actions, the Company will ensure compliance with the current legislation of the Russian Federation and be striving to protect its shareholders’ rights and vested interests.

According to the current legislation of the Russian Federation, resolution issues related to the significant corporate actions fall within the terms of reference of the Board of Directors or general shareholders’ meeting. At the same time, the Company has defined criteria for identifying transactions and other actions recognized as the significant corporate actions and referred such actions to the terms of reference of the Board of Directors as specified by the Company’s Charter and the current legislation of the Russian Federation.

When performing the corporate actions directly referred to the terms of reference of the general shareholders’ meeting under the current legislation of the Russian Federation, the Board of Directors provides the Company’s shareholders with relevant recommendations in the form of draft resolutions on the issues of the agenda approved by the general shareholders’ meeting unless there are the issue and draft resolution thereon which are placed on the agenda of the general shareholders’ meeting on the proposal of the persons entitled to do this under the Company’s Charter and the current legislation of the Russian Federation and the Company’s Charter.

When considering the issues related to the significant corporate actions, independent directors are free to express his/her position, and in doing this the Board of Directors takes into consideration the opinion of the independent directors when adopting resolutions and (or)

recommendations related to the significant corporate actions.

The Company provides its shareholders with equal conditions when performing significant corporate actions which can affect their rights and vested interests. The Board of Directors believes that the existing approaches provided for by the current legislation of the Russian Federation are sufficient to protect rights and vested interests of the Company’s shareholders.

In the reporting year, all significant corporate actions were performed after being approved by the Company’s management bodies according to their terms of reference provided for by the current legislation of the Russian Federation and the Company’s Charter.

The Company’s procedures related to the significant corporate actions enable the shareholders to obtain timely and complete information on such actions.

The Company disclosed information on the significant corporate actions of the reporting period in a timely manner and in the scope not less than it is provided for by the current legislation of the Russian Federation.

The Company’s rules and procedures related to the Company’s significant corporate actions are recognized in the Company’s Charter and internal documents of the Company in accordance with the current legislation of the Russian Federation. The Company’s internal documents do not provide for an independent valuator to be invited to appraise the property to be alienated or acquired under a major transaction or interested party transaction, or evaluate acquisition and redemption value of the Company’s shares. However, the Company shall engage an independent valuator when it is required by the current legislation of the Russian Federation. In other cases the Board of Directors can invite an independent valuator if it deems appropriate.

The Company assesses the practical value of recommendations of the Corporate Governance Code taking into consideration strategic goals of the Company’s development as well as specifics of the current economic situation and present trends of the legal regulation of the corporate relations. Time limits of activities and measures to improve the Company’s existing models and practice of the corporate governance shall be fixed by taking into account objective constraints which determine the current practicality of performance of such actions and measures.

06

Additional information

List of the Company's transactions carried
out in the reporting year

Energy resources utilized
by the Company



List of the Company's transactions carried out in the reporting year

In 2018, the Company did not carry out any transactions recognized in accordance with Federal Law No. 208-FZ "On Joint Stock Companies" dated 26.12.1995 as major transactions.

In 2018, the Company concluded the contract on insurance of liability of the directors of the Company. The management body of the Company which adopted a resolution to approve the stated transaction: the general shareholders' meeting of the Company.

Energy resources utilized by the Company

In 2018, "Surgutneftegas" PJSC utilized the following energy resources:

Name of the utilized energy resources, unit of measure	Consumption	
	Volume in kind	Cost, thousand RUB
Thermal energy, thousand Gcal	1,744	4,760,393
Electrical energy, thousand kWh	11,733,101	28,304,523
Motor gasoline, tonnes	14,688	523,479
Diesel fuel, tonnes	259,580	10,146,624
Kerosene, tonnes	40	1,373
Fuel oil, tonnes	568	4,908
Oil, tonnes	31,639	456,003
Associated gas, thousand cub m	1,914,366	4,695,810
Natural gas, thousand cub m	52,924	69,119



07

Background information

Information about the Company
in the Internet

Full corporate name





Background information

INFORMATION ABOUT THE COMPANY IN THE INTERNET

The Company's website: www.surgutneftegas.ru

FULL CORPORATE NAME

"Surgutneftegas" Public Joint Stock Company

THE COMPANY'S LOCATION

Russian Federation, Tyumenskaya Oblast, Khanty-Mansiysky Autonomous Okrug – Yugra,
Surgut, ul.Grigoriya Kukuyevitskogo, 1, bld.1

The annual report of the Company is approved by the annual general shareholders' meeting of "Surgutneftegas" PJSC on 28.06.2019, Minutes No. 30 dated 28.06.2019.

This Brochure includes the parts of the annual report.

Brent and Urals quotations are calculated by the Company on the basis of data provided by THOMSON REUTERS.

Industry figures: source – periodicals "TEK Rossii" and "Oil & Gas Vertical".

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

AUDIT REPORT

Opinion

We have audited the accompanying consolidated financial statements of "Surgutneftegas" Public Joint Stock Company and its subsidiaries (hereinafter – the "Group") which comprise the consolidated statement of financial position as of 31 December 2018 and the consolidated statements of profit and loss and other comprehensive income, cash flows and changes in equity for 2018 and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of the Group as of 31 December 2018, and its consolidated financial performance and consolidated cash flows for 2018 in accordance with International Financial Reporting Standards (hereinafter – IFRS).

Basis for Opinion

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

Key Audit Matters

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

We fulfilled our responsibilities described in Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report with regard to these matters. The audit included procedures developed in response to our assessment of risks of material misstatement of the consolidated financial statements. Results of our auditing procedures serve as a basis for our auditor's opinion about the accompanying consolidated financial statements.

Key Audit Matter**How the respective key matter was reviewed in the course of our audit*****Impairment of non-current assets***

In accordance with the requirements of IFRS, the Group shall annually test non-current assets for impairment. This annual test for impairment was material to our audit because the carrying amount of non-current assets as of 31 December 2018 is material to the consolidated financial statements. In addition, the process of impairment of non-current assets is complex and it requires critical subjective judgements and assumptions from the management.

Volatility of oil prices and the exchange rate of the ruble, inflation and unstable economic situation may result in impairment of the Group's non-current assets.

Note 15 of the consolidated financial statements contains information on property, plant and equipment and on the conducted impairment test.

Our audit procedures included, among other matters, engagement of our business evaluation experts in examination of the results of the impairment test and calculation of the recoverable value of assets conducted by the Group. In the process of examination, price assumptions for oil and oil products used in calculations made by the Group were compared with the range of the forecasted market prices. The discounting rate applied by the Group was compared with the discounting rate peculiar to the industry in which the Group operates.

The impairment model applied by the Group and sensitivity analysis were checked for arithmetic accuracy as well as for consistency of formulas and calculations applied in the model as compared with the prior periods.

We also focused our audit procedures on adequacy of those judgements and assumptions to which the results of the impairment test are the most sensitive and have the most significant influence on determination of the recoverable value on non-current assets, namely, estimate of oil and gas reserves, future capital expenditures, forecasted production and refining of oil and oil products, forecasted oil and oil products prices, determination of applicable discount rates.

Key Audit Matter**How the respective key matter was reviewed in the course of our audit*****Estimation of oil and gas reserves***

Estimate of oil and gas reserves is material to our audit because it is used for calculation of future cash flows which serve as one of the main indicators of impairment of non-current assets and influences the calculation of the indicators of depreciation, depletion and amortisation of oil and gas exploration and production assets as well as asset retirement obligations.

Note 4 of the consolidated financial statements contains information on significant accounting estimates made in connection with the appraisal of oil and gas reserves.

Our audit procedures included the assessment of sufficiency, objectivity and reliability of data available to the Group for the purpose of the estimate of oil and gas reserves. We ascertained the correspondence of assumptions made for the estimate of oil and gas reserves, such as forecasts of oil and gas production, operating expenses, planned capital investments, with the data from operational indicators approved by the Group's management.

We ascertained the data on oil and gas reserves obtained by the Group is used in calculations made during the test for impairment of non-current assets, determination of indicators of depreciation, depletion and amortisation of oil and gas exploration and production assets as well as asset retirement obligations.

Revenue recognition

Revenue recognition is material to our audit because the amount of revenue is significant to the consolidated financial statements. Besides, the Group has various sources of revenue in which the procedure of price determination as well as title, risks and benefits transfer differ significantly.

Despite the high level of standardisation due to the unified system of accounting when forming the amount of revenue, the large number of contracts and the significant amount of transactions may constitute a potential risk of misstatement of financial indicators of the consolidated financial statements.

Notes 3, 7 contain information on the amount of revenue recognised in the statements and the procedure of its recognition recorded in the accounting policy of the Group.

Our procedures included assessment of consistency of application of the accounting policy to different sources of revenue. We tested effectiveness of revenue recognition control means and carried out analytical procedures by types of revenues. Our detailed procedures were focused on assessment of arithmetic accuracy of revenue recognition.

We also checked timeliness of revenue recognition as well as the Group's right to the recognised revenue based on the terms and conditions of contracts, appendices thereto and other documents.

Key Audit Matter	How the respective key matter was reviewed in the course of our audit
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Accounting for deposits placed

Accounting for placed deposits is material to our audit because the carrying amount of placed deposits is significant to the consolidated financial statements.

Notes 10, 30, 31 contain information on the amounts of placed deposits recorded in the Group's consolidated financial statements.

Our procedures were focused on confirmation of the carrying amount of deposits recorded in the Group's consolidated financial statements. We analysed the data on ratings of financial institutions with which the Group placed deposits as of the reporting dates and ascertained that deposits were placed with financial institutions having high reliability ratings. We tested placed deposits for correctness of accounting recognition in accordance with the terms and conditions of contracts. We also ascertained that cash was placed at rates close to market rates. We checked mathematic correctness of formation of the carrying amount of deposits and their recognition in current and non-current assets.

Other information

The Group's management is responsible for other information. Other information includes quarterly reports of the issuer for the 1, 2, 3 and 4 quarters of 2018 (but does not include the consolidated financial statements and our audit report thereon) which we received before the date of this audit report and a quarterly report of the issuer for the 1 quarter of 2019 which will be provided to us after this date.

Our opinion on the consolidated financial statements does not cover other information and we do not make any conclusion providing certainty in any form thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read other information and, in doing so, consider whether other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the course of audit and otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are obliged to report that fact. We have not elicited any facts to report in this regard.

Responsibility of the Audited Entity Management for the Consolidated Financial Statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for the system of internal control as the management determines to be necessary to enable preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance that the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to prepare an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA always detects a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. Besides, we also:

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the audited entity's internal control;
- c) evaluate the appropriateness of accounting policies applied and the reasonableness of estimates and related disclosures made by the management;
- d) conclude on the appropriateness of the use by the management of an audited entity of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the audited entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are obliged to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the audited entity to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves their fair presentation;
- f) obtain sufficient and appropriate audit evidence related to the financial information of organisations or activities within the Group to express the opinion on the consolidated financial statements. We are responsible for management, control and performance of the Group's audit. We are fully responsible for our audit report.

We communicate information to the management of an audited entity about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the management of an audited entity with a statement that we have complied with all relevant ethical requirements regarding independence, and communicated to them about all relationships and other matters that may be reasonably thought to bear on the auditor's independence, and where applicable, related safeguards.

From the matters communicated to the management of the audited entity, we have determined those matters that were of most significance in the audit of the consolidated financial statements for 2018 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of these matters or when, in extremely rare circumstances, we determine that a matter shall not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

"Crowe Expertiza" LLC
29 April 2019

Audit report engagement partner

Deputy Director General



V.V.Potekhin

Auditor Qualification Certificate
No.05-000126 issued as per Resolution No. 20
of SROA "NP "Russian Collegium of Auditors" dated 22.06.2012.

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.

Director General

General Audit Qualification Certificate No. K008734
issued as per Resolution No. 9
of the Ministry of Finance of Russia
dated 24.10.1994 for an unlimited period.

Main registration number in the Register of Auditors
and Audit Organizations 21603057647,
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.



A.V.Kozlov

Details of the audited entity

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

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. Mashki Poryvaevoy, 34,
Moscow, Russian Federation, 107078.
A member of Self-Regulated Auditor Organization
"Russian Union of Auditors (Association)".

“SURGUTNEFTEGAS” PJSC

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRS)**

31 December 2018

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

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

Notes	As of 31 December 2018	As of 31 December 2017
ASSETS		
Current assets		
9 Cash and cash equivalents	260,346	217,501
9 Restricted cash	2,094	2,049
10 Deposits placed	839,021	829,500
13 Loans granted	14,968	17,239
Other financial assets	2,180	2,711
11 Receivables	112,501	91,268
14 Inventories	90,323	81,302
12 Advances issued	23,941	15,493
VAT recoverable	9,337	8,059
Income tax receivable	30	3,017
Other taxes recoverable	145	134
Total current assets	1,354,886	1,268,273
Non-current assets		
15 Property, plant and equipment	1,472,101	1,430,760
16 Intangible assets	8,749	9,081
10 Deposits placed	2,264,130	1,488,934
Other financial assets	5,552	9,440
26 Deferred tax assets	24	19
13 Loans granted	28,010	29,111
11 Receivables	1,093	1,205
Other non-current assets	1,246	2,867
Total non-current assets	3,780,905	2,971,417
Total assets	5,135,791	4,239,690
LIABILITIES AND EQUITY		
Current liabilities		
17 Payables and liabilities accrued	49,468	47,696
18 Other financial liabilities	197,138	184,462
Advances received	32,255	22,336
19 Other tax liabilities	67,720	65,937
Income tax liabilities	22,554	16
20 Provisions	3,508	3,324
Total current liabilities	372,643	323,771
Non-current liabilities		
18 Other financial liabilities	18,933	3,850
26 Deferred tax liabilities	190,807	162,732
20 Provisions	125,727	134,763
Other non-current liabilities	1,337	1,377
Total non-current liabilities	336,804	302,722
Equity		
21 Share capital	154,666	154,666
Additional paid-in capital	4	4
21 Treasury shares	(30)	(30)
21 Share premium	57,809	57,809
Retained earnings	4,214,571	3,400,441
Other reserves	(964)	9
Total equity attributable to shareholders	4,426,056	3,612,899
Non-controlling interests	288	298
Total equity	4,426,344	3,613,197
Total liabilities and equity	5,135,791	4,239,690

A.N.Bulanov

Acting Director General
“Surgutneftegas” PJSC

29 April 2019

A.V.Druchinin

Chief Accountant
“Surgutneftegas” PJSC

“Surgutneftegas” PJSC

Consolidated statement of profit and loss and other comprehensive income

(in millions of Russian rubles, unless otherwise stated)

Notes	2018	2017
7 Sales	1,867,120	1,364,432
22 less export duties	(311,161)	(189,413)
7 Total sales revenue:	1,555,959	1,175,019
sales of oil	988,795	725,238
sales of oil products	525,188	409,656
sales of gas and gas products	26,509	24,140
sales of other products and finished goods	7,483	8,562
other sales	7,984	7,423
23 Operating expenses	(1,140,765)	(902,632)
Operating profit	415,194	272,387
24 Finance income	136,224	112,856
24 Finance expenses	(16,816)	(16,027)
25 Exchange differences, net	529,387	(118,428)
Loss from sale and other disposal of financial assets	(65)	(2,159)
Other expenses	(25,029)	(2,196)
Profit before tax	1,038,895	246,433
Income tax		
Current income tax	(159,627)	(15,251)
Changes in deferred income tax	(28,907)	(36,464)
26 Total income tax expense	(188,534)	(51,715)
Net profit	850,361	194,718
Other comprehensive income / (expense)		
that may be reclassified subsequently to profit / (loss), net of income tax		
Changes in fair value of financial assets	5	(7)
Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax		
Changes in fair value of financial assets	(972)	-
20 Remeasurements of post-employment benefit obligations	4,616	(864)
Total other comprehensive income / (expense), net of income tax	3,649	(871)
Total comprehensive income	854,010	193,847
Net profit		
attributable to shareholders	850,350	194,658
attributable to non-controlling interests	11	60
Total comprehensive income		
attributable to shareholders	853,998	193,789
attributable to non-controlling interests	12	58
27 Net earnings attributable to shareholders		
per one ordinary share (in rubles)		
basic and diluted	22.16	5.15

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

Notes		2018	2017
	Operating activities		
	Profit before tax	1,038,895	246,433
	Adjustments:		
23	Depreciation, depletion and amortisation	66,643	66,296
23	Losses from disposal of exploration and production properties	1,547	1,097
	Loss allowance for expected credit losses accrued	3,373	3,865
	Other provisions accrual / (recovery)	(913)	2,075
	Exchange differences	(512,672)	111,378
	Loss from sale and other disposal of financial assets	65	2,159
	Loss from sale of a subsidiary	83	-
24	Interest (income) / expenses from discounting, net	(5,477)	3,692
24	Interest receivable	(126,735)	(112,758)
24	Interest payable	12,804	12,237
	Loss from sale and disposal of property, plant and equipment, and intangible assets	2,536	2,746
15	Impairment / (reversal of impairment) of non-financial assets	29,436	(1,591)
	Others, net	7	(244)
	Cash flows from operating activities before changes in working capital and income tax	509,592	337,385
	Change in receivables	(24,021)	(6,218)
	Change in advances issued	(8,449)	2,513
	Change in inventories	(6,058)	4,782
	Change in other assets	1,609	1,222
	Change in trade and other payables	1,663	(455)
	Change in advances received	9,921	1,636
	Change in restricted cash	(45)	(1,106)
	Change in other taxes (other than income tax)	494	14,970
	Change in other liabilities	(89)	(184)
	Cash from operating activities before income tax	484,617	354,545
	(Income tax paid) / income tax refund	(134,103)	1,539
	Net cash from operating activities	350,514	356,084
	Investing activities		
	Capital expenditures	(151,291)	(160,181)
	Deposits placed	(1,105,211)	(631,042)
	Deposits refunded	816,942	414,173
	Loans granted	(39,510)	(44,249)
	Loans collected	38,548	45,810
	Interest received	144,337	80,189
	Proceeds from sale of a subsidiary	156	-
	Proceeds from sale of financial assets	6,681	10,287
	Acquisition of financial assets	(450)	(5,781)
	Proceeds from sale of property, plant and equipment	580	498
	Net cash used for investing activities	(289,218)	(290,296)
	Financing activities		
30	Net acquisition of other financial liabilities	25,679	82,030
	Dividends paid (incl. tax)	(33,769)	(26,094)
	Interest paid	(11,475)	(11,963)
	Net cash from / (used for) financing activities	(19,565)	43,973
	Net change in balances of cash and cash equivalents	41,731	109,761
	Effect of exchange rate changes against ruble on cash and cash equivalents	1,114	287
9	Cash and cash equivalents at the beginning of the period	217,501	107,453
9	Cash and cash equivalents at the end of the period	260,346	217,501

“Surgutneftegas” PJSC

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
21	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 year	-	-	-	-	194,658	-	194,658	60	194,718
	Other comprehensive expense	-	-	-	-	(864)	(5)	(869)	(2)	(871)
	Total comprehensive income / (expense)	-	-	-	-	193,794	(5)	193,789	58	193,847
	Dividends declared	-	-	-	-	(26,057)	-	(26,057)	(5)	(26,062)
21	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 year	-	-	-	-	850,350	-	850,350	11	850,361
	Other comprehensive income / (expense)	-	-	-	-	4,616	(968)	3,648	1	3,649
	Total comprehensive income / (expense)	-	-	-	-	854,966	(968)	853,998	12	854,010
6	Change in ownership interests in subsidiaries	-	-	-	-	-	-	-	(13)	(13)
21	Dividends declared	-	-	-	-	(33,850)	-	(33,850)	(9)	(33,859)
	Other changes in equity	-	-	-	-	6	(5)	1	-	1
21	Balance as of 31 December 2018	154,666	4	(30)	57,809	4,214,571	(964)	4,426,056	288	4,426,344

The accompanying notes are an integral part of these 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 Company began its oil and gas production history in 1964 when it was established as oil producing division “Surgutneft”. In 1977, the Company was recognised as a diversified production association. In 1993, pursuant to Decree of the President of the Russian Federation No. 1403 dated 17.11.1992, Production Association “Surgutneftegas” was transformed into Joint Stock Company of Open Type “Surgutneftegas”.

The Company’s shares are allocated to shareholders, neither of them being an ultimate controlling party or a party exercising a significant influence.

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.

The average number of the Group’s employees in 2018 is 115 thousand people (in 2017 – 116 thousand people).

2 Basic principles of financial reporting

Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including all IFRS standards and interpretations adopted by the International Accounting Standards Board (IASB) and effective in the reporting period.

These consolidated financial statements have been prepared on the basis of the actual cost measurement principle, except for financial instruments initially recognised at fair value and revaluation of financial instruments measured at fair value through profit or loss and at fair value through other comprehensive income.

These consolidated financial statements have been prepared on the basis of the accounting data as set out in the accounting and reporting regulations of the Russian Federation adjusted for the purpose of fair presentation under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates some of which are critical. In addition, the management shall rely upon its judgements in applying the Group’s accounting policies. The areas of accounting, involving a higher degree of judgement or complexity, and areas where assumptions and estimates are material to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which means that the value of assets shall be duly recovered and liabilities shall be duly settled in the ordinary course of business.

3 Summary of significant accounting policies

The summary of significant accounting policies used to prepare these consolidated financial statements is presented below. These accounting policies have been consistently applied to all periods defined in these consolidated financial statements, except for changes in accounting policies resulting from applying IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers”.

Subsidiaries

The consolidated financial statements include data on the operations of the Company and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it has power that gives it the ability to direct the relevant activities (the activities that significantly affect the

subsidiary's returns), when it has rights to variable returns from its involvement with the entity and is exposed to the risks arising from such returns. The acquisition date is the date on which control over a subsidiary is transferred to the Group.

Subsidiaries are included in the consolidated financial statements from the date on which the control over their operations is transferred to the Group (the acquisition date) and are excluded from the consolidated financial statements from the date the control ceases.

Investments in subsidiaries are recorded based on the acquisition method. The acquisition cost is evaluated as the aggregate of the consideration transferred, measured at fair value at the acquisition date.

Non-controlling interest is part of the net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly, by the Group. Non-controlling interest is a separate component of the Group's equity.

Non-controlling interest, that represents an actual ownership interest and entitles the holder to a proportionate share of the net assets in the event of liquidation, is measured either individually for each transaction – at fair value, or in proportion to the non-controlling interest in the net assets of the acquired entity. Non-controlling interest that is not an actual ownership interest is measured at fair value.

When acquiring (selling) non-controlling interests, the difference between the consideration transferred (received) and the carrying amount of the non-controlling interest acquired (sold) is recognised as an equity transaction.

Goodwill

Goodwill arises from the acquisition of subsidiaries.

The excess of the consideration transferred, value of the acquired non-controlling interest and fair value of any interest previously held by the Group at the acquisition date over the Group's interest in fair value of the identifiable net assets acquired is recognised as goodwill within Intangible assets in the consolidated statement of financial position. If the actual acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is directly recognised in the consolidated statement of profit and loss and other comprehensive income. Goodwill is reviewed for potential impairment at each reporting date.

Cash-generating units (CGU) to which goodwill is allocated represent the lowest level within the Group at which goodwill is monitored by the management and within the operating segment only.

Transactions eliminated during consolidation

The following is eliminated from the consolidated financial statements:

the carrying amount of the parent entity's investments in each subsidiary, the amount of the share capital of each subsidiary as well as interests in other equity and retained earnings items;

intragroup cash flows;

balances, income and expenses resulting from intragroup transactions as well as unrealised gains and losses from such transactions, except for losses from transactions between the Group's entities indicating an impairment and which are to be recognised as such.

Application of uniform accounting policies

The Group's entities use uniform accounting policies and reporting periods. If the Group's entities use different accounting policies, their financial statements are duly adjusted and included in the consolidated financial statements of the Group.

Cash and cash equivalents, restricted cash

Cash and cash equivalents include cash in hand, cash in settlement accounts, cash held with correspondent banks and other short-term highly liquid investments (with the original maturity under the contract less than three months) that are readily convertible to previously known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Restricted cash is recognised separately in the consolidated statement of financial position.

Inventories

Inventories consisting primarily of raw materials and supplies, oil and oil products are presented in the consolidated statement of financial position at the lower of the acquisition cost and the net realisable value. The cost of finished goods and work in progress comprises the cost of raw materials and supplies, direct costs as well as related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and costs necessary to make the sale.

The cost of inventories that are recognised as operating expenses is measured at the weighted average cost.

Property, plant and equipment

Property, plant and equipment are stated at actual cost of acquisition or construction, less accumulated depreciation and accumulated impairment losses, where required. The cost of property, plant and equipment also includes the initial estimate of the costs of removing an item of property, plant and equipment and the estimate of obligations for land remediation and restoration.

Minor renewals which do not contribute to any quality technical improvements are recorded in expenses of the current period. The costs of replacing major parts or components of property, plant and equipment are capitalised, and the cost of the parts to be replaced is concurrently written off. Enhancement or renovation related to the asset which has already been recognised as an item of property, plant and equipment increases its carrying amount, if future economic benefits to be most likely obtained by the Group exceed the initial asset standard estimates.

Oil and gas properties

Exploration and evaluation costs

Costs of oil and gas reserves exploration and evaluation at fields not brought into commercial production are recognised using the successful efforts method.

Accordingly, costs associated with acquisition of licences for oil and gas reserves exploration and evaluation, prospecting and exploratory drilling, costs of equipment for exploratory wells and prospecting and appraisal wells, and topographical, geological and geophysical surveys costs are designated as exploration and evaluation assets until development of a field is proved to be commercially feasible and are capitalised within respective licence blocks.

These costs are recognised to be written off based on the results of the works performed. Capitalised costs which have been ineffective are recognised in operating expenses of the reporting period.

Annually, all costs are measured for impairment from technical, economic and management perspectives. If impairment is recognised, an impairment loss is expensed and the value of an asset is reduced.

If oil and gas reserves have been discovered and a decision on bringing a field into development has been made, the capitalised costs, less losses from impairment of the respective exploration and evaluation assets, are classified as related assets.

Other costs associated with protection of lands, subsoil and other natural resources as well as costs of engineering and geological surveys are expensed as incurred.

Development and production costs

Costs incurred at fields brought into commercial production, which include expenses to access recoverable reserves, costs related to drilling production wells and construction, installation and equipment of other facilities directly associated with development of a field, are capitalised as part of oil and gas assets.

Oil and gas exploration and production licences

Oil and gas exploration and production licences are recorded in oil and gas exploration and production assets at actual cost, less accumulated amortisation and impairment loss.

Depletion, depreciation and amortisation

Oil and gas properties and oil and gas exploration and production licences are depreciated and amortised using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production of oil and gas.

Items of other property, plant and equipment and their respective estimated useful lives are as follows:

Buildings and structures	10–40 years
Vehicles	5–20 years
Machinery and equipment	5–25 years
Other properties	2–25 years

Capitalised costs are amortised over the useful life of an asset or its parts determined by the Group.

Abandoned, idle items of other property, plant and equipment (except for those classified as assets held for sale) are depreciated subject to general rules applied to the respective classes of assets. Items of property, plant and equipment are depreciated on a straight-line basis by writing down their historical cost to residual value within the period of their useful life.

Depreciation of an asset ceases at the earlier of the two dates: the date when the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date when the asset is derecognised.

Land and construction in progress are not depreciated.

Gain or loss from disposal of property, plant and equipment is the difference between the consideration received and the carrying amount; it is recognised in other income (expenses) as incurred.

Construction in progress

Construction in progress includes expenses directly related to the construction of items of property, plant and equipment, including respective overhead costs allocated to such construction. Depreciation of an asset begins when an asset is available for use, i.e. when it is brought to the condition usable as intended by the management.

Advances for acquisition of property, plant and equipment directly related to construction projects are accounted for construction in progress.

Recognition of asset retirement (decommissioning) obligations

The Group has obligations related to decommissioning of facilities engaged in its core activities.

The Group's core activities are geological exploration, field development and oil and gas production associated with operation of wells, equipment and adjacent sites, oil gathering and initial treatment facilities, pipelines to oil trunk lines. Rights related to the Group's core activities include requirements for decommissioning of oil production facilities and other facilities. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other activities. The Group's estimates of these obligations are subject to fulfilling current decommissioning obligations in respect of such facilities to the extent that the Group is obliged to perform restoration works and include determination of discounted costs which are expected to be incurred to fulfil such obligations. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the obligations.

These obligations are reviewed at the end of each reporting period. Changes in the estimates of the obligations are subject to recognition as follows:

upon changes in the estimates influencing the future cash flows (e.g., the costs of and time frame of abandoning one well) or a discounting rate, changes in the estimates of the obligations are included in the amount of an item of property, plant and equipment. However, if a decrease in the estimate of the obligations exceeds the carrying amount of the relevant asset, the excess is recognised in profit or loss. In case of an increase in the obligations, the amount of the adjusted item of property, plant and equipment may not exceed the recoverable amount of this item;

changes in the amount of the obligations due to its nearing maturity (amortisation of discount cost) are included in finance expenses.

Future events that may affect the amount of obligations required to settle decommissioning and environmental protection obligations are reflected in the estimates of these obligations where there is sufficient objective evidence that they will occur. Due to changes in the legislation of the Russian Federation, there could be future changes related to decommissioning obligations.

Intangible assets

To recognise intangible assets generated by the Group's companies, the Group subdivides the generation of an asset into a research phase and a development phase.

Research expenditures are charged to operating expenses as incurred.

Costs incurred to develop an intangible asset are capitalised once technical and economic feasibility of a product or a process has been proved. Development expenditures that were initially recognised as expenses are not subsequently capitalised even if complying with conditions for the recognition of assets.

The historical cost of acquired intangible assets represents expenditures incurred to acquire and put them into service.

Advances issued for acquisition of intangible assets are classified as non-current assets irrespective of the date when such assets have been delivered.

After initial recognition, the Group applies the cost model where an intangible asset is carried at its actual cost, less accumulated amortisation and any accumulated impairment losses, where required.

Amortisation of intangible assets begins when they are available for use. Intangible assets are amortised on a straight-line basis over their expected useful lives. The amortisation methods and expected useful lives are reviewed at each reporting date, and all the changes in the estimates are accounted for in periods of changes in estimates and in future periods.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss as other income or expense when the asset is derecognised.

Impairment of non-current non-financial assets

The Group's non-current non-financial assets, except for deferred tax assets, are reviewed for any indication of impairment at each reporting date. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped into the smallest group of assets generating cash inflows from their use that are independent of the cash inflows from other cash-generating units (CGU).

The recoverable amount by the CGU is the higher of two values: the CGU value in use and its fair value, less costs of disposal.

The CGU value in use is determined using discounted cash flow models. Future cash flows projections are made to estimate the CGU value in use.

The CGU future cash flows projections are based on the forecast of external and internal factors in relation to the Group.

The forecast of external factors includes the forecast of the market macroeconomic environment (oil, gas and oil products prices, inflation and interest rates) and tax environment (tax rates, export duties, fees and charges). These forecasts are based on the assessments of the Company's management and macroeconomic forecasts available at the reporting date.

The expected future cash flows are discounted to their present value using a pre-tax discount rate estimated on the basis of the weighted average cost of capital.

An impairment loss is recognised if the carrying amount of an asset or a group of assets (CGU) exceeds its recoverable amount. Impairment losses are recorded in other expenses. The CGU impairment losses are allocated first to reduce the carrying amount of goodwill allocated to such CGU and then to reduce the carrying amount of other assets of the CGU on a pro rata basis. An impairment loss for goodwill is not reversed.

Impairment losses relating to other assets recognised in prior reporting periods are assessed at each reporting date to confirm whether there is any indication that they may exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed in the manner that the value of an asset shall not exceed the carrying amount of an asset (net of amortisation or depreciation) if no impairment loss had been recognised.

Financial assets

The Group recognises a financial asset in the consolidated statement of financial position only when it becomes a party to the contract concerning this financial instrument.

All purchases and sales of financial assets that require delivery within the timeframe established by the regulation or market convention (“regular way” purchases and sales) are recorded at the trade date, i.e. the date at which the Group commits to purchase or sell a financial asset. All other purchases and sales are recognised at the delivery date.

The Group classifies financial assets into the following three measurement 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 at fair value through profit or loss are initially recognised at fair value. All other financial assets, except for trade receivables, are initially recorded at fair value plus transaction costs. Trade receivables at initial recognition are recorded at transaction price.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value of a financial asset is the price in an active market.

Active market is the market in which transactions for the certain asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial assets are classified as measured at amortised cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise at specified dates to collect cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are classified as measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise at specified dates to collect cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are classified as measured at fair value through profit or loss unless they are included in other categories.

At initial recognition, the Group at its discretion may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

The Group recognises gain or loss on financial assets, measured at fair value through other comprehensive income in other comprehensive income, except for impairment losses, interest (calculated with use of the effective interest method) and gains or losses from changes in the foreign exchange rates.

The Group recognises gain or loss from changes in fair value of financial assets measured at fair value through profit or loss in other income (expenses) in the consolidated statement of profit and loss and other comprehensive income.

Financial assets measured at amortised cost are further measured using the effective interest method, less the loss allowance for expected credit losses. Amortised cost of discounts or premiums calculated with use of the effective interest method is recorded in finance income (expenses) in the consolidated statement of profit and loss and other comprehensive income.

The Group reclassifies financial assets when it changes its business model used for managing financial assets.

Impairment of financial assets

As of each reporting date, the Group assesses whether credit risks on financial assets have increased significantly since their initial recognition. When making the assessment, the Group considers the change in the risk of a default occurring over the expected life of the financial asset by means of comparison of the risk as of the reporting date with the risk as of the date of initial recognition and analysis of reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition of the relative instruments.

At each reporting date, the Group recognises the loss allowance for expected credit losses for the following categories of financial assets:

financial assets measured at amortised cost;

financial assets measured at fair value through other comprehensive income.

The amount of expected credit losses (or reversal) adjusting the loss allowance as of the reporting date is recognised in profit or loss as an impairment gain or loss. In this case, the loss allowance on financial assets measured at fair value through other comprehensive income is recognised in other comprehensive income and does not decrease the carrying amount of the financial asset in the statement of financial position.

The loss allowance is equal to the lifetime expected credit losses if credit risk on the financial asset increased significantly since its initial recognition. If there is no significant increase in credit risk, the loss allowance is equal to 12-month expected credit losses (the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date).

The Group applies a simplified approach stipulated in IFRS 9 to measurement of expected credit losses in which a loss allowance for the lifetime expected credit losses for trade receivables is used.

Trade and other receivables were grouped on the basis of shared credit risk characteristics and a number of past due days in order to measure expected credit losses.

Expected credit losses on financial instruments are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort at the reporting date.

Derecognition of financial assets

The Group derecognises financial assets when the maturity period of the contractual rights to cash flows from this financial asset expires, or when it transfers the financial asset and the transfer qualifies for the derecognition requirements.

The transfer qualifies for the derecognition requirements when the Group has transferred substantially all the risks and rewards of ownership of the financial asset, or neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset but lost control over it.

Financial liabilities

Financial liabilities of the Group are trade and other accounts payable, loans and credits received. Financial liabilities are recognised at amortised cost.

The Group derecognises a financial liability (or a part of a financial liability) if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recorded in other income (expenses) in the statement of profit and loss.

Value added tax

The amount of value added tax (VAT) payable to the budget at the end of each tax period is defined as output VAT, less input VAT, paid on the purchase of goods (works, services). The tax base is determined on delivery where delivery is recognised at the earliest of the dates: date of dispatch (transfer) of goods (works, services), property rights or date of payment or partial payment against future deliveries of goods (works, services), transfer of property rights.

Zero rate is applicable to export of goods. This application is substantiated by the documents which are submitted to the taxation authorities as required by the legislation of the Russian Federation. Input VAT related to zero-rated transactions is deductible.

VAT payable and VAT recoverable are recognised in the statement of financial position on a gross basis in assets and liabilities. Where a loss allowance for expected credit losses has been made for receivables, the impairment loss is recognised for the full amount receivable, including VAT.

Mineral extraction tax

Mineral extraction tax (MET) related to oil production is charged based on the quantity of mineral resources extracted and calculated on a monthly basis as the product of the quantity of mineral resources produced and a fixed tax rate (in 2018 – RUB 919 per tonne, in 2017 – RUB 919 per tonne) adjusted depending on the monthly average global market prices of the Urals oil and the USD/RUB exchange rate for the preceding month.

The Company qualifies for MET relief, i.e. fixed rate discounts subject to production areas, the degree of depletion and reserves availability at the subsoil area and the complexity of extraction. MET is recorded in operating expenses.

Customs duties

Hydrocarbons exported outside the territory of the Customs Union are subject to customs export duties, the amount of which is adopted on a monthly basis by the Government of the Russian Federation and reviewed depending on the average global market prices of the Urals oil for the preceding period.

Income tax

The income tax expenses for the reporting period comprise current tax and deferred tax. Income tax is fully recognised in profit or loss, except if it arises from transactions which are directly recorded in equity or other comprehensive income.

The concept of the consolidated group of taxpayers was introduced in the Russian legislation in 2012. Currently, the Group continues to apply the concept. Income tax in relation to companies which do not belong to the consolidated group of taxpayers is calculated based on the income stated in their individual tax returns.

These consolidated financial statements include deferred income tax assets and liabilities estimated by the Group under IAS 12 “Income taxes”.

Current income tax is the amount expected to be paid to the budget in respect of the taxable profit taking into consideration the loss for the current and prior periods.

Deferred income tax is recorded in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amount in the consolidated financial statements.

Deferred taxes are not recorded for:

temporary differences at initial recognition of assets or liabilities in transactions other than business combinations and which do not affect neither accounting nor taxable profit (tax loss);

temporary differences associated with investments in subsidiaries, joint ventures and associates if the Group controls the reversal of such temporary differences and it is highly probable that they will not reverse in the foreseeable future;

temporary differences arising from the initial recognition of goodwill.

Deferred tax is measured at tax rates which are expected to apply to the period when the temporary differences will reverse based on the legal provisions effective or substantively brought into effect at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities to the extent when they intend either to settle current tax assets and liabilities on a net basis, or to realise the tax assets and settle the tax liabilities simultaneously.

In accordance with the tax law of the Russian Federation, tax effect of loss incurred in prior reporting periods can be recognised as a deferred tax asset.

Deferred tax assets are recognised only to the extent that it is highly probable that future taxable profit will be available against which the occurred temporary differences can be utilised. The amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that the respective benefit will be derived from its utilisation.

Deferred tax assets and liabilities are recognised in non-current assets and non-current liabilities respectively.

Uncertain tax positions

The Group’s uncertain tax positions are assessed by the Group’s management at the end of each reporting period. Obligations are recorded for income tax positions that are determined by the Group’s management as more likely, than not, to result in additional taxes being levied if the Group’s tax position was to be challenged by the taxation authorities. Such assessment is based on the interpretation of tax laws that have been effective or substantively brought into effect at the end of the reporting period, and any known court or other rulings on such issues. Obligations for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits

Post-employment benefit obligations

Costs related to post-employment benefits are accrued and recognised in payroll expenses. Post-employment benefit obligations are measured at current cost of the estimated cash outflows using the interest rates applicable to government securities which maturity is nearly the same as that of the obligations. Costs related to post-employment benefit obligations are measured using the projected unit credit method. Actuarial gains and losses are recorded in other comprehensive income within Remeasurements of post-employment benefit obligations in the period in which they occur.

In accordance with its collective agreements, the Group pays additional post-employment benefits and other post-employment benefits to its employees. Pursuant to its corporate plan, the Group makes employee contributions to JSC “NPF “Surgutneftegas”. Once contributions to JSC “NPF “Surgutneftegas” have been made and benefits due to employees have been paid, pension liabilities to the employees are regarded as covered, hence the Group does not incur actuarial and investment risks. Besides, the Group does not have assets attributed to post-employment benefit plans.

In the ordinary course of business, the Group contributes to the Pension Fund of the Russian Federation on behalf of its employees. Obligations in respect to such contributions are recognised as employee benefits expenses incurred during the period when the respective services have been rendered by employees under employment agreements.

Operating leases

Where the Group is a lessee in a lease which does not transfer significant risks and rewards connected with ownership of an asset from the lessor to the Group, the total lease payments, including payments due to expected lease termination, are recorded in operating expenses in the consolidated statement of profit and loss and other comprehensive income on a straight-line basis over the period of the lease. Property, plant and equipment leased on an operating leasehold basis are not accounted for in the consolidated statement of financial position.

Revenue recognition

Revenue is recognised at transaction price. Transaction price is consideration which the Group expects to receive in exchange for transferring control over promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when (or as soon as) the Group fulfils a performance obligation by transferring the promised goods or service (i.e. an asset) to the buyer. The asset is transferred when (or as soon as) the buyer takes control over such an asset. The transfer of control occurs at a different time subject to the relevant terms of each sale and purchase agreement.

Domestic sales of oil and gas as well as oil products and other materials are recognised when title passes.

Export sales of crude oil (transfer of title and risks of accidental loss) are FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail at the designated port), DAF based (delivered at frontier) or DAP based (delivered at place). Title passes at the time when the goods pass the tanker’s permanent hose connection at the loading port, the border of the Russian Federation, or when the seller places the goods at the disposal of the buyer on the transport vehicle ready for unloading, at the named place, subject to delivery terms and conditions. Oil products sales are FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail at the designated port) and CPT based (transportation is paid up to a point specified in the contract and the risk is transferred during the moment of transferring the goods to the first carrier). The Group covers transportation expenses on such sales up to a point specified in the contract. In most contracts control is transferred at the moment of delivery to the buyer (consignee), transportation is not a separate performance obligation.

Revenue from sales is presented in the consolidated statement of profit and loss and other comprehensive income, less relevant duties and taxes on such sales.

Functional and presentation currency

The currency of the Russian Federation is Russian ruble (RUB) which is the functional currency of the Group's companies and is used as the presentation currency of these consolidated financial statements.

All values presented in rubles are rounded to the nearest million, unless otherwise indicated.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the Group's entities at the exchange rate effective at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate effective at this date. Non-monetary assets and liabilities in foreign currencies measured at fair value are translated into the functional currency at the exchange rate effective at the date when their fair value has been determined. Exchange differences resulting from the translation of currencies are recognised in other income and expense.

Net earnings per share

Earnings per share are calculated by dividing net income attributable to the holders of the Company's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period, net of average number of treasury ordinary shares bought back by the Group's entities.

Equity

Ordinary and preference shares

The share capital is divided into ordinary and preference shares. Preference shares are entitled to vote on matters in respect of reorganisation and liquidation of the Company, and matters related to: releasing the Company from an obligation to disclose or provide information required by the legislation of the Russian Federation on securities; introducing amendments and addenda to the Company's charter which restrict the rights of holders of the preference shares of this type; filing an application for listing or delisting of preference shares of this type.

If dividends on preference shares per year have not been declared or paid, preference shares are entitled to vote on a par with ordinary shares unless dividends on preference shares are declared and paid.

Additional paid-in capital

Additional paid-in capital represents profit (loss) on operations, financial results of which shall be recognised directly in equity, including gains and losses from sale of treasury shares and gains and losses from purchase (sale) of a non-controlling interest (whole or its part) provided that the control is retained.

Treasury shares

If the Group purchases the Company's shares, these shares are deducted from equity. Treasury shares are recorded at the acquisition cost. Gains and losses associated with purchase, sale, issue or cancellation of treasury shares shall be recorded directly in equity.

Share premium

Share premium represents the excess of contributions received over the par value of the Company's ordinary shares issued, less flotation costs.

Non-controlling interests

Non-controlling interests are part of profit or loss and net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly through subsidiaries, by the Company.

Non-controlling interests are presented in equity, separately from the Group's equity, in the consolidated statement of financial position.

Dividends

Dividends are recorded as liabilities and are deducted from equity in the period in which they are declared.

Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for annual periods beginning on

1 January 2018:

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 instruments 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 classifies financial assets into the following three measurement 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, allowance for accounts receivable and placed deposits was measured based on credit risk of the counterparties. Effect from additional allowance through equity (without an impact on net profit) as of 1 January 2018 equalled RUB 6,992 million.

For trade receivables, the Group applies a simplified approach to measurement of expected credit losses which provides for a loss allowance in the amount equal to the lifetime expected credit losses. A loss allowance for expected credit losses of trade receivables and other receivables is calculated on the basis of probability of default, exposure at default, loss given default and a discount rate. 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 replaces 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 has no material impact on the consolidated financial statements of the Group.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” – this interpretation had no material impact on the Group’s consolidated financial statements.

“Classification and Measurement of Share-based Payment Transactions” – Amendments to IFRS 2 “Share-based Payment” – these amendments had no material impact on the Group’s consolidated financial statements.

“Application of IFRS 9 “Financial Instruments” and IFRS 4 “Insurance Contracts” – Amendments to IFRS 4 – these amendments had no material impact on the Group’s consolidated financial statements.

“Transfers of Investment Property” – Amendments to IAS 40 “Investment Property” – these amendments had no material impact on the Group’s consolidated financial statements.

“Annual Improvements to IFRSs, 2014–2016” – Amendments to IFRS 1 and IAS 28 – these amendments had no material impact on the Group’s consolidated financial statements.

4 Critical accounting judgements, estimates and assumptions

The Group makes estimates and assumptions that affect assets and liabilities recognised in the financial statements within the reporting and the next financial year. Estimates and judgements are continuously evaluated and are based on the management’s experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

Judgements that significantly affect the indicators recognised in the consolidated financial statements and estimates that may require significant adjustments of the carrying amount of assets and liabilities within the next financial year include:

Estimation of oil and gas reserves

Estimates of oil and gas recoverable reserves are imprecise as they require application of personal judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes of other factors. The management makes certain assumptions while estimating actual volumes of available recoverable oil and gas reserves. Oil and gas reserves are estimated for the purpose of these statements in accordance with the provisions of Federal Budgetary Institution “State Reserves Committee” (FBU “GKZ”).

Oil and gas estimation is used for depreciation of oil and gas assets and for impairment determination. Oil and gas estimation is made based on possible assumptions and is reviewed on an annual basis.

Assumptions and estimates may vary as additional information about oil and gas reserves, changes in forecast and assumptions becomes available.

Reserve estimations have an impact on certain amounts of consolidated financial statements: oil and gas assets depreciation value and impairment losses. Depreciation of oil and gas assets is calculated using the unit-of-production method for each field based on initial recoverable reserves under the Russian classification. Oil and gas estimation under the Russian classification is used for calculations of future cash flows to be one of the main evidence of asset impairment.

Useful life of other property, plant and equipment and intangible assets

The Group estimates the remaining useful life of other property, plant and equipment at least once a year at the end of the financial year. If expected values differ from previous estimations, changes are recognised as changes in accounting estimates in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The Group’s Management determines the useful life for property, plant and equipment and intangible assets subject to physical properties and terms during which they bring benefit to the Group.

Impairment of goodwill and other assets

When assessed for possible impairment of other assets, forecast of cash flows requires a number of significant assumptions and estimates of such indicators as oil and gas production output, natural gas, oil and refined products prices, operating expenses, capital expenditures, hydrocarbon reserves, including such macroeconomic indicators as the inflation rate and discount rate. Besides, assumptions are applied for determining generating groups of assets subject to assessment for impairment. Value of assets and generating groups of assets related to oil and gas production is determined based on production output projections.

Asset retirement (decommissioning) and environmental protection obligation

Production and exploration operations of the Group are governed by a number of environmental safety regulations and statutory acts. The Group assesses environmental protection obligations based on the Group’s Management awareness of the current legislation, licence agreements and in-house engineering judgements. Decommissioning obligations are recognised on a net discounted basis at the moment at which the relevant obligations arose. Actual deferred expenses may significantly differ from the amount of obligations formed. Additionally, such provision may be influenced by future changes in environmental safety statutory acts, expected terms of field development and discount rates.

Post-employment benefit obligations

Post-employment benefit obligations are assessed based on assumptions. Actual amounts may differ from the estimated values of the Group and may be adjusted in the future based on modified expectations of the Group.

Expected survival assumptions are based on published statistics and demographic tables of mortality. At present, the retirement age in the Russian Federation is 65 and 60 years for men and women respectively.

5 New interpretations and standards

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2019 and which the Group has not early adopted.

IFRS 16 “Leases” (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). 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 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. 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.

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 are measured during the transfer in a way as if the new rules were always applicable. According to the results of the Group's analysis of non-current assets and financial liabilities as of 31 December 2018 and based on facts and circumstances existing as of this date, the Group's management is expecting that the adoption of the new standard starting from 1 January 2019 will not have a material impact on its consolidated financial statements.

IFRS 17 “Insurance Contracts” (issued in May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 which allowed the entities to continue accounting for insurance contracts, which are otherwise similar, using existing practices. IFRS 17 is a single standard for presentation of all types of insurance contracts, including contracts of reinsurance of the insurer.

The Group's management expects that this standard will not have a material impact on its consolidated financial statements of the Group.

IFRIC 23 “Uncertainty over Income Tax Treatments” (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019). 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. An entity shall determine whether to consider each uncertain treatment separately or together with one or more other uncertain treatment based on which approach better predicts the resolution of the uncertainty. An entity shall assume that the taxation authorities will examine amounts they have a right to examine and have full knowledge of all significant information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity shall reflect the effect of a change in facts and circumstances or of new information that affects the judgements and estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by the taxation authorities, changes in rules established by the taxation authorities or the expiry of the taxation authorities' right to examine or re-examine an income tax treatment. The absence of agreement or disagreement by the taxation authorities with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the interpretation.

The Group's management expects that this standard will not have a material impact on its consolidated financial statements of the Group.

Plan amendment, curtailment or settlement – Amendments to IAS 19 (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). 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. Prior to these amendments, IAS 19 did not clarify how to determine such expenses for the period after the plan amendment. The amendments requiring the use of updated assumptions are expected to provide useful information to the users of financial statements.

The Group's management is currently analysing the implications of the standard and its impact on the Group's consolidated financial statements.

Amendments to Conceptual Framework for Financial Reporting (issued in March 2018 and effective

for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework for financial reporting contains a chapter on measurement, guidances on recording financial performance in the statements, updated definitions and guidances (in particular, the definition of liabilities) and explanations of key matters such as the objective of management, prudence and measurement uncertainty in preparation of the financial statements. The Group's management is currently analysing the impact of the amendments on the consolidated financial statements.

It is expected that the following standards and interpretations, on their entry into force, will not have a material impact on the Group's consolidated financial statements:

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning after the date defined by the International Accounting Standards Board).

Prepayment features with negative compensation – Amendments to IFRS 9 (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019).

Long-term interests in associates and joint ventures – Amendments to IAS 28 (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019).

Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

Definition of Materiality – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020).

Annual improvements to IFRSs, 2015–2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).

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6 Subsidiaries

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

Description	Area of activity	As of 31 December 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 31 December 2018, non-controlling interests in the amount of RUB 288 million (as of 31 December 2017 – RUB 298 million) are not material for the Group.

7 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 segment is part of the Company's activity related to exploration, evaluation, production of oil and gas, and oil and gas sales;

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

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

On a monthly basis the Management estimates performance results of the segments based on the analysis of 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 operating segments for 2018:

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue, including:					
<i>revenues from oil sales</i>	1,011,909	-	-	(23,114)	988,795
<i>revenues from oil products sales</i>	-	603,642	-	(78,454)	525,188
<i>revenues from gas and gas products sales</i>	15,634	10,884	-	(9)	26,509
<i>sales of other products and finished goods</i>	3,681	3,099	1,442	(739)	7,483
<i>other sales</i>	5,460	1,029	1,909	(414)	7,984
Total sales revenue	1,036,684	618,654	3,351	(102,730)	1,555,959
Operating expenses	(738,542)	(496,784)	(8,592)	103,153	(1,140,765)
Operating profit / (loss)	298,142	121,870	(5,241)	423	415,194
Finance income					136,224
Finance expenses					(16,816)
Exchange differences					529,387
Loss from sale and other disposal of financial assets					(65)
Other expenses					(25,029)
Profit before tax					1,038,895
Income tax					(188,534)
Net profit					850,361

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Performance results of production segments for 2017:

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue , including:					
<i>revenues from oil sales</i>	743,568	-	-	(18,330)	725,238
<i>revenues from oil products sales</i>	-	474,467	-	(64,811)	409,656
<i>revenues from gas and gas products sales</i>	16,901	7,246	-	(7)	24,140
<i>sales of other products and finished goods</i>	4,146	3,539	1,583	(706)	8,562
<i>other sales</i>	5,298	1,093	1,811	(779)	7,423
Total sales revenue	769,913	486,345	3,394	(84,633)	1,175,019
Operating expenses	(564,275)	(416,141)	(6,067)	83,851	(902,632)
Operating profit / (loss)	205,638	70,204	(2,673)	(782)	272,387
Finance income					112,856
Finance expenses					(16,027)
Exchange differences					(118,428)
Loss from sale and other disposal of financial assets					(2,159)
Other expenses					(2,196)
Profit before tax					246,433
Income tax					(51,715)
Net profit					194,718

Sales comprise the following (based on the buyer's registration country):

Sales	For 2018	For 2017
Sales of oil, oil products – Eurasia, other than Russia	1,470,796	1,019,061
Domestic sales of oil, gas, oil and gas products	370,653	315,888
Other international and domestic sales	25,671	29,483
Total sales	1,867,120	1,364,432
less export duties	(311,161)	(189,413)
Total sales revenue	1,555,959	1,175,019

The Management does not believe that the Group depends on any individual buyer.

8 Related party transactions

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

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

Within 2018 and 2017, the Group entered into transactions with JSC “NPF “Surgutneftegas” to provide post-employment benefits to employees retired within the year, and other related parties.

Within 2018 and 2017, the Group contributed to JSC “NPF “Surgutneftegas” RUB 1,263 million and RUB 1,191 million respectively.

As of 31 December 2018, the Group had RUB 6,221 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).

The amount of compensation subject to the regional coefficient and Northern allowance (the salary for the reporting period with taxes and other obligatory budget and non-budget payments accrued, annual paid leave for the work performed in the reporting period and similar payments) to the key management personnel (10,107 people in 2018 and 9,999 people in 2017), including business units and subsidiaries of the Company, authorised to plan, manage and control the Group's operations in 2018 equalled RUB 35,977 million (for 2017 – RUB 34,767 million). Post-employment benefits are provided to the management personnel on a non-preferential basis.

9 Cash and cash equivalents, restricted cash

Cash and cash equivalents represent the following:

	As of 31 December 2018	As of 31 December 2017
Cash in hand and at settlement accounts	13,379	20,505
Deposits with original contractual maturity less than 3 months	246,967	196,996
Total cash and cash equivalents	260,346	217,501

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

The additional information on cash and cash equivalents is presented in Note 30.

10 Deposits placed

Placed deposits comprise the following:

	As of 31 December 2018	As of 31 December 2017
Short-term deposits	840,222	829,500
loss allowance for expected credit losses	(1,201)	-
Long-term deposits	2,269,757	1,488,934
loss allowance for expected credit losses	(5,627)	-
Total deposits placed, including:	3,103,151	2,318,434
short-term	839,021	829,500
long-term	2,264,130	1,488,934

Placed deposits represent short-term bank deposits with original contractual maturity more than three months and long-term bank deposits. Interest is paid mainly together with return of the principal amount to the settlement account. In accordance with deposit agreements, the Group loses its right to part of the accrued interest in case of early return of the principal amount.

The additional information on deposits placed is presented in Note 30.

Information on the fair value of deposits is presented in Note 31.

11 Receivables

Accounts receivable include:

	As of 31 December 2018	As of 31 December 2017
Trade receivables	108,140	86,345
loss allowance for expected credit losses	(184)	(178)
Other receivables	5,975	6,507
loss allowance for expected credit losses	(337)	(201)
Total receivables, including:	113,594	92,473
short-term	112,501	91,268
long-term	1,093	1,205

Analysis of changes in the loss allowance for expected credit losses of accounts receivable for 2018 is presented below:

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	Trade receivables	Other receivables
Loss allowance for expected credit losses of accounts receivable as of 1 January 2018	(178)	(201)
Loss allowance for expected credit losses accrued	(10)	(188)
Loss allowance for expected credit losses used	-	13
Loss allowance for expected credit losses recovered	4	39
Loss allowance for expected credit losses of accounts receivable as of 31 December 2018	(184)	(337)

Analysis of changes in impairment provision of accounts receivable for 2017 is presented below:

	Trade receivables	Other receivables
Impairment provision of accounts receivable as of 1 January 2017	(172)	(135)
Impairment provision of accounts receivable accrued	(7)	(123)
Impairment provision of accounts receivable used	-	7
Impairment provision of accounts receivable recovered	1	50
Impairment provision of accounts receivable as of 31 December 2017	(178)	(201)

The additional information on accounts receivable is presented in Note 30.

12 Advances issued

Advances issued include:

	As of 31 December 2018	As of 31 December 2017
Export customs duties	15,914	8,797
Oil transport	5,763	4,860
Other advances issued	2,264	1,836
Total advances issued	23,941	15,493

13 Loans granted

Short-term and long-term loans granted are represented by credits of the Group's bank and other loans:

	As of 31 December 2018	As of 31 December 2017
Not past due credits and loans	50,745	48,507
Past due credits and loans	3,383	3,954
Loss allowance for expected credit losses	(11,150)	(6,111)
Total loans granted, including:	42,978	46,350
short-term	14,968	17,239
long-term	28,010	29,111

Analysis of changes in the loss allowance for expected credit losses of loans granted is presented below:

	2018	2017
Loss allowance for expected credit losses as of 1 January	(6,111)	(6,546)
provision (accrual) / recovery	(5,039)	435
Loss allowance for expected credit losses as of 31 December	(11,150)	(6,111)

The additional information on loans granted as well as information on the fair value of the collateral are presented in Note 30.

14 Inventories

Inventories include:

	As of 31 December 2018	As of 31 December 2017
Oil and oil products	24,474	17,592
<i>impairment provision</i>	(1)	(3)
Materials and supplies	55,615	55,253
<i>impairment provision</i>	(3,418)	(4,008)
Other reserves	8,450	7,829
<i>impairment provision</i>	(65)	(116)
Goods for resale	1,527	1,740
<i>impairment provision</i>	(2)	(6)
Work in progress	3,714	2,984
Gas and gas products	29	37
Total inventories	90,323	81,302

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15 Property, plant and equipment

	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	150,040	5,059	15,501	12,045	182,645
Reclassifications	-	34,047	3,294	(37,341)	-
Internal movements	(223)	(34)	257	-	-
Changes in asset retirement (decommissioning) obligations	20,820	-	-	-	20,820
Disposals, retirements and other movements	(20,050)	(617)	(1,554)	(759)	(22,980)
Historical cost as of 31 December 2017	1,463,358	289,481	190,985	14,296	1,958,120
Construction and acquisition	146,811	3,927	18,009	3,954	172,701
Reclassifications	-	3,921	680	(4,601)	-
Internal movements	(499)	100	399	-	-
Changes in asset retirement (decommissioning) obligations	(6,524)	-	-	-	(6,524)
Disposals, retirements and other movements	(11,084)	(387)	(2,364)	(394)	(14,229)
Historical cost as of 31 December 2018	1,592,062	297,042	207,709	13,255	2,110,068
Accumulated depletion, depreciation and amortisation as of 31 December 2016	(295,154)	(99,348)	(51,540)	-	(446,042)
Accrual for the period	(63,825)	(15,689)	(11,878)	-	(91,392)
Internal movements	63	45	(108)	-	-
(Impairment) / reversal of impairment	178	1,322	91	-	1,591
Disposals, retirements and other movements	6,633	390	1,460	-	8,483
Accumulated depletion, depreciation and amortisation as of 31 December 2017	(352,105)	(113,280)	(61,975)	-	(527,360)
Accrual for the period	(61,483)	(15,927)	(12,217)	-	(89,627)
Internal movements	156	53	(209)	-	-
(Impairment) / reversal of impairment	(28,799)	(247)	(114)	-	(29,160)
Disposals, retirements and other movements	5,824	517	1,839	-	8,180
Accumulated depletion, depreciation and amortisation as of 31 December 2018	(436,407)	(128,884)	(72,676)	-	(637,967)
Carrying amount as of 31 December 2016	1,017,617	151,678	121,947	40,351	1,331,593
Carrying amount as of 31 December 2017	1,111,253	176,201	129,010	14,296	1,430,760
Carrying amount as of 31 December 2018	1,155,655	168,158	135,033	13,255	1,472,101

As of 31 December 2018, 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 718 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 assets below their carrying amount. In 2018, the Group reversed the loss from impairment of the exploration and production assets in the amount of RUB 3,263 million and recognised the loss from impairment of the exploration and production assets in the amount of RUB 32,062 million. As of 31 December 2018, the amount of the loss from impairment of the exploration and production assets is RUB 33,782 million (as of 31 December 2017 – RUB 4,983 million).

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In 2018, the Group reversed the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 450 million and recognised the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 697 million. As of 31 December 2018, the amount of the loss from impairment of property, plant and equipment of sales companies is RUB 996 million (as of 31 December 2017 – RUB 749 million).

In 2018, the Group recognised the loss from impairment of property, plant and equipment of other companies in the amount of RUB 114 million. As of 31 December 2018, the loss from impairment of property, plant and equipment of other companies is RUB 114 million (as of 31 December 2017 – there is no loss from impairment).

Impairment losses are recorded in other expenses in the consolidated statement of profit and loss and other comprehensive income.

Depreciation on property, plant, and equipment includes the amount capitalised in construction in progress for 2018 in the amount of RUB 23,808 million (for 2017 – RUB 26,101 million).

Exploration and evaluation assets included in the cost of property, plant and equipment of oil and gas exploration and production changed over the period as follows:

	2018	2017
As of 1 January	51,859	56,732
Capitalised costs	10,861	5,279
Reclassification to property, plant and equipment	(6)	(4,129)
Disposal of expenses associated with ineffective exploration and evaluation	(1,541)	(5,822)
(Impairment) / reversal of impairment	1,925	(201)
As of 31 December	63,098	51,859

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)
Depreciation accrued	(3,471)	(2,674)
Carrying amount as of 1 January	63,678	64,066
Acquisition	6	252
Disposals and retirements	(118)	(222)
(Impairment) / reversal of impairment	(17)	379
Depreciation accrual	(734)	(797)
Carrying amount as of 31 December	62,815	63,678

16 Intangible assets

	Software	Goodwill	Other	Total
Historical cost				
As of 31 December 2016	6,525	5,788	797	13,110
Acquisition	571	-	276	847
Disposal	(219)	-	(10)	(229)
As of 31 December 2017	6,877	5,788	1,063	13,728
Acquisition	791	-	28	819
Disposal	(312)	-	(13)	(325)
As of 31 December 2018	7,356	5,788	1,078	14,222
Amortisation and impairment loss				
As of 31 December 2016	(3,488)	(148)	(203)	(3,839)
Amortisation accrued	(897)	-	(110)	(1,007)
Disposal	193	-	6	199
As of 31 December 2017	(4,192)	(148)	(307)	(4,647)
Amortisation accrued	(702)	-	(124)	(826)
Impairment	-	(276)	-	(276)
Disposal	266	-	10	276
As of 31 December 2018	(4,628)	(424)	(421)	(5,473)
Net carrying amount as of 31 December 2016	3,037	5,640	594	9,271
Net carrying amount as of 31 December 2017	2,685	5,640	756	9,081
Net carrying amount as of 31 December 2018	2,728	5,364	657	8,749

In 2018, the amount of capitalised amortisation of intangible assets in property, plant and equipment was RUB 2 million. In 2017, the amount of capitalised amortisation of intangible assets in property, plant and equipment was RUB 2 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 31 December 2018 and 2017, no impairment of intangible assets has been identified (excluding goodwill).

As of 31 December 2018 and 2017, the Group had no intangible assets with indefinite useful lives (excluding goodwill).

Goodwill

As of 31 December 2018 and 2017, the goodwill amount was allocated to Refining and Sale segment. This goodwill is recognised as the Company and its subsidiaries represent a business combination.

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount.

In 2018, the Group recognised the loss from impairment of goodwill in the amount of RUB 276 million. In 2017, no impairment of goodwill has been identified.

17 Payables and liabilities accrued

Accounts payable and accrued liabilities include:

	As of 31 December 2018	As of 31 December 2017
Accounts payable to employees of the Company	29,460	28,405
Trade payables	11,654	10,375
Accounts payable for acquired property, plant and equipment	6,262	6,430
Dividends payable	726	1,263
Other accounts payable	1,366	1,223
Total payables and liabilities accrued	49,468	47,696
Including the financial part of the accounts payable	19,984	19,265

The additional information on the financial part of the accounts payable is presented in Note 30.

18 Other financial liabilities

Other short-term and long-term financial liabilities are settlement accounts and customer deposits of the Group's bank.

	As of 31 December 2018	As of 31 December 2017
Current / settlement accounts and demand accounts	10,378	10,010
Fixed-term deposits	205,693	178,302
Total other financial liabilities, including:	216,071	188,312
short-term	197,138	184,462
long-term	18,933	3,850

The additional information on other financial liabilities is presented in Note 30.

19 Other tax liabilities

	As of 31 December 2018	As of 31 December 2017
Mineral extraction tax	48,221	47,172
Value added tax	7,495	7,193
Property tax	3,742	3,530
Other	8,262	8,042
Total other tax liabilities	67,720	65,937

20 Provisions

	As of 31 December 2018	As of 31 December 2017
Asset retirement (decommissioning) obligations	114,414	117,360
Post-employment benefit obligations	12,625	18,669
Other liabilities	2,196	2,058
Total provisions, including:	129,235	138,087
short-term	3,508	3,324
long-term	125,727	134,763

Asset retirement (decommissioning) obligations

Asset retirement (decommissioning) obligations represent cost estimation of land recultivation, wells decommissioning and dismantling of field facilities.

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	2018	2017
Obligations as of 1 January	117,360	102,656
Acquisition	6,901	5,804
Changes in estimates and discounting rates	(12,450)	14,634
Discount cost amortised	4,067	3,803
Provision used	(1,464)	(9,537)
Obligations as of 31 December	114,414	117,360

Obligations recorded as of 31 December 2018 and 2017 are long-term.

The expected costs are assessed on the basis of information available at the reporting date. Upon changes of data the calculations made are adjusted.

Post-employment benefit obligations

Post-employment benefit obligations are performed by the Group at the time the employee retires. The right to post-employment benefits is given to employees who have been continuously employed by the Group for not less than five complete years and retired having reached the retirement age. The contribution to JSC “NPF “Surgutneftegas” and lump-sum payments depend on the length of service, the salary level and is defined in the collective agreement.

Expenses recognised in the consolidated statement of profit and loss and other comprehensive income and liabilities recognised in the consolidated statement of financial position are as follows:

	2018	2017
Obligations as of 1 January	18,669	17,637
Interest liability expenses	694	817
Current service cost	469	478
Benefits paid	(1,437)	(1,343)
Actuarial (gain) / loss	(5,770)	1,080
Obligations as of 31 December	12,625	18,669

Obligations by maturity are as follows:

	As of 31 December 2018	As of 31 December 2017
Short-term	1,312	1,266
Long-term	11,313	17,403
Total post-employment benefit obligations	12,625	18,669

Expenses allocated to payrolls:

	2018	2017
Current service cost	469	478
Interest liability expenses	694	817
Net expenses on post-employment benefit obligations	1,163	1,295

The main actuarial assumptions in the reporting period have the following weighted averages:

	As of 31 December 2018	As of 31 December 2017
Discount rate	8.73%	8.16%
Average long-term employee compensation increase rate	3.30%	3.41%
Rate of inflation and growth of post-employment benefits	3.30%	3.41%

21 Equity

Share capital and share premium

As of 31 December 2018 and 2017:

Share capital

Ordinary shares:

Number of shares issued, thousand	35,725,995
Par value (1 ruble per share)	35,726
Amount adjusted for inflation	121,203

Preference shares:

Number of shares issued, thousand	7,701,998
Par value (1 ruble per share)	7,702
Amount adjusted for inflation	33,463

Share premium

Amount by which the fair value of funds received exceeded the par value	35,245
Amount adjusted for inflation	57,809

The share capital is fully paid. In 2018 and 2017, changes in the structure of the share capital did not occur. The Company did not place any shares.

Treasury shares

As of 31 December 2018 and 2017, the Group owned 650 thousand of ordinary shares, i.e. less than 1% of the total number of shares.

Dividends

The Company's accounting (financial) statements prepared in accordance with RAS which differ from IFRS consolidated financial statements serve as the basis for the distribution of profits to shareholders.

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.

As of the date of these consolidated financial statements, the Company did not declare dividends for the year ended 31 December 2018.

22 Export duties

	2018	2017
Export duties on oil sales	245,130	145,383
Export duties on oil products sales	66,031	44,030
Total export duties	311,161	189,413

23 Operating expenses

	2018	2017
Taxes, excluding income tax	703,826	470,670
Employee benefits	101,501	98,025
Sales and storage expenses	100,593	94,760
Depreciation, depletion and amortisation	66,643	66,296
Supplies	59,991	53,053
Production services	58,035	69,139
Utility and electricity expenses	26,853	25,564
Goods for resale	9,628	15,901
Loss allowances for expected credit losses	3,373	-
Losses from disposal of exploration and production properties	1,547	1,097
Changes in inventory and work in progress	(3,935)	(2,982)
Other expenses	12,710	11,109
Total operating expenses	1,140,765	902,632

Taxes, excluding income tax, include:

	2018	2017
Mineral extraction tax	668,148	436,452
Excise	18,621	18,742
Property tax	15,930	14,482
Other taxes	1,127	994
Total taxes, excluding income tax	703,826	470,670

Employee benefits include:

	2018	2017
Salary and social charges	100,602	97,078
Contributions to post-employment benefit funds	899	947
Total employee benefits	101,501	98,025

24 Finance income and expenses

	2018	2017
Interest receivable	126,735	112,758
Interest income from discounting	9,489	98
Total finance income	136,224	112,856

	2018	2017
Interest payable	(12,804)	(12,237)
Interest expense from discounting	(4,012)	(3,790)
Total finance expenses	(16,816)	(16,027)

25 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 31 December 2018	As of 31 December 2017
Australian Dollar	48.94	44.96
Hungarian Forint	0.25	0.22
US Dollar	69.47	57.60
Danish Crown	10.65	9.25
Euro	79.46	68.87
Indian Rupee	0.99	0.90
Canadian Dollar	50.96	45.93
Chinese Yuan	10.10	8.85
Norwegian Krone	7.97	7.00
British Pound	88.28	77.67
Czech Koruna	3.09	2.69
Swedish Crown	7.75	7.00
Swiss Franc	70.58	58.97
Japanese Yen	0.63	0.51

Average exchange rates in 2018 and 2017 equalled:

	For 2018	For 2017
Australian Dollar	46.80	44.72
Hungarian Forint	0.23	0.21
US Dollar	62.71	58.35
Danish Crown	9.92	8.86
Euro	73.95	65.90
Indian Rupee	0.92	0.90
Canadian Dollar	48.37	44.97
Chinese Yuan	9.47	8.64
Norwegian Krone	7.70	7.06
British Pound	83.58	75.16
Czech Koruna	2.88	2.51
Swedish Crown	7.21	6.84
Swiss Franc	64.07	59.27
Japanese Yen	0.57	0.52

Exchange differences include:

	2018	2017
Income from exchange differences	764,233	196,896
Expense from exchange differences	(234,846)	(315,324)
Total exchange differences	529,387	(118,428)

26 Income tax

	2018	2017
Current income tax	(159,627)	(15,251)
Changes in deferred tax assets / liabilities	(28,907)	(36,464)
Income tax expense	(188,534)	(51,715)

In 2018 and 2017, the rate of income tax currently applied in the Russian Federation was 20%.

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Profit before tax recognised in the financial statements correlates with income tax expenses as follows:

	2018	2017
Profit before tax	1,038,895	246,433
Provisional expense on income tax	(207,779)	(49,287)
Tax effect of the preferential tax rate	24,581	3,118
Tax effect of items which are not accounted for tax purposes	(5,336)	(5,546)
Total expense on income tax	(188,534)	(51,715)

Differences between the data of these consolidated financial statements and the data of tax accounting result in temporary differences between the carrying amount of assets and liabilities and their basis for calculation of income tax.

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Tax effect of movement of temporary differences for the year ended 31 December 2018 is given below:

	As of 31 December 2018	Changes for the period in profit (loss)	Changes for the period in other comprehensive income	Changes for the period in equity	As of 31 December 2017
Tax effect of deductible temporary differences					
Inventories	2,121	73	-	-	2,048
Property, plant and equipment	32,623	6,203	-	-	26,420
Intangible assets	2,704	(622)	-	-	3,326
Financial assets	3,337	(1,048)	242	1,748	2,395
Receivables	702	388	-	-	314
Payables	140	(49)	-	-	189
Other accruals and additional accruals	2,703	(16)	(1,154)	-	3,873
Tax losses carried forward	57	(10,639)	-	-	10,696
Deferred tax assets	44,387	(5,710)	(912)	1,748	49,261
Set off deferred tax assets / (liabilities)	(44,363)				(49,242)
Total deferred tax assets	24				19
Tax effect of taxable temporary differences					
Inventories	(5,238)	(1,516)	-	-	(3,722)
Property, plant and equipment	(209,912)	(17,827)	-	-	(192,085)
Intangible assets	(12,639)	82	-	-	(12,721)
Financial assets	(1,122)	(1,086)	-	1	(37)
Receivables	(5,741)	(2,848)	-	-	(2,893)
Payables	(22)	19	-	-	(41)
Other accruals and additional accruals	(496)	(21)	-	-	(475)
Deferred tax liabilities	(235,170)	(23,197)	-	1	(211,974)
Set off deferred tax assets / (liabilities)	44,363				49,242
Total deferred tax liabilities	(190,807)				(162,732)

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Tax effect of movement of temporary differences for the year ended 31 December 2017 is given below:

	As of 31 December 2017	Changes for the period in profit (loss)	Changes for the period in other comprehensive income	As of 31 December 2016
Tax effect of deductible temporary differences				
Inventories	2,048	292	-	1,756
Property, plant and equipment	26,420	674	-	25,746
Intangible assets	3,326	(259)	-	3,585
Financial assets	2,395	(594)	2	2,987
Receivables	314	55	-	259
Payables	189	(140)	-	329
Other accruals and additional accruals	3,873	(130)	216	3,787
Tax losses carried forward	10,696	(18,037)	-	28,733
Deferred tax assets	49,261	(18,139)	218	67,182
Set off deferred tax assets / (liabilities)	(49,242)			(66,984)
Total deferred tax assets	19			198
Tax effect of taxable temporary differences				
Inventories	(3,722)	(1,178)	-	(2,544)
Property, plant and equipment	(192,085)	(17,119)	-	(174,966)
Intangible assets	(12,721)	911	-	(13,632)
Financial assets	(37)	102	-	(139)
Receivables	(2,893)	(763)	-	(2,130)
Payables	(41)	12	-	(53)
Other accruals and additional accruals	(475)	(290)	-	(185)
Deferred tax liabilities	(211,974)	(18,325)	-	(193,649)
Set off deferred tax assets / (liabilities)	49,242			66,984
Total deferred tax liabilities	(162,732)			(126,665)

As of 31 December 2018 and 2017, the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the Group's Management believes that the zero rate of the tax levied at the source of income in respect of the distribution of dividends will be applied for the distribution of these dividends.

27 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 31 December, thousand	35,725,995	35,725,995
Effect of treasury shares, thousand	(650)	(650)
Weighted average number of shares for the year ended 31 December, thousand	35,725,345	35,725,345

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Net income for the reporting year attributable to shareholders	850,350	194,658
Dividends on preference shares	(58,689)	(10,629)
Basic and diluted earnings per share, rubles	22.16	5.15

28 Contingencies and commitments

Court proceedings

At the reporting date, the Group is a party to legal proceedings related to the Group's operations. The Group's Management believes that the results of these proceedings will not significantly affect the business operations and financial position of the Group.

Tax exposure

Due to the constant changes in the tax system of the Russian Federation relating to the improvement of tax control mechanisms and regulation, the Group is exposed to tax risks associated with another approach of the taxation authorities to solve issues arising from uncertainty in the interpretation of the tax legislation.

The Management believes that the Group fully complies with the applicable tax legislation, so the results of tax audits have not affected and cannot significantly affect the business operations and financial position of the Group.

Third-party commitments

As of 31 December 2018, the Group has commitments in the form of surety in the amount of RUB 22,006 million (as of 31 December 2017 – RUB 21,688 million).

Credit related commitments

Credit related commitments of the Group's bank equal:

	As of 31 December 2018	As of 31 December 2017
Commitments to extend credit	3,195	1,996
Import letters of credit	415	395
Guarantees issued	3,354	2,005
Total credit related commitments	6,964	4,396

Operating lease commitments

Operating leases have various terms and conditions and primarily are agreements to lease land plots.

The total amount of operating lease expenses for 2018 is RUB 1,199 million (for 2017 – RUB 1,180 million) and is included in the Group's operating expenses. Future minimum lease payments under non-cancellable operating leases as of 31 December 2018 and 2017 are as follows:

	2018	2017
Less than 1 year	1,430	1,295
Between 1 and 5 years	5,458	4,964
More than 5 years	39,295	37,272
Total future minimum lease payments	46,183	43,531

Environmental issues

The Group complies with all the legal environmental standards and requirements. The Management believes that the Group effectively minimises environmental risks by adhering to industry standards and requirements, continuously monitoring its production facilities, employing modern machinery, technology and equipment and improving employees' HSE expertise.

29 Operational risks

The Group is exposed to many risks typical of oil and gas industry, the major of which are the drop in oil and oil products prices and the growth of prices for raw materials and services purchased.

Oil and oil products prices are characterised by their high volatility and depend on a vast number of market factors over which the Group has no influence. The drop in hydrocarbon prices may lead to a decrease in the Group's revenue, income and cash flow. An extended period of low oil and oil products prices may influence the implementation of the scheduled projects in production and processing of hydrocarbons and lead to reduced investments and impairment of the Group's assets.

In order to manage this risk, the Group considers different scenarios for oil and oil products prices when planning its current activities and taking decisions on the implementation of new projects, determines the most vulnerable of them.

Risk of an increase in operational and capital expenditures resulting from the growing cost of raw materials and supplies, equipment, fuel and power as well as of transportation of the finished goods (oil and oil products) may significantly influence the efficiency of the Group's activities. The Company implements measures to mitigate the possible influence of this risk, including purchase of materials, machinery and equipment on a tender basis, monitors the quality of procurements and services, develops in-house power generation facilities. Besides, the Company thoroughly evaluates the efficiency of investment in projects on production and processing of hydrocarbons, diversifies the ways and routes of transportation of the finished goods.

30 Capital and financial risk management

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

These risks can have an adverse effect on the financial performance due to an increase in expenses, impairment of assets, a decrease in profitability and the cash flow of the Group.

In order to mitigate an adverse effect from risks, the Group constantly improves its risk management system, including the methodology of risk management on identification and analysis of risks, procedures of quantitative evaluation of their impact, selection of proper management methods as well as technologies for the development and implementation of processes which provide the Group's continuous activity.

The Group does not apply derivative financial instruments to hedge financial risks, but takes into consideration their possible application when taking investment decisions on new projects and making plans and budgets. In order to mitigate financial risks, the Group insures assets and operations as part of its property interests protection in the course of its financial and business activities.

Credit risk

Credit risk is the probability of forming financial losses of the Group in case a counterparty fails to discharge its contractual obligations on the financial asset under the contract.

The Group's exposure to credit risk occurs in relation to receivables and financial assets in case counterparties fail to fulfil contract obligations.

In order to mitigate this risk when concluding contracts for products and services delivery, the integrated assessment of counterparties with the analysis of their financial position, credit history and the state of budget settlement is carried out. To secure the payback when making advance payments to counterparties the Group uses bank guarantees. Besides, in order to mitigate credit risk in relation to financial assets, the Group monitors the credit quality of financial organisations on the basis of its own formalised method of analysis of different aspects of their activities and financial position.

Cash and cash equivalents. Cash and cash equivalents are placed with major banks having credit ratings given by the international agencies. The balances at all settlement accounts and short-term bank deposits with original contractual maturity less than three months are not past due and not impaired.

Analysis of the credit quality of the banks used by the Group to allocate cash and cash equivalents based on external credit ratings assigned to the banks at the reporting date is presented in the table below. The

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relevant ratings are published by Standard & Poor's and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor's:

	As of 31 December 2018	As of 31 December 2017
Cash in hand	1,419	1,541
Central bank of the Russian Federation	168,147	141,547
<i>Commercial banks:</i>		
Rating from A- to A+	1,726	260
Rating from BBB- to BBB+	61,527	8,068
Rating from BB- to BB+	27,130	59,894
Rating from B- to B+	335	595
No rating	62	5,596
Total cash and cash equivalents	260,346	217,501

Deposits placed. The Group avoids excessive concentration of credit risk while placing the temporarily free cash in deposits with the banks. The Group has developed the methodology for assessment of the financial position of the banks that includes the analysis of the following criteria: the financial performance, the credit portfolio quality, the compliance of the norms with the accepted standards, the structure of the capital, other financial and non-financial, qualitative and quantitative indicators describing the position of a credit institution. The Group monitors the financial position of counterparty banks during the whole maturity period for its cash placement.

On the basis of this assessment the Group determines the reliability of the banks, where the deposits are placed, as high, and, therefore, the Group's Management believes that there are no impairment indicators of investments in deposits at the reporting date.

Receivables. While concluding a contract, the Group assesses the creditworthiness of buyers, their financial position and credit history. Afterwards, the Group is constantly controlling completeness and accuracy of settlements with counterparties.

The loss allowance for expected credit losses of trade receivables is calculated in the amount which is equal to the lifetime expected credit losses. For other receivables, the Group calculates a loss allowance for expected credit losses in the amount which is equal to 12-month expected credit losses due to the lack of a significant increase in credit risk since its initial recognition.

Analysis of receivables by the period of delay from the due date is given below:

As of 31 December 2018	Amount receivable	Amount of the loss allowance for expected credit losses	Amount receivable, less allowance
Trade receivables			
Not past due	107,597	-	107,597
past due less than 30 days	10	-	10
past due between 30 and 90 days	37	(2)	35
past due between 91 and 180 days	295	-	295
past due between 181 and 365 days	19	(3)	16
past due more than 365 days	182	(179)	3
Total trade receivables	108,140	(184)	107,956
Other receivables			
Not past due	5,634	(85)	5,549
past due less than 30 days	46	(4)	42
past due between 30 and 90 days	29	(3)	26
past due between 91 and 180 days	13	(5)	8
past due between 181 and 365 days	37	(35)	2
past due more than 365 days	216	(205)	11
Total other receivables	5,975	(337)	5,638

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As of 31 December 2017	Amount receivable	Amount of provision	Amount receivable, less provision
Trade receivables			
Not past due	86,171	(168)	86,003
past due less than 30 days	-	-	-
past due between 30 and 90 days	59	-	59
past due between 91 and 180 days	77	-	77
past due between 181 and 365 days	14	(4)	10
past due more than 365 days	24	(6)	18
Total trade receivables	86,345	(178)	86,167
Other receivables			
Not past due	6,283	(2)	6,281
past due less than 30 days	2	-	2
past due between 30 and 90 days	3	(1)	2
past due between 91 and 180 days	66	(62)	4
past due between 181 and 365 days	14	(12)	2
past due more than 365 days	139	(124)	15
Total other receivables	6,507	(201)	6,306

The greater part of trade receivables is mainly formed by receivables due from large Russian and foreign buyers of oil and oil products.

The redemption of receivables may be influenced by economic factors, but the Management believes that there is no significant risk of losses to the Group exceeding the formed loss allowance for expected credit losses of receivables.

Loans granted. Short-term and long-term loans granted are represented by credits of the Group's bank and other loans. Credit risk management of the loan portfolio, granted by the Group's bank, is carried out by way of the volume limitation of credit operations as well as portfolio diversification according to the sectors and regions, the change in the amount and kind of the collateral, provisions accrual as provided by the internal regulatory documents and the development of the optimal conditions for restructuring loans.

Loan analysis by credit quality is presented below:

As of 31 December 2018	Amount of credits and loans	Amount of the loss allowance for expected credit losses	Amount of credits and loans, less allowance
Not past due credits and loans:			
Borrowers with a credit history less than 1 year	13,088	(290)	12,798
Borrowers with a credit history between 1 and 3 years	20,123	(787)	19,336
Borrowers with a credit history more than 3 years	17,534	(7,438)	10,096
Past due credits and loans:			
Past due less than 30 days	303	(119)	184
Past due between 30 and 90 days	38	(12)	26
Past due between 91 and 180 days	105	(46)	59
Past due between 181 and 365 days	209	(141)	68
Past due more than 365 days	2,728	(2,317)	411
Total credits and loans	54,128	(11,150)	42,978

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As of 31 December 2017	Amount of credits and loans	Amount of provision	Amount of credits and loans, less provision
Not past due credits and loans:			
Borrowers with a credit history less than 1 year	14,423	(12)	14,411
Borrowers with a credit history between 1 and 3 years	17,676	(1,117)	16,559
Borrowers with a credit history more than 3 years	16,408	(2,086)	14,322
Past due credits and loans:			
Past due less than 30 days	198	-	198
Past due between 30 and 90 days	73	-	73
Past due between 91 and 180 days	102	(3)	99
Past due between 181 and 365 days	379	(225)	154
Past due more than 365 days	3,202	(2,668)	534
Total credits and loans	52,461	(6,111)	46,350

Past due credits are supported by the collateral the fair value of which, as of 31 December 2018, equalled RUB 1,412 million (as of 31 December 2017 – RUB 2,198 million).

Liquidity risk

Liquidity risk has no significant influence on the Group's activities as the Group owns a sufficient amount of cash and does not raise borrowed funds in money and credit markets to finance its current operating activities and implement long-term investment projects. The budgeting system helps to build the appropriate structure of cash flows and keep the sufficient level of liquidity to settle all liabilities in timely manner.

Information about the maturity of the financial liabilities of the Group in accordance with the contract dates remained to maturity dates is presented below. The sums show contractual undiscounted cash flows with future interest payments taken into consideration:

As of 31 December 2018	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Financial part of the accounts payable	19,984	-	-	-	19,984
Other financial liabilities	198,432	22,420	455	24	221,331
Other liabilities	-	263	-	-	263
Total financial liabilities	218,416	22,683	455	24	241,578

As of 31 December 2017	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Financial part of the accounts payable	19,265	-	-	-	19,265
Other financial liabilities	189,380	3,737	306	1	193,424
Other liabilities	-	512	175	-	687
Total financial liabilities	208,645	4,249	481	1	213,376

Reconciliation of changes in liabilities arising from financing activities

Analysis of changes in liabilities arising from financial activities of the Group is presented below. Items of these liabilities are recorded in financing activities in the consolidated statement of cash flows:

	2018	2017
As of 1 January	188,312	106,259
Cash flow, including:		
<i>Net acquisition of other financial liabilities</i>	25,679	82,030
<i>Interest paid</i>	(11,475)	(11,963)
<i>Interest accrued</i>	12,701	12,085
Exchange gain	854	(99)
As of 31 December	216,071	188,312

Market risk

Market risk is the risk that changes in currency rates, interest rates or commodity and service prices will have a negative effect on assessment of financial assets, financial liabilities and future cash flows of the Group. The Group's Management has developed the policies and guides used for market risk management.

(a) Currency risk

Currency risk related to exchange rate fluctuations may influence the Group's financial performance.

The Group takes into consideration the impact of currency risk on efficiency of its current activities and investments in new projects.

In order to mitigate this risk, the Company monitors the key parameters and the structure of financial assets and carries out an analysis and operational planning of cash flows.

(b) Interest rate risk

Interest rate risk has no material impact on the Group's financial performance as operational expenses and capital expenditures are financed from its own funds.

The Group carries out an analysis of the actual level of interest rates and their dynamics, evaluates profitability and the level of risk in money and capital markets to determine the best options for placement of financial assets.

(c) Commodity price risk (inflation risk)

Inflation risk may lead to the growth of expenses, lower profitability of current activities and failure to reach the expected profitability from projects in implementation. The Group considers different scenarios of actual inflation rates fluctuation from the expected parameters, controls the cost increase at all stages of production activities, evaluates investment in production, processing and sales of finished goods with consideration of inflation risk. Besides, the Company regularly holds tenders to choose appropriate options for goods and services delivery considering the purchase cost and reliability of the counterparty.

Capital management

The Group's capital management seeks to continue as a going concern and to maximise the profit in the foreseeable future.

The Management believes equity (capital attributable to shareholders) and borrowed funds (other financial liabilities) to be the principal elements of capital management. The Group's objective when managing capital risks is the ability to continue as a going concern in order to provide returns and benefits for shareholders.

As of 31 December 2018, the total capital under the management of the Group is RUB 4,642,127 million (as of 31 December 2017 – 3,801,211 million).

The Group finances its operations mainly from its own funds.

31 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 valuation 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 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 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 31 December 2018 and 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 estimating the fair value of financial instruments.

Valuation techniques such as discounted cash flow models and also models based on the data of similar arm's length transactions or consideration of the 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 2018 and 2017, 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 the method of discounting expected future cash flows coupled with applying current interest rates to new instruments with the similar credit risk and similar maturity period. The discount rate

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

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 31 December 2018		As of 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits placed	3,103,151	3,108,233	2,318,434	2,322,898
Financial assets measured at amortised cost	1,028	1,025	291	290

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

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

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 using appropriate valuation techniques. The estimated fair value of instruments with the fixed interest rate and the fixed period for sales 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.

32 Subsequent events

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