Annual Report of PJSC RussNeft for 2018

RussNeft. We Are TechnoLogical

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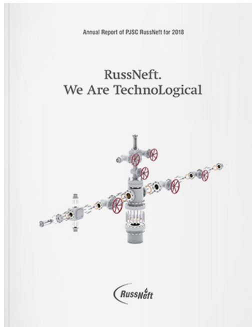


About the Report

In this Annual Report, the terms “RussNeft”, “we” and the “Company” in various forms shall mean Public Joint Stock Company “RussNeft” and its branches, subsidiaries and divisions whose results are included in the consolidated financial statements prepared in accordance with the International Financial Reporting Standards. The terms “PJSC RussNeft” and the “Issuer” shall mean RussNeft.

Unless stated otherwise, financial results included in the Annual Report are presented and calculated based on the consolidated financial statements prepared in accordance with the IFRS.

Some figures in tables, charts and diagrams hereof may differ from the sums of addends due to rounding.

RussNeft's Annual Report was pre-approved by the Board of Directors on 16 May 2019 [approved by RussNeft's Annual General Meeting of Shareholders on 21 June 2019].

RussNeft's Internal Audit Commission verified the accuracy of the data presented in this Annual Report.

Chapter 1

About the Company

RussNeft 2018:
We Are TechnoLogical!

Founded in 2002, RussNeft was Russia's first oil and gas company to be established from scratch in the free market.

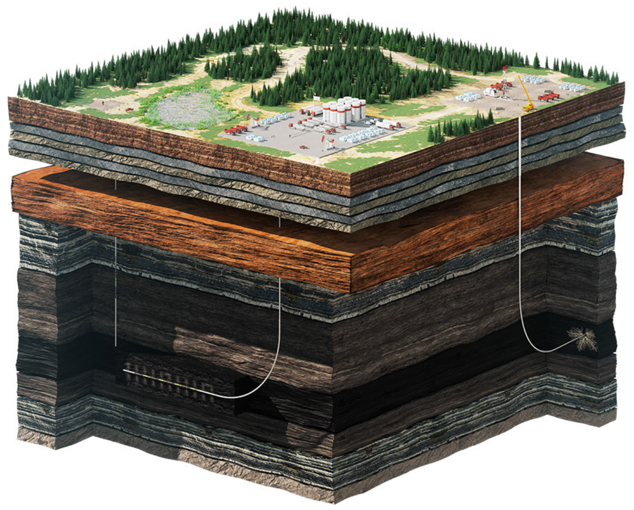
RussNeft ranks among **Top 10** Russian oil and gas companies by crude oil production. The Company benefits from a diversified asset portfolio in key Russian oil and gas provinces (the Volga Region, Volga-Urals Region, West and Central Siberia) and in Azerbaijan.

The Company had total 2P reserves of **210 million tonnes** (SPE) at the end of 2018.

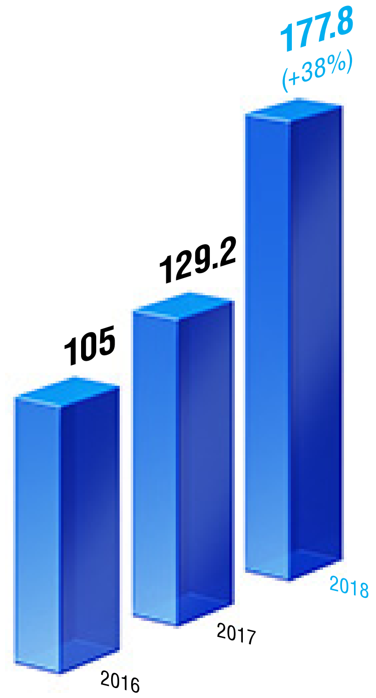
The Company's headcount is **9,000+ employees**.

Over the past 15 years, RussNeft has been expanding and developing in all its areas of operation. However, as the world becomes increasingly technology-savvy, proper development requires the use of innovative solutions and products. To keep pace with the times, we implement state-of-the-art process solutions in all our undertakings.

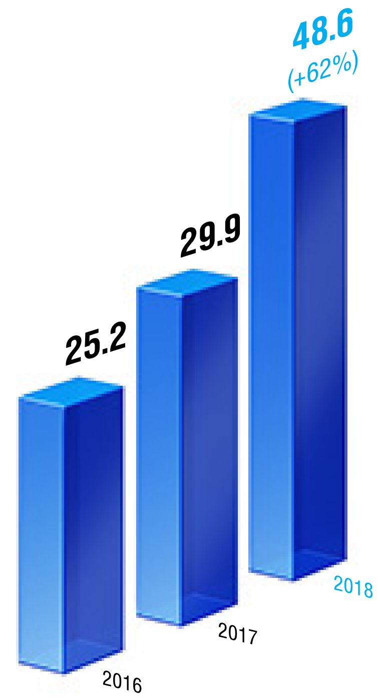
We are proud to present this Annual Report detailing the technological and innovative development, in management and in oil production, of one of the leading companies in the Russian oil & gas market.



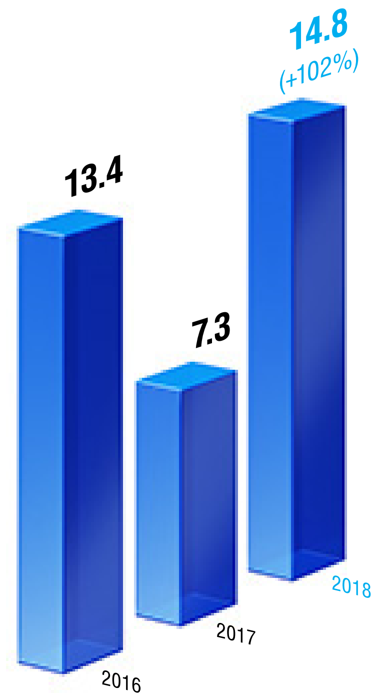
Learn more about using Plug & Perf technology on page 19-20



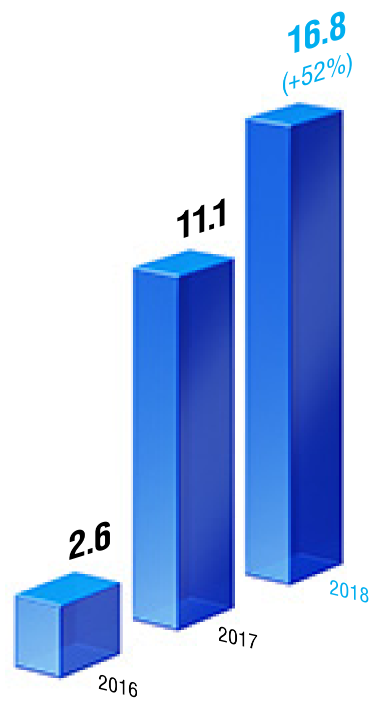
Revenue
RUB bn



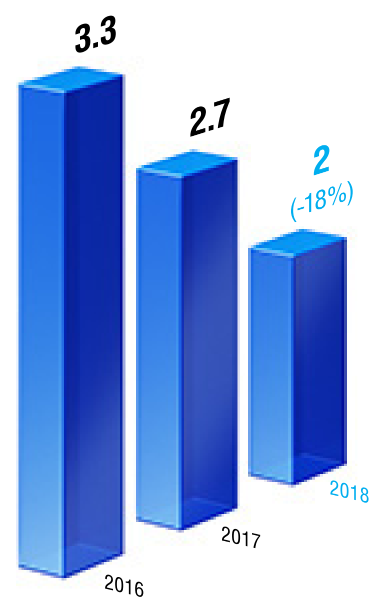
EBITDA
RUB bn



Net profit
RUB bn



Adjusted profit
RUB bn



Debt / EBITDA

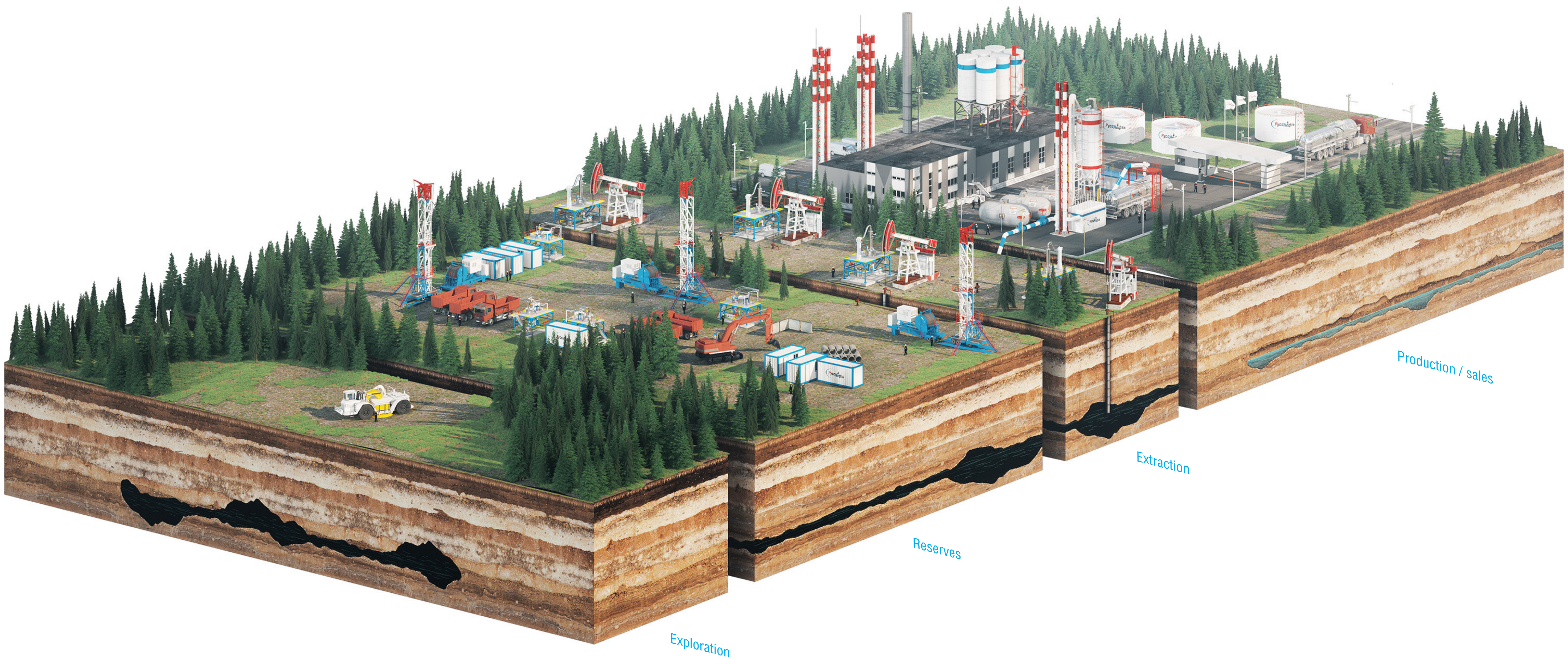
Learn more about the Company's financial results on pages 59-60.

Business model

RussNeft operates in the upstream segment, meaning the focus is on the prospecting, production and sale of hydrocarbons. We aim to both maintain existing production volumes and increase production over the mid-term horizon.

PJSC RussNeft. Annual Report 2018 / About the Company

Driven by today's macro environment, we invest in projects with the best returns on invested capital, produce greater amounts of high-margin oil and reduce costs by applying innovative, state-of-the-art technologies and efficient technical and economic solutions.



Crude oil production*,
Kt

Natural gas production,
mcm

Oil exported,
million tonnes

*Including international projects.

Mineable ABC1+B2C2 oil reserves (Russian-classified) growth,
mn tonnes

1P oil reserves (SPE) growth,
mn tonnes

Strategy

Our strategy aims to ensure long-term, sustainable development and forecasts a more than 3.2% increase in production over the next 5 years.

Key focus areas for development:

- *Maintain brownfield crude oil production at current levels using efficient drilling techniques, sidetracking and well interventions, and better formation pressure maintenance*
- *Actively develop high-margin reserves of the Tagrinskoye and Verkhne-Shapshinskoye fields under preferential tax treatment*
- *Commence development of the abundant Vostochno-Kamennoye field*
- *Implement our greenfield exploration (GE) programme to expand development of 3P reserves across our fields and licensed areas while improving macro parameters*

The GE programme allows us to build up our resource base every year in the mid-term with hard-to-recover and unconventional reserves. In this way, we are able to promptly and efficiently prioritise projects to select the most attractive and promising ones.

Key milestones

2002-2005
Extensive growth

Resource base successfully created (70% increase over 3 years)

RussNeft becomes one of Russia's Top 10 oil and gas companies by production volume

Partnership with Glencore commenced, including its equity participation in RussNeft's subsidiaries

2006-2007
Organic growth

Drilling volumes increased substantially

Company's resource base grows

Production volumes stabilised, refining volumes continue to grow

Well interventions in progress at mature fields in the Volga Region

2008-2009
Anti-crisis programme

Production costs consistently stabilised, with expenditures significantly down

Resource base grows significantly

Retail sales of oil products up by ca. 11%

2010-2012
Resuming expansion

RussNeft expands its investments by 60% vs. 2009 plans

New fields brought online and exploration of reserves continues

Production continues to grow

2013-2016
Asset portfolio optimisation

Leverage significantly decreased

Debt to Glencore converted into equity; Glencore's stake in RussNeft rises to 25%

Natural gas programme successfully implemented (APG utilisation reaching 95%)

Focus shifts to upstream operations

2016
IPO on the Moscow Exchange

RussNeft's ordinary shares included into the Level 1 quotation list

Offer price of RUB 550 per share

Issue more than 30% oversubscribed

Strong demand from retail investors who submitted more than 2,000 bids

First IPO of an oil company in Russia since 2006

Free float of 15% of RussNeft's share capital

2017
Shares are included in Moscow Exchange indexes

As of 22 September 2017, RussNeft's securities were included in the MOEX Index, RTS Index, MOEX Broad Market Index and the MOEX Oil & Gas Index.

2018
New technologies

Resource base grows significantly

Well stock optimised and costs reduced significantly

New production technologies introduced

- Low-angle wells
- Plug & Perf technology
- Other

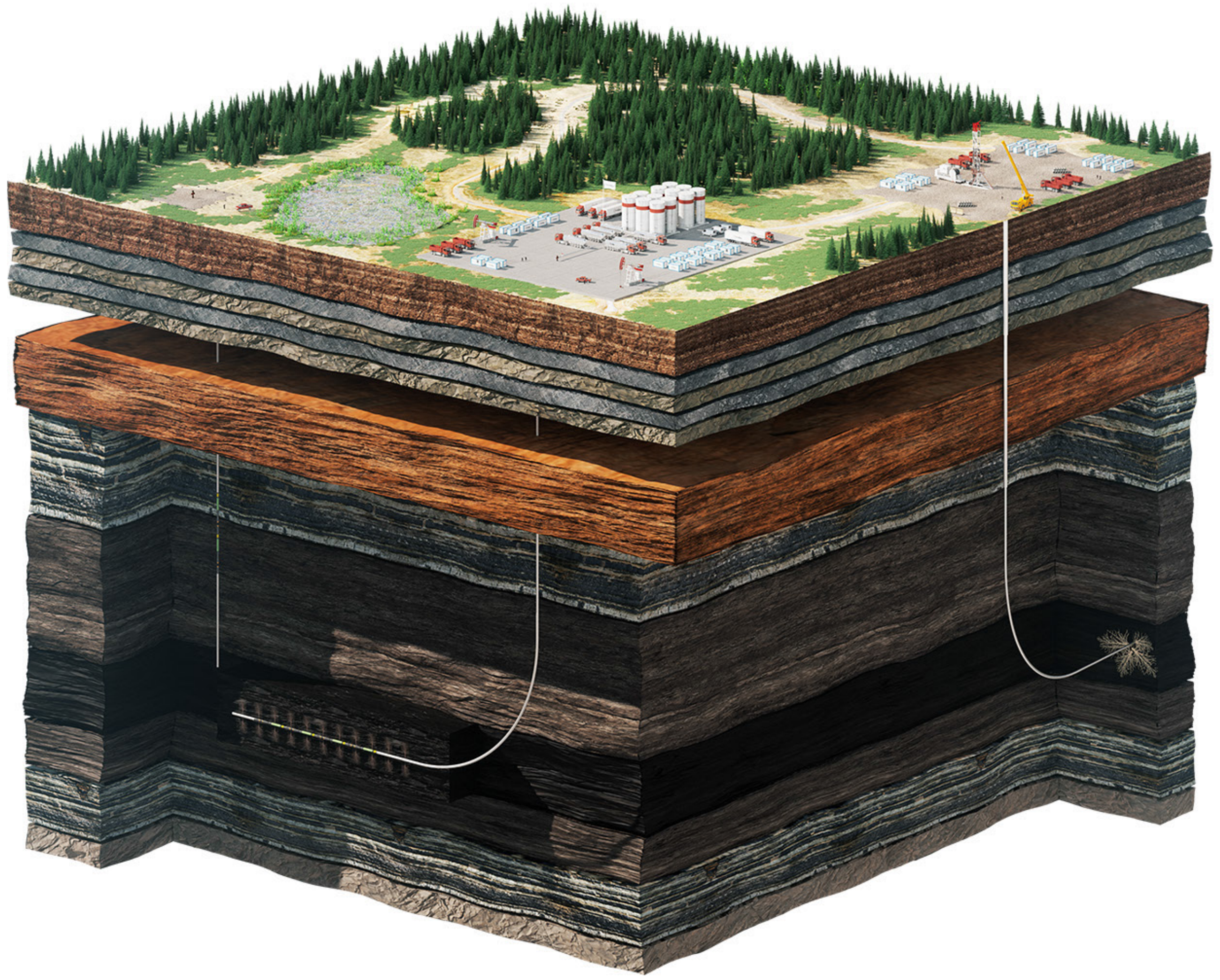
Plug & Perf

In March 2018, for the first time in Russia, a RussNeft subsidiary successfully tested the innovative wireline Plug & Perf method in the multistage hydraulic fracturing of a horizontal well.

About the technology

Plug & Perf is a unique and highly advanced well-completion technology at the leading edge of multistage hydraulic fracturing, offering huge advantages compared to similar methods. It allows the process to be significantly speeded up and is much cheaper to operate, thus opening up new opportunities for developing hard-to-recover reserves.

Application of the Plug & Perf technology for multistage hydraulic fracturing in horizontal wells. Simultaneous hydraulic proppant fracturing in several wells



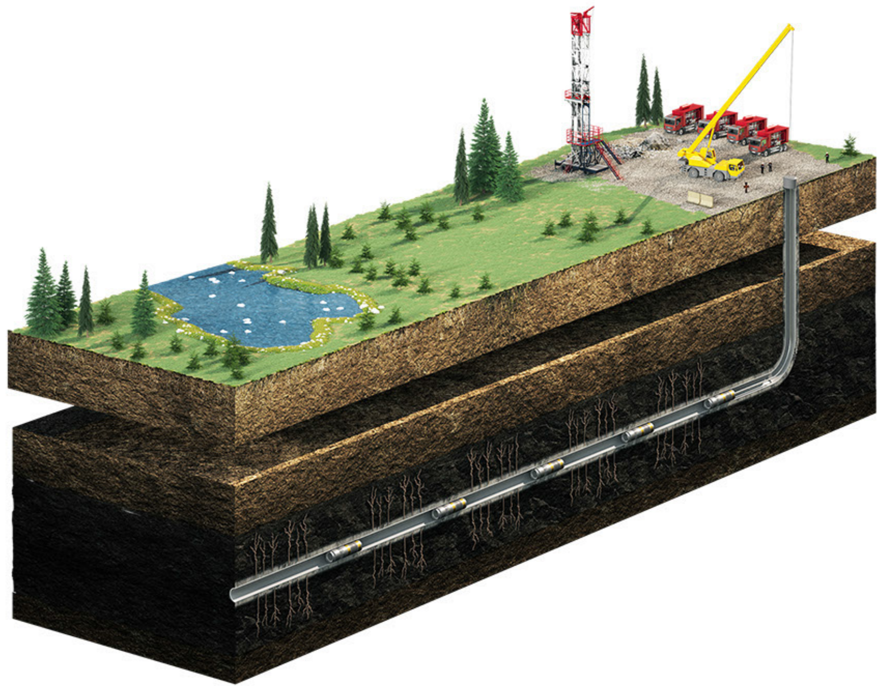
Through successful application of this method in the field, completely new production prospects have opened up for RussNeft:

- Multistage hydraulic fracturing is now possible within any intervals of a cemented liner
- There can be any number of stages (most common ball-based BHAs allow for not more than 10–11 stages of multistage hydraulic fracturing)
- A cycle of repeated multistage hydraulic fracturing efforts can be performed in non-stimulated intervals

A pump-down plug is used to isolate hydraulic fracturing stages. The design of the plug allows it to be pumped into the well using a connected pump. The large flow area of the plug ensures uninterrupted operation of the well. If necessary, it is possible to drill through the plug, since it is made of composite materials.

The application of the wireline Plug & Perf technology is without doubt another RussNeft breakthrough in development of hard-to-recover reserves.

The technology works as follows: a perforation system with a packer plug is pumped down to the design depth, the plug is installed, and multiple intervals are perforated in one run.



Statement of the Chairman of the Board of Directors

Dear shareholders,

In 2018, RussNeft consolidated the achievements we have been making steadily over the past 15 years in pursuit of our goal.

In this reporting year, we continued to successfully implement the 3-year strategy adopted in 2016 to achieve better operational results by implementing modern technologies and reducing costs.

In the past year, our oil reserves grew by **40 million tonnes** (**7.1 million tonnes** produced annually); the launch of **134** new wells increased output by almost **1 million tonnes**. **200 km** of infrastructure facilities (including roads, pipelines and high-voltage power lines) were built.

We have also successfully proceeded with our structural improvements programme, allowing us to efficiently manage our costs in the ever-changing macroeconomic situation. As a result, our EBITDA in the past year demonstrated unprecedented growth, increasing by **62%** to RUB **48.5 billion**.

In 2018, we continued to use innovative technologies to develop hard-to-recover and unconventional reserves. In particular, we constructed two-string wells at the Achimov deposits of the Tagrinskoye field, reducing our costs by **40%**.

With digital technologies introduced in production, we have been successfully implementing our Production Processes Automation Systems Roadmap.

I strongly believe that 2019 will be as successful and exciting a year for us as 2018, and that we will achieve our ambitious goals.

Mikhail Gutseriev
Chairman of the Board of Directors
PJSC RussNeft
Founder of the Company

"A growing resource base, new efficient technologies and improved financial performance are only a fraction of what we have been able to achieve by taking exactly the managerial decisions we declared when the Company went public".

President's statement

Dear shareholders,

In 2018, we implemented (with great success, I must say!) more innovative process solutions to develop hard-to-recover deposits. It was these new technologies in particular which made the greatest contribution to reducing costs, increasing production, and improving our financial performance in 2018.

In addition to technological innovations, we also employed some innovative concepts during the past year, which allowed us to see our resources in a new light and adjust our production priorities accordingly. Now, the eastern part of the Verkhne-Shapshinskoye field has surpassed the Tagrinskoye field as our "growth driver". Nevertheless, the Tagrinskoye field with its substantial reserve growth potential is still being actively developed.

The efficient efforts of our geologists have resulted, over the past three years, in **60 million tonnes** of oil reserves for the Company, including **38.1 million tonnes** over 2018.

In 2018, we also continued developing the reserves. We brought **134 wells** into production, yielding an additional **968,000 tonnes** of crude – an **18%** increase over 2017. High-tech well interventions are widely used in core well operations, such as sidetracking and hydraulic fracturing. Well interventions allowed our core wells to reach an impressive production figure of **672,000 tonnes** a year.

In 2018, for the first time since the Company was established, the structural approach to the improvement of technology and operation for artificial-lift wells allowed overhaul intervals to be extended to **600 days**. All of our subsidiaries have improved their overhaul interval statistics. The Company has added more than **60 days** to its overhaul interval this year.

Another important achievement of 2018 was the successful completion of the gas pipeline construction in Raduzhny, one of our key projects. Implementing this project has allowed us to monetize over **350 million cubic metres** of additional associated gas a year.

At Varioganneft's NPU-100 refinery unit, we also began production of jet fuel analogue (TS-1), which is in great demand in the Western and Eastern Siberia fuel market. The Company succeeded in earning additional profit from the sale of this product as at the end of the financial year.

Now that we have summarized our achievements, let's take a look at our plans for the future. What do we expect from 2019? First of all, fast-paced development of the deposit in the eastern part of the Verkhne-Shapshinskoye field, and more active exploration of Tomsk Oil's licensed areas, while retaining the AKI-OTYR and Varioganneft fields as our key drivers of growth. RussNeft's other subsidiaries will focus on maintaining existing production volumes and reducing operating costs.

Today, RussNeft is a dynamic, efficient team that is consistent in its priorities and focuses on business development, solving non-standard tasks under difficult macroeconomic conditions.

Professionalism is the key driver behind the success of our Company, the success of our production programme, and, ultimately, behind the Company's equity value growth!

Evgeny Tolochek
President of PJSC RussNeft

"One of RussNeft's key objectives for the near future is to increase the use of technological innovations. Indeed, in the 21st century, it is the commitment to introducing the latest innovations that drives companies to grow rapidly and demonstrate excellent operational and financial performance, thereby increasing their equity value."

Management

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Evgeny Tolochek

President

(3+ years with the Company)

Olga Prozorovskaya

Senior Vice President
for Economics and Finance

(15+ years with the Company)

Andrey Dokhlov

Vice President for Economics
and Budgeting

(15+ years with the Company)

Mikhail Sukhoparov

Vice President for Oil and Gas
Production

(14+ years with the Company)

Elena Makarova

Vice President for Public
Relations and Foreign Business

(14+ years with the Company)

Alexander Malyshev

Vice President for Oil and Gas
Production

(2+ years with the Company)

Management

Yuri Dubrovsky

Vice President for Security

(11+ years with the Company)

Dmitry Romanov

Vice President for Corporate Relations

(13+ years with the Company)

Magomed-Ali Evloyev

Vice President for Commerce

(10+ years with the Company)

David Avalishvili

Vice President,
Head of Prospective Projects and Services

(14+ years with the Company)

Tatyana Semerikova

Chief Accountant

(15+ years with the Company)

Alexander Permyakov

Vice President for Capital Construction

(8+ years with the Company)

Chapter 2

Operational results

Position in the industry and development prospects

According to CDU TEK (Central Dispatch Office of the Fuel and Energy Sector), in 2018, Russia produced 556 million tonnes of oil and gas condensate.

According to public sources, the oil production structure by company was as follows:

- Rosneft produced 216.3 million tonnes of oil
- Lukoil, 82.4 million tonnes
- Surgutneftegaz, 60.9 million tonnes
- Gazprom Neft, 60.2 million tonnes
- Tatneft, 29.5 million tonnes
- Novatek, 11.7 million tonnes
- RussNeft, 7.11 million tonnes

Despite the relative improvement of the situation in the global oil market, 2018 was not a stable year. Oil prices fluctuated between USD 53.8/bbl and USD 85/bbl, averaging USD 69.8/bbl in 2018.

The price reached its maximum in early October and, according to some analysts, could have returned to the pre-crisis level of USD 100/bbl. There were several reasons for this, in particular:

- increased production in the Russian Federation and in Saudi Arabia did not lead to lower oil prices
- expected reduction of exports by Iran due to new U.S. sanctions
- overall global demand growth of approximately 1.3%

However, in reality, these factors did not lower the price. This occurred at the end of the year when prices fell to USD 53.8/bbl, reaching the year's low. The price of crude began to fall in November when it turned out that the sanctions against Iran were not as harsh as expected. OPEC's programme proved inefficient, and global oil supply, with shale oil production added in the mix, appeared excessive.

2018 also strengthened our Company's position in the industry: we now rank among Russia's Top 3 oil producers by production growth rate.

In 2018, oil and gas condensate production grew by 1.4% year-on-year to reach 7.11 million tonnes.

Our strategy encourages active investments to increase production drilling, launch new wells, build new and upgrade existing infrastructure, in order to maintain existing production rates and also to ensure organic growth in the mid-term.

The Company benefits from a balanced asset portfolio in Russia's key oil and gas regions (West Siberia, Volga Region and Central Siberia). As at 1 January 2019, the Company had total 2P reserves of 210 million tonnes (SPE). Russian-classified AB1C1+B2C2 reserves were equal to 593 million tonnes.

The use of new technologies allows the Company to develop hard-to-recover reserves and reduce production costs by focusing on higher margin oil reserves. In 2018, hard-to-recover oil produced by the Company accounted for over 40% of total production.

RussNeft continues to invest in its development, primarily by drilling and constructing new wells at its key assets in West Siberia (up to over RUB 20 billion, i.e. 90% of all investments).

In 2018, 16 well pads, 85.3 km of various pipelines, 67 km of overhead power lines and 45.6 km of internal field roads were constructed.

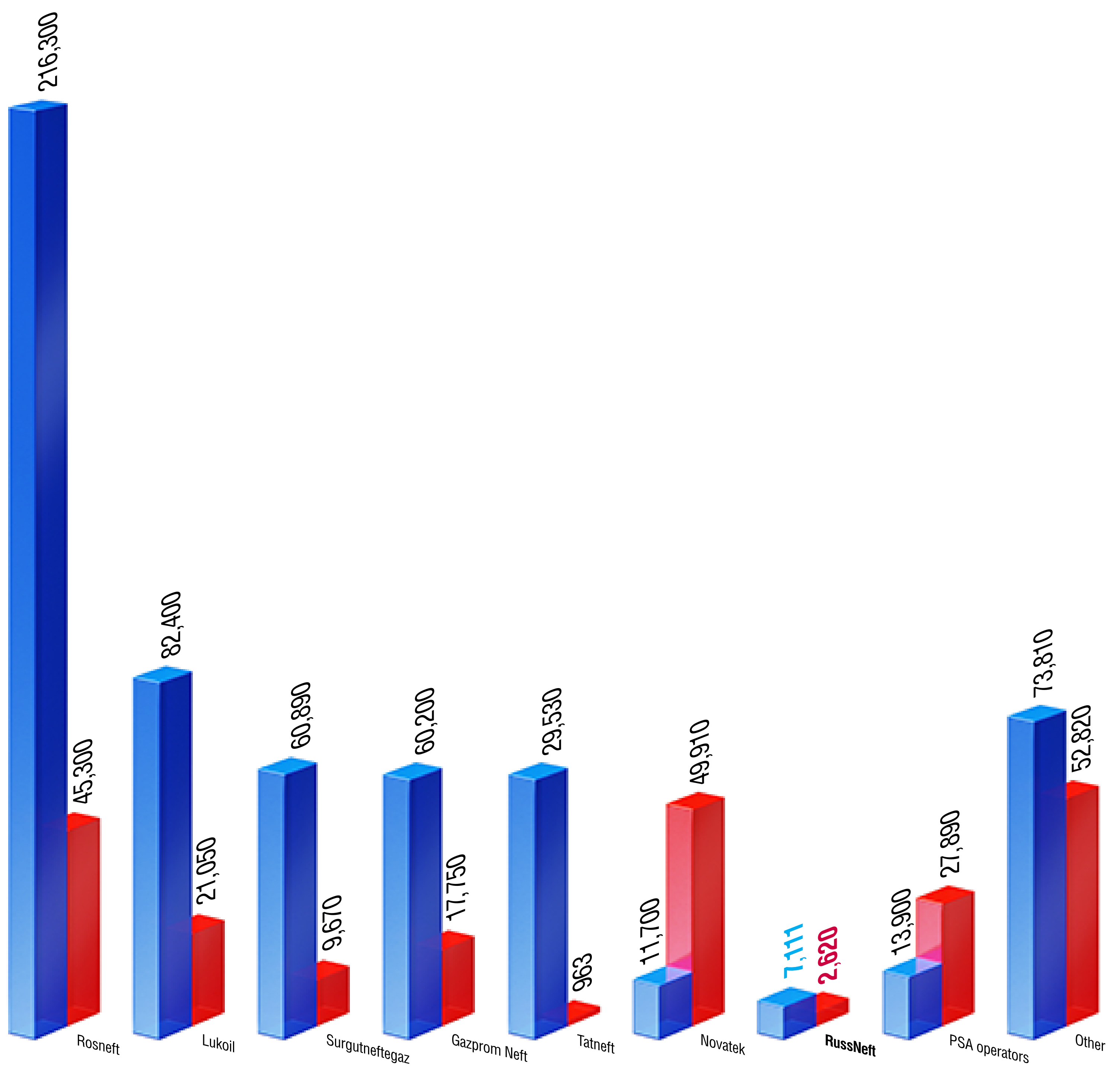
We improve and test new technologies on an ongoing basis. In 2018, we constructed two-string wells at the Achimov deposits of the Tagrinskoye field. This allowed us to reduce drilling and casing costs by 40% compared to conventional horizontal wells, and to reduce the negative environmental impact from drilling fluid waste.

We maintain stable well operations through active drilling and well interventions (WI).

Hi-tech interventions conducted by the Company at brownfield wells primarily include hydraulic fracturing, sidetracking, dual completion, recompletion etc.

In 2018, well interventions resulted in incremental production of 672,000 tonnes of oil.

Oil and gas produced by Russia's major O&G companies in 2018

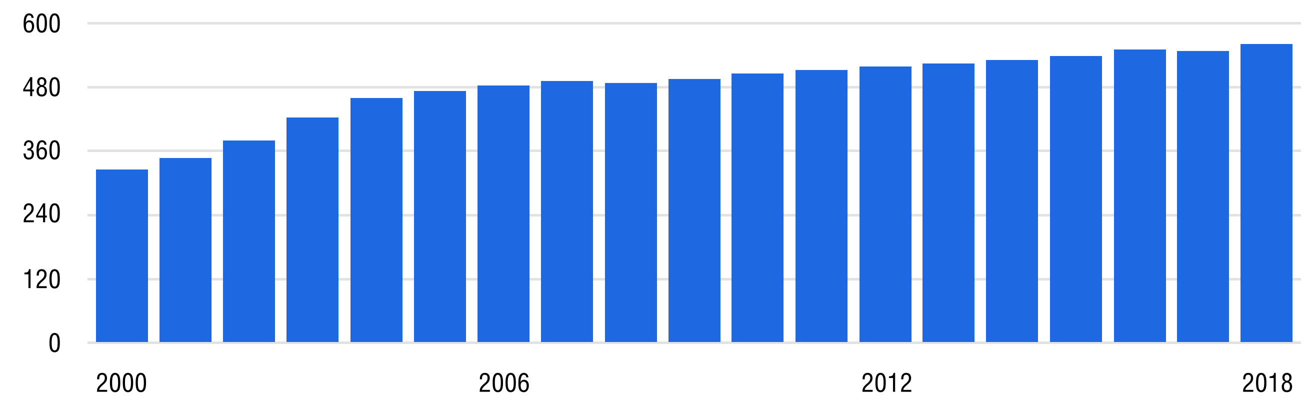


- Crude oil and condensate production in Russia as per IFRS, Kt
- Natural gas production in Russia as per IFRS, mcm

Source: CDU TEK (Central Dispatch Office of the Fuel and Energy Sector)

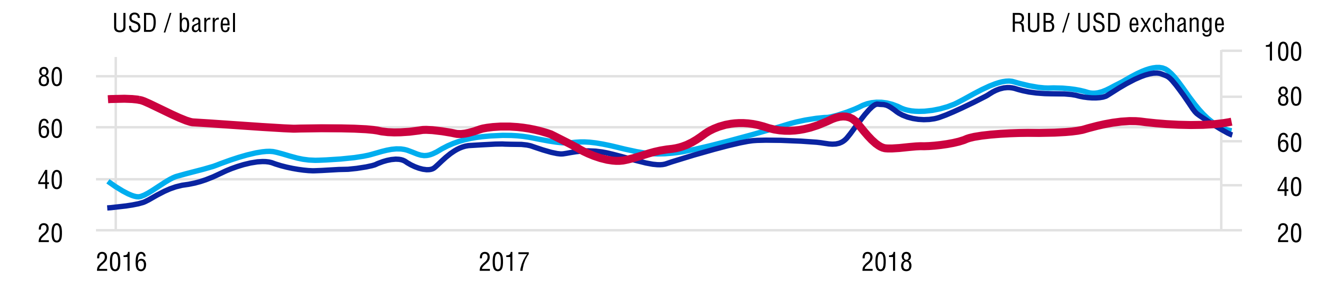
PJSC RussNeft. Annual Report 2018 / Operational results

Crude oil production in Russia, million tonnes



Source: CDU TEK

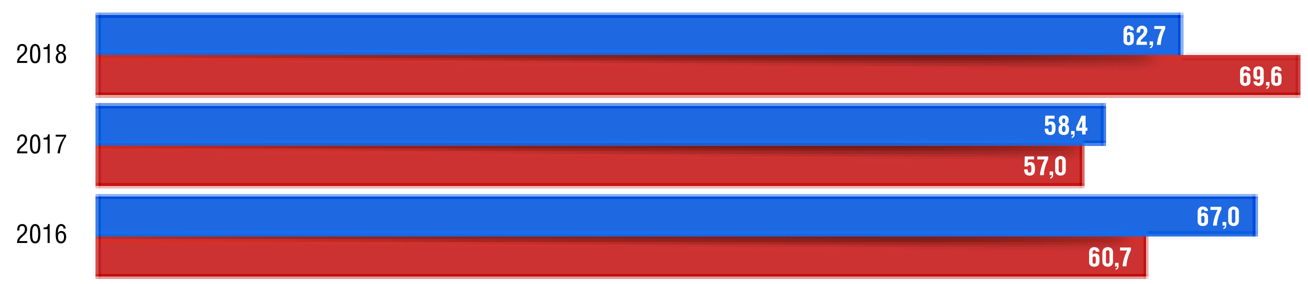
Oil prices and RUB exchange rate



- Brent oil price
- Urals oil price
- USD exchange rate

Sources: Bloomberg, Reuters, Central Bank of the Russian Federation

Exchange rate, USD/RUB



- Annual average USD/RUB exchange rate
- End of year USD/RUB exchange rate

Source: Central Bank of the Russian Federation

Assets Overview

Assets

RussNeft benefits from a balanced asset portfolio in Russia's key oil-and-gas regions: West Siberia, Central Siberia and the Volga region). The Company also participates in development and oil production projects in Azerbaijan.

RussNeft: As at 31 December 2018, 2P reserves stand at **209.8 mt**

West Siberian group

Geography

Khanty-Mansi Autonomous District – Yugra, Yamal-Nenets Autonomous District

Blocks

Khanty-Mansiysk, Nizhnevartovsk, Variogan

LARGEST FIELDS

Varioganskoye, Tagrinskoye, Zapadno-Varioganskoye, Verkhne-Shapshinskoye, Vostochno-Kamennoye

2P oil reserves as at 31 December 2018: **171.3 mt**

2P gas reserves as at 31 December 2018: **27.2 bcm**

Volga Region group

Geography

Saratov, Penza and Ulyanovsk Regions, Republic of Kalmykia

Blocks

Ulyanovsk, Saratov

LARGEST FIELDS

Irinovskoye, Zimnitskoye, Mordovoozerskoye, Belokamennoye

2P oil reserves as at 31 December 2018: **26 mt**

2P gas reserves as at 31 December 2018: **2.38 bcm**

Central Siberian group

Geography

Tomsk Region

Blocks

Tomsk

LARGEST FIELDS

Stolbovoye, Verkhnesalatskoye, Fedyushkinskoye, Gurarinskoye, Sobolinoye

2P oil reserves as at 31 December 2018: **12.5 mt**

2P gas reserves as at 31 December 2018: **4.8 bcm**

International projects

Geography

Azerbaijan

LARGEST FIELDS

Binagadi, Girmaki, Chakhnaglar, Sulutepe, Shabandagh, Masazir,Sianshor, Magamedly, Kurovdagh, Mishovdagh, Kelameddin, Zykh, Govsany, Absheron, Neftchalla, Khilli

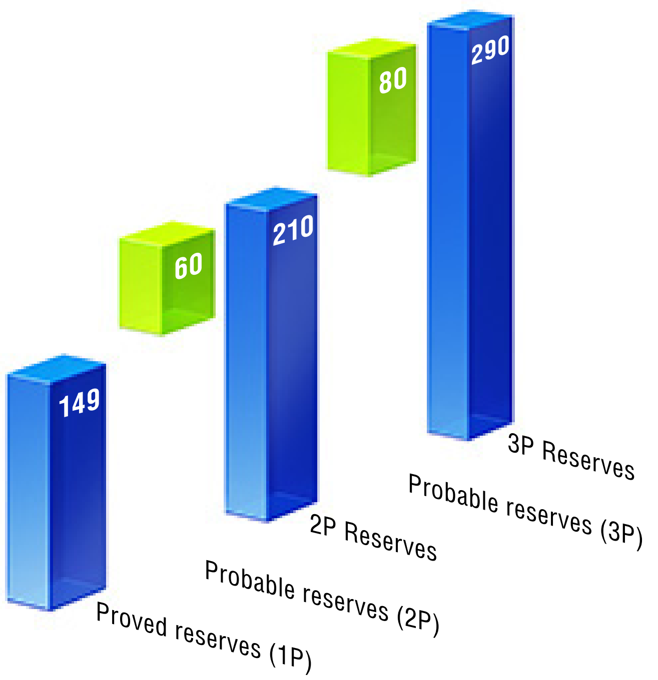
2P oil reserves as at 31 December 2018: **12 mt**

PJSC RussNeft. Annual Report 2018 / Operational results

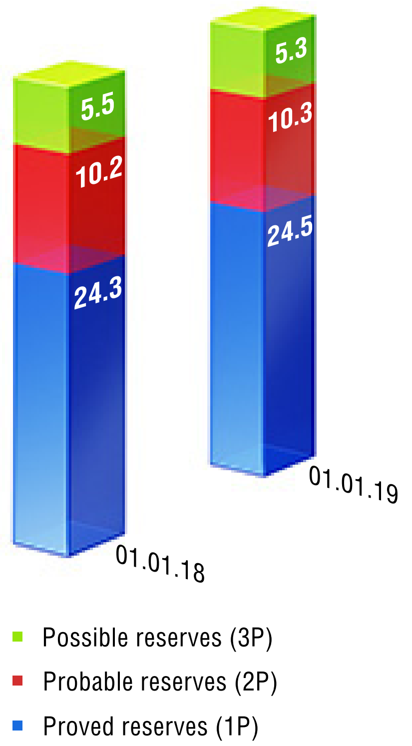
Reserves

The Company's reserves are audited in accordance with the SPE-PRMS standards. According to independent estimates by Miller & Lents, as at 31 December 2018, RussNeft's aggregated 2P oil reserves stood at **209.8 mt**; gas reserves, at **39.7 bcm**.

Oil reserves, million tonnes



Gas reserves, bcm



AB1+B2 reserves as at 31 December 2017

RussNeft	*Oil (mt)*	*Natural gas (bcm)*	*Condensate (mt)*
Total	561.2	86.9	6.4

AB1+B2 reserves as at 31 December 2018

RussNeft	*Oil (mt)*	*Natural gas (bcm)*	*Condensate (mt)*
Total	592.6	85.6	6.2

SPE reserves as at 31 December 2017

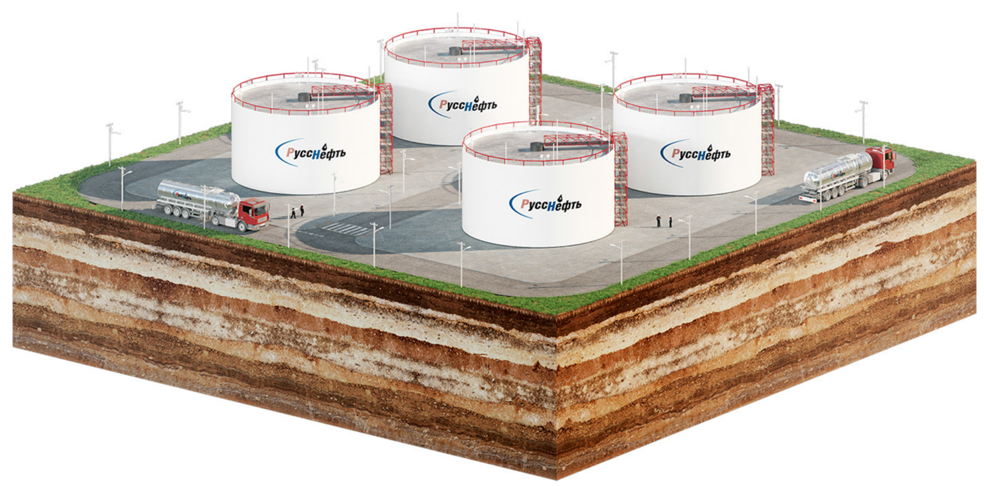
	1P		*2P*		*3P*	
RussNeft	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*
Total	142.8	24.3	206.0	34.5	298.3	40.0

SPE reserves as at 31 December 2018

	1P		*2P*		*3P*	
RussNeft	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*
Total	149.4	24.4	209.8	34.4	289.5	39.7

The West Siberian group accounts for approximately 82% of all proven and probable oil reserves of the Group; the Volga Region and the Central Siberian groups account for 12% and 6%, respectively.

Our asset portfolio comprises both brownfields with a stable output and greenfields which offer substantial production upside. The West Siberian group boasts the highest output and the lowest cost of production, while the Volga Region's reserves enjoy significant mineral tax benefits.



West Siberian group

The West Siberian group, our biggest production cluster, includes fields in the Khanty-Mansi and Yamal-Nenets Autonomous Districts, the largest of them being Varioganskoe, Tagrinskoye, Zapadno-Varioganskoye, Verkhne-Shapshinskoye and Vostochno-Kamennoye.

The West Siberian group accounts for 72.4% of total production and for 81.6% of 2P reserves. The group is divided into three blocks: the Variogan block, the Khanty-Mansiysk block and the Nizhnevartovsk block.

Further exploration and drilling performed at these fields in 2017-2018 helped stabilise and boost production.

In 2018, total 2P oil reserves in this asset group reached 171 million tonnes, demonstrating a 2.8% year-on-year increase.

Oil production increased by 4.2% to 5.1 million tonnes, mainly due to horizontal drilling and multi-stage hydraulic fracturing at the Achimov deposits of the Verkhne-Shapshinskoye and Tagrinskoye fields.

We expect to increase the potential of the West Siberian group through the development of the Verkhne-Shapshinskoye and Vostochno-Kamennoye fields of the Khanty-Mansiysk block, and the Achimov deposits at the Tagrinskoye field of the Variogan block, as well as through intervention operations to stimulate mature wells.

Oil production (mt)

Block	*2016*	*2017*	*2018*
Variogan	2.375	2.782	2.933
Khanty-Mansiysk	1.652	1.636	1.795
Nizhnevartovsk	0.687	0.526	0.423
Total	**4.714**	**4.944**	**5.151**

Oil production (mt)

	2016	*2017*	*2018*
Base production	3.713	3.708	3.705
Incremental production	0.367	0.442	0.506
New wells	0.635	0.794	0.940
Total	**4.715**	**4.944**	**5.151**

AB1+B2 reserves as at 31 December 2017

Block	*Oil (mt)*	*Natural gas (bcm)*	*Condensate (mt)*
Variogan	223.0	50.5	2.2
Khanty-Mansiysk	192.8	0	0
Nizhnevartovsk	24.7	0	0
Total	**440.5**	**50.5**	**2.2**

AB1+B2 reserves as at 31 December 2018

Block	*Oil (mt)*	*Natural gas (bcm)*	*Condensate (mt)*
Variogan	246.5	50.6	2.3
Khanty-Mansiysk	198.5	0	0
Nizhnevartovsk	24.3	0	0
Total	**469.3**	**50.6**	**2.3**

SPE reserves as at 31 December 2017

	1P		2P		3P	
Block	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*
Variogan	78.1	20	103.9	24.2	127.7	27.6
Khanty-Mansiysk	33.1	1.5	57.2	2.6	105.0	4.2
Nizhnevartovsk	5.0	0.3	5.5	0.3	7.9	0.3
Total	**116.2**	**21.8**	**166.56**	**27.1**	**240.6**	**32.1**

SPE reserves as at 31 December 2018

	1P		2P		3P	
Block	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*	*Oil (mt)*	*Gas (bcm)*
Variogan	80.0	20.2	106.8	24.7	128.4	28.4
Khanty-Mansiysk	37.0	1.5	59.3	2.2	104.9	3.5
Nizhnevartovsk	4.8	0.3	5.2	0.3	7.7	0.3
Total	**121.8**	**22.0**	**171.3**	**27.2**	**241.0**	**32.2**

Volga Region group

The Volga Region group is our second largest production cluster with key assets in the Saratov, Penza and Ulyanovsk regions and in Kalmykia. The largest fields of the Volga Region group are Irinovskoye, Zimnitskoye, Severo-Zimnitskoye, Mordovoozerskoye and Belokamennoye.

The Volga Region group accounts for 19.7% of total production and for 12% of 2P reserves. The group is divided into the Saratov block and the Ulyanovsk block, and includes brownfields generating stable operating cash flows with considerably low CAPEX levels.

In 2018, total 2P oil reserves of this group amounted to 27.6 million tonnes – practically on par with 2017.

Oil and gas production in 2018 remained at the 2017 level, amounting to 1.404 million tonnes.

We expect to increase the group's resource potential by tapping into overlooked oil reserves and to maintain stable output at brownfields though effective well intervention operations.

Oil production (mt)

Block	*2016*	*2017*	*2018*
Saratov	0.679	0.708	0.735
Ulyanovsk	0.774	0.710	0.669
Total	**1.453**	**1.418**	**1.404**

Oil production (mt)

	2016	*2017*	*2018*
Base production	1.305	1.274	1.267
Incremental production	0.133	0.144	0.128
New wells	0.015	0	0.009
Total	**1.453**	**1.418**	**1.404**

AB1+B2 reserves as at 31 December 2017

Block	Oil (mt)	Natural gas (bcm)	Condensate (mt)
Saratov	29.8	26.9	2.6
Ulyanovsk	54.8	0	0
Total	**84.6**	**26.9**	**2.6**

AB1+B2 reserves as at 31 December 2018

Block	Oil (mt)	Natural gas (bcm)	Condensate (mt)
Saratov	33.5	25.6	2.3
Ulyanovsk	54.3	0	0
Total	**87.8**	**25.6**	**2.3**

SPE reserves as at 31 December 2017

	1P		2P		3P	
Block	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)
Saratov	5.44	2.27	6.45	2.47	7.57	2.5
Ulyanovsk	12.42	0	21.12	0	36.31	0
Total	**17.86**	**2.27**	**27.57**	**2.47**	**43.88**	**2.5**

SPE reserves as at 31 December 2018

	1P		2P		3P	
Block	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)
Saratov	6.5	2.21	7.5	2.38	8.8	2.4
Ulyanovsk	12.6	0	18.5	0	24.1	0
Total	**19.1**	**2.21**	**26.0**	**2.38**	**32.9**	**2.4**

Central Siberian group

The Central Siberian group is our third production cluster. The assets of this group are located in the Tomsk Region.

As at the end of 2016, total 2P oil reserves of this group amounted to 13.9 million tonnes, yielding 0.8 million tonnes of oil production.

The largest fields are Stolbovoye, Verkhnesalatskoye, Fedyushkinskoye, Gurarinskoye and Sobolinoye.

The Central Siberian group accounts for 7.8% of total production and 6% of 2P reserves.

In 2018, total 2P oil reserves in this asset group reached 12.5 million tonnes, demonstrating a year-on-year increase. In 2018, we also maintained stable oil output of 0.6 million tonnes though effective well intervention operations. Looking forward, we plan to maintain current production levels through well interventions at the Yasnoye and Poselkovoye fields.

Oil production (mt)

	2016	2017	2018
	0.833	**0.653**	**0.556**

Oil production (mt)

	2016	2017	2018
Base production	0.669	10.599	0.500
Incremental production	0.032	0.029	0.037
New wells	0.132	0.025	0.019
Total	**0.833**	**0.653**	**0.556**

AB1+B2 reserves as at 31 December 2017

Block	Oil (mt)	Natural gas (bcm)	Condensate (mt)
Total	**36.0**	**9.4**	**1.6**

AB1+B2 reserves as at 31 December 2018

Block	Oil (mt)	Natural gas (bcm)	Condensate (mt)
Total	**35.5**	**9.4**	**1.6**

SPE reserves as at 31 December 2017

	1P		2P		3P	
	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)
	8.6	**0.17**	**11.9**	**4.9**	**13.8**	**5.3**

SPE reserves as at 31 December 2018

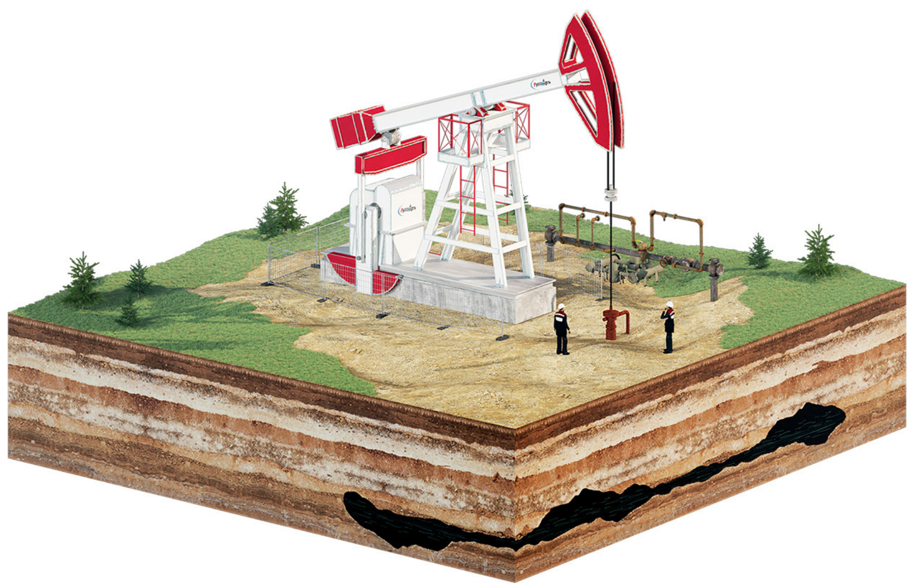
	1P		2P		3P	
	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)	Oil (mt)	Gas (bcm)
	8.4	**0.18**	**12.5**	**4.8**	**15.6**	**5.2**

Development and production

Our field development strategy is primarily focused on growing our resource base and increasing our hydrocarbon output.

To achieve these goals, we:

- select the best engineering solutions to develop low-margin fields
- introduce innovations to stimulate oil production and enhance oil recovery



Production

We have **102** producing fields in Russia.

In 2018, the Company produced **7.11 mt** of crude oil, **0.289 bcm** of natural gas, and **2.33 bcm** of APG. We produced **502,000 tonnes** of crude oil in Azerbaijan.

In 2018, our oil output rose by 5% year-on-year, due to production growth at the fields of the West Siberian block, driven by extensive drilling of test wells and well interventions.

Crude oil production

	2016			*2017*			*2018*		
Group	*Oil (mt)*	*Gas (bcm)*	*APG (bcm)*	*Oil (mt)*	*Gas (bcm)*	*APG (bcm)*	*Oil (mt)*	*Gas (bcm)*	*APG (bcm)*
West Siberian	4.714	0	1.85	4.944	0	1.99	5.151	0	2.208
Volga Region	1.453	0.47	0.06	1.417	0.31	0.06	1.403	0.281	0.053
Central Siberian	0.833	0.01	0.08	0.653	0.08	0.07	0.556	0.008	0.069
Total	**7.001**	**0.48**	**1.99**	**7.015**	**0.33**	**2.12**	**7.110**	**0.289**	**2.330**

Average daily production of oil, t/d

Group	*2016*	*2017*	*2018*
West Siberian	12,879	13,545	14,112
Volga Region	3,970	3,882	3,844
Central Siberian	2,276	1,789	1,523

Azerbaijan 2018 production, t

	Quarter I	*Quarter II*	*Quarter III*	*Quarter IV*	*2018*
SHIRVAN	34,296	37,083	38,417	38,330	148,126
KARASU	23,591	25,297	26,059	26,314	101,261
NEFTECHALA	8,236	8,295	8,852	8,574	33,957
BINAGADI	35,842	36,675	36,065	35,981	144,563
ABSHERON	18,480	19,127	18,467	18,414	74,488
TOTAL GEA	**120,445**	**126,477**	**127,860**	**127,613**	**502,395**

Drilling

We continued to build new wells to access untapped reserves. In 2018, **134** new wells were commissioned, up **2.3%** vs the previous year.

New wells

Group	*2016*	*2017*	*2018*
West Siberian	88	123	130
Volga Region	4	0	3
Central Siberian	16	8	1
Total	**108**	**131**	**134**

Future projects

Verkhne-Shapshinskoye field

In 2017, we completed MOGT-3D field seismic surveys at the licensed areas of the Shapshinskoye group of fields covering over 1,600 sq m. In 2018, we processed and performed an integrated interpretation of the 3D seismic and borehole data obtained at the Shapshinskoye group of fields in order to have more precise geological parameters for the Neocomian deposits.

Production drilling carried out on the basis of the seismic data resulted in a total of 7 million tonnes in addition to the high-margin oil reserves of the Neocomian deposits.

As at 31 December 2018, a total of **269 wells** were in operation, including **216** producing wells and **53** injection wells.

In 2018, 33 wells were commissioned at the Achimov deposits, including 17 wells where horizontal drilling and multi-stage hydraulic fracturing were implemented.

In 2019, we will continue commercial development of the Achimov deposits and will commission 65 wells, including 33 horizontal and 32 directional wells, to produce over 590,000 tonnes of oil.

The oil-bearing capacity of the Verkhne-Shapshinskoye field is proven in the Neocomian and Bazhenov deposits. The reserves of this low-permeable deposit qualify for substantial benefits in terms of mineral tax treatment.

Sredne-Shapshinskoye field

The oil-bearing capacity of the Sredne-Shapshinskoye field is proven in the Achimov formation and in the Bazhenov deposits.

Based on previous and new data, we decided to continue exploration and commercial development of the Bazhenov deposits. We continue expanding our competencies in the commercial development of hard-to-recover and unconventional reserves.

In 2018, production drilling resulted in a **262,000 tonne** increase in the reserves of the Bazhenov suite. In addition, the Sredne-Shapshinskoye licensed area was expanded to include the hydrocarbon reserves of the Sredne-Shapshinskoye field qualifying as open acreage, adding **239,000 tonnes** of oil reserves.

Tagrinskoye field

Intensive development of the Achimov deposits using MSHF techniques.

In 2018, production drilling produced a **14.2 million tonne** aggregate increase in the field's reserves and a **30+ million tonne** increase in high-margin reserves.

Careful selection of well design to reduce construction costs.

In 2018, a total of **65 wells** were commissioned at the Achimov deposits, including **63 wells** with horizontal completion and MSHF.

In 2019, we will continue the development of the Achimov field, and will build **60 horizontal wells** to produce over **360,000 tonnes** of oil.

Zapadno-Varioganskoye field

We re-interpreted the Zapadno-Varioganskoye field's seismic data to obtain a more accurate geological profile of the Upper Jurassic Vasyugan retinue suite and completed bottom hole treatment to add another **7 million tonnes** of oil reserves. We also explored the YuV1 bed of the Novosardakovskaya deposit using core samples from well No. 182R to requalify oil reserves as subject to preferential tax treatment and to create favourable conditions for the development of the field in the near future.

Novo-Aganskoye field

We re-calculated the Novo-Aganskoye field reserves (which increased by **2.7 million tonnes** of oil). We also explored the Ach1 bed using core samples from well No.563, to requalify **3.9 million tonnes** of oil reserves as subject to preferential tax treatment, and the Achimov deposits of the main pool of the Novo-Aganskoye field as subject to development in the near future.

Crude oil and gas sales

Gas

In 2018, our domestic market gas sales amounted to **2.4 bcm**, including:

- **0.3 bcm** of natural gas
- **2.1 bcm** of APG

Our supplies covered the Siberian and the Volga Federal Districts of the Russian Federation. We sell APG to SIBUR Holding under a long-term contract, providing for annual gas supplies of **1.5 bcm**.

In 2018, we also sold **11,000 tonnes** of stable gas condensate to refineries.

Crude oil

Domestic market

In 2018, domestic crude oil sales totalled **4.5 million tonnes**. The key customers were

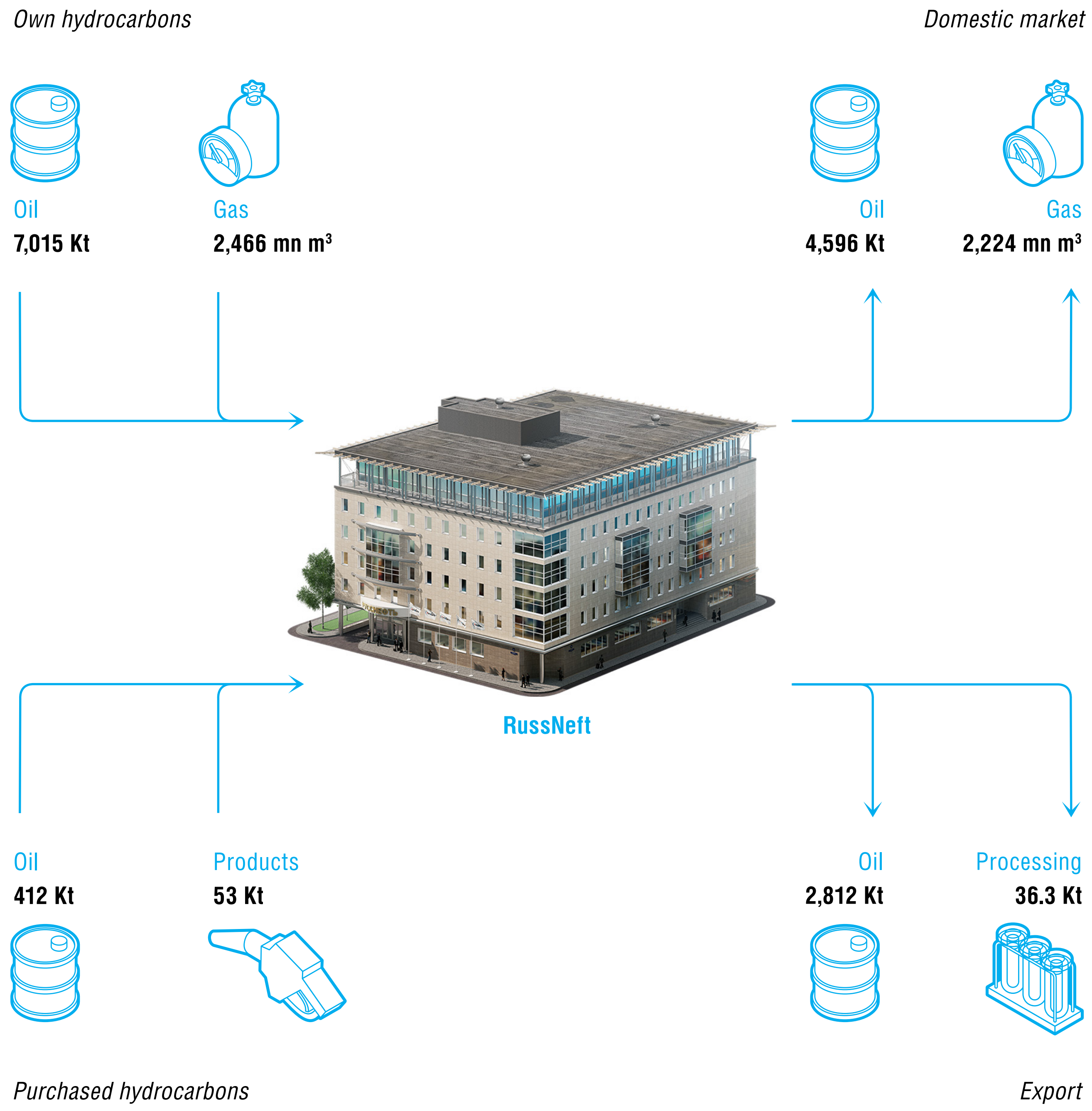
- Orsknefteorgsintez (Orsk Refinery) and
- Krasnodar Oil Refinery – Krasnodareconeft (the Krasnodar Refinery), purchasing together 1.9 million tonnes of oil.

The remainder was supplied to other refineries, such as

- Saratov Oil Refinery
- Itatsky Oil Refinery
- Yaya Oil Refinery
- Slavyansk ECO
- Antipinsky Oil Refinery
- Anzherskaya Oil and Gas Company
- Tomskneftepererabotka and
- VOK-Oil.

Our cooperation with refineries is based on long-term arm's length contracts, which may be revised in response to abrupt changes in the market environment.

Oil and gas sales structure:



Exports

Non-CIS countries

In 2018, we exported **2.3 million tonnes** of oil to non-CIS countries.

Exported oil is shipped via the Black Sea port of Novorossiysk and the Baltic Sea port of Ust-Luga, as well as by trunk oil pipelines to some European countries (Germany).

Oil trader Glencore remains RussNeft's key business partner in export shipping. We cooperate under an arm's length contract, its key terms and conditions being revised from time to time.

CIS countries

We export much of our oil to Belarus, which helps us balance our sales structure, including the use of processing arrangements. In 2018, our sales in Belarus reached **274.7 thousand tonnes** of oil, most of which went to refineries.

Financial Performance

Financial Highlights

RUB bn	*2017*	*2018*	*YOY*
Revenue	129.2	177.8	38%
EBITDA[1]	29.9	48.6	62%
Profit attributable to shareholders of the Parent Company	8.1	15.0	85%
Adjusted profit[2]	11.1	16.8	52%
Net debt	79.5	95.97	20.6 %

In 2018, RussNeft showed a significant strengthening of financial performance, with production increasing by **1.3%**. Revenue grew by **38%**, amounting to **RUB 177.8 billion**. EBITDA amounted to **RUB 48.6 billion – 62%** up on previous year. The revenue increase was mainly driven by a favourable situation on the energy market, new production structures, and new technologies used in development.

The EBITDA improvement was driven by revenue growing faster than operating expenses – in particular through implementation of the Operational Improvement Programme.

The profit amounted to **RUB 15 billion – 85%** up on last year. The increase in profits is mainly due to a favourable change in the macroeconomic environment and management's efforts to minimize operating costs. This indicator includes balance-sheet loss from revaluation of derivative financial instruments to fair value and foreign exchange gain/loss. The adjusted profit amounted to **RUB 16.8 billion – 52%** up on 2017. This growth is mainly due to the increase in EBITDA.

[1] EBITDA does not include foreign exchange gain/loss and non-cash items.
[2] Net of foreign exchange gain/loss and revaluation of financial instruments to fair value.

Capital Expenditure[3]

Capital expenditure (development), RUB bn	*2017*	*2018*	*YOY*
PRODUCTION DRILLING	18.6	19.3	**+3.7%**
BASE PRODUCTION	2.2	2.4	9%
WELL INTERVENTION OPERATIONS	1.9	2.7	42%
GAS PROGRAMME	2.3	0.28	(87%)
EXPLORATION	0.7	2.7	285%
Total	**25.7**	**24.9**	**(3%)**

The Company's strategy provides for active investment aimed at increasing the scope of exploration, drilling and commissioning of new wells, and creating new infrastructure and upgrading the existing infrastructure, in order to maintain existing production rates and achieve organic growth in the medium term. Investment in 2018 amounted to **RUB 24.9 billion**, which is **3%** lower than the 2017 figure, due to a reduction in investment in the gas programme as gas production increased.

Debt Portfolio

The Company's net debt in the reporting year was **RUB 95.9 billion**. VTB Bank (PAO) is the primary lender. The change **(20%)** is mainly due to weakening of the rouble exchange rate in 2018. Thanks to the concerted efforts of its management and shareholders, the Company achieved targets for indicators on compliance with financial and production covenants; the loan is serviced on schedule and in full.

[3] As shown by management accounting records.

Credit ratings

Moody's	Fitch Ratings
B1	B
(positive outlook)	(positive outlook)
25 April 2017	21 April 2017
Upgraded from B2	Newly assigned

In March 2019, Fitch upgraded RussNeft's outlook from stable to positive.

PJSC RussNeft. Annual Report 2018 / Operational results

PJSC RussNeft. Annual Report 2018 / Corporate Social Responsibility

Chapter 3

Corporate Social Responsibility

Environmental protection

Our environmental safety strategy focuses on the introduction of state-of-the-art technologies. We have been working on deploying low-waste technologies, safe production and consumption waste accumulation, storage and disposal technologies, as well as technologies reducing any negative impact on the environment and ensuring sustainable use of natural resources in all areas of our operations.

Our key initiatives in this area have embraced prevention of oil and oil-product spills and environmental monitoring and process control within licenced areas, APG utilisation, disposal of domestic and industrial waste, rehabilitation of disturbed or oil-contaminated land and waste pits.

Air

We have been implementing our Corporate Programme for APG Utilisation and Gas Business Development to ensure compliance with the requirements of our licence agreements and the applicable environmental regulations and reduce flared APG emissions at the Company's fields.

To achieve a 95% APG utilisation level, a set of initiatives have been tailored in the Corporate Programme for each field and oil and gas production block. The initiatives include construction and commissioning of gas pipelines, compressor and gas turbine stations, gas treatment units, and other facilities.

These initiatives help significantly reduce flared APG emissions and ensure eco-friendly APG utilisation in line with the Russian Government's requirements.

We are set to continue our efforts to maintain the improved APG utilisation level, boost production efficiency and reduce greenhouse gas emissions. These objectives will be implemented as part of our 2019–2021 Corporate Programme through funding a number of major utility and gas infrastructure facilities.

Currently, around 85% of APG is sent to gas processing plants; the remaining volume is used for our own needs or sold to non-affiliated companies.

Soil

To comply with environmental legislation, we are rehabilitating oil-contaminated land and sludge pits.

For several years, we have been using pitless drilling at the majority of our licensed areas. Drilling waste is processed into construction materials using special technologies approved by the state expert environmental review authority.

Our specialists have developed and are implementing an Old Pit Liquidation Programme, with 13 pits already rehabilitated in 2018. The Programme seeks to rehabilitate all of the existing pits in 2019–2020.

We monitor the environment around well pads and at all production sites and take all steps to prevent and respond to oil and oil-product spills.

The use of field pipelines with corrosion-resistant coating helps reduce the likelihood of accidents.

Water

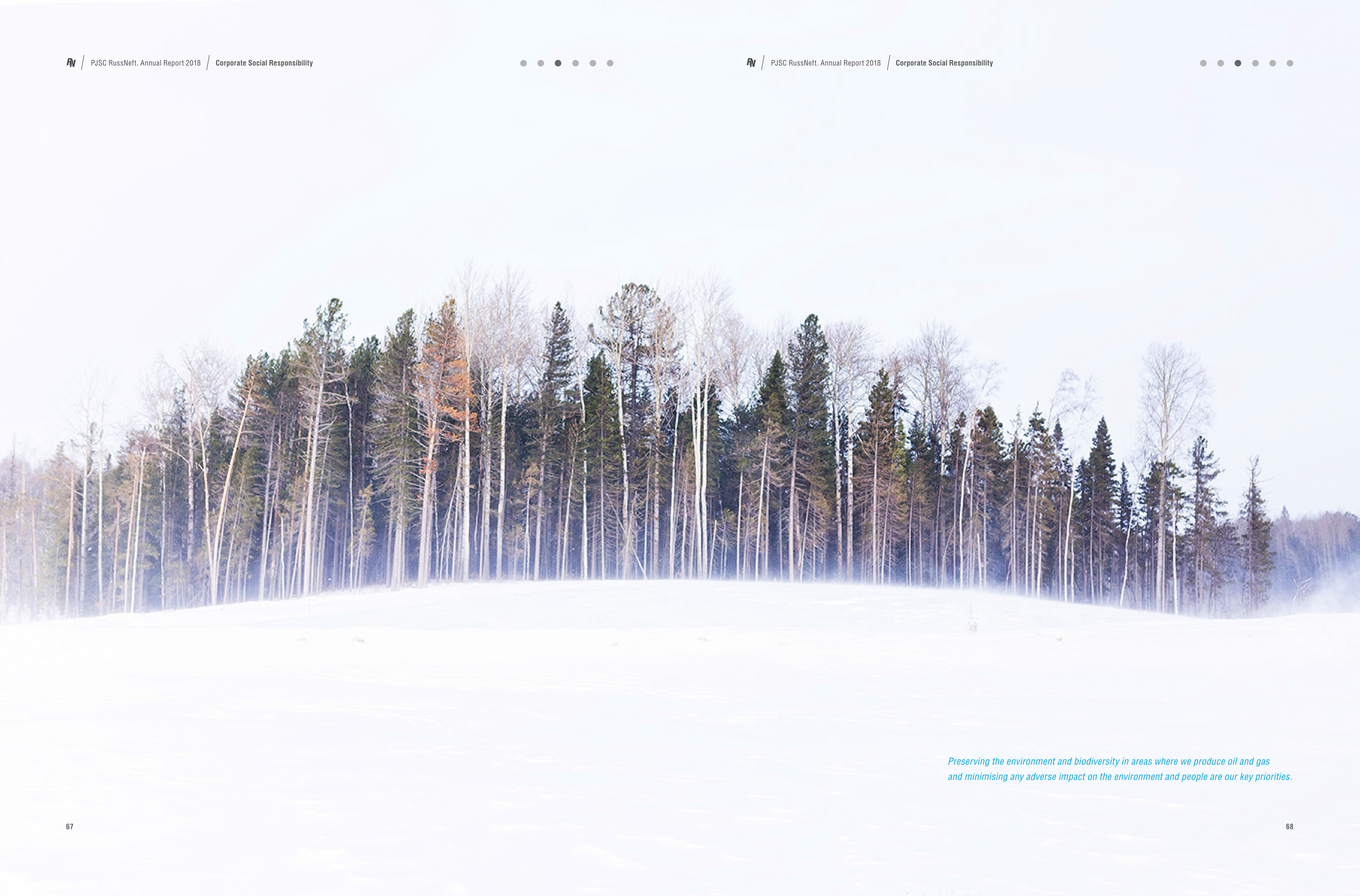
Our facilities dispose of the formation water through re-injection to maintain pressure.

To minimise production facilities' consumption of natural fresh water, we have installed water recycling and re-use systems at our oil producing assets.

Waste

In line with the applicable environmental requirements, our production waste is held at dedicated facilities for no more than eleven months from when it is generated and is then transferred to specialised enterprises licensed to handle waste for treatment, decontamination, or disposal.

PJSC RussNeft. Annual Report 2018 / Corporate Social Responsibility



Preserving the environment and biodiversity in areas where we produce oil and gas and minimising any adverse impact on the environment and people are our key priorities.

Health and safety

Our health and safety efforts seek to ensure:

occupational safety

safe production environment

To this end, we have developed a number of special technologies and systems. For several years now, we have been operating and improving our Industrial Safety Management System and Occupational Safety Management System. We also develop and introduce company by-laws regulating the issues relating to:

- training our personnel in, and assessing their knowledge of, occupational and fire safety
- industrial and fire safety
- organising and exercising process control to ensure safety at hazardous production facilities
- investigating accidents
- conducting medical examinations
- providing our personnel with special workwear, footwear and other personal protection equipment

We are continuing with our efforts to improve working conditions, and arrange compulsory health examinations and check-ups for those of our staff who may be exposed to harmful and/or hazardous environments.

Committed to ensuring occupational safety and reducing the number of occupational accidents, in 2018 we cut the number of on-the-job injuries to less than a quarter of the 2017 figure, without a single fatal accident.

We do our best to prevent occupational accidents by taking remedial and preventive measures to eliminate their causes. Our employees receive information about the reasons and circumstances of accidents.

We also make specific assessments of working conditions and take measures to keep employees' exposure to harmful and/or hazardous environments at a minimum. According to our assessments, our working conditions correspond to the acceptable 2nd class level.

Our process control commission regularly checks our production divisions' compliance with industrial, fire, occupational and environmental safety requirements. In 2018, we carried out 6 scheduled production control inspections of the companies comprising RussNeft.

We have entered into agreements with professional emergency rescue teams, created our own emergency units and provided funds and the resources necessary to ensure remedial action.

In addition, we are developing and implementing response measures that are incorporated into our remedial action plans and health and safety operating procedures and have organised appropriate drills and trainings.

To meet the fire safety targets, we:

- have set up agreements with both local EMERCOM (Russian Ministry for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters) units and specialised licensed organisations to ensure fire prevention and response at our facilities
- conduct fire-fighting drills, in conjunction with local fire units, for employees and volunteer fire fighters involving fire-hazardous on-site equipment and administrative buildings. A total of 208 fire-fighting drills were conducted in 2018 — a twofold increase over 2017 (91 drills)
- conduct on-site fire safety briefings and drills for volunteer fire fighters

Prior to the start of each fire season, we organise, in accordance with our forest fire prevention and fire-fighting plans, fire-fighting and emergency response stations and equipment.

Human resources

The Company's HR management strategy focuses, first and foremost, on acquiring and retaining highly-skilled assets who can add value to the Company and help it achieve its goals and objectives.

KEY HR PRINCIPLES:

- a systematic approach to recruitment and job rotation
- staff training and competency development
- developing incentive programmes
- improving labour productivity and effectiveness
- improving HR effectiveness

The Company focuses on attracting, engaging and retaining the best employees, and shows careful consideration for their interests and needs so as to motivate each of them to achieve their best possible results.

To improve manageability, optimise business processes and cut costs, reorganisation of NAK AKI-OTYR OJSC into the Khanty-Mansiysk branch of the Company was started in 2018. In 2019, we will begin reorganising Ulyanovskneft, Varioganneft, and Aganneftegazgeologiya into our "regional" branches.

To integrate the Khanty-Mansiysk branch into the Company, we:

- developed and approved a standard organisational chart and staff regulations for the branch
- developed and approved by-laws for the branch, governing labour relations between the Company and the branch
- optimised the organisational structure of the Branch
- are providing support for formalising the employment of the branch staff, in full compliance with the applicable labour laws

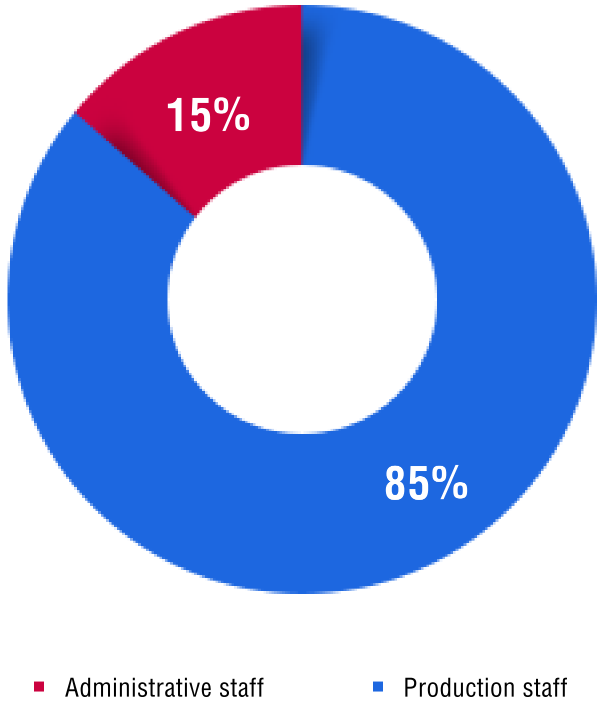
In 2019, we will continue streamlining our management processes and corporate structure in order to improve operating performance.

In line with our strategy, we also have a cost-cutting programme in place. One of the programme's key objectives is to increase labour productivity.

As a member of the Russian Union of Industrialists and Entrepreneurs' working group within the Russian Trilateral Commission, RussNeft participates in the development and drafting of labour laws and regulations.

HR highlights

In 2018, the Company employed over 9,000 people, with administrative and production personnel accounting for 15% and 85%, respectively.



The 2018 average headcount decreased by 3.2% as a result of streamlined management processes and corporate structure aimed at increasing operating efficiency and labour productivity.

Staff turnover in 2018 was 10%, which is on par with 2017.

Compensation and social policy

We are constantly improving our standard by-laws regulating basic HR compensation and incentive plans.

To strengthen employees' motivation and responsibility, we have adjusted our quarterly and monthly bonuses correspondingly. We regularly monitor the market and offer employees a competitive aggregate remuneration package.

Our key social initiatives are aimed at providing employees with comfortable, safe working conditions, improving their quality of life, and offering financial support to retired employees and veterans. We have a corporate social benefits scheme, which includes basic and additional benefits, such as private pension plans, health resort treatment and children's recreation programmes, financial support in case of family emergencies, etc.

To boost employee engagement and develop corporate culture, we:

- organise professional skills competitions
- introduce state-of-the-art technologies and improve process efficiency (via dedicated project groups)
- organise sports events and recreational activities
- organise leisure activities

The Company is forging stronger partnership links with the trade unions, which actively defend employees' interests.

Since 2007, we have been successfully operating our corporate pension plan. In addition to their state pension, each retired employee can receive a private (corporate) pension covered by the Company.

The Company employees receive various awards, certificates of honour, and commendations from ministries and agencies, as well as corporate awards for top professionalism and significant contribution to the Company's development. In 2018, the Russian Ministry of Industry and Energy made awards to 48 employees. Over 1,000 employees received corporate awards from RussNeft.

Staff training and development

We care a lot about education and training for our personnel, including developing professional, management, and leadership skills. Training programmes are aligned with our strategic objectives. In 2018, some 8,000 employees completed various extended education, retraining and professional development programmes. Over RUB 26 million were spent.

Since 2015, we have been successfully using the Competency Model and 360 Degree Feedback approach to assess and motivate managers and specialists in a more effective manner. Management skills are developed on the basis of modular programmes for specialists of various levels (line, middle and top managers). Our efforts in terms of talent pool management include occupational guidance for graduate specialists, talent acquisition (including young talent recruitment), and career planning, so as to ensure the required workforce is available. In 2018, over 40 students from the best Russian universities participated in our targeted educational programme. Each year, students from partner universities and vocational training institutions join the Company as interns.

Our subsidiaries hold annual professional contests among core operational workers (Best in Profession). The first rounds of the contest are held at the subsidiaries. Then the winners compete on an inter-regional level to identify the best of the best. This annual contest encourages employees with different experience and backgrounds, and coming from different locations, to share their expertise, provides a platform for team building, and enhances corporate culture.

Key HR priorities for 2019:

- monitoring and planning personnel requirements for a period of up to three years
- ensuring better utilisation of human resources
- increasing labour productivity across all business areas
- improving the incentive plans and KPI system
- drafting, improving and harmonising HR by-laws
- updating and streamlining organisational structures to increase the effectiveness of corporate governance
- improving business process standardisation in relation to HR
- streamlining HR processes and reducing the man-hours spent on them

Charity and sponsorship

Guided by the principles of corporate social responsibility, we do our best to support social and economic development in the regions where we operate, in liaison with local authorities. Moreover, we participate in numerous charity and sponsorship projects at a nationwide level.

Key initiatives include:

- supporting culture and the arts
- co-operation with NGOs
- religion
- healthcare
- sports
- education
- socio-economic development of the country's regions, including support for socially-vulnerable populations

In 2018, we invested in the resolution of social issues in the regions where we operate, under social and economic development agreements entered into with regional and municipal authorities.

We support charity projects running at the Rovesnik children's wellness centre. Rovesnik focuses on social adaptation of orphans and disadvantaged children, and support for young talents.

In 2018, we financed trips for over 1,500 children from the regions where we operate to Rovesnik, which is located in a picturesque forest on the banks of the River Volga, near the village of Orlovskoye in the Saratov Region.

PJSC RussNeft. Annual Report 2018 / Corporate Social Responsibility

In the Khanty-Mansi Autonomous District – Yugra, oil is produced in licensed areas some of which border on the territories where natural resources have traditionally been used by the indigenous people. To preserve these northern minorities' national identity, agreements were signed with the heads of the households, under which families in the traditional settlements are given financial support to maintain their customary way of life.

In 2018, we provided RUB 22 million in support to 61 families.

Sponsorship and charity projects

In 2018, we participated in a number of sponsorship and charity projects on the national level, including the XVII Moscow Easter Festival and the White Nights Festival in St. Petersburg.

We also participate, in co-operation with a number of globally-renowned universities, in a number of major educational projects. Among those are the Graduate School of Innovative Business (run in collaboration with Lomonosov Moscow State University (LMSU)) and a targeted educational programme for students of the Gubkin Russian State University of Oil and Gas.

In July 2018, we supported the tenth "White Nights in St. Petersburg", the largest pop festival in Russia and Eastern Europe, which brought together both aspiring and established performers from all over the world.

Graduate School of Innovative Business, a department (corporate university) at LMSU

The Graduate School of Innovative Business was established at Lomonosov Moscow State University in co-operation with RussNeft to train a highly skilled O&G workforce.

We:

- provide all necessary funding (including funding required to set up physical infrastructure, acquire state-of-the-art research and training hard- and software, publish written materials, and remunerate teaching staff)
- provide full financial support to 50% of each year's students

LMSU:

- provides teaching staff and academic facilities
- develops the necessary educational programmes

Majors:

Unlike other corporate universities, the School offers three fields of study:

- geology and O&G reservoir geophysics
- natural resources management
- petrochemistry

Master's programmes were specifically developed by LMSU's and RussNeft's specialists to address topical present-day problems of the industry and are taught by both leading LMSU professors and O&G think tanks and production and service companies.

Our achievements:

- 140 Masters graduated from the department over the past 12 years.
- There are currently 24 students enrolled in the 2018–20 programme.
- All our graduates are much sought after by companies in the industry.

Programme development:

- in 2011, a new White Sea on-the-job training in geology and geophysics was added to the Master's curriculum
- in 2013, a new Geology Master's programme in English was developed and launched
- 10+ textbooks by the School's lecturers were published for geology students

Funding:

Year	*Funding provided*
2006	RUB 22 million
2007	RUB 15 million
2010	RUB 15 million
2011	RUB 15 million
2012	RUB 18 million
2013	RUB 18 million
2014	RUB 23 million
2015	RUB 23 million
2016	RUB 23 million
2017	RUB 24 million
2018	RUB 24 million
Total:	**RUB 220 million**

Joint educational project (in collaboration with the Gubkin Russian State University of Oil and Gas)

In 2010, in collaboration with the Gubkin Russian State University of Oil and Gas, we started an educational project to train future O&G specialists.

The first regional foundation centre was opened in Saratov to introduce prospective students to the oil and gas industry and prepare them for the Unified State Exam. After this thorough grounding, our best trainees easily pass the entrance examinations to become students at the Gubkin University. RussNeft's recruiters are delighted to welcome graduates who perform well.

The cost of training at the foundation centre is fully covered by RussNeft. Every year our trainees have at least two residential sessions with Gubkin University's best lecturers.

Since 2011, the project has been expanded to cover not only the Volga Region but Western Siberia as well. Saratovneftegaz (Raduzhny) and Varioganneft have opened another two regional foundation centres for prospective students of Gubkin University.

Today, a total of 165 students are participating in the project, including 114 students from the Gubkin Russian State University of Oil and Gas and 51 trainees from the regional foundation centres in Raduzhny and Saratov. They are soon to be joined by aspiring students from the Saratov, Ulyanovsk, and Tomsk Regions, and the Khanty-Mansi Autonomous District.

In 2018, RUB 15 million were spent on the project.

We attach great importance to spiritual and moral development, education, and support for inter-faith dialogue, and to this end, we work together with the Moscow Patriarchate of the Russian Orthodox Church, the Federation of Jewish Communities of Russia, and the Russian Muftis Council.

In 2018, we completed a two-year project to fund the restoration and repair works at the athletics arena of Lomonosov Moscow State University. The arena is a part of the MSU Buildings listed as regional cultural heritage.

We provide support to socially-vulnerable populations and help orphans and children in care, as well as handicapped children and their families with rehabilitation, social adaptation, and integration. We organise, among other things, cultural and other charitable events for handicapped children to help them adapt socially.

As part of our targeted charitable programme, we provided support to Akhmad A., a six-year-old boy who cannot walk, can barely stand or keep his back straight. He lost the ability to move around without assistance and talk when he was just a year old. A comfortable body position is essential for the boy to grow – the family needed a special custom-made wheelchair, which we funded to help rehabilitate Akhmad.

Our other key focus area is supporting the development of the Russian healthcare system. In 2018, we co-operated with the National Medical Research Centre for Haematology (Moscow) and the Bakulev National Medical Research Centre for Cardiovascular Surgery (Moscow) and provided targeted medical assistance to handicapped children in the country's regions.

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We also invest in Russian sports through co-operation with the Russian Athletics Federation and the All-Russian Volleyball Federation, and have for years been supporting the Neftyanik children's football club in Novospasskoye village in the Ulyanovsk Region.

Sponsored by RussNeft, in 2018 Neftyanik Football Club won bronze medals in the Ulyanovsk Region football championship and were prize-winners in Russian and international championships in Gelendzhik and Sochi. The senior team were champions for the fifth time and won their fourth Ulyanovsk Region Bowl and Super Bowl.

We also sponsored the reconstruction of Novospasskoye central stadium, Neftyanik's main training facility.

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Chapter 4

Corporate Governance

Corporate Governance

The Company has developed its corporate governance framework based on the Russian law, the Moscow Exchange Listing Rules, and the guidelines of the Corporate Governance Code, a standard recommended by the Russian Central Bank.

Corporate governance procedures and practice are outlined in the Company's bylaws, such as:

- Articles of Association;
- Regulations on the General Shareholders' Meeting;
- Regulations on the Board of Directors;
- Regulations on the Board of Directors Committees;
- Regulations on the Internal Audit Commission;
- Regulations on the Corporate Secretary;
- Regulations on Board of Directors Remuneration and Reimbursement of Expenses Relating to the Discharge of Duties by the Board of Directors;
- Regulations on the Dividend Policy;
- Regulations on the Internal Audit Department;
- Regulations on Insider Information;
- Risk Management Policy;
- Internal Control Policy;
- Regulations on Communications Policy;
- Board of Directors Membership Policy; and
- Regulations on Performance Evaluation for the Board of Directors and the Board of Directors Committees.

Corporate governance elements described in the Company by-laws are:

- Equitable and fair treatment of all shareholders;
- Efficient, responsible, and professional Board of Directors;
- Openness of information and transparency;
- Prevention of corrupt practices;
- Compliance with standards of ethical behaviour;
- Corporate social responsibility.

The percentage of the Code's principles being fully observed by the Company was up from 81% in 2017 to 89.9% in 2018.* By the end of 2017, RussNeft was in compliance with practically all core principles of the Code, as the percentage of the Code's recommendations that the Company observed, wholly or in part, reached as high as 100%. To improve its performance, the Company is committed to further strengthening its corporate governance.

In doing so, RussNeft is closely following global trends in corporate governance, while remaining focused on the requirements laid down by the Russian regulators, which are reflected in its corporate governance practice.

In 2019, the Company intends to focus on improving the proceedings of the Board of Directors and its committees.

Self-Assessment of Corporate Governance Practice and its Compliance with the Code's Principles and Recommendations**

Corporate Governance Principles	*Number of principles recommended by the Code*	*2017**			*2018**		
		Compliant	*Partial compliance*	*Not compliant*	*Compliant*	*Partial compliance*	*Not compliant*
Shareholders' rights and equitable conditions for shareholders to exercise their rights	13	11	2	–	12	1	–
Board of Directors	36	29	6	1	33	3	–
Corporate Secretary	2	2	–	–	2	–	–
Remuneration for Board of Directors members and the Company's senior management	10	8	2	–	8	2	–
Risk management and internal controls	6	6	–	–	6	–	–
Corporate disclosure	7	6	1	–	7	–	–
Material corporate actions	5	2	2	1	3	2	–
Total score	**79**	**64**	**13**	**2**	**71**	**8**	**0**
	100%	81.0%	16.5%	2.5%	89.9%	10.1%	0%

* Company compliance with the Code is assessed by comparing Company practices with the detailed recommendations of the Code. If at least one detailed recommendation in any section of the Code is not complied with, the Company is considered to be in partial compliance with that section. If none of the detailed recommendations in any given section are observed, the Company is considered not compliant with that section.

** Data based on the Report on Compliance with the Code's Principles and Recommendations.

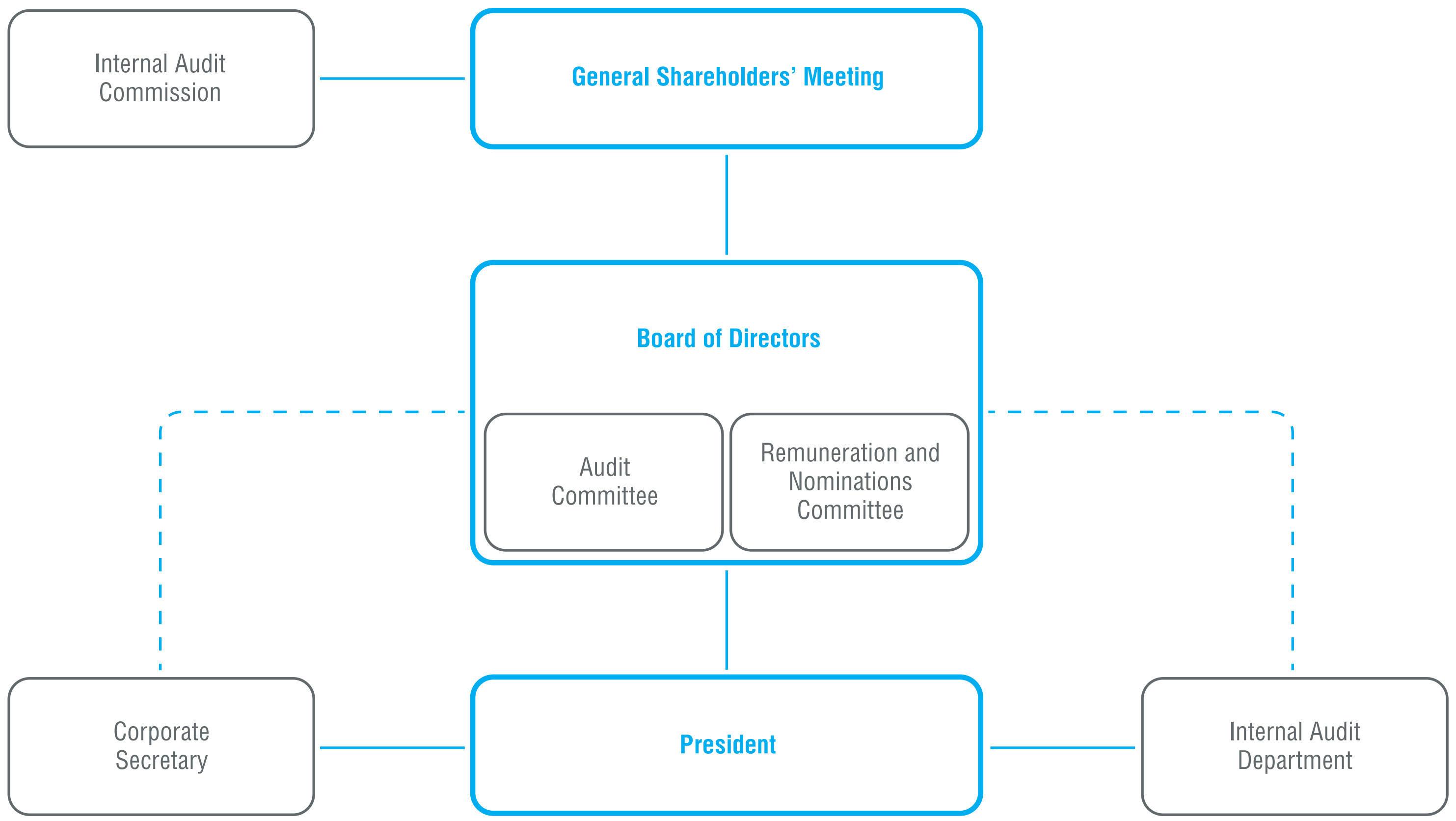
Governing and supervisory bodies

Governance within RussNeft is exercised through its governance bodies:

- General Shareholders' Meeting,
- Board of Directors (collegial governance body), and
- President (chief executive officer).

The Company's supervisory bodies are:

- Internal Audit Commission,
- Board of Directors Audit Committee, and
- Internal Audit Department.



Officers and departments that are functionally subordinate to the Board of Directors.

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governance body of RussNeft. It takes decisions on key matters relating to the Company's operations.

The procedures for preparing, convening, and holding annual and extraordinary Shareholders' Meetings are set out in the Regulations on RussNeft General Shareholders' Meetings (restated version approved by a resolution of the Company's Extraordinary General Shareholders' Meeting on 14 September 2016 and amended by a resolution of RussNeft Annual General Shareholders' Meeting on 22 June 2018). The procedure for holding a General Shareholders' Meeting ensures that all of the Company shareholders have equal opportunities to participate.

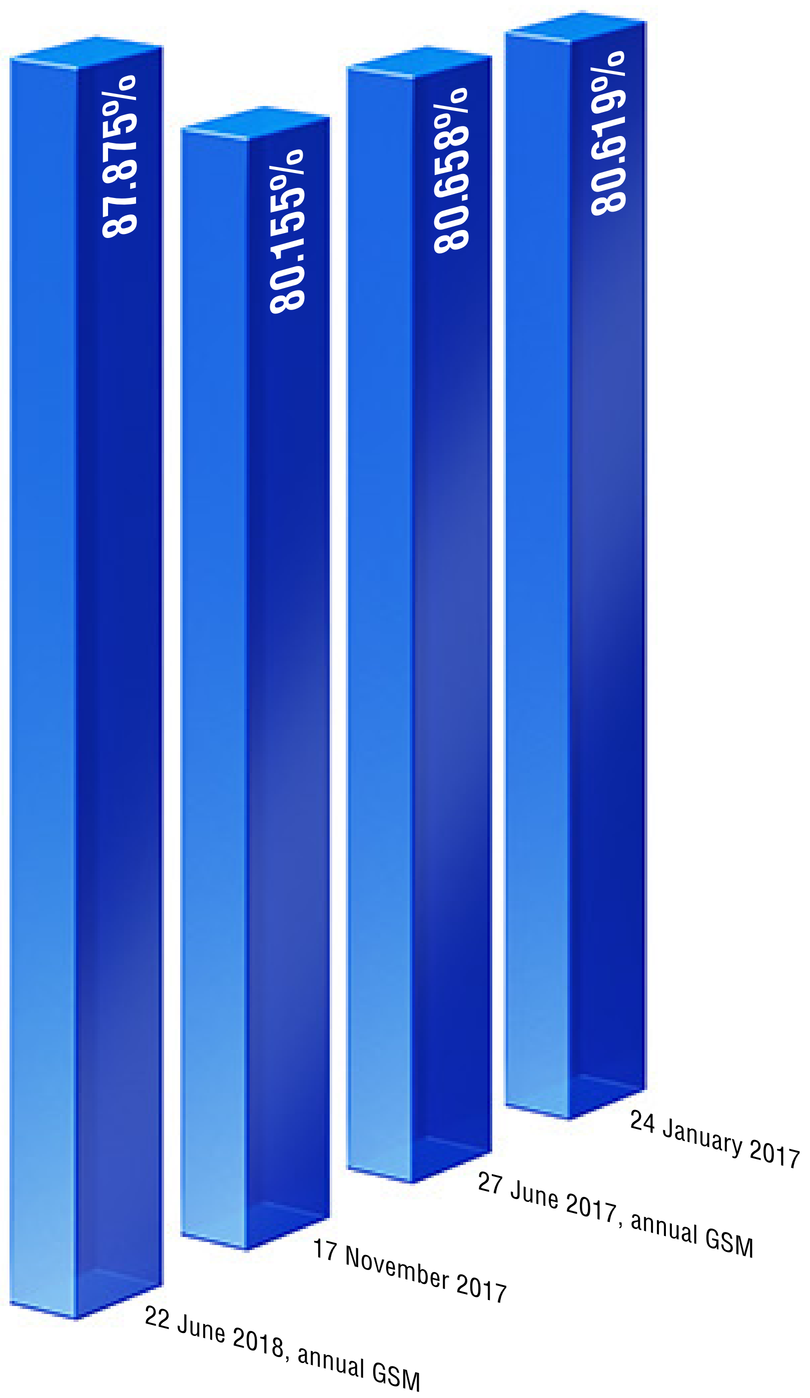
At a General Shareholders' Meeting, shareholders are invited to vote on the proposed draft resolution for each item on the agenda. Voting ballots allow shareholders to express their opinions on agenda items and vote for or against the proposed draft resolution, or abstain from voting.

In the course of 2018, the Company held one annual General Shareholders' Meeting.

Annual General Shareholders' Meeting on 22 june 2018 (joint presence)

- To approve RussNeft's annual financial statements for 2017
- To distribute profit for 2017 and, in particular, to authorize payout of dividends on RussNeft's shares
- To elect members to RussNeft's Board of Directors
- To elect members to RussNeft's Internal Audit Commission
- To approve RussNeft's auditors
- To amend the Regulations on RussNeft General Shareholders' Meetings
- To amend the Regulations on RussNeft's Board of Directors
- To authorize major transactions
- To determine remuneration to members of RussNeft's Board of Directors and reimbursement of expenses incurred in connection with their respective duties as members of RussNeft's Board of Directors

Quorum at General Shareholders' Meetings



Board of Directors

The Board of Directors is responsible for the strategic governance of the Company's operations. Acting within the scope of its authority, the Board determines the priority segments of RussNeft's business and its strategic goals. The Board of Directors plays the main role in shaping and improving the Company's corporate governance frameworks, ensures the protection and exercise of shareholders' rights, and monitors the operation of the Company's executive bodies.

The Company's Articles of Association define the scope of the Board of Directors, which is clearly differentiated from that of the President, who manages the Company's day-to-day operations.

One of the Board's key responsibilities is to set up strong executive bodies and oversee their performance. The Board of Directors is authorized to elect and remove the chief executive officer, and determine his/her incentives.

The Board of Directors approves internal controls and risk management policy, and supports the operation of these. In defining the risk management policy, the Board of Directors seeks to strike a reasonable balance between risks and profitability. The Board of Directors manages the key risks impacting the achievement of the Company's strategic objectives.

Based on pre-approved plans, the Board of Directors conducts annual performance reviews, monitors the efficiency of risk management and internal controls, prepares general shareholders' meetings, authorizes transactions, and transacts such other business as may be required by RussNeft's Articles of Association.

The Company has a highly professional Board of Directors with the correct balance of independent and non-independent directors and an appropriate mix of skills and expertise required for the Board members to carry out their functions in the most efficient manner.

Board of Directors Members 17 November 2017 – 22 June 2018	
1.	Mikhail Gutseriev
2.	Said Gutseriev
3.	Sait-Salam Gutseriev
4.	Andrey Derekh
5.	Andrey Zarubin
6.	Victor Martynov
7.	Avet Mirakyan
8.	Dmitry Romanov
9.	Robert Skidelsky
10.	Sergey Stepashin
11.	Yana Tikhonova
12.	Vladimir Scherbak

Board of Directors Members 22 June 2018 – present	
1.	Mikhail Gutseriev
2.	Said Gutseriev
3.	Sait-Salam Gutseriev
4.	Andrey Derekh
5.	Andrey Zarubin
6.	Victor Martynov
7.	Avet Mirakyan
8.	Dmitry Romanov
9.	Robert Skidelsky
10.	Sergey Stepashin
11.	Yana Tikhonova
12.	Vladimir Scherbak

Four independent directors have joined the Board, bringing a fresh perspective to matters transacted by the Board of Directors, as well as independent judgement stemming from these directors' knowledge and experience. Constructive feedback from independent directors and their lack of bias are of great value to the Board of Directors and the Company as a whole. Independent directors contribute to better managerial decisions. They play a particularly important role in determining the Company's development strategy, assessing the performance of the executive bodies, and evaluating the performance of risk management and internal controls.

The Remuneration and Nominations Committee submits its opinion on each director's compliance with the Board of Directors independence criteria. As RussNeft is a public company and its shares are traded on the Moscow Exchange, the Board of Directors and the Remuneration and Nominations Committee apply the directors' independence criteria laid down in the Listing Rules.

In April 2018, the Board of Directors Remuneration and Nominations Committee assessed the independence of nominees for the Board of Directors elections at the Annual Shareholders' Meeting.

In line with the requirements of Schedule 4.1 to the Moscow Exchange Listing Rules, the Company evaluated the compliance of its Board of Directors members with the independence criteria. By its resolution of 22 June 2018, the Board of Directors recognized Mr Sergey Stepashin as an independent director, despite the fact that Mr Stepashin is formally affiliated with VTB Bank, which is the Company's material counterparty, since the amount outstanding and payable by the Company under its facility with VTB exceeds 2% of the Company's consolidated book value and 2% of the Company's consolidated revenues, and Mr Stepashin's related person (i.e. Tamara Stepashina, his wife) is vice president of VTB Bank and sits on the board of directors of VTB Insurance (a company controlled by VTB Bank).[1]

The rationale behind this decision was the fact that the affiliation between Mr Stepashin and the Company's material counterparty is of a formal nature and does not affect his ability to serve on the Company's Board of Directors for the benefit of the Company and all of its shareholders, for the following reasons:

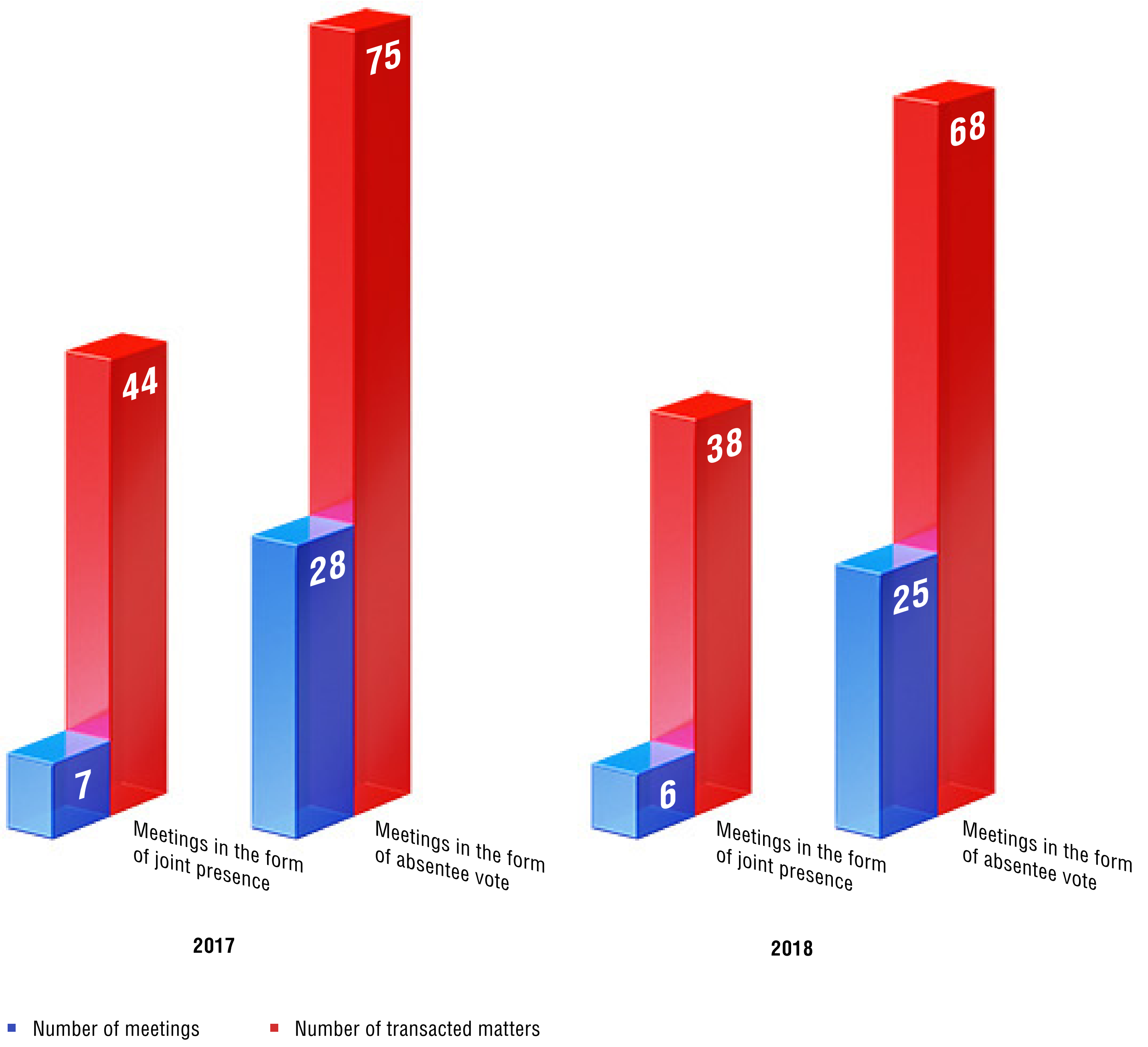
– The facility agreement was entered into under the applicable Russian laws in 2013 on an "arm's length" basis and matures in 2026. In 2015 and 2016, the facility agreement was revised. Under the applicable laws, the respective transactions did not and do not constitute transactions in which Mr Stepashin had interest (i.e. conflict-of-interest transactions). Mr Stepashin did not join the Company's Board of Directors until 2016, when his spouse, although an employee of VTB Bank, was not serving on the governing bodies of VTB Bank itself; she was a member of the governing bodies of the company controlled by VTB Bank; hence neither Sergey Stepashin nor Tamara Stepashina was in a position to influence VTB Bank's lending policy in relation to the Company.

– During the time he served on the Company's Board of Directors, Mr Stepashin attended all meetings of the Board. Over a number of years, he has held a number of senior government positions; Mr Stepashin is a top-notch professional with vast experience in audit business and a sterling reputation, in particular, amongst investors, proving he is capable of independent, unbiased judgment and is deserving of his independent status in relation to matters transacted by the Company's Board of Directors.

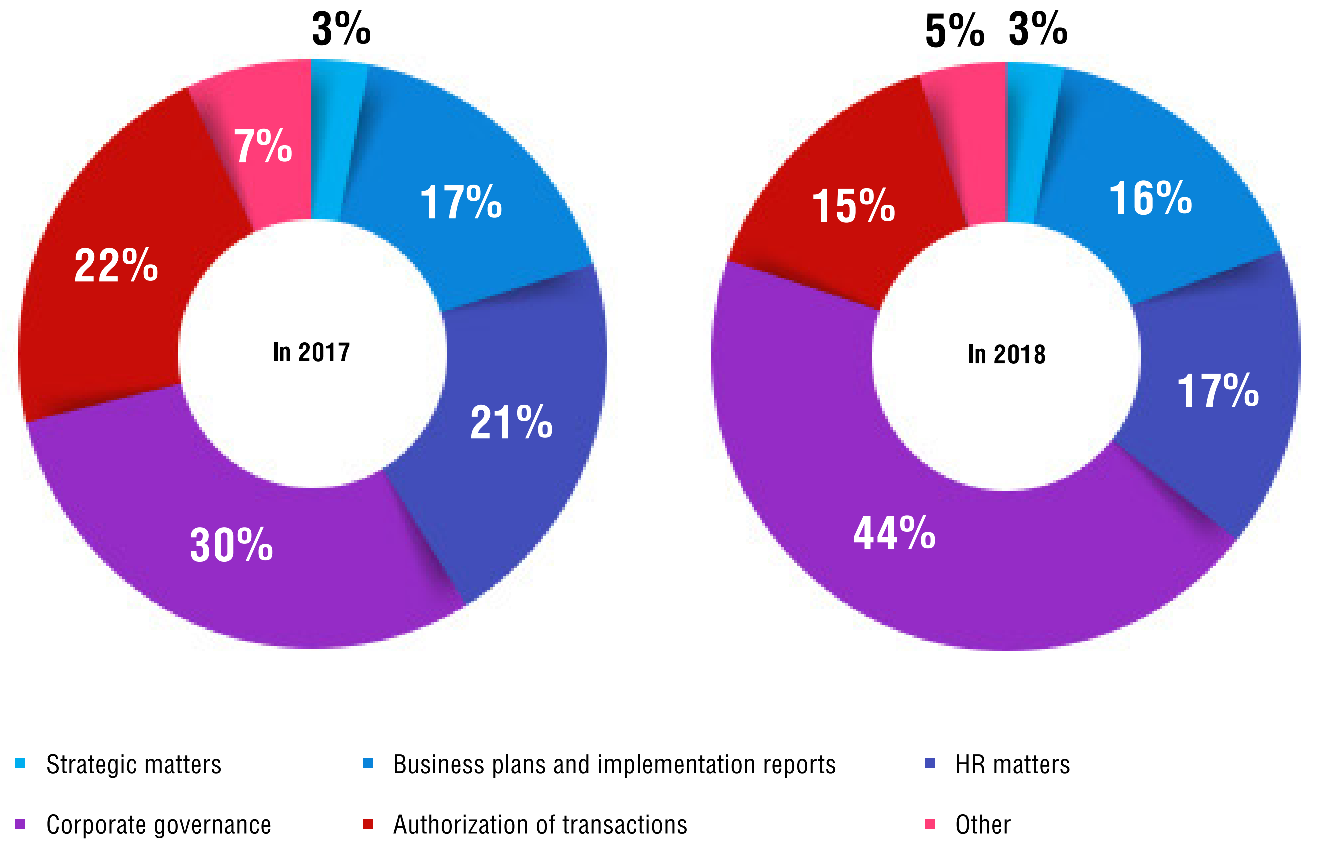
In 2018, the Board of Directors met 38 times; six of its meetings were held in the form of joint presence, and 25 in the form of an absentee vote. The Board of Directors discussed 106 matters.

[1] According to VTB Bank's Quarterly Report.

Board of Directors Meetings and matters transacted in 2017 and 2018



The chart below shows the breakdown of matters transacted at the Board of Directors meetings.



Key motions passed by the Board of Directors in 2018:

- To review and approve the Company's financial and business performance reports for Q1-Q3 2018.
- To approve RussNeft's business plan for 2019.
- To approve RussNeft's Risk Management Policy and Internal Control Policy.
- To approve RussNeft's Information Policy.
- To approve the restated Regulations on Remuneration to the Board of Directors and Reimbursement of Expenses Related to the Discharge of Duties by the Board of Directors, as well as the Regulations on the Board of Directors' Performance Review and the Board of Directors Induction Policy.

In 2018, Board of Directors members achieved high engagement in the activities of the Board of Directors and its committees.

Involvement of Board of Directors Members in the Activities of the Board and its Committees in 2018*

Board of Directors member	*Board meetings*	*Audit Committee*	*Remuneration & Nominations Committee*
Mikhail Gutseriev	31/31		
Said Gutseriev	30/31		
Sait-Salam Gutseriev	30/31		
Andrey Derekh	31/31	6/6	
Andrey Zarubin	31/31		
Victor Martynov	31/31	6/6	6/6
Avet Mirakyan	30/31		
Dmitry Romanov	31/31		6/6
Robert Skidelsky	28/31		6/6
Sergey Stepashin	31/31	6/6	
Yana Tikhonova	26/31		
Vladimir Scherbak	25/31		

*Note: "30/31" in the table above means that a member of the Board of Directors attended 30 out of the 31 meetings that were held. If the number of meetings attended corresponds closely to the number of meetings held, the director is likely to be highly involved in the activities of the Board of Directors and/or its committees.

In 2018, the Company carried out self-assessment of the Board of Directors and its Committees for the corporate years 2017–2018. The self-assessment involved members of the Board of Directors and its Committees and was carried out using questionnaires about the performance of these governance bodies. The results were first reviewed by the Board of Directors Remuneration and Nominations Committee from an overall performance perspective and then submitted for review to the Board of Directors. Also recommendations were developed to improve the procedures of the Board of Directors and its Committees.

According to the self-assessment results, the Board of Directors demonstrated high performance in the corporate year 2018.

Current members of RussNeft's Board of Directors:

Mikhail Gutseriev

Chairman of RussNeft's Board

First elected to RussNeft's Board of Directors in 2003

Born in 1958

Educational level: university graduate

Education:

Educational Establishment	*Year Graduated*	*Degree*	*Major or Speciality*
Institute of Technology, Dzhambul, Kazakh SSR	1981	Leather and fur processes	Chemical Process Engineering
Finance Academy under the Government of the Russian Federation, Moscow	1999	Economics	Finance and Credit
Gubkin Russian State University of Oil and Gas, Moscow	2002	Engineer	Oil&Gas Engineering and Technology

Post-graduate degrees:

– Doctor of Philosophy in Criminal Procedural Law

– Doctoral studies at the Plekhanov Russian University of Economics with research in free economic zones

Professional Experience:

Period	*Company*	*Position*
2010 – 2015	RussNeft	President
2015 – present	Safmar Charitable Foundation	Chairman of the board

Board of directors member at:

Neftisa, Russian Coal, Green Point, ForteInvest, A101, SAFMAR Plaza, Pioneer Estate, SAFMAR CAPITAL Group, Mospromstroy, Safmar Charitable Foundation, A101 DEVELOPMENT, Industrial Financial Group SAFMAR, RDV S, A.N.D. Corporation, SAFMAR Non-state Pension Fund, Service-Reestr, Doverie Private Pension Fund, AVGUR ESTATE, Proekt-Grad, ADAMAS COMPANY, ELDORADO, M.Video, SAFMAR Financial Investments, Slavkaliy, Larnabel Ventures.

Mr Gutseriev does not own shares or any other securities in the Company.

Said Gutseriev

First elected to RussNeft's Board of Directors in 2015

Born in 1988

Educational level: university graduate

Graduated from Plymouth Business School with a degree in Oil and Gas Industry Management

Graduated from St Peter's College, University of Oxford with an MA degree

Professional experience:

Period	*Company*	*Position*
2012 – 2014	Glencore UK Ltd.	Manager, assets management analyst at Oil Project Structured Financing
2014 – present	ForteInvest	General director

Member of the board of directors at:

Preobrazhenskneft, Oilgaztet, ForteInvest, Neftisa, Orsknefteorgsintez, Russian Coal, Geoprogress, A101, Pioneer Estate, Industrial Financial Group SAFMAR, A.N.D. Corporation, A101 DEVELOPMENT, AVGUR ESTATE, Proekt-Grad, ADAMAS COMPANY, ELDORADO, M.Video, SAFMAR Financial Investments, Europlan Leasing Company, Larnabel Ventures, VSK Insurance House.

Mr Gutseriev does not own shares or any other securities in the Company.

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Sait-Salam Gutseriev

First elected to RussNeft's Board of Directors in 2003

Born in 1959

Educational level: university graduate

Graduated from the Millionshikov Grozny Oil Institute in 1982 with a degree in Machines and Devices in Chemical Production

Graduated from the Finance Academy under the Government of the Russian Federation in 1999 with a degree in Finance and Lending

Professional experience:

Period	*Company*	*Position*
2008 – 2015	Margrey Limited	Head of Representative Office

Member of the board of directors at:

A.N.D. Corporation, SAFMAR Plaza, Pioneer Estate, SAFMAR CAPITAL GROUP, Slavkaliy.

Mr Gutseriev does not own shares or any other securities in the Company.

Andrey Derekh

Independent Director

Member of RussNeft's Audit Committee

First elected to RussNeft's Board of Directors in 2016

Born in 1968

Educational level: university graduate

Graduated from the Minsk Radiotechnical Institute in 1992

Graduated from the International Management Institute of the Belarus Republic in 1994

Professional experience:

Period	*Company*	*Position*
2012 – present	UNITER Investment Company	Deputy director for foreign trade
2017 – present	New Economic Strategy Foundation	Board member

Member of the board of directors at:

UNITER Investment Company and M.Video.

Mr Derekh does not own shares or any other securities in the Company.

Andrey Zarubin

First elected to RussNeft's Board of Directors in 2015

Born in 1971

Educational level: university graduate

Graduated from the Perm State University in 1998 with a degree in Hydrogeology and Engineering Geology

Graduated from the Industrial University of Tyumen in 2005 with a degree in Development and Operation of Oil and Gas Fields

Graduated as a Master of Business Administration from the Stockholm School of Economics in 2013

Professional experience:

Period	*Company*	*Position*
2011 – present	Neftisa	General director

Member of the board of directors at:

Neftisa, Belkamneft, CanBaikal.

Interest held in RussNeft's share capital: 0.0005%
RussNeft's ordinary shares held: 0.0006%
Transactions to buy/sell Company shares: none

Victor Martynov

Independent director

Member of RussNeft's Audit Committee

Chairman of RussNeft's Remuneration and Nominations Committee

First elected to RussNeft's Board of Directors in 2016

Born in 1953

Education: university degree

Graduated from the Gubkin Russian State University of Oil and Gas in 1975 with a degree in Reservoir Engineering and Geophysics

Professional experience:

Period	*Company*	*Position*
2013 – 2018	Gubkin Scientific and Technical Society of the Oil and Gas industry	Chairman of the Central Board
2013 – 2018	Russian Branch of SPE Europe Ltd	Member of the Regional Supervisory Board
2014 – 2015	International Association for Post-Graduate Studies	President
2015 – 2018	Russian Association for Engineering Education	Vice President
2016 – 2018	Russian Non-profit Partnership for Mining Industries	Member of the Supreme Mining Council
2016 – 2018	Russian Society "Znanie"(Knowledge), Moscow Office	President
2017 – 2018	WPC RNC	Chairman
2008 – present	Gubkin Russian State University of Oil and Gas	Rector

Member of the board of directors of Gazprom.

Mr Martynov does not own shares or any other securities in the Company.

Avet Mirakyan

First elected to RussNeft's Board of Directors in 2017

Born in 1974

Educational level: university graduate

Graduated from Yerevan State University in 1996 with a degree in Foreign Economic Relations

Professional experience:

Period	*Company*	*Position*
2009 – 2015	Ernst & Young	Partner, head of CIS financial markets
2016 – present	Industrial Financial Group SAFMAR	General director

Member of the board of directors at:

Industrial Financial Group SAFMAR, VSK Insurance House, SAFMAR Non-state Pension Fund, A101, A101 DEVELOPMENT, AVGUR ESTATE, Proekt-Grad, M.Video, SAFMAR Financial Investments, Slavkaliy, Europlan Leasing Company, Larnabel Ventures.

Mr Mirakyan does not own shares or any other securities in the Company.

Dmitry Romanov

Member of RussNeft's Remuneration and Nominations Committee

First elected to RussNeft's Board of Directors in 2003

Born in 1963

Educational level: university graduate

Graduated from the Plekhanov Russian University of Economics in 1984 with a degree in Economics

Professional experience:

Period	*Company*	*Position*
2010 – present	RussNeft	Vice President for Corporate Relations
April 2014 – present	GEA Holdings Limited	Director
April 2014 – present	Global Energy Azerbaijan Management Limited	Director
April 2014 – present	Global Energy Azerbaijan Limited	Director
April 2014 – present	Global Energy Caspian Limited	Director
April 2014 – present	Neftechala Petroleum Limited	Director
April 2014 – present	Neftechala Investments Limited	Director
April 2014 – present	Neftechala Operating Company	Director
April 2014 – present	Absheron Petroleum Limited	Director
April 2014 – present	Apsheron Investments Limited	Director
April 2014 – present	Absheron Operating Company Limited	Director
April 2014 – present	Shirvan Petroleum Limited	Director
April 2014 – present	Shirvan Investments Limited	Director
April 2014 – present	Shirvan Operating Company Limited	Director
April 2014 – present	Binagadi Oil Company	Director
April 2014 – present	Kura Valley Petroleum Company	Director
September 2014 – present	Kura Valley Holding Company	Director
September 2014 – present	Karasu Petroleum Company	Director
September 2014 – present	Karasu Development Company	Director
September 2014 – present	Karasu Operating Company	Director
September 2014 – present	Kura Valley Development Company	Director
September 2014 – present	Kura Valley Operating Company	Director

Member of the board of directors at:

Ulyanovskneft, Saratovneftegaz, Russian Coal, Neftisa.

Mr Romanov does not own shares or any other securities in the Company.

Robert Jacob Alexander Skidelsky

Independent director

Member of RussNeft's Remuneration and Nominations Committee

First elected to RussNeft's Board of Directors in 2016

Born in 1939

Educational level: university graduate

Oxford University, 1958–68

Professional experience:

Period	*Company*	*Position*
2006 – 2016	BRIGHTON COLLEGE	CHAIRMAN (charity)
2010 – 2015	RUSNANO CAPITAL	NON-EXECUTUVE DIRECTOR
1991 – present	UK PARLAMENT	MEMBER OF PARLAMENT (LORDS)
2002 – present	CENTER FOR GLOBAL STUDIES	Director
2016 – present	Skidelsky Consultancy Ltd	Director

Mr Skidelsky does not own shares or any other securities in the Company.

Sergey Stepashin

Independent director

Chairman of RussNeft's Audit Committee

First elected to RussNeft's Board of Directors in 2016

Born in 1952

Educational level: university graduate

Graduated from the Higher Political School of the USSR Ministry of the Interior in 1973

Graduated from the Lenin Military Political Academy in 1981

Graduated from the Finance Academy under the Government of the Russian Federation in 2002

Professional experience:

Period	*Company*	*Position*
2000 – 2013	Accounts Chamber of the Russian Federation	Chairman
2015 – 2018	"Factors and Indicators of Russian Society" RAS Interdepartmental Co-ordination Council	Director
2001 – present	Russian Book Union, a non-profit partnership	President
2005 – present	Association of Lawyers of Russia, a national non-governmental organization	Co-Chairman
2007 – present	Imperial Orthodox Palestine Society, an international non-governmental organization	Chairman of the Board
2013 – present	Fund for Promoting Housing and Utilities Reform, a state-run corporation	Chairman of the Supervisory Board
2014 – present	Council of the National Centre for Public Control over Housing and Utilities "Housing and Utilities Control", a non-profit partnership	Co-Chairman of the Board

Member of the board of directors at:

Russian Railways, SoyuzNefteGaz.

Mr Stepashin does not own shares or any other securities in the Company.

Vladimir Scherbak

First elected to RussNeft's Board of Directors in 2010

Born in 1962

Educational level: university graduate

Graduated from the Peoples' Friendship University of Russia, Department of Economics and Law in 1989

Professional experience:

Period	*Company*	*Position*
1998 – present	Representative Office of Glencore, Switzerland	Foreign Economic Affairs

Member of the board of directors at:

Aganneftegasgeologia, Krasnodar Oil Refinery – Krasnodareconeft.

Mr Scherbak does not own shares or any other securities in the Company.

Yana Tikhonova

First elected to RussNeft's Board of Directors in 2015

Born in 1966

Educational level: university graduate

Lomonosov Moscow State University with major in Law (1988)

Doctor of Philosophy in Law at Lomonosov Moscow State University (1988–91)

Professional experience:

Period	*Company*	*Position*
2004 – present	Representative Office of Glencore, Switzerland	Head of Representative Office

Member of the board of directors at:

AKI-OTYR, Varioganneft, Saratovneftegaz, Tomskaya Neft, Uralskaya Neft, Udmurtskaya Neftyanaya Kompaniya, Regional Oil Consortium.

Ms Tikhonova does not own shares or any other securities in the Company.

Committees of the Board of Directors

The Board of Directors has two committees to review the most important matters related to the Company's operations:

– the Audit Committee consisting solely of independent directors and

– the Remuneration and Nominations Committee consisting of two independent directors (including the chair of the Committee) and one non-executive director.

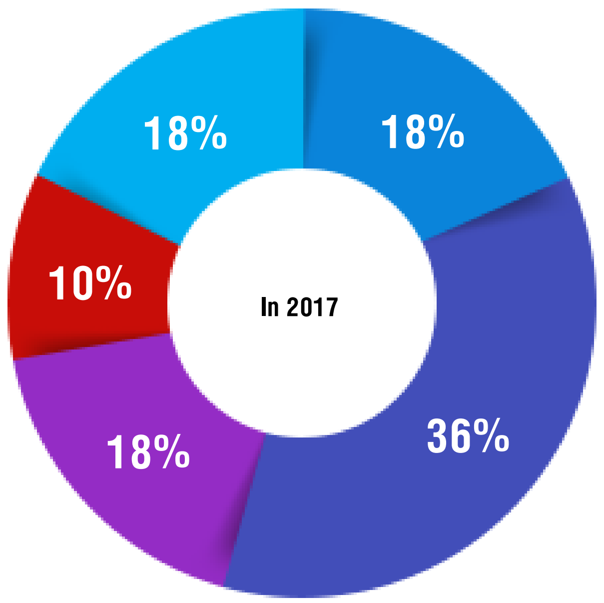
The key purpose of the Audit Committee is to facilitate monitoring of the Company's financial and business operations by the Board of Directors and its supervision over the Company's internal controls, reporting, and audit.

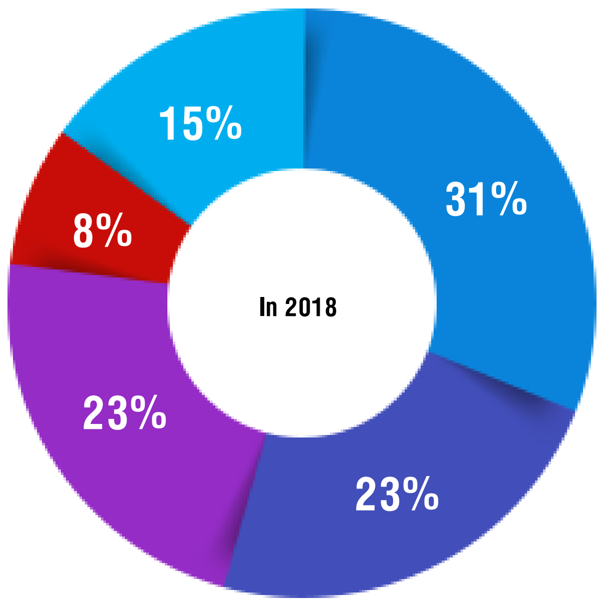
Members of the Audit Committee:

- Sergey Stepashin, chairman of the committee; independent director
- Andrey Derekh, independent director
- Victor Martynov, independent director

In 2018, the Audit Committee met six times.

Internal control and risk management efficiency assessment:





- Review of the external auditors' activities
- Performance review and evaluation of the Internal Audit Committee
- Financial statements review
- Performance evaluation of the risk management framework
- Administrative matters associated with the Committee's activities

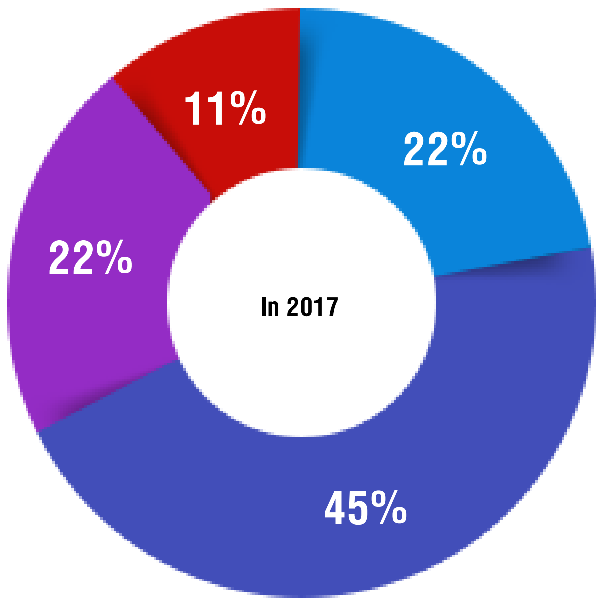
The Remuneration and Nominations Committee plays the main role in establishing a transparent, effective and solid remuneration policy within the Company. It also takes a substantial part in matters relating to the HR policy and to the composition and effectiveness of the Board of Directors and executive bodies.

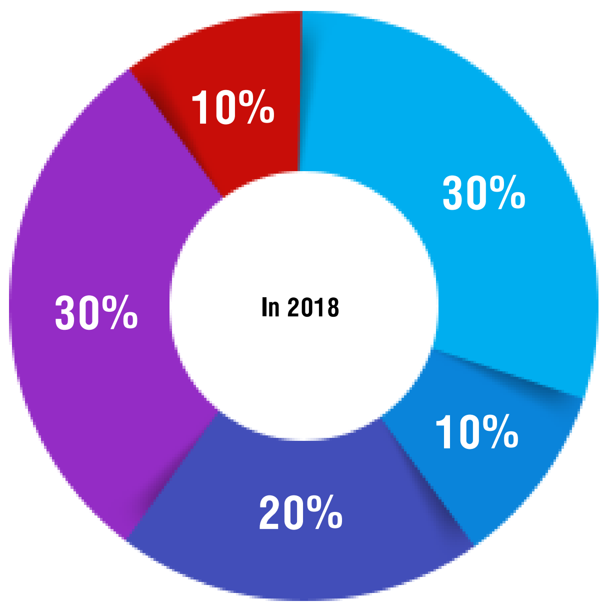
Members of the Remuneration and Nominations Committee:

- Victor Martynov, chairman; independent director
- Robert Skidelsky, independent director
- Dmitry Romanov

Over 2018, the Remuneration and Nominations Committee held six meetings.

Breakdown of matters transacted by the Remuneration and Nominations Committee:





- Review of the governing bodies' performance
- Review of nominations and proposals to change the organisational chart
- Review of nominees to the governing bodies
- Evaluation of incentive schemes for management and governing bodies
- Administrative matters associated with the Committee's activities

Corporate Secretary

The Corporate Secretary's key responsibilities include implementation of the Company's corporate policy, shareholder relations management, co-ordination of the Company's activities to protect shareholder rights and interests, and administrative support to the functioning of the Board of Directors and its committees.

The Corporate Secretary:

- takes part in the organization and management of general shareholders' meetings in compliance with the applicable laws of the Russian Federation, the Company's Articles of Association and internal documents;
- supports the operation of the Board of Directors and its committees, organizes and manages Board meetings;
- takes part in the Company's disclosure process;
- ensures safe keeping of corporate documents;
- facilitates communication with shareholders and promotes corporate conflict prevention;
- contributes to improving the Company's corporate governance framework and practice;
- ensures implementation of and compliance with the procedures intended to protect shareholder rights and legitimate interests in accordance with the applicable laws of the Russian Federation and the Company's internal regulations;
- ensures compliance with the Russian stock exchanges' listing and trading rules, etc.

The Corporate Secretary acts as the secretary to all the Board of Directors committees.

The Corporate Secretary's work is governed by RussNeft's Regulations on the Corporate Secretary, approved by the Company's Board of Directors in 2016.

Under the Regulations, the Company's Corporate Secretary is functionally subordinate to the Board of Directors and administratively subordinate to RussNeft's President. No conflict of interest with regard to the work of the Corporate Secretary has been identified.

In 2018, the Corporate Secretary handled the preparation and running of the following events:

- one general shareholders' meeting;
- thirty-one Board meetings;
- six meetings of the Board of Directors Audit Committee;
- six meetings of the Board of Directors Remuneration and Nominations Committee.

The Board of Directors passed a resolution appointing Ms Svetlana Furs, Head of Corporate Support, Corporate Relations Department, as Corporate Secretary w.e.f. October 2016.

The Company's Corporate Secretary has the experience, knowledge, expertise, and qualifications required to perform their duties.

Svetlana Furs

Svetlana Furs was born in 1975.

In 1997, she graduated from the Plekhanov Russian University of Economics, with a PhD in Economics. Ms Furs has 17 years of experience in corporate governance.

Ms Furs is national of the Russian Federation.

She does not hold any shares or securities in the Company and is not affiliated with the Company.

Professional experience over the last five years:

Period	*Company*	*Position*
2008 – 2016	RussNeft	Chief Specialist for Corporate Support, Corporate Relations
2016 – present	RussNeft	Head of Corporate Support, Corporate Relations – Corporate Secretary

Policy on Remuneration and/or Reimbursement of Expenses to Members of the Company's Board of Directors, President, and Management

Under the Company's remuneration policy, remuneration must be adequate to hire, motivate, and retain personnel who have competences and qualifications necessary for the Company.

The Company pays remuneration to members of its Board of Directors, executive bodies, and key officers in accordance with:

1) Russian law (i.e. the Federal Law "On Joint-stock Companies" and the Labour Code)

2) resolution of the Company's general shareholders' meeting, which lays down the remuneration for the independent directors on the Board of Directors and the chair of the Board of Directors

3) other internal regulations, such as:

- Regulations on Remuneration to the Board of Directors and Reimbursement of Expenses Related to the Discharge of Duties by the Board of Directors, which define the procedure for calculating and paying remuneration
- Regulations for the Remuneration and Nominations Committee of the Board of Directors
- Regulations for RussNeft's Short-term Employee Incentive Programme
- Regulations for RussNeft's Long-term Employee Incentive Programme

In pursuance of the Corporate Governance Code recommended by the Central Bank of Russia, the Company's general shareholders' meeting, by its resolution, laid down fixed annual remuneration for the members of the Board of Directors, with provision for adjustments for additional duties associated with chairing the Board of Directors and its committees and involvement in such committees. For independent directors, an additional fixed fee is also established for personal attendance at meetings. The payment of such extra fees is a widely-used practice, both nationally and internationally, and, in the opinion of the Company, constitutes fair compensation for the independent directors' involvement in the work of the Board of Directors and its committees.

Remuneration Scheme for Board of Directors Members

Base/Fixed	• for service on the Board of Directors
	• for work in committees
Extra	• for attending Board meetings
	• for attending committee meetings

The remuneration and reimbursement to members of RussNeft's Board of Directors is calculated and paid pursuant to the restated Regulations on Remuneration to the Board of Directors and Reimbursement of Expenses Related to the Discharge of Duties by the Board of Directors approved by a resolution of RussNeft's Board of Directors on 12 February 2018 (Minutes No. 24 dated 13 February 2018).

By resolution of the general shareholders' meeting, the Company reimburses members of its Board of Directors for their expenses associated with attending Board and committee meetings, including cost of travel to/from the venue for such meetings, airport or rail station charges, cost of accommodation during such meetings at hotels of any category, and other reasonable expenses associated with Board members exercising their rights or discharging their duties.

Remuneration to the Company President is paid subject to the terms and conditions of their employment contract, agreed for a term of five years. The President's remuneration consists of their monthly salary and quarterly bonus payable by resolution of the Board of Directors. The bonus amount is linked to the achievement of their KPI targets as set by the Board of Directors.

Remuneration paid and expenses reimbursed to the Company's governing bodies

Stated in RUB thousand

Remuneration Component	*2017*	*2018*
Remuneration for membership of the governing bodies, including:	69,199.45	72,588.33
base	62,687.29	62,200.00
extra	6,512.16	10,388.33
Salary	94,876.53	88,769.09
Bonus	82,740.06	93,479.66
Fees	0	0
Other	0	0
TOTAL remuneration	246,816.04	327,425.41
Reimbursements, including:	483.71	1,167.64
travel	263.93	624.39
accommodation	219.78	543.25

No remuneration is paid to members of the Company's executive bodies or its key officers for serving on the Company's governing bodies. Employment contracts with members of the Company's executive bodies and other key officers make no provision for severance pay, compensation, or any other payments as a result of their removal, apart from those benefits required under the applicable employment laws. The Company's remuneration policy in relation to its key executives provides for non-cash benefits, such as health insurance, company car, and company mobile phone plans.

The Company adopted a short-term incentive scheme (by resolution of the Board of Directors dated 22 July 2010) and a long-term incentive scheme (by resolution of the Board of Directors dated 23 September 2010) applicable to its management.

The short-term incentive scheme is based on two sets of key performance indicators, i.e. corporate (common) and individual (functional) KPIs, and has not been revised since it was introduced. However, the key performance indicators are revised annually and updated to reflect the Company's strategy. Corporate KPIs are the Company's key financial targets set in the budget adopted (revenues, EBITDA, capex).

The long-term incentive scheme is revised every three years at the end of the scheme cycle. In particular, the scheme was updated to reflect RussNeft's public status and is presently linked to the market price of Company shares and achievement of the oil production target. The revised long-term incentive scheme came into force w.e.f. 26 May 2017.

On 29 January 2019, the Remuneration and Nominations Committee reviewed the effective KPI system and, based on its findings, confirmed that the short-term and long-term management incentive schemes are efficient and up-to-date (minutes No. 1–19).

Furthermore, during the above meeting the Remuneration and Nominations Committee analysed the current remuneration scheme for members of the governing bodies. The term of contracts with members of the Board of Directors and the Company President are deemed adequate and not requiring any revision.

President

The Company's operations are managed by its President, who is the Company's chief executive officer.

The President is elected by the Board of Directors and reports to the Board of Directors and the General Shareholders' Meeting.

On 8 November 2016, Evgeny Tolochek was elected President of RussNeft.

Evgeny Tolochek

Born in 1975.

Education: university degree. Mr Tolochek graduated from the Samara State Technical University in 1997 with a degree in Oil and Gas Field Development and Operation.

Professional experience:

Period	*Company*	*Position*
2011 – 2013	Samarainvestneft	General director
2013 – 2015	Neftisa	Deputy general director for production
2015 – 2016	RussNeft	Vice President for Oil and Gas Production, Senior Vice President for Production and Geology
2016 – present	RussNeft	President

Member of the board of directors at:

Varioganneft, Neftisa, ForteInvest, Preobrazhenskneft, Oilgaztet, Geoprogress.

- Mr Tolochek holds a 0.0005% interest in the Company's share capital.
- Mr Tolochek holds 0.0006% of the Company's common shares.
- Transactions to buy or sell Company shares: none.

Internal Audit Commission

The Internal Audit Commission is a body mandated to supervise the Company's financial and business operations to ensure their compliance with the applicable Russian laws, the Company's Articles of Association, and its internal regulations.

In 2018, the Company's business was audited by the Internal Audit Commission elected by the Company's Annual General Shareholders' Meeting on 22 June 2018, as follows:

- Elena Samorukova, Head of Tax at RussNeft
- Elena Sergeeva, Head of Internal Audit at RussNeft
- Sergey Chernyshev, Financial Controller at Glencore Representative Office
- Veronica Shkaldova, RussNeft's Deputy Chief Accountant

The audit conducted by the Internal Audit Commission provides it with reasonable grounds to confirm the disclosures made in the Company's reports and financial documents, including RussNeft's annual report for 2018.

Information for shareholders and investors; dividends; share price performance

The Company's share capital amounts to RUB 196,076,000 divided into 392,152,000 shares with par value of RUB 0.50 each, including:

- 294,120,000 ordinary shares, representing 75% of the Company's share capital
- 98,032,000 cumulative preferred shares, representing 25% of the Company's share capital

The Company does not have any treasury or quasi-treasury shares.

Company shareholders holding at least 5% of its share capital or at least 5% of its ordinary shares as at 31 December 2018

Name	*Interest held in share capital, %*	*Ordinary shares held, %*
Nadezhnost Investment Company	4.95	6.60
Mlada	7.70	10.27
RAMBERO HOLDING AG	23.46	31.28
BELYRIAN HOLDINGS LIMITED	12.05	16.07
TRUST Bank	27.71	3.61
Other: 611 shareholders	24.13	32.17
Total:	*100*	*100*

Information about the Company's shareholders is based on data provided by the registrar (subject to information disclosed by nominee holders). Such information is updated on a quarterly basis and is disclosed to the general public in the Company's quarterly statements published on its website at http://www.e-disclosure.ru/portal/company.aspx?id=534; http://www.russneft.ru/. The Company is not aware of any holdings of more than 5% (other than those disclosed by the Company).

Registrar

In the reporting year, the Company's registrar was Servis-Reestr acting under Register Maintenance License No. 045-13983-000001 issued on 2 March 2004 by the Russian Federal Commission for the Securities Market.

Registered and postal address: 12 Sretenka St., Moscow, 107045, Russia

Tel.: +7 495 608 1043, +7 495 783 0162

E-mail: sekr@servis-reestr.ru

Dividends: taxation, dividend policy, report on the payment of dividends declared/accrued on the Company's shares

To ensure maximum transparency of the dividend calculation and payout, on 26 May 2017 the Company's Board of Directors, by its resolution (minutes No. 278), approved the restated Regulations on the Dividend Policy (the "Regulations").

The Regulations set forth the following key dividend payout principles:

- compliance with the applicable Russian laws, the Company's Articles of Association and its internal regulations;
- commitment to the best corporate governance practices;
- enhancement of the Company's investment appeal;
- support for steady dividend growth, subject to the Company's increasing net profit;
- commitment to ensuring the most convenient form of dividend payout to shareholders;
- commitment to ensuring maximum transparency of the dividend calculation.

The General Shareholders' Meeting of the Company passes its resolution to pay out dividends (including their amount and the form of payment) based on the Board of Directors' recommendations.

These recommendations take account of the following:

- availability and amount of the Company's net profit;
- financing required by the Company to expand its business and implement its development strategy in view of the dividend payout and projected performance for the year;
- material macroeconomic changes, other internal and external changes that have or may have a material impact on the Company's future operating performance, force majeure, including natural calamities and wars;
- the need to balance the interests of the Company and its shareholders, while improving the Company's investment case and respecting shareholder rights;
- the Company's intent to pay out in annual dividends at least 50% of the Company's net profit available after provisions are made to finance the approved capital expenditure programme and repay the Company's outstanding loans.

Annual dividends per cumulative preferred share are stipulated in clause 6.3.1. of RussNeft's Articles of Association. The dividends are declared and paid out provided that the Company's profit is sufficient for this purpose, as determined in accordance with the Articles of Association.

On 21 May 2018, the Board of Directors recommended to the General Shareholders' Meeting to pay out USD 39,999,996.96[1], i.e. USD 0.40803 per cumulative preferred share, in 2017 dividends.

On 22 June 2018, the Company's annual general shareholders' meeting resolved to pay out the dividends as recommended by the Board of Directors.

Dividends were paid out to the preferred stock holders in full.

Declared and paid out dividends as a percentage of the Company's net profit for 2017 amounted to 34.5%.

[1] At the exchange rate of the Russian Central Bank as at the date of dividend payout.

Dividend History of the Company (over the last five years)

Period	*Share category (type)*	*Date of the list of persons entitled to dividends*	*Dividends declared and paid out per share, RUB*	*Dividends declared and paid out (before profit tax), RUB mn*	*% of IFRS net profit*
2016	Privileged	17 July 2017	24.30	2,381.74	17.7
2017	Privileged	12 July 2018	25.74	2,523.34	34.5

No dividends were declared or paid out on preferred shares for 2013-2015.

No dividends were declared or paid out on ordinary shares for 2013-2017.

Shares

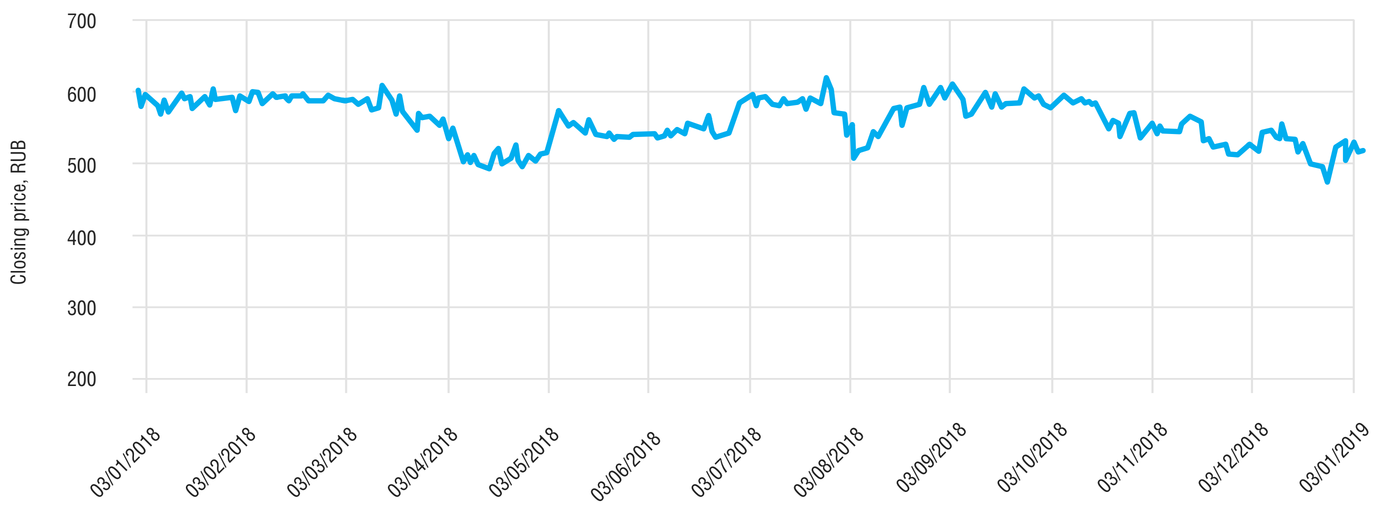
Ordinary shares of the Company are traded on the Moscow Stock Exchange since 26 November 2016.

Code	*Exchange*	*Type*	*Listing*
RNFT	Moscow Exchange	Ordinary shares	First level

Inclusion in the index

Index	*Weight, %*	*Inclusion Date*
FTSE All-World	<0.005	19 June 2017
MICEX Index	0.32	22 September 2017
Board Market Index	0.29	22 September 2017
Oil & Gas Index	1.81	22 September 2017
RTS Index	0.32	22 September 2017

RussNeft Share Price Performance in 2018



Risk management framework and internal controls

RussNeft has an integrated risk management framework to support decision-making. In February 2018, the Company approved the updated version of the Risk Management Policy setting forth the key risk management principles, along with procedures to identify and assess risks and their potential impact.

The Company is committed to building and developing a smooth-running framework for managing the risks that are inherent in the Company's business and may affect it. RussNeft manages its risks in order to mitigate any possible damage and strengthen its operational and financial resilience in any anticipated unfavourable environment.

Principles underlying the Company's comprehensive risk management framework setup and functioning are:

- Continuous cycles
- Involvement in the Company's business processes
- Support to decision-making
- Clear identification of responsible persons
- Decentralized risk management framework
- Sensible budget planning
- Target-setting for budgetary purposes
- Consistent evaluations
- Business rationale
- Efficient risk management process
- Risk awareness

In spite of the Company's ongoing systemic efforts to mitigate risks, its business may be exposed to factors beyond its control. Key material risks that, if they occur, may adversely affect the Company's financial performance, are set out below.

Industrial risks

Risks of falling oil prices

Risk description	*Risk management*
Company earnings, liquidity, and margins are highly dependent on both domestic and global crude oil prices. Historically, the volatility of these has been due to a number of factors outside RussNeft's control. A reduction in oil and gas prices may result in lower production volumes.	The Company uses a scenario approach to analyse the potential impact of falling oil prices on our financials. It analyses its short- and long-term investment projects for sensitivity to these changes.

Country and regional risks

Risks related to geographic location

Risk description	*Risk management*
The Company is registered as a taxpayer in Moscow, and operates within Russia. Its assets are located mainly in Russia (a low-risk country). Only a minor part of the assets are situated in Azerbaijan.	Risks related to the location of the Company's upstream assets / subsidiaries and risks of natural disasters or other events are deemed insignificant and are outside the Company's control.

Financial risks

Interest rate risks

Risk description	Risk management
In 2018, the trend towards higher interest rates on foreign currency loans continued. The bulk of the Company's debt is represented by foreign currency loans with a variable rate linked to USD 3m LIBOR, which rose from 1.69693% as at 2 January 2018 to 2.80763 as at 31 December 2018. Taking this into account, the Company assesses this risk as material as it may have a material impact on the Company's financial standing.	The Company is monitoring the USD 3m LIBOR and making relevant provisions to fully comply with its interest payment obligations.

Foreign exchange risks

Risk description	Risk management
The bulk of the Company's revenue comes from oil exports, while the majority of its operating and capital expenses are denominated in Russian roubles. Furthermore, a large portion of RussNeft's outstanding loans are denominated in foreign currency.	The FX risk is beyond the Company's control. To minimize its impact, RussNeft is continuously monitoring and analysing the FX market developments to ensure the best timing of its FX transactions. The Company entered into hedging arrangements which involved buying put options and, simultaneously, selling call options. Higher oil prices and insignificant movement of the rouble exchange rate as compared with oil prices may trigger the Company's obligations under the call option. The derivatives, as evaluated on a fair value basis in accordance with IFRS 9, are shown in the IFRS consolidated financial statements for 2018.

Inflation risks

Risk description	Risk management
Inflation leads to higher costs and lower income and thus has an adverse impact on the Company's financial performance. According to the Federal Service for State Statistics (Rosstat), the 2018 inflation rate was 4.2%, and the VAT increase to 20% w.e.f. 1 January 2019 may push it up further. However, current and anticipated inflation rates are far from being critical for the Company or the industry in general.	Higher inflation has a direct impact on the Company's financial standing, with CAPEX suffering the most, and real income decreasing amid stable oil prices. When developing its strategy, the Company seeks to fully factor in this risk, although it is outside its control.

Liquidity risk

Risk description	Risk management
The Company's operating cash flow is unstable due to high oil price volatility, exchange rate fluctuations, and changes in taxes and duties. These factors may affect the Company's cash flow volume and, as a result, its liquidity.	The Company has a centralised liquidity management system that includes detailed budgeting, daily monitoring of the mid-term payment position, and daily, weekly, monthly, quarterly, and annual updating of the budget implementation plan. The Company continuously monitors its liquidity ratios and manages the liquidity risk through detailed cost planning, budget discipline, and extensive use of prepaid oil export arrangements. The Company seeks to minimise this risk by optimising working capital, including management of payables and receivables, and use of long-term loan facilities with a grace period allowed for principal repayment. At the end of Q3 2017, the Company entered into certain oil price hedging arrangements that have allowed it to stabilise its cash flow as from 2018.

Supplier risk due to dependence on oil and gas transportation monopolies and their pricing policy

Risk description	*Risk management*
In terms of oil transportation, the Company depends on monopolies, such as Transneft and Russian Railways, and cannot in any way influence either the cost or the quality of their services. Any increase in oil transportation costs has an adverse impact on the Company's financial performance. Moreover, a major accident or any other technical incident could affect transportation capacity and consequently the Company's financial results.	This risk is outside the Company's control. The Company seeks to identify any persistent increases in costs, while also carefully planning its future expenses.

Legal risks

Risk of changes in foreign exchange regulations

Risk description	*Risk management*
The Company is actively involved in foreign economic activities. Part of the Company's liabilities are denominated in foreign currency. As a result, foreign exchange regulation affects its operating and financial performance.	The Company continuously monitors changes in currency regulation and control laws and ensures compliance with such laws. Over the reporting period, there were no material changes in the Russian currency regulation and control laws that could affect the Company's operations.

Risks of changes in tax laws

Risk description	*Risk management*
The Company is a major taxpayer, and its business success largely depends on good faith and transparency of tax disclosures. The Company pays VAT, excise tax, income tax, mineral tax, and other taxes.	To minimize this risk and its potential impact, the Company is continuously monitoring changes in tax laws and their application.

Risks of changes in customs and duties regulations

Risk description	*Risk management*
As an active participant in foreign economic relations, the Company is exposed to certain risks related to changes in foreign trade laws and customs legislation governing the procedure for cross-border movement of goods, other customs procedures and their application, as well as customs duties and their collection.	The Company is continuously monitoring changes in customs laws, assessing and forecasting their potential impact on its operations. The probability of risk occurrence due to the enactment of amendments to customs laws in the reporting period is deemed low.

Risks of changes in courts' interpretation of matters related to the Company's business (including licensing) which may adversely affect its performance or the outcome of pending legal proceedings involving the Company

Risk description	*Risk management*
In making business decisions, the Company takes account of any relevant judicial interpretation of laws in order to analyse and forecast potential scenarios and minimize risks. The judicial interpretation of law by the Constitutional Court, Supreme Court, and Federal Arbitrazh (Commercial) Courts of the Russian Federation may affect the outcome of disputes in which RussNeft is involved.	Over the reporting period, there were no court cases that could adversely affect the Company's current operations and/or ongoing proceedings.

Strategic risks

Risks of losses from errors in strategic decision-making

Risk description	*Risk management*
Strategic risks are associated with exposure to incorrect decisions defining the Company's business and development strategy.	The Company monitors strategy implementation on an ongoing basis as part of the annual model review and extension. The strategic planning process is based on current macroeconomic factors and takes into account the approved guidance for the development and ongoing optimization of the Company's project portfolio. The Company has implemented a risk management framework to support its decision-making.

Reputational risks

Risk description	*Risk management*
The Company strives to promote itself as a reliable and attractive business partner both to the general public and to its clients, suppliers, contractors and other stakeholders. Strong emphasis is placed on communicating a complete and true picture of the Company's operations.	The Company manages this risk through: – timely, complete, and accurate disclosure of information about the Company's operations, as required by the applicable Russian laws, and additional disclosures including press releases on key events, comments for the media and investment community, and other material, information, and clarifications; – constant dialogue with mass media and investors, analysts, clients and counterparties, federal and local authorities, industry bodies and other stakeholders, as well as disclosure and clarification of any necessary information; – initiatives aimed at raising awareness of the Company's operations (such as participation in industry-wide conferences, etc.); – ongoing monitoring of information related to the Company's operations and the oil and gas industry as a whole in the mass media and other sources; – prompt responses to negative publicity and presenting impartial information and the Company's official position.

Operational risks

Risks associated with ongoing proceedings in which the Company is involved

Risk description	*Risk management*
In its day-to-day operations, the Company faces certain challenges that may result in legal proceedings.	Over the reporting period, the Company did not participate in proceedings that could have material impact on its business or financial affairs. This means that no risks associated with pending proceedings can be viewed as potentially able to significantly affect the Company's financial performance.

Risks associated with the impossibility of renewing the Company's licences for certain types of business or for using assets with limited transferability (including natural resources)

Risk description	*Risk management*
The existing subsoil laws provide for grounds for early termination, suspension, or restriction of subsoil rights. If a government authority believes that the Company has failed to meet certain licence requirements, it might impose a fine, or suspend or terminate its subsoil rights. In either case, administrative measures for early termination are taken by the Federal Agency for Mineral Resources (Rosnedra) and its local bodies, after the expiry of a three-month notice period granted to the licence holder to rectify any breaches identified. Over the reporting period, the authorized bodies did not serve any notices of suspension or early termination of the Company's subsoil rights. Moreover, in case of disagreement with any early termination resolution by Rosnedra, the Company may challenge such resolution in administrative or court proceedings.	The Company constantly monitors the validity of its licences and, if necessary, takes measures to extend them for as long as a field is being developed. In addition, RussNeft is obliged to obtain and extend other licences, permits, authorizations, land use rights, and approvals for the development of its fields. As the Company is committed to fully complying with requirements for subsoil use and monitoring these, and makes every effort to update its licence agreements, it assesses the risks of early termination, suspension, or restriction of subsoil rights as extremely low.

Assessment of internal control and risk management efficiency by the Internal Audit Commission

In late 2018, RussNeft developed, and the Board of Directors approved, the Internal Control Policy intended to improve the efficiency of the Company's internal controls.

Key purposes of the Company's internal control framework:

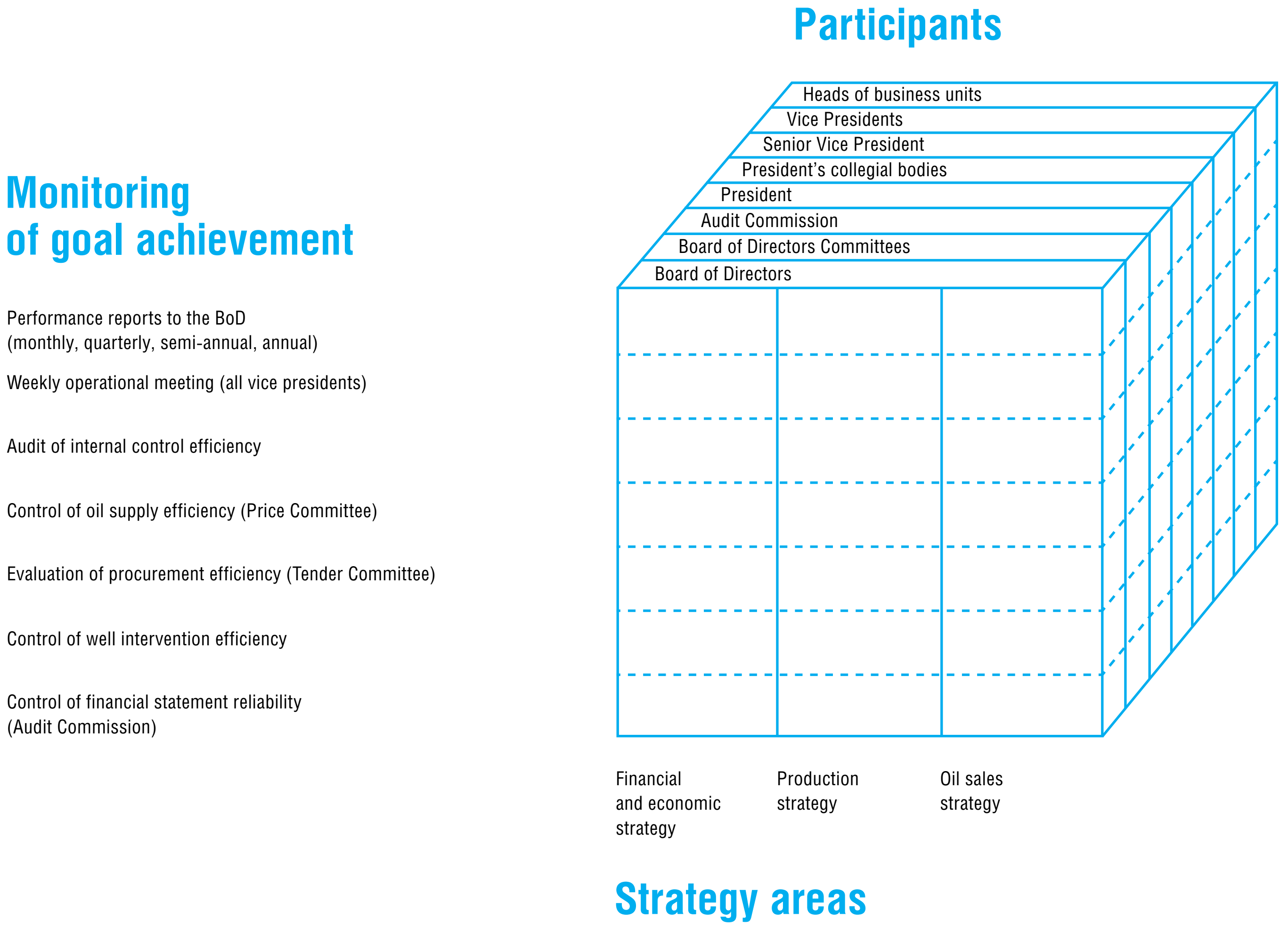
- Effective protection of the rights and lawful interests of shareholders and investors for reasonable confidence as to achieving the targets set
- Ongoing unbiased information about the Company's current position and outlook
- Compliance with legal requirements for the Company's business continuity
- Development of financial reporting controls for the Company
- Protection of assets

Key functions of the Company's internal control framework:

- Necessary control environment for efficient financial and business processes
- Identification and evaluation of risks threatening the Company's objectives;
- Development and use of controls for more efficient achievement of the Company's objectives
- Creation of preconditions for timely and reliable financial reporting
- Integration of controls into business process management

Principles of the Company's internal control framework:

- Integrated
- Multi-component
- Ongoing cycle
- Decentralised
- Ever-improving procedures
- Continuous development
- Multi-level
- Reliable financial reporting
- Independent assessment



PJSC RussNeft. Annual Report 2018 / Financial Results

Chapter 5

Financial Results

Consolidated Financial Statements

NK RussNeft PJSC Financial Statements for the year ended 31 December 2018 with Independent Auditor's Report

PJSC "RussNeft"

Consolidated financial statements

for the year ended 31 December 2018

Contents

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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Independent auditor's report

To the Shareholders of PJSC "RussNeft"

Opinion

We have audited the consolidated financial statements of PJSC "RussNeft" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Determination of the fair value of derivative financial instruments	
In the course of our audit, we treated this matter as one of the most significant matters due to the significance of the respective transactions for the consolidated financial statements, as well as due to the fact that the fair valuation of derivative financial instruments requires management to make significant judgments. Information on the fair value of derivative financial instruments is disclosed in Note 29 to the consolidated financial statements.	We performed procedures to assess the competence of the Group's expert engaged to determine the fair value of derivative financial instruments. Our audit procedures also included a review of the methodology and the assessment of the assumptions used by the expert, including with the engagement of our experts in this area. We also reviewed the respective disclosures in the consolidated financial statements.
Allowance for expected credit losses on loans issued to related parties	
The calculation of the allowance for expected credit losses on loans issued to related parties is an area of judgment for the Group's management. The identification of impairment indicators and the determination of the impairment loss consist of a process involving the use of assumptions and the analysis of various factors, including the borrower's financial position and expected future cash flows. Due to the significance of loans issued to related parties and the complexity of judgment with regard to measurement of expected credit losses in accordance with newly-adopted IFRS 9 *Financial Instruments* ("IFRS 9"), the estimation of the allowance for expected credit losses represents one of the key audit matters. Information on loans issued to related parties is disclosed in Note 19 to the consolidated financial statements.	We assessed the approach to calculating the allowance for expected credit losses on loans issued to related parties and reviewed the assumptions used by management of the Group as the basis for determining the allowance for expected credit losses. Key assumptions include forecasts of future cash flows and an assessment of the borrower's financial position and credit rating. During our audit procedures, we analyzed the consistency and reasonableness of judgments used by management of the Group in determining the value of loans issued to related parties. We also reviewed the disclosure of the allowance for expected credit losses in the Group's consolidated financial statements.

Other matters

The information disclosed in the consolidated financial statements as additional financial information in the *Oil and gas reserves* section is presented for the purposes of additional analysis and is not within the scope of IFRS. In the course of our audit of the accompanying consolidated financial statements, we performed no audit procedures with regard to this additional financial information and, consequently, do not express any opinion thereon.

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Other information included in the 2018 Annual Report of PJSC "RussNeft"

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for other information. The 2018 Annual Report of PJSC "RussNeft" is expected to be provided to us after the date of this auditor's report.

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

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

Responsibility of management and the Audit Committee for the consolidated financial statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedur es 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Group. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with it all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

The partner in charge of the audit resulting in this independent auditor's report is I.A. Buyan.

I.A. Buyan
Partner
Ernst & Young LLC

25 March 2019

Details of the audited entity

Name: PJSC "RussNeft"
Record made in the State Register of Legal Entities on 17 September 2002; State Registration Number 1027717003467.
Address: Russia 115054, Moscow, Pyatnitskaya ulitsa, 69.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC "RussNeft"

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

(in millions of Russian rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	11	177,802	129,193
Cost of sales	12	(124,437)	(94,984)
Gross profit		**53,365**	**34,209**
Exploration expenses		(806)	(1,338)
Selling expenses	13	(10,053)	(10,096)
General and administrative expenses	13	(4,491)	(3,937)
Other operating expenses, net	15	(9,364)	(6,230)
Operating profit		**28,651**	**12,608**
Finance income	14	3,199	4,024
Finance expense	14	(8,985)	(5,699)
Foreign exchange differences, net		(1,453)	348
Profit before tax		**21,412**	**11,281**
Income tax expense	27	(6,639)	(3,976)
Profit for the period		**14,773**	**7,305**
Other comprehensive (loss)/income			
Items which may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation (loss)/gain		(1,105)	220
Total comprehensive income, net of tax		**13,668**	**7,525**
Profit/(loss) attributable to:			
Shareholders of the Parent		14,993	8,126
Non-controlling interests		(220)	(821)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Parent		10,984	9,119
Non-controlling interests		2,684	(1,594)
Basic and diluted earnings per share (RUB)	23	42	20
Weighted average number of common shares (millions)		294	294

E.V. Tolochek
President

O.E. Prozorovskaya
Senior Vice President
for Economics and Finance

Authorized for issue on 25 March 2019.

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

PJSC "RussNeft"

Consolidated statement of financial position

as at 31 December 2018

(in millions of Russian rubles)

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	16	135,465	122,180
Goodwill	17	13,480	13,543
Deferred tax assets	27	14,715	16,380
Exploration and evaluation assets	18	44	247
Other long-term financial assets	19	64,895	49,610
Other non-current assets		1,015	260
Total non-current assets		**229,614**	**202,220**
Current assets			
Inventories	20	7,793	7,108
Trade and other receivables	21	5,057	6,644
Income tax receivable		35	41
VAT receivable		833	819
Other short-term financial assets	19	4,115	4,848
Cash and cash equivalents	22	2,897	1,962
Prepayments and other current assets	21	2,704	1,401
Total current assets		**23,434**	**22,823**
Total assets		**253,048**	**225,043**
Equity and liabilities			
Equity attributable to Shareholders of the Parent			
Share capital	23	196	196
Share premium		60,289	60,289
Foreign currency translation reserve		(1,167)	2,842
Retained earnings / (accumulated loss)		50	(11,585)
Total equity attributable to Shareholders of the Parent		**59,368**	**51,742**
Non-controlling interests	8	18,560	15,084
Total equity		**77,928**	**66,826**
Long-term liabilities			
Long-term loans and borrowings	24	85,771	81,334
Deferred tax liabilities	27	7,017	6,435
Decommissioning liability	25	8,315	7,542
Other long-term liabilities	26	22,831	25,494
Total long-term liabilities		**123,934**	**120,805**
Short-term liabilities			
Short-term loans and borrowings	24	13,052	133
Trade and other payables and accrued liabilities	26	14,785	16,624
Taxes and levies payable (excluding income tax)	26	8,620	8,154
Income tax payable		1,909	165
Advances received and other short-term liabilities	26	12,820	12,336
Total short-term liabilities		**51,186**	**37,412**
Total liabilities and equity		**253,048**	**225,043**

The accompanying notes are an integral part of these consolidated financial statements. 9

PJSC "RussNeft"

Consolidated statement of changes in equity

for the year ended 31 December 2018

(in millions of Russian rubles)

	Notes	Equity attributable to Shareholders of the Parent						
		Share capital	Share premium	Foreign currency translation reserve	Retained earnings / (accumulated loss)	Shareholders' equity	Non-controlling interests	Total equity
31 December 2016		**196**	**60,289**	**1,849**	**(17,283)**	**45,051**	**16,656**	**61,707**
Profit/(loss) for the period		–	–	–	8,126	8,126	(821)	7,305
Foreign currency translation reserve		–	–	993	–	993	(773)	220
Total comprehensive income/(loss) for the period		**–**	**–**	**993**	**8,126**	**9,119**	**(1,594)**	**7,525**
Dividends		–	–	–	(2,360)	(2,360)	(4)	(2,364)
Dividends refund		–	–	–	–	–	6	6
Non-controlling interests in shareholders' contribution to subsidiaries' equity		–	–	–	(60)	(60)	60	–
Changes in non-controlling interests of subsidiaries		–	–	–	(9)	(9)	(40)	(49)
Other equity transactions		–	–	–	1	1	–	1
31 December 2017		**196**	**60,289**	**2,842**	**(11,585)**	**51,742**	**15,084**	**66,826**
Profit/(loss) for the period		–	–	–	14,993	14,993	(220)	14,773
Foreign currency translation reserve		–	–	(4,009)	–	(4,009)	2,904	(1,105)
Total comprehensive income/(loss) for the period		**–**	**–**	**(4,009)**	**14,993**	**10,984**	**2,684**	**13,668**
Dividends	7, 23	–	–	–	(2,551)	(2,551)	(3)	(2,554)
Dividends refund		–	–	–	–	–	3	3
Non-controlling interests in shareholders' contribution to subsidiaries' equity		–	–	–	(662)	(662)	662	–
Changes in non-controlling interests of subsidiaries	7	–	–	–	(147)	(147)	130	(17)
Other equity transactions		–	–	–	2	2	–	2
31 December 2018		**196**	**60,289**	**(1,167)**	**50**	**59,368**	**18,560**	**77,928**

The accompanying notes are an integral part of these consolidated financial statements. 10

PJSC "RussNeft"

Consolidated statement of cash flows

for the year ended 31 December 2018

(in millions of Russian rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Profit before tax		21,412	11,281
Profit before tax		**21,412**	**11,281**
Adjustments for non-cash items to reconcile profit before income tax to net cash flows			
Depreciation, depletion and amortization	12	13,272	11,904
Loss on disposal of property, plant and equipment	15	75	3
Impairment of financial investments	15	311	713
Impairment of property, plant and equipment and exploration and evaluation assets	15	501	443
Benefit obligations, allowance for expected credit losses and other provisions		345	397
Disposal of subsidiaries and other securities	15	(261)	–
Loss on cash flow hedge and exercise of options	15	6,176	4,116
Derecognition of provisions	15	(127)	–
Finance income	14	(3,199)	(4,024)
Finance expense	14	8,985	5,699
Foreign exchange differences		1,453	(348)
Other adjustments		162	17
Net operating cash flows before working capital changes		**49,105**	**30,201**
Working capital adjustments			
Increase in inventories		(201)	(370)
Increase in trade and other receivables		(484)	(1,810)
(Decrease)/increase in trade and other payables		(6,426)	6,848
Decrease in other current assets		3	21
Income tax paid		(3,215)	(2,209)
Net cash from operating activities		**38,782**	**32,681**
Cash flows from investing activities			
Purchase of property, plant and equipment and other non-current assets		(24,639)	(25,781)
Proceeds from disposal of property, plant and equipment		83	156
Proceeds from sale of other securities		250	–
Loans issued	19	(568)	(829)
Proceeds from loans issued	19	–	136
Interest received		–	104
Net cash used in investing activities		**(24,874)**	**(26,214)**
Cash flows from financing activities			
Acquisition of non-controlling interests in subsidiaries and purchase of treasury shares by subsidiaries	7	(17)	(49)
Proceeds from loans and borrowings received		–	2,237
Repayment of loans and borrowings received	24	(6)	(1,858)
Interest paid	24	(6,465)	(5,318)
Dividends paid to Shareholders of the Parent	23	(2,523)	(2,382)
Dividends paid to non-controlling shareholders	7	(2)	(3)
Exercise of options		(4,332)	–
Net cash used in financing activities	24	**(13,345)**	**(7,373)**
Effect of foreign exchange rate changes on balances of cash and cash equivalents		372	(200)
Change in cash and cash equivalents		**935**	**(1,106)**
Cash and cash equivalents at the beginning of the period		1,962	3,068
Cash and cash equivalents at the end of the period		**2,897**	**1,962**

The accompanying notes are an integral part of these consolidated financial statements. 11

PJSC "RussNeft"

Notes to the consolidated financial statements

for the year ended 31 December 2018

(in millions of Russian rubles)

1. Corporate information

The consolidated financial statements of Public Joint Stock Company "RussNeft" (the "Parent" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of management on 25 March 2019.

The Group comprises joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation. In addition, the Group includes limited liability companies registered or operating in the Republic of Azerbaijan, the United Kingdom of Great Britain and Northern Ireland, the Republic of Cyprus, the Islamic Republic of Mauritania, the British Virgin Islands and the Cayman Islands.

The principal activities of the Group are prospecting, exploration, development, production and marketing of oil, gas and oil products. Principal subsidiaries included in the consolidated financial statements and respective ownership interests of the Company as at 31 December 2018 and 2017 are presented in Note 7.

The Parent was incorporated on 17 September 2002. In November 2016, the Parent made a public placement of common shares on the Moscow Exchange.

As at 31 December 2018, the person who was able to control the actions of the Company was Mikhail Safarbekovich Gutseriev.

In 2018, the average number of employees employed by the Group's companies as at 31 December 2018 was 9,394 people (2017: 9,818 people).

The Parent is located at 69 Pyatnitskaya street, Moscow, Russian Federation, tel.: +7 (495) 411-63-09, e-mail: russneft@russneft.ru, www.russneft.ru.

2. Basis of preparation

Statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of accounting

The Group's companies, incorporated in the Russian Federation, maintain their accounting records in Russian rubles ("RUB") and prepare their financial statements in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation of information in accordance with IFRS. Management believes that these consolidated financial statements reflect all significant adjustments required to present fairly the Group's financial position, performance results, and statements of changes in equity and cash flows for the reporting and comparable periods. The principal adjustments relate to the consolidation of subsidiaries, changes in non-controlling interests, goodwill recognition, accounting for jointly controlled transactions and investments in associates, expense and revenue recognition, valuation allowances for unrecoverable assets, depreciation and valuation of property, plant and equipment, use of fair values, impairment of assets, foreign currency translation, financial instruments, deferred tax and decommissioning liability.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Basis of measurement

These consolidated financial statements are prepared on a historical cost basis, except as disclosed in the Note *Summary of significant accounting policies* below.

The consolidated financial statements are presented in Russian rubles, and all values are rounded to the nearest million (“RUB million”), unless otherwise indicated.

Functional currency and foreign currency translation

The financial statements of each of the Group’s companies are measured using the currency of the primary economic environment in which the company operates (the “functional currency”). The functional currency of the Group’s subsidiaries operating in Russia, the Parent and certain foreign subsidiaries of the Group incorporated due to the extension of the Parent’s operations is the Russian ruble. The functional currency of other foreign subsidiaries is the US dollar.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate set by the Central Bank of Russia (the “CBR”) at the reporting date. All resulting exchange differences are included in the consolidated statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured at historical cost and denominated in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

At the reporting date, assets and liabilities (including related goodwill) of non-RUB functional currency subsidiaries, joint ventures and associates are translated in the consolidated financial statements into the presentation currency of the Group using the rate of exchange effective at the reporting date. The performance results and cash flows of non-RUB functional currency subsidiaries, joint ventures and associates are translated into Russian rubles using the average rates of exchange for the reporting period; in case of significant exchange rate fluctuations, certain significant transactions are translated at the exchange rate ruling at the date of the transaction. The exchange differences arising on such translation are recorded as a separate equity component. On disposal of a company whose functional currency is different from the presentation currency, the deferred cumulative amount of the foreign currency translation reserve recorded within equity and related to that particular company is recognized in the consolidated statement of profit or loss and other comprehensive income.

In the Russian Federation, official exchange rates are set daily by the CBR. As at 31 December 2018 and 31 December 2017, the exchange rates used for the translation of USD-denominated transactions and balances were equal to the official CBR exchange rate of RUB 69.4706 and RUB 57.6002 per one US dollar respectively. As at 25 March 2019, the official exchange rate was RUB 63.7705 per one US dollar.

Going concern

These consolidated financial statements have been prepared on a going concern basis that assumes the sale of assets and the settlement of any liabilities (including contractual) in the normal course of business. This statement was made based on the assessment of the Group’s ability to continue as a going concern for at least twelve months after the end of the reporting period.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are the companies controlled by the Parent. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group has control over the investee when the following conditions are met:

- The Group has power over the investee;
- The Group is exposed to, or has rights, to variable returns from its involvement with the investee;
- The Group has the ability to use its authority over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group. All intercompany transactions, balances and unrealized gains on transactions between the Group entities are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A change in the ownership interest without a loss of control is accounted for as an equity transaction.

In case of a loss of control over a subsidiary, the Group:

- Derecognizes the assets and liabilities of the subsidiary, including goodwill;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative foreign currency translation recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes profit or loss due to a loss of control related to the controlling interest of the disposed subsidiary in the consolidated statement of profit or loss and other comprehensive income;
- Reclassifies the Parent company’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings in accordance with IFRS requirements.

Non-controlling interests stand for the equity in subsidiaries not attributable, directly or indirectly, to the Parent company. Non-controlling interests are presented in the consolidated statement of financial position of the Group within equity, separately from the Parent’s shareholders’ equity. Profit or loss, as well as every component within comprehensive income, are attributable to Shareholders of the Parent and non-controlling interests even if that results in a deficit balance of non-controlling interests.

Joint arrangements and joint venture

Joint arrangements stand for arrangements jointly controlled by two or more parties under contractual agreements. Joint arrangements can take the form of either a joint operation or a joint venture.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Basis of consolidation (continued)

A joint venture is an agreement on a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Generally, joint ventures are established in the form of a legal entity where the Group and other participants have respective equity interests.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operation implies that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In accordance with its interest in a joint operation, the Group recognizes its assets and share in joint obligations as well as in revenue from the sales of goods and expenses, including the share in joint expenses.

Associates

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not to control or jointly control it.

When deciding whether significant influence or joint control exists, the Group considers the same factors used to evidence the existence of control in subsidiaries.

The Group accounts for investments in joint ventures and associates using the equity method. Under the equity method the investments in associates or joint ventures are initially recognized at cost. The carrying amount of the investment is adjusted in subsequent periods for the post-acquisition changes in the Group's share of the net assets of associates or joint ventures. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment; the entire carrying amount is tested for impairment where there is evidence of impairment of an investment.

The consolidated statement of profit or loss and other comprehensive income reflects the Group's share in the results of the associate or joint venture. Changes in other comprehensive income of such investees are recognized in other comprehensive income of the Group. Further, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group's share of profits or losses of the associate and joint venture is shown directly in the consolidated statement of profit or loss and other comprehensive income separately from the operating income of the Group. It is represented by profits or losses after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group's financial statements. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Basis of consolidation (continued)

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in the associate or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of an associate or joint venture and its carrying amount and recognizes the amount in the consolidated statement of profit or loss and other comprehensive income in the line "Share in income/(loss) of associates and joint ventures".

If the significant influence over the associate or joint venture is lost, the Group assesses and recognizes the investments retained at fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous reporting period, except for the adoption of new standards and interpretations (including those requiring additional disclosures) effective as at 1 January 2018, which had no significant impact on the Group's financial position and performance. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard brings together all three phases of the financial instruments accounting project: classification and measurement, impairment, and hedge accounting.

The Group analyzed the classification of all of its available financial instruments as per the consolidated statement of financial position as at 31 December 2017 and concluded that they had not been significantly affected by IFRS 9. At the same time, the Group implemented an internal model to assess expected credit losses. The model was developed in accordance with IFRS 9 and is designed to assess credit risk exposure of counterparties subject to financial asset characteristics. The Group did not identify any significant differences between the amounts of provisions recognized in the consolidated financial statements as at 31 December 2017 and those obtained using the model. Therefore, the Group did not restate respective indicators as at 1 January 2018 and does not include any additional disclosures in the consolidated financial statements. In respect of trade accounts receivable, the Group estimates expected credit losses using a simplified approach as envisaged by IFRS 9.

IFRS 15 Revenue from Contracts with Customers

A new standard IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014. The new standard contains complete guidance for revenue recognition and establishes a new five-step model that will apply to revenue arising from contracts with customers and includes a comprehensive set of the relevant disclosure requirements for financial statements. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of IFRS interpretations on revenue recognition.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group analyzed all key contracts with customers using a modified retrospective approach and estimated the effect of the application of IFRS 15 as insignificant. In respect of advances received from customers, the Group accrues interest for early payments, except for short-term advances for goods to be delivered and/or services to be provided within one year. For these advances, the Group assesses the effect of a significant financing component as insignificant.

The amendments to IFRS summarized below did not have a significant effect on these consolidated financial statements of the Group:

- Amendments to IAS 28 *Investments in Associates and Joint Ventures*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

3. Significant accounting judgments, estimates and assumptions

Judgments

Information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in particular in the following notes:

Note 9 − Business combinations, acquisition of associates and joint ventures;

Note 10 – Investments in associates and joint ventures;

Note 16 − Property, plant and equipment;

Note 17 − Goodwill;

Note 18 − Exploration and evaluation assets;

Note 19 – Other long-term and short-term financial assets;

Note 21 − Trade and other receivables, prepayments and other current assets;

Note 24 – Long-term and short-term loans and borrowings;

Note 25 – Decommissioning liability;

Note 27 – Income tax;

Note 29 – Fair value measurement;

Note 30 – Contingencies, commitments and operating risks;

Note 31 − Financial risk management;

Note 32 − Oil and gas reserves (unaudited).

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

In the process of applying the Group's accounting policies, management has made the following judgments, based on its professional experience, that have the most significant effect on the amounts recognized in the consolidated financial statements.

Reserves base

Oil and gas development and production assets are depreciated on a unit-of-production basis at a rate calculated by reference to total proved or proved developed reserves determined in accordance with the standards set by the Society of Petroleum Engineers (SPE standards for estimating reserves) and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery rates and expected oil prices. Future development costs are estimated using assumptions as to production facilities required to extract commercial reserves and their costs. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying amount of any of the Group's non-current assets, including goodwill, has been impaired. Revaluation according to new data is possible during the process of field development. The Group's reserves are disclosed in Note 32.

Carrying amount of oil and gas properties

Oil and gas properties, excluding wells, are depreciated using the unit-of-production (UOP) method at a rate calculated by reference to proved mineral reserves of certain fields and other oil and gas infrastructure facilities. Wells are depreciated at a rate calculated by reference to proved developed reserves. The calculation of the unit-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved developed reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in proved or proved developed reserves;
- The effect on total proved or proved developed reserves of differences between actual commodity prices and commodity price assumptions;
- Unforeseen operational issues.

Impairment indicators

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying amount of goodwill and other non-current assets. The Group monitors internal and external indicators of impairment relating to its financial and non-financial assets.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities, except for financial instruments traded in major markets, is determined using various valuation techniques. Management applies professional judgment in accepting assumptions at each reporting date. Discounted cash flow analysis is applied in relation to financial assets and liabilities not traded in major markets. The effective interest rate is determined based on the market interest rates of financial instruments available to the Group. When such instruments are unavailable, the effective interest rate is determined based on the market interest rates as adjusted by the Group's management for the risks inherent to the Group. Fair values and sensitivity analysis of financial assets and liabilities are disclosed in Notes 29 and 31.

Decommissioning liability

Decommissioning costs will be incurred by the Group mainly at the end of the operating life of the fields. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques and/or experience at other production sites. The expected timing and amount of expenditure may also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions recognized which, in turn, would affect future financial results.

Useful life of other property, plant and equipment

The Group assesses the remaining useful lives of items of other property, plant and equipment at least at each financial year-end. If expectations differ from the previous estimates, the changes are accounted for as a change in the accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amounts of property, plant and equipment and on depreciation recognized in the consolidated statement of profit or loss and other comprehensive income.

Allowance for expected credit losses

In accordance with IFRS 9, the Group applies the ECL model to determine the amount of allowance for financial instruments. A counterparty's credit risk is assessed on initial recognition of the financial asset using the Company's internal credit risk assessment matrix and during monitoring at each subsequent reporting date. The assessment matrix represents a set of parameters to be individually assessed according to a pre-defined scale, with factors such as settlement terms under agreements, the counterparty's credit rating, its market reputation and credibility, nature of relationship of the parties, collateral under agreements, existing and projected unfavorable events, etc., taken into consideration. The counterparty's credit risk is assessed by summing up the scores and may fall into one of three categories (high, medium or low). The ECL allowance for each risk category is estimated based on certain indicators. If the financial condition of the counterparty were to deteriorate, actual write-offs might be higher than expected at the reporting date.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Income tax

The Group recognizes the net future tax benefit in respective of deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on projected cash flows from operating activities and the application of existing tax laws in each jurisdiction.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingencies

By their nature, contingencies will be resolved only when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

4. Summary of significant accounting policies

Business combinations and goodwill

Acquisitions by the Company of controlling interests in third parties (or interest in their share capital) are accounted for using the acquisition method. The acquisition date is the date when effective control over the acquiree passes to the Company.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are included in administrative expenses.

Any contingent consideration to be transferred by the acquirer should be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for a non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets of the subsidiary acquired is in excess of the consideration, the difference is recognized in the consolidated statement of profit or loss and other comprehensive income.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Oil and natural gas exploration and evaluation expenditure

License and property acquisition costs

Exploration license and leasehold property acquisition costs are capitalized within exploration and evaluation assets. Each property is reviewed on an annual basis to confirm that drilling activity is planned and that it is not impaired. If no future activity is planned, the balance of the license and property acquisition costs is written off. Upon determination of economically recoverable reserves (“proved reserves” or “commercial reserves”), and when development is approved by the Group, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Prior to acquisition of the legal right to explore, all costs are recorded in the consolidated statement of profit or loss and other comprehensive income as incurred. Once such legal right has been acquired, exploration and evaluation costs directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Other exploration and evaluation costs are expensed as incurred.

If extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as an exploration and evaluation asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review for impairment at least once a year to confirm the continued intent of the Group to develop or otherwise extract value from the discovery.

When this is no longer the case, the costs are written off. When proved reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells is capitalized within oil and gas properties.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to making the asset operational and the initial estimate of the decommissioning obligation, if applicable. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

At each reporting date, the Group management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group’s entities estimates the recoverable amount which is determined as the higher of an asset’s fair value less costs to sell and its value in use.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the consolidated statement of profit or loss and other comprehensive income. Impairment losses related to continuing operations are recognized in the consolidated statement of profit or loss and other comprehensive income in those expense categories that are consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such increase is recognized in the consolidated statement of comprehensive income.

Depreciation

Oil and gas properties, except for wells, but including related future decommissioning costs are depreciated using the unit-of-production method at a rate calculated by reference to proved mineral reserves of the license areas and other infrastructural oil and gas properties. Wells are depreciated at a rate calculated by reference to proved developed reserves. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment is generally depreciated on a straight-line basis over its estimated useful life. Property, plant and equipment held under finance leases is depreciated over the shorter of the lease term and the estimated useful life.

The depreciation periods that represent the estimated remaining useful economic lives of the respective assets are as follows:

	Years
Buildings	10-60
Plant and machinery	3-15
Equipment and motor vehicles	5-10
Office and other equipment	3-10

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and inspection costs.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Major maintenance and repairs (continued)

Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Construction in progress

Construction in progress includes all expenses on the acquisition of property, plant and equipment, including respective variable overheads directly attributable to their construction. Accrual of depreciation and amortization of these assets commences when they actually begin operation. The Group measures the carrying amount of construction in progress on a regular basis to identify any indication of impairment of construction in progress and to accrue a respective allowance.

Goodwill and other intangible assets

Goodwill and other intangible assets are carried at initial cost less any accumulated amortization and any accumulated impairment losses. The initial cost of intangible assets is the aggregate amount paid or the fair value of any other consideration given to acquire the asset at the moment of its acquisition or establishment. The cost of intangible assets acquired in a business combination is initially recognized at fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives (except goodwill) and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the expenditure is incurred.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered mainly through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to a sale which qualifies for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of profit or loss and other comprehensive income for the reporting period, and the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported in the consolidated statement of profit or loss and other comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Impairment of intangible assets other than goodwill is determined in a way consistent with that of the impairment of property, plant and equipment.

The Group conducts internal reviews of values of goodwill and indefinite life intangible assets annually at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income.

The loss recognized in the reporting period on goodwill impairment is not reversible in the next reporting period.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party to the contract.

Under IFRS 9, the Group classifies financial assets at initial recognition as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The Group classifies its financial assets on the basis of a business model used to manage the assets and contractual cash flow characteristics.

The Group classifies most of its financial assets as subsequently measured at amortized cost, as both recognition criteria are satisfied (as part of the SPPI test): the assets are held under a business model to collect contractual cash flows on specified dates and solely through payments of principal and interest on the principal amount outstanding. Loans issued, trade and other receivables, cash and cash equivalents are measured at amortized cost. Certain loans issued and other financial assets may be measured at fair value through profit or loss.

Financial assets at amortized cost are subsequently measured using the effective interest rate method and subject to the impairment requirements. Gains or losses are recognized in profit or loss when such assets are derecognized, modified or impaired.

The Group derecognizes a financial asset only when its contractual rights to the cash flows from the asset expire, or it transfers its contractual rights to receive cash flows from such a financial asset to another party which obtains substantially all the risks and rewards of ownership of the financial asset. The rights and liabilities created or retained upon the transfer may be recognized separately as an asset or a liability.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

At each reporting date, the Group recognizes an allowance for expected credit losses on all financial assets measured at amortized cost. The allowance represents the difference between the contractual cash flows and the cash flows that the Group expects to receive, discounted at the original effective interest rate or its approximate value. The impairment allowance is estimated based on either 12-month ECL, representing ECL arising from defaults by the counterparty within 12 months after the reporting date, or lifetime ECL, provided the credit risk has significantly increased since the initial recognition of the asset. Allowances for impairment of trade receivables are assessed using a simplified approach in the amount equal to lifetime ECL. A financial asset is written off if the Group does not have any reasonable expectations regarding the recoverability of contractual cash flows.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date (Level 1 of the fair value hierarchy). Inputs which are not quoted prices included within Level 1 and which are observable for the asset or liability, either directly or indirectly, represent Level 2 of the fair value hierarchy. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models taking into account possible adjustments to Level 2 inputs (Level 3 of the fair value hierarchy). Generally, they include unobservable inputs for the asset or liability. Management of the Group uses its own judgment in allocating financial assets to a particular level of the fair value hierarchy. In view of significant adjustments to Level 2 and other inputs, management measures the fair value of its financial instruments within Level 3 of the fair value hierarchy.

Derivative financial instruments

Derivative financial instruments are recognized in the consolidated statement of financial position at fair value as financial assets when their fair value is positive or financial liabilities when their fair value is negative. Realized and unrealized gains and losses are shown in financial statements on a net basis in profit or loss, except for those financial instruments to which hedge accounting applies.

The fair value of derivative financial instruments is determined on the basis of mathematical models, using publicly available market information and other valuation methods, including forecast values.

Loans and borrowings and accounts payable

The Group recognizes a financial liability in its consolidated statement of financial position when, and only when, it becomes party to the contractual provisions of such a financial instrument. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Loans and borrowings and other payables are the most significant of the Group's financial liabilities. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate (EIR) method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process.

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PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Loans and borrowings and accounts payable (continued)

A financial liability is derecognized when it is discharged or canceled (forgiven) or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, such an exchange is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

The Group's financial liabilities classified at initial recognition as at fair value through profit or loss comprise derivative financial liabilities.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings.

Cash and cash equivalents

Cash and cash equivalents recorded in the statement of financial position comprise cash at banks and on hand, short-term deposits and other short-term highly liquid financial assets with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Restricted cash is disclosed separately in the consolidated statement of financial position or related notes.

Inventories

Finished goods are recorded at the lower of cost and net realizable value. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Raw materials are valued at cost using the weighted average cost method or net realizable value, whichever is the lower. The measurement unit for crude oil is one batch.

Leases

The determination of whether an arrangement is, or contains an operating lease or a finance lease is based on the substance of the arrangement at inception. Accordingly, it should be determined whether the execution of the agreement depends on the use of a certain asset or assets and whether the agreement conveys the right to use this asset as a result of this transaction.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance expenses and a reduction of the lease liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are recognized directly in the consolidated statement of profit or loss and other comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Leases (continued)

Operating lease payments are recognized as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight line basis over the lease term.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit and loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Decommissioning liability

Decommissioning liability is recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. In accordance with license agreements, the Group has to liquidate wells and oil and gas pipelines and to restore the surface. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value.

Changes in the estimated timing of property, plant and equipment decommissioning or their abandonment cost estimates are dealt with prospectively by recording an adjustment to the provision, and corresponding adjustments to the carrying amount of the property, plant and equipment. By management's decision, the estimate of demolition and land restoration costs, net of VAT, was prospectively changed in the reporting period. The unwinding of the discount on the decommissioning provision is accounted for as a finance expense.

The Group does not recognize any deferred tax asset from the temporary difference on the decommissioning liability or the corresponding deferred tax liability from the temporary difference on the decommissioning asset.

Taxes

Income tax for the reporting period includes the amount of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in each of the countries where the Group operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Equity

Share capital issued and outstanding

Common shares issued are classified as equity.

Non-controlling interests

A non-controlling interest is the interest in a subsidiary not held by the Group. A non-controlling interest as at the reporting date is the equity in a subsidiary not attributable, directly or indirectly, to the Parent and the non-controlling shareholders' portion of movements in equity since the date of the business combination. The non-controlling interest is presented within equity, separately from the Parent shareholders' equity.

Revenue and income recognition

Revenue from contracts with customers on the sale of oil, oil products and other products, as well as work or services, is recognized when control of the goods, work or services is transferred to the customer in the amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods, work or services. When determining whether control is transferred, the Group assesses whether the criteria supporting such transfer of control over goods, work and services are met.

Revenue represents the fair value of the consideration received or receivable for the sale of goods, work and services, net of discounts, export duties, value added tax, excise duties and similar levies. Revenue from oil production, where the Group cooperates with other participants, is recognized based on the Group's share and under respective production-sharing agreements.

In respect of advances received from customers for goods to be dispatched, the Group accrues interest for early payments, except for advances for goods to be delivered and/or services to be provided within one year. For these advances, the Group assesses the effect of the financing component as insignificant.

Interest income is accrued on a regular basis by reference to the outstanding principal amount and the applicable effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognized where the shareholder's right to receive a dividend payment is established. The amount of retained earnings distributable to the shareholders is usually determined on the basis of the financial statements of the subsidiaries prepared in accordance with Russian accounting principles and the financial statements of the foreign subsidiaries of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Contract assets

A contract asset represents an entity's right to consideration in exchange for goods or services that will be transferred to a customer. If the Group delivers goods or services to a customer before the customer pays the consideration or the consideration becomes payable, a contract asset is recognized in respect of the contingent consideration received. Currently, the Group does not have any rights for contingent consideration, for which it should recognize contract assets.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies (continued)

Revenue and income recognition (continued)

Contract liabilities

A contract liability is the Group's obligation to transfer goods or services to a customer, for which the Group has received consideration (or consideration is due) from the customer. If the consideration is paid before the Group delivers goods or services to the customer, the Group recognizes a contract liability when the payment is made or becomes due, whichever comes first. Contract liabilities are recognized as revenue when the Group fulfills its contractual obligations.

Employee benefits

The Group pays wages and salaries to its employees, as well as quarterly bonuses for achieving key performance indicators ("KPI") by the Group companies, which include annual bonuses after the year-end closing period. Vacations and sick leaves are paid in accordance with the existing collective labor agreements of the Group.

The Group makes contributions to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of gross salary expense and are expensed as accrued.

The Group provides its employees with various defined retirement benefits in accordance with collective labor agreements. The Group uses defined contribution plans. The costs of providing such benefits are recognized in the consolidated statement of profit or loss and other comprehensive income. The Company concludes non-state pension insurance agreements and recognizes them as defined contribution pension plans in the consolidated financial statements.

5. Future changes in accounting policies

New standards and interpretations issued but not yet effective

The Group has not adopted early any standards, interpretations or amendments that have been issued but are not yet effective at the reporting date.

IFRS 16 Leases

IFRS 16 *Leases* issued in January 2016 and becoming effective for annual periods beginning on or after 1 January 2019 replaces IAS 17 *Leases* and clarifications thereto. IFRS 16 *Leases* sets out the principles for the recognition, measurement and disclosure of agreements qualifying for recognition, with major changes affecting the lessee accounting model similar to accounting for finance leases under IAS 17. The right-of-use model assumes that, at the commencement date of a lease, the lessee will have an obligation to make lease payments to the lessor for the right to use the underlying asset that is recognized by the lessee in accordance with the estimate. Should any significant changes be introduced (with respect to the lease term, amount of lease payments, etc.), both the previously recognized lease liability and the right-of-use asset should be remeasured. At the same time, lessor accounting under IFRS 16 has not significantly changed, and is similar to the approach currently applied under IAS 17.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

5. Future changes in accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

In 2018, the Group started analyzing whether its current lease agreements qualify as leases under IFRS 16 *Leases*, and developing a lease accounting model and related disclosures as part of the consolidated financial reporting process. A quantitative analysis of information on the Group's lease agreements is still under way, and preliminary deliverables are likely to change as at the date of the application of IFRS 16 *Leases*. At the date of the initial application, the Group plans to adopt the modified retrospective approach to lease agreements and use a range of significant exceptions and exemptions on transition: with regard to leases that expire within 12 months as at the date of initial application, with regard to leases with low-value underlying assets, and with regard to leases related to the exploration or use of mineral resources, oil, natural gas and similar non-renewable resources. In subsequent reporting periods, the Group will recognize amortization of the right of use of the underlying asset for lease agreements, as well as interest within finance expense on liabilities under such agreements. Key expenses were previously recognized within operating leases over the lease term.

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* was issued in May 2017 and effective for annual periods beginning on or after 1 January 2021. It will have no impact on the consolidated financial statements as it is not applicable to the Group. IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. It is applicable to all types of insurance contracts and establishes a comprehensive accounting standard for insurance contracts.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment* that was issued in June 2017 and becomes effective for annual periods beginning on or after 1 January 2019 addresses accounting for current income tax and deferred income tax when tax treatments involve uncertainties that are likely to be accepted by tax authorities and provides for an approach to better predict the outcome of uncertainties.

Amendments to IFRS 9: Financial Instruments – Prepayment Features with Negative Compensation

Amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* issued in October 2017 and effective for annual periods beginning from of after 1 January 2019 clarify that prepayable financial assets can be measured at amortized cost or at fair value through other comprehensive income. Further, the amendments clarify that a financial asset passes the SPPI criterion regardless of any event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The Conceptual Framework for Financial Reporting

In March 2018, a new version of *Conceptual Framework for Financial Reporting* that becomes effective for annual periods starting on or after 1 January 2020 was published. It contains new definitions of assets and liabilities, as well as clarifying definitions of income and expenses.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

5. Future changes in accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

Amendments to IAS 28: Long-Term Investments in Associates and Joint Ventures

Amendments to IAS 28: *Long-Term Investments in Associates and Joint Ventures* clarify that an entity applies IFRS 9 to long-term investments in an associate or a joint venture to which the equity method is not applied but that, in substance, form part of the net investment in such long-term investments; the expected credit losses model is applied to such long-term investments in IFRS 9. The amendments should be applied retrospectively and are effective for annual periods beginning on or after 1 January 2019, with early application permitted.

The Group is currently evaluating the impact of adoption of the above new standards, clarifications and amendments on the consolidated financial statements. According to preliminary estimates, the cumulative effect of adopting the new standards will not have a significant effect on the consolidated financial statements, unless otherwise described above.

6. Segment information

Operations of the Group are represented by the exploration and production segment comprising the Parent, production subsidiaries and subsidiaries providing operator and other services relating to oil and gas exploration, development, production and transportation. Operating results of the other subsidiaries are generally insignificant and management of the Group does not use them for the purpose of taking financial or operational decisions.

Revenue from external customers broken down by key products and services and geographical areas, as well as information about major customers, is disclosed in Note 11 *Revenue*. The geographical distribution of the Group's non-current assets except for financial instruments, deferred tax assets and other assets is disclosed in Note 16 *Property, plant and equipment*.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

7. Subsidiaries of the Group

Company	Principal activity	Country of incorporation	Effective ownership 31 December 2018	Effective ownership 31 December 2017
Russneft (UK) Limited	Marketing of crude oil and petroleum products	United Kingdom	100%	100%
Russneft Cyprus Limited[1]	Other	Republic of Cyprus	20%	20%
Kura Valley Petroleum Company	Evaluation and exploration of oil and gas	Cayman Islands	20%	20%
Kura Valley Development Company[1] (undergoing liquidation)	Evaluation and exploration of oil and gas	Cayman Islands	20%	20%
Kura Valley Operating Company[1] (undergoing liquidation)	Evaluation and exploration of oil and gas	Cayman Islands	16%	16%
Russneft (BVI) Limited[1]	Other	BVI	20%	20%
Edmarnton Limited[1]	Other	BVI	20%	20%
International Petroleum Grouping S.A.[1]	Evaluation and exploration of oil and gas	Islamic Republic of Mauritania	11%	11%
CJSC IP Slavneftehim	Marketing of crude oil and petroleum products	Republic of Belarus	–	99%
LLC Torgovy Dom Russneft	Other	Russian Federation	100%	100%
LLC M-Trade	Other	Russian Federation	100%	100%
JSC Belkam-Trade	Other	Russian Federation	100%	100%
LLC Rustrade	Other	Russian Federation	100%	100%
OJSC Saratovneftegaz	Extraction and marketing of crude oil and gas	Russian Federation	96%	96%
JSC Saratov-Burenie	Extraction and marketing of crude oil	Russian Federation	96%	96%
LLC SO Agro	Other	Russian Federation	96%	96%
JSC Upravlenie Povysheniya Nefteotdachi Plasta i Kapitalnogo Remonta Skvazhin	Other	Russian Federation	96%	96%
LLC Neftebytservis	Other	Russian Federation	96%	96%
JSC Geofizservis	Other	Russian Federation	97%	96%
CJSC Servis-Centr Neftepromyslovogo i Burovogo Oborudovania (liquidated)	Other	Russian Federation	–	96%
LLC Saratovenergoneft	Other	Russian Federation	96%	96%
LLC Zavolzhskoe Upravlenie Technologicheskogo Transporta	Transportation services	Russian Federation	96%	96%
CJSC Upravlenie Promishlennoy Avtomatiki (liquidated)	Other	Russian Federation	–	96%
LLC RedOil	Extraction and marketing of crude oil and gas	Russian Federation	96%	96%
PI DOC Rovesnik	Other	Russian Federation	96%	96%
OJSC MPK Aganneftegazgeologiya	Extraction and marketing of crude oil and gas	Russian Federation	98%	97%
LLC Agan-Trans (liquidated)	Other	Russian Federation	–	97%

[1] Entities in which the Group has a direct and/or indirect interest via Russneft Cyprus Limited, a subsidiary, 100% of whose voting shares are held by the Parent.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

7. Subsidiaries of the Group (continued)

Company	Principal activity	Country of incorporation	Effective ownership 31 December 2018	Effective ownership 31 December 2017
OJSC Ulyanovskneft	Extraction and marketing of crude oil	Russian Federation	100%	100%
LLC Geophisic (merged with JSC Geofizservis)	Other	Russian Federation	–	100%
LLC KOLOS	Other	Russian Federation	100%	100%
JSC Nefterazvedka (former OJSC Nefterazvedka)	Extraction and marketing of crude oil	Russian Federation	100%	51%
JSC Mohtikneft	Extraction and marketing of crude oil	Russian Federation	100%	100%
OJSC Varyeganneft	Extraction and marketing of crude oil and gas	Russian Federation	95%	93%
LLC Valyuninskoe	Extraction and marketing of crude oil	Russian Federation	95%	93%
LLC Novo-Aganskoe	Extraction and marketing of crude oil	Russian Federation	95%	93%
LLC Upravlenie Avtomatizatsii i Energetiki Neftyanogo Proizvodstva	Other	Russian Federation	95%	93%
LLC Upravlenie po Remontu i Obsluzhivaniyu Neftepromyslovogo Oborudovaniya	Other	Russian Federation	95%	93%
LLC Proizvodstvenno-Bytovoe Upravlenie	Other	Russian Federation	95%	93%
LLC Upravlenie Technologicheskogo Transporta (undergoing liquidation)	Transportation services	Russian Federation	95%	93%
ST JSC Goloil	Extraction and sales of crude oil	Russian Federation	100%	100%
LLC Belye Nochi	Extraction and marketing of crude oil	Russian Federation	100%	100%
LLC INA-Neftetrans (undergoing liquidation)	Transportation services	Russian Federation	100%	100%
OJSC NAK Aki-Otyr	Extraction and marketing of crude oil	Russian Federation	100%	100%
JSC Nazymskaya Neftegazorazvedochnaya Ekspeditsiya	Extraction and marketing of crude oil and gas	Russian Federation	100%	100%
JSC Khanty-Mansiyskaya Neftyanaya Kompaniya	Extraction and marketing of crude oil and gas	Russian Federation	100%	100%
JSC Chernogorskoe	Extraction and marketing of crude oil	Russian Federation	100%	100%
LLC Tomskaya Neft	Extraction and marketing of crude oil	Russian Federation	100%	100%
LLC NK Russneft-Bryansk	Transportation services	Russian Federation	51%	51%
Global Energy Cyprus Limited[1]	Other	Republic of Cyprus	20%	20%
GEA Holdings Limited[1]	Other	BVI	20%	20%
Kura Valley Holding Company[1]	Other	Cayman Islands	20%	20%
Karasu Petroleum Company[1]	Other	Cayman Islands	20%	20%
Karasu Development Company[1, 2]	Extraction and marketing of crude oil under PSA	Cayman Islands	20%	20%

[2] Jointly with Karasu Operating Company recognized in these consolidated financial statements as a joint operation under a product sharing agreement.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

7. Subsidiaries of the Group (continued)

In 2018, the Group sold its 100% interest in CJSC IP Slavneftehim for RUB 113 million (USD 2 million at the exchange rate as at the date of transaction) to a third party. Under the agreement, the payment will be made in 2019.

At annual shareholders meetings, OJSC Varyeganneft and OJSC Saratovneftegaz decided to pay dividends to preference shareholders for 2017, due to which these shares ceased to be voting at the reporting date. The dividends accrued on preference shares to non-controlling shareholders are recognized in the consolidated statement of changes in equity.

The summarized financial information on assets, liabilities, profit or loss and cash flows of subsidiaries with material non-controlling interests is provided below:

31 December 2018	OJSC Varyeganneft and its subsidiaries	OJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Non-current assets	24,674	9,042	61,383
Current assets	11,519	17,529	5,781
Total assets	**36,193**	**26,571**	**67,164**
Long-term liabilities	(3,626)	(3,255)	(26,033)
Short-term liabilities	(7,617)	(2,784)	(18,777)
Total liabilities	**(11,243)**	**(6,039)**	**(44,810)**
Net assets	**24,950**	**20,532**	**22,354**
Equity attributable to Shareholders of the Parent	23,620	19,817	5,214
Equity attributable to non-controlling interests	1,330	715	17,140
For the year ended 31 December 2018			
Revenue	**42,555**	**6,125**	**2,812**
Profit/(loss) for the period	**3,171**	**(36)**	**(446)**
Profit/(loss) attributable to Shareholders of the Parent	3,012	(33)	(84)
Profit/(loss) attributable to non-controlling interests	159	(3)	(362)

For the year ended 31 December 2018	OJSC Varyeganneft and its subsidiaries	OJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Operating activities	1,371	467	(97)
Investing activities	(1,578)	(480)	(214)
Financing activities	207	14	514
Total change in cash and cash equivalents for the period	**–**	**1**	**203**

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PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

7. Subsidiaries of the Group (continued)

31 December 2017	OJSC Varyeganneft and its subsidiaries	OJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Non-current assets	26,264	9,435	42,803
Current assets	9,690	16,817	11,174
Total assets	**35,954**	**26,252**	**53,977**
Long-term liabilities	(3,889)	(2,915)	(28,154)
Short-term liabilities	(11,024)	(2,762)	(7,640)
Total liabilities	**(14,913)**	**(5,677)**	**(35,794)**
Net assets	**21,041**	**20,575**	**18,183**
Equity attributable to Shareholders of the Parent	19,861	19,854	4,248
Equity attributable to non-controlling interests	1,180	721	13,935
Year ended 31 December 2017			
Revenue	**33,864**	**6,347**	**1,626**
Profit/(loss) for the period	**1,903**	**(374)**	**(1,133)**
Profit/(loss) attributable to Shareholders of the Parent	1,804	(358)	(215)
Profit/(Loss) attributable to non-controlling interests	99	(16)	(918)

Year ended 31 December 2017	OJSC Varyeganneft and its subsidiaries	OJSC Saratovneftegaz and its subsidiaries	Russneft Cyprus Limited and its subsidiaries and joint ventures
	RUB million	RUB million	RUB million
Operating activities	2,093	346	3,837
Investing activities	(1,967)	(267)	(3,969)
Financing activities	(126)	(80)	(284)
Total change in cash and cash equivalents for the period	**–**	**(1)**	**(416)**

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PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

8. Non-controlling interests

Non-controlling interests include:

	31 December 2018		2018	31 December 2017		2017
	Non-controlling interests (%)	Non-controlling interests in net assets	Non-controlling interests in profit/(loss)	Non-controlling interests (%)	Non-controlling interests in net assets	Non-controlling interests in profit/(loss)
		RUB million	RUB million		RUB million	RUB million
Russneft Cyprus Limited and its subsidiaries and joint ventures	80%, 84%, 89%	17,140	(362)	80%, 84%, 89%	13,935	(918)
OJSC Varyeganneft and its subsidiaries	5%	1,330	159	5%	1,180	99
OJSC Saratovneftegaz and its subsidiaries	4%	715	(3)	4%	721	(16)
Other	1%-49%	(625)	(14)	1%-49%	(752)	14
Non-controlling interests at the end of the period		**18,560**	**(220)**		**15,084**	**(821)**

As at 31 December 2018, non-controlling voting interests in OJSC Varyeganneft, OJSC MPK Aganneftegazgeologiya and OJSC Saratovneftegaz comprised 1.466%, 2.198% and 0.82%, respectively. The voting interest of PJSC “RussNeft” in Russneft Cyprus Limited was 100%.

As at 31 December 2017, non-controlling voting interests in OJSC Varyeganneft, OJSC MPK Aganneftegazgeologiya and OJSC Saratovneftegaz comprised 1.543%, 2.231% and 0.859%, respectively. The voting interest of PJSC “RussNeft” in Russneft Cyprus Limited was 100%.

9. Business combinations, acquisition of associates and joint ventures

Business combinations in 2018 and 2017

The Group did not acquire any new assets in 2018 or 2017.

10. Investments in associates and joint ventures

GEA Holdings Limited Group

The Group recognizes its participation in production sharing agreements (“PSAs”) in the consolidated financial statements as joint operations involving subsidiaries and joint ventures of GEA Holdings Limited Group (“GEA group”). GEA Holdings Limited through its subsidiaries and joint ventures participates in exploration and extraction projects in the Republic of Azerbaijan under PSAs with the State Oil Company of Republic of Azerbaijan (SOCAR) and SOCAR Oil Affiliate (SOA). Assets and liabilities, revenue and expenses of the operating companies in which the Group participates as a contractor under PSAs are recorded in accordance with the interests of the Group. Joint operations are structured through the incorporation of separate legal entities (operating companies). Where control is acquired or exercised jointly, the companies within GEA group are accounted for as business combinations (Note 7) or under the equity method.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

10. Investments in associates and joint ventures (continued)

GEA Holdings Limited Group (continued)

Joint ventures of GEA group are as follows:

Company	Principal activity	Country of incorporation	Share in equity 31 December 2018[3]	Share in equity 31 December 2017[3]	Consolidation method
Global Energy Azerbaijan Limited	Other	BVI	50%	50%	Equity method
Global Energy Azerbaijan Management Limited	Other	BVI	50%	50%	Equity method
Neftechala Petroleum Limited	Other	BVI	50%	50%	Equity method
Neftechala Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Neftechala Operating Company	Extraction and sales of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group’s interest
Absheron Petroleum Limited	Other	BVI	50%	50%	Equity method
Apsheron Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Absheron Operating Company Limited	Extraction and sales of crude oil under PSA	BVI	38%	38%	Assets, liabilities, revenue and expenses related to the Group’s interest
Shirvan Petroleum Limited	Other	BVI	50%	50%	Equity method
Shirvan Investments Limited	Extraction and sales of crude oil under PSA	BVI	50%	50%	Equity method
Shirvan Operating Company Limited	Extraction and sales of crude oil under PSA	BVI	40%	40%	Assets, liabilities, revenue and expenses related to the Group’s interest
Repleton Enterprises Limited	Other	Republic of Cyprus	50%	50%	Equity method
AZEN OIL COMPANY B.V.	Extraction and sales of crude oil under PSA	Kingdom of the Netherlands	50%	50%	Equity method
Binagadi Oil Company	Extraction and sales of crude oil under PSA	Cayman Islands	38%	38%	Assets, liabilities, revenue and expenses related to the Group’s interest
Global Energy Caspian Limited	Other	BVI	50%	50%	Equity method

[3] Excluding the interest of PJSC “RussNeft” in the parent company of GEA group, Russneft Cyprus Limited (Note 7).

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

10. Investments in associates and joint ventures (continued)

GEA Holdings Limited Group (continued)

Summarized financial information of the joint ventures of GEA group and carrying amounts of investments in joint ventures is provided below.

The statement of financial position as at 31 December 2018 and 31 December 2017:

	31 December 2018 RUB million	31 December 2017 RUB million
Non-current assets	44,232	41,708
Current assets	10,792	2,446
including cash and cash equivalents	*1,477*	*32*
Long-term liabilities	(16,410)	(51,414)
including long-term financial liabilities	*(15,272)*	*(50,317)*
Short-term liabilities	(55,240)	(5,530)
including short-term financial liabilities	*(52,975)*	*(3,547)*
Total equity	**(16,626)**	**(12,790)**

The statement of profit or loss and other comprehensive income for 2018 and 2017:

	2018 RUB million	2017 RUB million
Revenue	7,596	5,739
Cost of sales	(5,007)	(4,834)
including depreciation, depletion and amortization	*(1,924)*	*(2,148)*
Other operating expenses	(685)	(93)
Operating profit	**1,904**	**812**
Finance income	497	402
Finance expense	(3,127)	(4,013)
Loss before income tax	**(726)**	**(2,799)**
Income tax expense	(358)	(154)
Loss for the period	**(1,084)**	**(2,953)**
Group’s share in loss for the period	**(542)**	**(1,477)**
Unrecognized share in loss for the period	542	1,477
Share in loss of associates and joint ventures	**–**	**–**
Unrecognized share in loss for the period	(542)	(1,477)
Foreign currency translation reserve for the period	(1,377)	282
Total unrecognized share in loss at the end of the period	**(8,314)**	**(6,395)**

As at 31 December 2018 and 31 December 2017, the carrying amount of investments in associates and joint ventures equaled zero.

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

11. Revenue

Revenue from external customers broken down by geographical segments is presented based on the location of customers.

The Group operates in three principal geographical areas: Europe, the Commonwealth of Independent States (the “CIS”) and the Russian Federation (Russia). The Group’s non-current assets are located primarily in the Russian Federation except for those disclosed in Note 10.

Information on revenue is presented in the table below:

	Europe and other export		CIS (other than Russia)		Russian Federation		Total	
	2018 RUB million	2017 RUB million	2018 RUB million	2017 RUB million	2018 RUB million	2017 RUB million	2018 RUB million	2017 RUB million
Revenue from external customers								
Crude oil sales	54,267	39,576	10,392	9,084	106,691	74,977	171,350	123,637
Petroleum product sales	726	509	1,354	1,516	221	–	2,301	2,025
Gas sales	–	–	–	–	2,695	2,551	2,695	2,551
Other sales	–	–	–	–	1,456	980	1,456	980
Total revenue	**54,993**	**40,085**	**11,746**	**10,600**	**111,063**	**78,508**	**177,802**	**129,193**

Revenue includes revenue from two customers for the reporting period (revenue from each customer exceeds 10% of the total revenue), net of export duty:

		Geographical location	2018 RUB million	2017 RUB million
Major customer 1	Crude oil sales	Russian Federation	34,617	26,261
Major customer 2	Crude oil sales	Europe and other export	30,111	22,726
Total revenue from sales to major customers			**64,728**	**48,987**

12. Cost of sales

	2018 RUB million	2017 RUB million
Mineral extraction tax	71,387	48,799
Depreciation, depletion and amortization	13,272	11,904
Cost of crude oil and petroleum products sold	11,453	7,869
Payroll and related taxes	7,421	6,728
Utilities	5,950	6,244
Raw materials and supplies used in production	3,060	2,943
Production services	2,954	2,857
Equipment repair, operation and maintenance	2,360	1,989
Transportation expenses	1,307	1,080
Other expenses	5,273	4,571
Total cost of sales	**124,437**	**94,984**

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

13. Selling, general and administrative expenses

Selling expenses comprise:

	2018 RUB million	2017 RUB million
Pipeline tariffs and transportation expenses	10,026	9,948
Excise	11	128
Other selling expenses	16	20
Total selling expenses	**10,053**	**10,096**

General and administrative expenses comprise the following:

	2018 RUB million	2017 RUB million
Payroll and related taxes	2,443	2,281
Entertainment and business travel	354	362
Office rent	346	345
Consulting, management and other services	330	235
Software	300	183
Allowance for expected credit losses	208	29
Repair and maintenance	67	92
Bank services	54	58
Operating leases	34	36
Allowance for inventory obsolescence	(28)	39
Other expenses	383	277
Total general and administrative expenses	**4,491**	**3,937**

14. Finance income and expense

Finance income comprises the following:

	2018 RUB million	2017 RUB million
Interest income on loans issued	3,067	3,935
Other finance income	132	89
Total finance income	**3,199**	**4,024**

Finance expense comprises the following:

	2018 RUB million	2017 RUB million
Interest expense on loans and borrowings, for early payments	8,096	4,735[4]
Unwinding of the discount on long-term provisions (Note 25)	768	806
Other finance expense (Notes 19, 24)	121	158
Total finance expense	**8,985**	**5,699**

[4] The amount includes changes which occurred in 2017 in previously recognized interest expense for early payments in the amount of RUB 2,626 million (USD 45 million).

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Notes to the consolidated financial statements (continued)

15. Other operating income and expenses

	2018 RUB million	2017 RUB million
Loss on cash flow hedge and exercise of options (Note 29)	6,176	4,116
Charity and other gratuitous expenses	1,811	961
Income tax fines, penalties	691	49
Impairment of property, plant and equipment (Note 16)	501	443
Impairment of financial investments	311	713
Fines and penalties for contractual breaches	156	28
Marketing, advertising expenses	141	19
Public service advertising	50	52
Disposal of subsidiaries and other securities[5]	(261)	–
Other income	(354)	(347)
Other expenses	142	196
Total other operating expenses, net	**9,364**	**6,230**

16. Property, plant and equipment

1 January 2017	**Oil and gas properties**	**Other property, plant and equipment**	**Construction in progress**	**Total**
Cost	186,691	3,087	–	189,778
Accumulated depreciation and impairment	(74,900)	(2,813)	–	(77,713)
Net book value as at 1 January 2017	**111,791**	**274**	**–**	**112,065**
Additions	26,185	274	51	26,510
Decommissioning liability	(2,609)	–	–	(2,609)
Transfer from construction in progress	–	51	(51)	–
Depreciation	(11,851)	(53)	–	(11,904)
Impairment	(675)	(1)	–	(676)
Reversal of impairment	232	1	–	233
Disposals, net	(774)	–	–	(774)
Foreign currency translation, net	(665)	–	–	(665)
31 December 2017				
Cost	207,232	3,390	–	210,622
Accumulated depreciation and impairment	(85,598)	(2,844)	–	(88,442)
Net book value as at 31 December 2017	**121,634**	**546**	**–**	**122,180**
Additions	25,612	1	35	25,648
Decommissioning liability	72	–	–	72
Disposal of subsidiaries, net	–	(83)	–	(83)
Transfer from construction in progress	–	35	(35)	–
Depreciation	(13,235)	(36)	–	(13,271)
Impairment	(680)	(4)	–	(684)
Reversal of impairment	183	–	–	183
Disposals, net	(1,149)	(18)	–	(1,167)
Foreign currency translation, net	2,581	6	–	2,587
31 December 2018				
Cost	233,858	3,106	–	236,964
Accumulated depreciation and impairment	(98,840)	(2,659)	–	(101,499)
Net book value as at 31 December 2018	**135,018**	**447**	**–**	**135,465**

[5] Including a gain of RUB 249 million from the disposal of an interest in LLC RusGasUnion (the investment was accounted for as other financial investments).

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Notes to the consolidated financial statements (continued)

16. Property, plant and equipment (continued)

The Group’s non-current assets are located primarily in the Russian Federation, except for assets located in the Republic of Azerbaijan in accordance with the Group’s participation in the PSAs (Note 10).

As at 31 December 2018 and 2017, the Group has no significant pledges of property, plant and equipment.

Impairment losses

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Based on the assessment, the Group recorded a net allowance in the amount of RUB 501 million and RUB 443 million in 2018 and 2017, respectively. The allowance as at 31 December 2018 and 31 December 2017 amounts to RUB 5,151 million and RUB 4,873 million, respectively.

Given the nature of the Group’s activities, information on the fair value of assets is in general difficult to obtain, unless negotiations are held with potential buyers. As a result, the recoverable amount used for the purpose of estimating the impairment to be accrued is determined based on a discounted cash flow model.

17. Goodwill

	RUB million
1 January 2017	**13,544**
Foreign currency translation	(1)
31 December 2017	**13,543**
Disposal of subsidiaries	(66)
Foreign currency translation	3
31 December 2018	**13,480**

Goodwill impairment tests

The Group conducts regular goodwill impairment tests. Based on the assessment as at 31 December 2018 and 31 December 2017 no impairment of goodwill was identified.

For goodwill impairment test purposes the Group uses the discounted cash flow model. The main assumptions used consist of estimates made by the Company’s management with regard to the future development trends in the oil and gas sector, and are based on both external and internal data sources. Future cash flows are based on reports on oil and gas reserves prepared by Miller and Lents, Ltd within a range of 20 years.

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Notes to the consolidated financial statements (continued)

17. Goodwill (continued)

Goodwill impairment tests (continued)

The Company uses the following assumptions, sensitivity to which may significantly affect the valuation results:

- Discount rate: this determines the current estimates of the time value of money and risks. It is equal to the weighted average cost of capital in Russian rubles (WACC) for Russian peer companies (11.8%).
- Forecast oil price: the basic price for Brent oil is in the range of USD 70-78 per barrel, which is adjusted with regard to the spread between Brent and Urals oil prices, transportation expenses and changes in mineral extraction tax (MET).
- Sales structure by markets (exports, CIS and the domestic market): this remains the same during the valuation period.
- Difference in the netback (net price) existing in the markets (exports, CIS and the domestic market): this remains unchanged.

A 1% increase in the discount rate reveals no evidence of impairment.

Change in forecast oil price	Effect on profit before tax 2018	Effect on profit before tax 2017
USD/bbl	RUB million	RUB million
-10	(2,669)	(338)

The carrying amount of goodwill is allocated to each of the cash-generating units as follows:

		31 December 2018 RUB million	31 December 2017 RUB million
OJSC Saratovneftegaz	Exploration and production	9,024	9,046
OJSC MPK Aganneftegazgeologiya	Exploration and production	3,118	3,161
OJSC Varyeganneft	Exploration and production	624	624
OJSC Ulyanovskneft	Exploration and production	228	228
OJSC NAK Aki-Otyr	Exploration and production	95	95
Other		391	389
		13,480	**13,543**

18. Exploration and evaluation assets

At the reporting date, the allowance for impairment of exploration and evaluation assets under certain projects in the Republic of Azerbaijan and the Islamic Republic of Mauritania, which was recognized in previous reporting periods, amounts to RUB 7,840 million. As at 31 December 2017, the allowance for impairment of exploration and evaluation assets amounted to RUB 6,501 million.

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Notes to the consolidated financial statements (continued)

19. Other long-term and short-term financial assets

	Currency	31 December 2018 RUB million	31 December 2017 RUB million
Long-term loans issued to related parties	USD	64,726	49,222
Long-term loans issued to related parties	RUB	210	206
Long-term loans issued to other companies	RUB	2,463	2,378
Long-term loans issued to other companies	BYN	–	182
Allowances for expected credit losses from long-term loans issued		(2,504)	(2,378)
		64,895	**49,610**
Short-term loans issued to related parties	USD	4,117	4,848
Allowances for expected credit losses from short-term loans issued		(2)	–
		4,115	**4,848**

During the reporting period, the Group did not perform significant operations with loans issued. Loans issued and repaid are recorded within investing activities in the consolidated statement of cash flows and within other long-term and short-term financial assets in the consolidated statement of financial position. Loans issued are recognized in these consolidated financial statements at amortized cost. The Group assessed loans issued using IFRS 9, including the expected credit loss model. The aggregate effect was insignificant for this type of financial assets.

The Parent records loans issued to related parties to GEA group companies under the equity method as long-term financial assets in these consolidated financial statements (Note 10). As at 31 December 2018 and 31 December 2017, the loans receivable (including accumulated interest and impairment) were USD 793 million and USD 758 million (RUB 55,115 million and RUB 43,643 million at the exchange rate as at the respective reporting dates).

As at 31 December 2018 and 31 December 2017, outstanding balances on long-term and short-term financial investments (including accumulated interest and impairment) comprise the outstanding balances of loans issued to related parties by GEA group companies in the amount of USD 97 million and USD 87 million (RUB 6,728 million and RUB 5,037 million at the exchange rate as at the reporting dates), respectively. During the reporting period, certain loans were extended, which had no significant effect on the financial statements.

As at 31 December 2018 and 31 December 2017, RUB-denominated loans to Claymon Enterprises Limited were fully covered by allowances in the amount of RUB 2,448 million and RUB 2,363 million, respectively.

20. Inventories

	31 December 2018 RUB million	31 December 2017 RUB million
Crude oil	4,142	3,904
Raw materials and components	3,854	3,694
Petroleum products	136	191
Allowance for inventory obsolescence	(339)	(681)
Total inventories	**7,793**	**7,108**

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Notes to the consolidated financial statements (continued)

21. Trade and other receivables, prepayments and other current assets

	31 December 2018 RUB million	31 December 2017 RUB million
Trade receivables	4,301	5,445
Other receivables	1,591	1,884
Allowance for expected credit losses	(835)	(685)
Total trade and other receivables	**5,057**	**6,644**

	31 December 2018 RUB million	31 December 2017 RUB million
Prepayments	3,012	1,610
Other current assets	9	11
Allowance for prepayments	(317)	(220)
Total prepayments and other current assets	**2,704**	**1,401**

Analysis of movements in the allowance for expected credit losses from trade and other receivables and in the allowance for prepayments is as follows:

	31 December 2018 RUB million	31 December 2017 RUB million
As at 1 January	**(905)**	**(911)**
Charge	(208)	(29)
Allowance used	2	25
Foreign currency translation	(41)	10
As at 31 December	**(1,152)**	**(905)**

22. Cash and cash equivalents

	31 December 2018 RUB million	31 December 2017 RUB million
Foreign currency-denominated cash at bank and on hand	2,844	1,125
RUB-denominated cash at bank and on hand	53	835
Deposits and other cash equivalents	–	2
Total cash and cash equivalents	**2,897**	**1,962**

23. Share capital

As at the reporting date, the Parent had placed 294,120,000 common shares and 98,032,000 cumulative preference shares with a nominal value of RUB 0.5 each.

As at the reporting date, the Company may place 105,880,000 more common shares and 101,968,000 more cumulative preference shares with the same nominal value of RUB 0.5 each.

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Notes to the consolidated financial statements (continued)

23. Share capital (continued)

Interests in the share capital of the Parent as at the reporting date are presented below (shareholders owning at least 5 percent of share capital or at least 5 percent of common shares):

Name	Percentage of share capital, %	Percentage of common shares, %
OJSC IC Nadezhnost	4.95	6.60
CJSC Mlada	7.70	10.27
RAMBERO HOLDING AG	23.46	31.28
BELYRIAN HOLDINGS LIMITED	12.05	16.07
NB TRUST	27.71	3.61

The annual general shareholders meeting of the Company held in June 2018 declared dividends on cumulative preference shares for 2017: dividends per one share were declared in the amount of USD 0.40803 at the CBR rate effective at the date of actual payment. The declared dividends totaled USD 40 million or RUB 2,551 million at the exchange rate as at the date of the dividend accrual. As at the reporting date, the declared dividends were fully paid, with the payment amounting to RUB 2,523 million as at the payment date. In the reporting period and for 2017, no dividends were declared or paid on the Parent's common shares.

Pursuant to Russian legislation, the basis for the dividend distribution is net profit calculated in accordance with the Russian Accounting Standards ("RAS"). As a rule, these amounts differ from those calculated in accordance with IFRS in these consolidated financial statements. According to the RAS financial statements audited by BDO Unicon JSC, retained earnings of the Parent as at 31 December 2018 and 31 December 2017 amount to RUB 20,455 million and RUB 11,254 million, respectively.

Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to common equity holders of the Parent, as adjusted, by the weighted average number of common shares outstanding during the year. The Company made preliminary estimates of the potential amount of dividends distributable among holders of cumulative preference shares, for which profit attributable to shareholders of the Parent was adjusted. As at the date of the financial statements, the general meeting of shareholders had not made any decision on the dividend distribution. The respective amounts might therefore be different if a decision is made.

The average weighted number of the Company's outstanding common shares did not change in the reporting period. The Group did not place any securities which may have had a potential diluting effect, therefore basic and diluted earnings per share are the same.

		2018	2017
Profit attributable to Shareholders of the Parent	RUB million	14,993	8,126
Dividends on cumulative preference shares	RUB million	(2,779)[6]	(2,304)
Profit attributable to Shareholders of the Parent, as adjusted	RUB million	**12,214**	**5,822**
Weighted average number of common shares outstanding	million	294	294
Effect of dilution		–	–
Basic and diluted earnings per share	RUB per share	42	20

[6] Dividends on cumulative preference shares are shown in accordance with a preliminary estimate as the general shareholders meeting had not made a dividend payment decision as at the reporting date.

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Notes to the consolidated financial statements (continued)

24. Long-term and short-term loans and borrowings

	Currency	Weighted average interest rate by type of liability as at 31 December 2018 %	31 December 2018 RUB million
Long-term loans and borrowings			
Bank loans	USD	8.32%	81,427
Loans received	USD	8.00%	3,615
Loans received	RUB	6.50%	729
Total long-term loans and borrowings			**85,771**
Short-term loans and borrowings			
Bank loans	USD	8.32%	6,475
Loans received	RUB	6.87%	10
Loans received	USD	8.49%	6,567
Total short-term loans and borrowings			**13,052**

	Currency	Weighted average interest rate by type of liability as at 31 December 2017 %	31 December 2017 RUB million
Long-term loans and borrowings			
Bank loans	USD	7.16%	72,766
Loans received	USD	8.60%	7,866
Loans received	RUB	6.50%	702
Total long-term loans and borrowings			**81,334**
Short-term loans and borrowings			
Bank loans	USD	7.16%	129
Loans received	RUB	7.00%	4
Total short-term loans and borrowings			**133**

In May 2015, PJSC VTB Bank issued a loan of USD 2,302 million (RUB 115,048 million at the exchange rate as at the date of receipt) to the Company with original maturity in March 2023 and an original fixed interest rate of 8.3%. The parties revised the loan agreement with PJSC VTB Bank several times. The latest amendments in the terms of PJSC VTB Bank loan to the Company under an addendum signed in December 2016 included a revision of the payment schedule and the maturity date (extended until March 2026). The interest rate was 3M LIBOR plus a margin of 5.5% p.a.

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Notes to the consolidated financial statements (continued)

24. Long-term and short-term loans and borrowings (continued)

The Company repays accrued interest on a quarterly basis in accordance with the schedule and the interest rate set for the date of payment. During the reporting period, the Company made scheduled interest payments of USD 101 million or RUB 6,458 million at the exchange rate effective at the payment date under the loan issued by PJSC VTB Bank. Outstanding principal payable to PJSC VTB Bank amounted to RUB 87,762 million or USD 1,263 million at the exchange rate as at the reporting date, including a short-term portion of USD 91 million (RUB 6,335 million) payable in quarterly installments during 2019. Current interest payable amounts to RUB 140 million, or USD 2 million at the exchange rate as at the reporting date.

The loan from PJSC VTB Bank was secured by a pledge of the common shares of the Parent and the equity interests that the Parent holds in certain subsidiaries. At the same time, certain subsidiaries of the Group and other related parties are joint guarantors to the creditor with regard to the Parent's liabilities.

The loan agreement contains a number of financial and operational covenants that the Company shall comply with during the term of the agreement. Non-fulfillment of some of the agreed covenants makes the creditor entitled to claim early repayment of the principal amount and accrued interest, including interest penalties.

The outstanding amount payable under the loan in foreign currency received from a related party by a GEA group company is recorded at amortized cost using a market discount rate of 8.5% p.a. The outstanding amount is USD 77 million, or RUB 5,326 million at the exchange rate at the reporting date.

Interest accrued is primarily repaid simultaneously with the principal amount, unless otherwise specified in the loan agreements, and presented as long-term loans and borrowings.

Reconciliation of movements in financing activities from the consolidated statement of cash flows with long-term and short-term loans and borrowings from the consolidated statement of financial position is as follows:

	2018			2017		
	Long-term and short-term loans and borrowings	**Other financial liabilities**	**Total**	**Long-term and short-term loans and borrowings**	**Other financial liabilities**	**Total**
	RUB million	**RUB million**	**RUB million**	**RUB million**	**RUB million**	**RUB million**
At the beginning of the period	**81,467**	**–**	**81,467**	**85,094**	**–**	**85,094**
Cash flow used in financing activities	(6,471)	–	(6,471)	(4,939)	–	(4,939)
Interest accrued	6,933	–	6,933	5,585	–	5,585
Discounting of financial liabilities	121	–	121	(52)	–	(52)
Foreign exchange difference	15,083	–	15,083	(3,823)	–	(3,823)
Foreign currency translation	1,690	–	1,690	(398)	–	(398)
At the end of the period	**98,823**	**–**	**98,823**	**81,467**	**–**	**81,467**
Other cash flows used in financing activities, including:	–	(6,874)	(6,874)	–	(2,434)	(2,434)
Dividends paid	–	(2,525)	(2,525)	–	(2,385)	(2,385)
Exercise of options	–	(4,332)	(4,332)	–	–	–
Other movements	–	(17)	(17)	–	(49)	(49)
Net cash used in financing activities	**(6,471)**	**(6,874)**	**(13,345)**	**(4,939)**	**(2,434)**	**(7,373)**

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Notes to the consolidated financial statements (continued)

25. Decommissioning liability

	2018		2017	
	Decom-missioning liability	**Land restoration liability**	**Decom-missioning liability**	**Land restoration liability**
	RUB million	**RUB million**	**RUB million**	**RUB million**
At the beginning of the period	**5,734**	**1,808**	**7,413**	**1,959**
Acquisitions	97	109	295	457
Disposals	(146)	(25)	(355)	(197)
Change in estimate	72	(162)	(2,239)	(580)
Unwinding of the discount on decommissioning liability	579	189	637	169
Foreign currency translation	60	–	(17)	–
At the end of the period	**6,396**	**1,919**	**5,734**	**1,808**

The Group makes provisions for the future cost of decommissioning oil production facilities on a discounted basis as the facilities begin operation or sites are damaged. The Group estimated the provision based on existing oil extraction technologies and current estimates of decommissioning costs (adjusted for inflation projections) and discounted the provision at a rate of 8.88% (2017: 10.48%).

The decommissioning liability represents the present value of decommissioning costs relating to oil and gas properties which are expected to be incurred up to 2093 depending on the recovery period of proved reserves for each group of oil and gas fields. Management makes assumptions based on the current economic environment and believes that they are a reasonable basis upon which the future liability is estimated. These estimates are reviewed regularly to take into account any material changes in the assumptions. Actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning work which will reflect specific market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in its turn, will depend on future oil and gas prices, which are inherently uncertain.

26. Other long-term liabilities, trade and other payables and accrued liabilities

Other long-term liabilities	**31 December 2018**	**31 December 2017**
	RUB million	**RUB million**
Long-term advances received	18,107	21,502
Derivative instruments at fair value (Note 29)	3,581	2,890
Long-term trade payables	1,142	1,090
Other long-term payables and accrued liabilities	1	12
Total other long-term liabilities	**22,831**	**25,494**

Trade and other payables and accrued liabilities	**31 December 2018**	**31 December 2017**
	RUB million	**RUB million**
Trade payables	10,024	13,248
Other short-term payables and accrued liabilities	2,441	2,150
Derivative instruments at fair value (Note 29)	2,320	1,226
Total trade and other payables and accrued liabilities	**14,785**	**16,624**

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Notes to the consolidated financial statements (continued)

26. Other long-term liabilities, trade and other payables and accrued liabilities (continued)

Taxes and levies payable (excluding income tax)	31 December 2018 RUB million	31 December 2017 RUB million
Mineral extraction tax	5,231	5,331
Value added tax	2,652	2,152
Property tax	391	345
Other taxes and levies (excluding income tax)	346	326
Total taxes and levies payable (excluding income tax)	**8,620**	**8,154**

Advances received and other short-term liabilities	31 December 2018 RUB million	31 December 2017 RUB million
Advances received	12,758	11,986
Other short-term liabilities	62	350
Total advances received and other short-term liabilities	**12,820**	**12,336**

27. Income tax

The major components of income tax benefit and income tax expense are:

	2018 RUB million	2017 RUB million
Current income tax		
Current income tax expense	2,795	1,941
Current income tax relating to previous years	1,597	441
Deferred income tax		
Relating to origination and reversal of temporary differences	2,951	2,095
Change in deferred income tax relating to previous periods	(704)	(501)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**6,639**	**3,976**

The reconciliation between tax benefit / tax expense and accounting profit multiplied by the Group’s country of origin official tax rate is as follows:

	2018 RUB million	2017 RUB million
Accounting profit before tax	**21,412**	**11,281**
Income tax at applicable tax rate (20%)	**4,282**	**2,256**
Tax effect of non-deductible expense and non-taxable income	1,314	1,489
Tax effect of rates other than 20%	(84)	125
Change in unrecognized deferred tax assets	229	124
Change in deferred income tax relating to previous periods	(704)	(501)
Current income tax relating to previous years	1,597	441
Other	5	42
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**6,639**	**3,976**

Generally, the subsidiaries of the Group incorporated in the Russian Federation used a 20% tax rate in 2018 and 2017; the separate subsidiaries engaged in exploration activities applied a reduced income tax rate in accordance with regional tax legislation. The subsidiaries incorporated outside the Russian Federation applied rates and exemptions stipulated by local legislation.

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Notes to the consolidated financial statements (continued)

27. Income tax (continued)

Deferred income tax

Deferred tax assets and liabilities as at 31 December 2018 by the lines of the consolidated statement of financial position as well as their movements in 2018 are presented below:

	Consolidated statement of financial position 31 December 2017 RUB million	Consolidated statement of profit or loss and other comprehensive income 2018 RUB million	Disposal of subsidiaries RUB million	Consolidated statement of financial position 31 December 2018 RUB million
Deferred tax liabilities				
Oil and gas properties	(8,698)	(1,397)	–	(10,095)
Inventories	(546)	(12)	–	(558)
Other	(80)	(123)	–	(203)
Deferred tax assets				
Tax loss carry forward	20,869	(1,579)	(2)	19,288
Oil and gas properties	338	(233)	–	105
Inventories	31	(9)	–	22
Trade and other receivables	15	11	–	26
Other	955	1,327	(1)	2,281
Unrecognized tax assets	(2,939)	(229)	–	(3,168)
Total deferred tax liabilities and assets	**9,945**	**(2,244)**	**(3)**	**7,698**
Deferred income tax expense	**–**	**2,244**	**3**	**–**
Consolidated statement of financial position				
Deferred tax assets	16,380	–	–	14,715
Deferred tax liabilities	(6,435)	–	–	(7,017)

Deferred tax assets and liabilities as at 31 December 2017 by the lines of the consolidated statement of financial position as well as their movements in 2017 are presented below:

	Consolidated statement of financial position 31 December 2016 RUB million	Consolidated statement of profit or loss and other comprehensive income 2017 RUB million	Consolidated statement of financial position 31 December 2017 RUB million
Deferred tax liabilities			
Oil and gas properties	(7,952)	(746)	(8,698)
Inventories	(492)	(54)	(546)
Loans and borrowings payable	–	–	–
Other	(180)	100	(80)
Deferred tax assets			
Tax loss carry forward	21,438	(569)	20,869
Oil and gas properties	390	(52)	338
Inventories	99	(68)	31
Trade and other receivables	10	5	15
Other	1,041	(86)	955
Unrecognized tax assets	(2,815)	(124)	(2,939)
Total deferred tax liabilities and assets	**11,539**	**(1,594)**	**9,945**
Deferred income tax expense	**–**	**1,594**	**–**
Consolidated statement of financial position			
Deferred tax assets	17,777	–	16,380
Deferred tax liabilities	(6,238)	–	(6,435)

27. Income tax (continued)

Deferred income tax (continued)

Deferred tax liabilities in respect of the retained earnings of the subsidiaries are not recognized because the Group has the power to control future distributions among investors and has no intention of making such distributions in the foreseeable future.

28. Transactions with related parties

The Group's transactions with its subsidiaries that are related parties are excluded from the consolidated financial statements and are not disclosed in this Note. Transactions with joint ventures before consolidation adjustments are fully disclosed herein.

The nature of the related party relations for those related parties with whom the Group entered into significant transactions in 2018 and 2017 or had significant balances outstanding as at 31 December 2018 and 2017 is detailed below.

Transactions with related parties in 2018 and 2017:

2018	Sales	Other transactions	Acquisitions	Finance income	Finance expense
	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence over the Group	30,111[7]	–	43	–	1,163
Associates and joint ventures	95	22	513	2,591	497
Other related parties	40,432	184	6,628	422	–
Total	**70,638**	**206**	**7,184**	**3,013**	**1,660**

2017	Sales	Other transactions	Acquisitions	Finance income	Finance expenses	Dividends accrued
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence over the Group	22,726[8]	–	89	–	(850)	2,360[9]
Associates and joint ventures	134	121	756	3,560	439	–
Other related parties	31,145	(687)	7,271	403	–	–
Total	**54,005**	**(566)**	**8,116**	**3,963**	**(411)**	**2,360**

As at 31 December 2018 and 31 December 2017, amounts due to and due from related parties are as follows:

31 December 2018	Receivables	Loans issued	Payables	Loans received	Guarantees issued
	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence over the Group	11	–	23,142	–	24,671
Associates and joint ventures	224	61,845	278	6,567	–
Other related parties	3,880	7,167	141	–	61
Total	**4,115**	**69,012**	**23,561**	**6,567**	**24,732**

7 Excluding export duty.

8 Excluding export duty.

9 At the exchange rate as at the date of announcement of dividends on cumulative preference shares.

28. Transactions with related parties (continued)

31 December 2017	Receivables	Loans issued	Payables	Loans received	Guarantees issued	Guarantees issued to secure liabilities
	RUB million	RUB million	RUB million	RUB million	RUB million	RUB million
Entities/Individuals with significant influence over the Group	199	–	29,508	–	–	–
Associates and joint ventures	273	48,680	287	4,988	–	–
Other related parties	2,721	5,596	2,912	–	59	21,234
Total	**3,193**	**54,276**	**32,707**	**4,988**	**59**	**21,234**

Pricing policy

The Group determines prices for related party transactions within the range of market prices. In addition, the Group's management performs control envisaged by the regulation governing transactions between related parties.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly, including directors (executive and other directors) of the Group. There were no significant transactions carried out during the reporting year with directors and key management personnel.

In 2018, key management personnel compensation expense, consisting of salaries and payroll taxes, totaled RUB 1,359 million (2017: RUB 1,207 million).

In 2017, the Company adopted a new three-year long-term motivation program for senior and middle management. The program recognizes the phantom shares to be paid off in cash as a liability expensed to bonuses during the period the services are rendered. Planned payments are calculated upon reaching the target program criteria in each reporting period. At the end of 2018, the Company accrued RUB 210 million (including insurance contributions) for the second year of the program based on the preliminary estimate of planned performance progress. At the end of 2017, the Company accrued RUB 109 million for the first year of the program; the actual year-end payment amounted to RUB 103 million.

29. Fair value measurement

All financial instruments are measured at fair value using a valuation model based on Level 3 non-market observable inputs that require additional evaluations and corrections. There were no transfers between the levels of the fair value hierarchy during the reporting period.

Management believes that the fair value of the Group's cash, current financial assets, short-term trade payables and short-term loans and borrowings is equal to their carrying amount. The fair value of long-term loans and borrowings received by the Group, long-term trade payables and loans issued is determined using a discounted cash flow model based on the discount rates that are equal to the market rates effective at the reporting date. As at 31 December 2018, management classified the risk of default as remote.

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Notes to the consolidated financial statements (continued)

29. Fair value measurement (continued)

The accounting classification of each category of financial instruments, their carrying amounts and fair values are as follows:

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	RUB million		RUB million	
Loans and receivables				
Loans issued	69,010	68,377	54,458	54,148
Trade and other receivables	5,055	5,017	5,417	5,417
Cash and cash equivalents	2,897	2,897	1,962	1,962
Financial liabilities measured at amortized cost				
Trade and other payables	11,166	10,961	14,338	14,145
Loans and borrowings	98,823	106,464	81,467	89,819

The sensitivity of the fair value of long-term loans issued and loans and borrowings received to a fluctuation in the interest rate by 1% is disclosed below. This analysis has been based on the assumption that the change in foreign exchange rates occurred at the reporting date and has been applied to the foreign currency balances, while all other variables, in particular, payment schedules, remain constant.

	Change in the foreign currency exchange rate	Effect on profit before tax for 2018	Effect on profit before tax for 2017
		RUB million	RUB million
Long-term loans issued	+1%	(749)	(985)
Long-term loans issued	-1%	769	1,016
Long-term trade and other receivables	+1%	(5)	–
Long-term trade and other receivables	-1%	5	–
Long-term loans received	+1%	4,148	4,282
Long-term loans received	-1%	(4,438)	(4,617)
Long-term trade and other payables	+1%	28	33
Long-term trade and other payables	-1%	(29)	(35)

In 2017, the Company purchased non-deliverable put options (in foreign currency) and sold compound call options (in Russian rubles). Fair values of derivative financial instruments (options) are measured using designated mathematical models at the reporting date; an effect of RUB 1,785 million from the revaluation (loss) for the year ended 31 December 2018 in addition to the revaluation (loss) for the year ended 31 December 2017 was recognized within other operating expenses in the consolidated statement of profit or loss and other comprehensive income (year ended 31 December 2017: RUB 4,116 million). Given the specific structure of the instruments (a combination of the foreign currency and RUB components in the option structure), the Group does not account for hedges on the options through other comprehensive income. In the reporting period, the Company made payments to exercise call options of RUB 4,332 million.

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Notes to the consolidated financial statements (continued)

29. Fair value measurement (continued)

The fair value measurement of derivative financial instruments is as follows:

Derivative financial instruments at fair value	31 December 2018	31 December 2017
	RUB million	RUB million
Long-term derivative financial assets	560	727
Short-term derivative financial assets	359	68
Long-term derivative financial liabilities	(4,141)	(3,617)
Short-term derivative financial liabilities	(2,679)	(1,294)
Total[10]	**(5,901)**	**(4,116)**

	31 December 2018	31 December 2017
	RUB million	RUB million
Change in fair value of options	1,785	4,116
Exercise of options	4,391	–
Loss on cash flow hedge and exercise of options (Note 15)	**6,176**	**4,116**

30. Contingencies, commitments and operating risks

Operating environment of the Group

The Group’s principal activities are performed in the Russian Federation. Business operations in the Russian Federation involve risks that typically do not exist in other markets. The Russian economy is characterized by significant vulnerability to the world price for crude oil, market downturns and economic slowdowns elsewhere in the world. The sanctions imposed against the Russian Federation continue to lead to reduced capital availability, higher costs of capital and uncertainty regarding economic growth, thus giving rise to the risk of an adverse effect on the Group’s financial position, performance and business prospects. The existing trends may persist for an indefinite period of time.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the financial position and performance of the Group. The future business environment may differ from the current management assessment.

The Company’s management regularly monitors the potential risks, including the analysis of country risks. Should any risk occur, the Company will develop measures to minimize potential adverse effects on the Group. The extent of such effects cannot currently be determined.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group’s entities may be challenged by the relevant regional and federal authorities. The tax authorities may take a more assertive position in their interpretation of legislation and tax assessments. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As such, additional taxes, penalties and interest may be assessed.

[10] The fair value of derivative instruments is measured on a net basis and recorded in other long-term liabilities and payables (Note 26).

PJSC “RussNeft”

Notes to the consolidated financial statements (continued)

30. Contingencies, commitments and operating risks (contunied)

Taxation (contunied)

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

For taxes where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits which will be required to settle these liabilities.

Russian transfer pricing legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price. Transactions between related parties in the domestic market are deemed controlled if the proceeds (the amount of all transactions) between related parties in 2017 and 2018 exceed RUB 1 billion for the respective calendar year. In case a domestic transaction results in an accrual of additional income tax liabilities for one party, the other party may correspondingly adjust its income tax liabilities.

In 2017 and 2018, the Company determined its tax liabilities arising from these controlled transactions using actual transaction prices or, in cases where the transaction price deviated from the market price, using prices adjusted pursuant to the Russian Tax Code. With respect to transactions for 2017, the tax base was adjusted in the annual income tax return for 2017. In 2017, the Company and a number of its subsidiaries determined their tax liabilities arising from controlled transactions using actual transaction prices or, in case the transaction price deviated from the market price, using prices adjusted pursuant to the Russian Tax Code. Symmetric adjustments were made, and revised income tax returns were filed.

There are control procedures applied to all types of controlled transactions to ensure consistency between the prices used in the controlled transactions and the level of market prices for the purpose of taxation, which are updated on an annual basis taking into account current legal requirements. The activities performed focus on minimizing tax risks of the Group.

Due to the uncertain nature and lack of practice of the application of current Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Group under the controlled transactions and accrue additional tax liabilities unless the Group is able to prove the use of market prices with respect to the controlled transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation. At the same time, the Company will be entitled to symmetrical adjustments with regard to arrears provided that the other party to the controlled transaction complies with the decision of the tax authority regarding the accrual of additional tax liabilities.

To ensure compliance with legislation governing the taxation of controlled foreign companies and mitigate related tax risks, the Group’s management has developed a set of internal routine procedures. Legislation governing the taxation of controlled foreign companies requires that the Company’s income tax calculation for 2017 include financial results of individual controlled foreign companies of the Group whose income is subject to taxation as part of the income of the Parent. Such a calculation will also be submitted together with the Company’s income tax return for 2018.

The Group takes measures to reduce its tax risks on a regular basis. Management believes that the Group has complied with all regulations, and paid and accrued all taxes that are applicable. The Group’s companies are subject to periodic tax reviews.

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Notes to the consolidated financial statements (continued)

30. Contingencies, commitments and operating risks (contunied)

Taxation (contunied)

Following a field tax audit for 2014-2016, the tax authorities assessed additional taxes, penalties and fines on the Parent in the total amount of RUB 2,303 million, including fines of RUB 315 million and penalties of RUB 348 million. The decision of the tax authority became effective on 31 January 2019 (Note 33). In these consolidated financial statements, the additional accruals are recorded in full in the reporting period. The Company has begun to settle the payables.

The Group takes measures to reduce its tax risks on a regular basis. Management believes that the Group has complied with all regulations, and paid and accrued all taxes that are applicable.

Compliance with the terms and conditions for subsoil use

Licenses for subsoil use are issued by the Russian Federal Subsoil Use Agency. Management believes that, under current legislation, the Group is entitled to renew the licenses after expiry of the initially stated periods.

Authorized state agencies regularly review the Group’s activities for compliance with the terms and conditions for subsoil use. Failure to meet the terms and conditions for subsoil use may result in penalty accruals and sanctions, including license suspension or revocation. Management takes appropriate measures to comply with the terms and conditions for subsoil use, including rectification of all shortcomings identified in reviews and instructions from the authorized state agencies within the established timeframes.

Liabilities concerning environmental and safety matters

In recent years, Russian environmental and safety legislation has developed rapidly, taking into account both general requirements and international law enforcement practice in this field.

Management of the Group understands its responsibilities concerning environmental and safety matters and undertakes to comply with the requirements of federal, regional and industry regulations concerning environmental protection, sustainable use of mineral resources, and labor protection, including international environmental and labor protection management standards. The Group follows a corporate policy on environmental protection and safety matters in accordance with the requirements of Russian legislation and international standards on environmental and safety matters. Management believes that, considering existing controls and current legislation, the Group is not exposed to significant risks or liabilities except for those that are recognized in these consolidated financial statements and relate to ordinary business operations.

Insurance

The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents at the Group’s facilities or relating to the Group’s operations.

The Group applies the Insurance Policy, which describes the Company’s key insurance principles and procedures. In accordance with the applied Insurance Policy, the Group insures its major oil and gas extraction facilities. The Group’s subsidiaries insure especially hazardous facilities pursuant to Federal law No. 225-FZ *On Compulsory Insurance of Civil Liability of the Owner of a Hazardous Facility for Damages Caused by an Accident at a Hazardous Facility* dated 27 July 2010. The Group also takes out selective motor own damage insurance for vehicles. In addition, the Group purchases mandatory third party liability insurance policies for all automobiles, special purpose equipment,

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Notes to the consolidated financial statements (continued)

30. Contingencies, commitments and operating risks (contunied)

Insurance (contunied)

trailers and other vehicles.

Retirement and post-retirement benefit obligations

The Group makes contributions to the Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of gross salary expense and are expensed as accrued. The Group follows a Regulation on Non-state Pension Benefits for the Group's Employees. The Group's subsidiaries have signed pension insurance agreements with NPF Elektroenergetiki (JSC NPF Otkrytiye since 27 December 2018).

Litigation

Management believes that there are no current claims outstanding which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees issued in favor of third parties

The Group's subsidiaries are joint guarantors to PJSC VTB Bank with regard to the Parent's liabilities under a loan agreement with an outstanding balance (including interest) of RUB 87,902 million, or USD 1,265 million at the exchange rate at the reporting date (Note 24). Simultaneously, certain subsidiaries of the Group transfer revenue under operator contracts in an amount agreed with the lender as collateral under the Parent's loan agreement.

The Parent is a guarantor for its subsidiary's liabilities to a related party in the amount of RUB 24,671 million, or USD 355 million at the exchange rate at the reporting date.

31. Financial risk management

The Group's principal financial instruments include bank loans and borrowings received, and accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, loans issued and cash and cash equivalents, which arise directly from its operations. In September 2017, the Company entered into a number of agreements to hedge future cash flows (Note 29). During the year, the Group did not undertake trading in financial instruments.

The main risks that could adversely affect the Group's financial assets, liabilities and future cash flows are market risk (including foreign currency risk, interest rate risk, and commodity and service price risk), credit risk and liquidity risk. In 2018, the Group updated its risk management approaches by approving a new Risk Management Policy. The Group applies the Risk Management Policy, which includes procedures (performed on a regular basis) to identify and measure risks inherent in the key activities and to assess the possible impact of the identified risks. Based on the annual risk assessment results, the Group's management can revise its approach to managing each type of risk. The Group's most significant financial risks are disclosed below.

Market risk

Market risk is the risk that the fair value of financial instruments or cash flows will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimation of potential

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Notes to the consolidated financial statements (continued)

31. Financial risk management (contunied)

Market risk (contunied)

losses that could arise from adverse changes in market conditions.

Commodity price risk

Commodity price risk is the risk of changes in prices for hydrocarbons and refining products and their potential influence on the Group's financial and performance indicators. A reduction in prices may result in a decrease in profit for the period and cash flows. If the prices for hydrocarbons remain low during a lengthy period, this may result in a reduction of capital spending on exploration, on the development of fields and a subsequent reduction in hydrocarbon production and, thus, negatively affect the Group's ability to fulfill its contractual obligations. However, stable oil prices and their potential growth will enable the Group to successfully pursue its strategy aimed at increasing output in the coming years.

The Group's management calculates budgets by scenario depending on projected oil prices, exchange rates and other indicators in order to assess the potential effect of changes in the price of the main commodities on the Group's management reports. The Group enters into standard agreements on the sale of oil and oil products with customers. As at 31 December 2018, the Group had derivative financial instruments in relation to commodity price risk and foreign currency risks on future cash flows.

Foreign currency risk

The Group is exposed to foreign currency transaction risks. Foreign currency risk exposure arises from sales, purchases and borrowing in currencies other than the respective functional currency. The Group limits foreign currency risk by monitoring changes in exchange rates of the currencies in which its cash and loans and borrowings are denominated. Meanwhile, the Group is a party to contracts on export oil sales denominated in foreign currency.

As at 31 December 2018 and 2017, the carrying amount of the Group's financial assets and liabilities denominated in the currency used by the Group's companies is as follows:

Financial assets	31 December 2018	RUB	USD	EUR	Other currencies
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other receivables	5,055	3,375	1,680	–	–
Loans issued	69,010	210	68,800	–	–
Cash and cash equivalents	2,897	53	2,484	340	20
Derivative financial instruments at fair value[11]	919	–	919	–	–

Financial liabilities	31 December 2018	RUB	USD	EUR
	RUB million	RUB million	RUB million	RUB million
Loans and borrowings received	(98,823)	(739)	(98,084)	–
Trade and other payables	(11,166)	(9,138)	(2,023)	(5)
Derivative financial instruments at fair value[11]	(6,820)	(6,820)	–	–

[11] Recorded net within derivative financial liabilities in the consolidated statement of financial position.

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Notes to the consolidated financial statements (continued)

31. Financial risk management (continued)

Foreign currency risk (continued)

Financial assets	31 December 2017 RUB million	RUB RUB million	USD RUB million	EUR RUB million	Other currencies RUB million
Trade and other receivables	5,417	3,753	1,418	–	246
Loans issued	54,458	206	54,070	–	182
Cash and cash equivalents	1,962	837	816	303	6
Derivative financial instruments at fair value[12]	795	–	795	–	–

Financial liabilities	31 December 2017 RUB million	RUB RUB million	USD RUB million	Other currencies RUB million
Loans and borrowings received	(81,467)	(706)	(80,761)	–
Trade and other payables	(14,338)	(12,598)	(1,738)	(2)
Derivative financial instruments at fair value[12]	(4,911)	(4,911)	–	–

A 14.00% strengthening or weakening of RUB against USD as at 31 December 2018, and an 11.00% strengthening or weakening as at 31 December 2017, respectively, with all other variables held constant, would have changed profit before tax by the amounts shown below. This analysis is based on the assumption that the change in foreign exchange rates occurred at the reporting date and was applied to the foreign currency balances to which the Group has significant exposure, and that all other variables, in particular, interest rates, remain constant.

Relative strengthening/(weakening) of RUB against USD	Effect on profit before tax for 2018 RUB million	Effect on profit before tax for 2017 RUB million
+14.00%	3,367	
-14.00%	(3,367)	
+11.00%		2,532
-11.00%		(2,532)

The Group's exposure to foreign currency risk for other currencies is not material.

The analysis of sensitivity of the net position in derivative financial instruments to the strengthening or weakening of RUB against USD is provided below.

Relative strengthening/(weakening) of RUB against USD	Effect on profit before tax for 2018 RUB million	Effect on profit before tax for 2017 RUB million
+14.00%	(129)	
-14.00%	129	
+11.00%		(87)
-11.00%		87

[12] Recorded net within derivative financial liabilities in the consolidated statement of financial position.

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

31. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group assesses the interest rate risk as related to long-term financial liabilities with a floating interest rate.

In 2018 and 2017, interest rates on foreign currency-denominated loans generally tended to increase due to the growing LIBOR rate. The Group's management assessed interest rate risks as significant, as the Parent's borrowings mostly consist of a foreign currency-denominated loan with a floating interest rate pegged to the USD 3M LIBOR. In respect of financial instruments, the Group measures the interest rate risk (1Y LIBOR) for loans issued.

Financial instrument		Effect on profit before tax for 2018 RUB million	Effect on profit before tax for 2017 RUB million
Loans and borrowings received	+0.50%	(396)	
	-0.15%	119	
	+0.70%		(516)
	-0.08%		56
Loans issued	+0.50%	164	
	-0.35%	(115)	
	+0.90%		275
	-0.10%		(31)

As at 31 December 2018, the Group had not entered into any transactions, in particular, any interest rate swaps, aimed at reducing its interest rate risk exposure.

The Group controls this risk by ongoing monitoring of market expectations in respect of interest rates and adjusting the budget as well as expected cash flows to allocate sufficient financial resources to interest repayment.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet their obligation under financial assets causing financial loss to the Group. The Group's credit risk principally arises from cash and cash equivalents, and from the financial stability of its customers and loans provided to third parties.

The Group did not use any hedging instruments as a tool for credit risk management in this period.

The Group maintains accounts only with high-quality banks and financial institutions and believes that it therefore is not exposed to material credit risk in relation to its cash or cash equivalents.

The Group trades only with recognized, creditworthy third parties. The individual risk of a counterparty is managed through the assessment of its creditworthiness.

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Notes to the consolidated financial statements (continued)

31. Financial risk management (continued)

Credit risk (continued)

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has a policy to negotiate advance payment terms where excessive concentration of credit risk exists. In addition, trade receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant. Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance already recorded. The details of the allowance for bad debts are disclosed in Notes 19 and 21. Information on the major types of financial assets and their maturity is presented below:

Financial assets	31 December 2018	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Loans issued	69,010	4,115	62,347	106	2,442
Trade and other receivables	5,055	4,877	–	1	177
Derivative financial instruments at fair value[13]	919	359	560	–	–

Financial assets	31 December 2017	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Loans issued	54,458	4,848	44,038	5,390	182
Trade and other receivables	5,417	5,408	–	9	–
Derivative financial instruments at fair value[13]	795	68	293	434	–

As at 31 December 2018, the Group believes that its maximum exposure to credit risk is the carrying amount of its financial assets recognized in the consolidated statement of financial position.

The Group has not received any collateral held as security for any financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's operating cash flow is subject to fluctuations resulting from high volatility of oil prices as well as changes in exchange rates and the amounts of taxes and duties paid. The above mentioned factors can affect the amount of the Group's cash flow and, thus, its liquidity. In order to manage liquidity risk, the Group monitors and projects liquidity requirements on a regular basis. The Group's management ensures that sufficient funds are available to meet any commitments as they fall due, and prepares detailed budgets and plan-to-fact analyses on an annual, quarterly and monthly basis. The Group's liquidity risk management procedures are centralized. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and borrowings, including loans from related parties, bank guarantees, advances received for future oil deliveries, deferral of payments under current agreements, and a loan repayment grace period provided by PJSC VTB Bank with regard to the principal amount of the loan in 2017-2018.

As at 31 December 2018, the Group's short-term liabilities exceeded its current assets by RUB 27,752 million (31 December 2017: RUB 14,589 million).

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PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

31. Financial risk management (continued)

Liquidity risk (continued)

The Group's management has performed current analysis with regard to liquidity risk based on operating cash flows from ordinary activities, existing arrangements with major creditors and possible deferred settlement of payables to the Group's shareholders.

The following table shows undiscounted contractual cash flows for financial liabilities, including estimated interest liability, as at 31 December 2018 and 2017.

Financial liabilities	31 December 2018	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other payables	11,166	10,025	195	315	631
Loans and borrowings received	140,023	20,168	13,807	24,536	81,512
Derivative financial instruments at fair value[13]	6,820	2,679	4,141	–	–

Financial liabilities	31 December 2017	Within one year	1 to 2 years	2 to 4 years	Over 4 years
	RUB million	RUB million	RUB million	RUB million	RUB million
Trade and other payables	14,338	13,248	174	349	567
Loans and borrowings received	117,078	5,216	16,723	19,530	75,609
Derivative financial instruments at fair value[13]	4,911	1,294	1,674	1,943	–

The Company has an Insurance Policy and a Risk Management Policy in place. In the long-term, the application of these policies will help to reduce operating cash flow volatility and will have a positive effect on both long-term and short-term liquidity.

The Group's management monitors on a regular basis the interest coverage ratio (EBITDA/interest expense) and the debt to EBITDA ratio, as well as the amount of crude oil production and movements in EBITDA in the reporting periods. Meanwhile, the algorithm for calculating EBITDA applied by the Group as required by creditors may differ from that used by other companies.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to maintain an optimal capital structure to reduce the cost of capital and to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

[13] Recorded net within derivative financial assets and liabilities in the consolidated statement of financial position.

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PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

31. Financial risk management (continued)

International ratings

Moody's rating agency has assigned a B1 rating with a "positive" outlook to the Company. As at the reporting date, the Fitch rating agency had assigned a B rating with a "stable" outlook to the Company (Note 33). The revision of the rating was driven by the analysis of financial results and cash flows for the reporting period and the Group's improved operating profile.

The Company's management plans to implement measures which may help to keep the rating at the current level or increase it in the next 12 months after the reporting date. The next rating revision is possible for 2019.

32. Oil and gas reserves (unaudited)

The Group's oil and gas reserves were evaluated by Miller and Lents, Ltd. in accordance with the standards of the Society of Petroleum Engineers as at 31 December 2018 on a fixed price basis (SPE-PRMS standard) using price and cost information provided by exploration and production segment companies and current Russian tax laws. Reserves were measured both within the term of license agreements and beyond – to the point in time when the threshold of economically viable extraction is reached.

The Group's oil and gas reserves are located in the Western Siberian, Central Siberian and Povolzhye regions of the Russian Federation.

As at 31 December 2018, oil and gas reserves of the Group's companies are disclosed below and comprise the following (on a 100% basis):

Reserves	Oil and condensate	Gas	Oil and condensate + gas
	million bbl	billion cu ft	million bbl oil equivalent
Total proved	1,120.0	862.4	1,263.8
including:			
Proved developed	390.7	393.8	456.4
Proved undeveloped	729.3	468.6	807.4
Probable	454.2	353.6	513.1
Possible	598.1	187.5	629.3

As at 31 December 2018, the share of non-controlling shareholders of subsidiaries in total proved oil and gas reserves was 12.8 million bbl and 22.1 billion cu ft, respectively, in probable oil and gas reserves – 0.7 million bbl and 1.2 billion cu ft, respectively, and in possible oil and gas reserves – 0.7 million bbl and 1.2 billion cu ft, respectively.

The Group is involved in development and extraction projects in the Republic of Azerbaijan under production sharing agreements (PSAs) with the State Oil Company of Azerbaijan Republic (SOCAR) and SOCAR Oil Affiliate (SOA).

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

32. Oil and gas reserves (unaudited) (continued)

As at 31 December 2018, oil reserves in the Republic of Azerbaijan explored by the Group under five production sharing agreements comprise the following (on a 100% basis):

Reserves	Oil and condensate	Gas	Oil and condensate + gas
	million bbl	billion cu ft	million bbl oil equivalent
Total proved	73.5	–	73.5
including:			
Proved developed	47.0	–	47.0
Proved undeveloped	26.5	–	26.5
Probable	14.4	–	14.4
Possible	12.0	–	12.0

As at 31 December 2017, oil and gas reserves of the Group's subsidiaries are disclosed below and comprise the following (on a 100% basis):

Reserves	Oil and condensate	Gas	Oil and condensate + gas
	million bbl	billion cu ft	million bbl oil equivalent
Total proved	1,070.2	854.4	1,212.60
including:			
Proved developed	403.6	412.1	472.28
Proved undeveloped	666.6	442.3	740.32
Probable	473.6	352.5	532.35
Possible	684.7	193.8	717.00

As at 31 December 2017, the share of non-controlling shareholders of subsidiaries in total proved oil and gas reserves was 18 million bbl and 31.3 billion cu ft, respectively, in probable oil and gas reserves – 0.8 million bbl and 1.5 billion cu ft, respectively, and in possible oil and gas reserves – 0.9 million bbl and 1.5 billion cu ft, respectively.

The Group is involved in development and extraction projects in the Republic of Azerbaijan under production sharing agreements (PSAs) with the State Oil Company of Azerbaijan Republic (SOCAR) and SOCAR Oil Affiliate (SOA).

As at 31 December 2017, oil reserves in the Republic of Azerbaijan explored by the Group under five production sharing agreements comprise the following (on a 100% basis):

Reserves	Oil and condensate	Gas	Oil and condensate + gas
	million bbl	billion cu ft	million bbl oil equivalent
Total proved	68.5	–	68.5
including:			
Proved developed	44.7	–	44.7
Proved undeveloped	23.8	–	23.8
Probable	9.9	–	9.9
Possible	9.3	–	9.3

PJSC "RussNeft"

Notes to the consolidated financial statements (continued)

33. Subsequent events

Following a field tax audit of the Company for 2014-2016 that tax judgement was delivered in January 2019, and the tax authorities assessed additional taxes, penalties and fines in the total amount of RUB 2,303 million (including fines of RUB 315 million and penalties of RUB 348 million). The above additional accruals are recorded in full in the consolidated financial statements. In February 2019, the Company paid part of its income tax payables in the amount of RUB 700 million.

In March 2019, Fitch rating agency changed its outlook for the Company from "stable" to "positive", keeping the Company's rating at B.

Chapter 6
General

Glossary

Terms and abbreviations

HF	hydraulic fracturing
WI	well intervention
Sidetracking	drilling a secondary wellbore away from an original one / a secondary wellbore drilled away from an original one
MSHF	multi-stage hydraulic fracturing
IFRS	International Financial Reporting Standards
MET	mineral extraction tax
OPEC	Organization of the Petroleum Exporting Countries
APG	associated petroleum gas
Propping agent	granular substance used in the oil industry to increase well production rates in hydraulic fracturing
RAS	Russian Accounting Standards
CIS	Commonwealth of Independent States
PSA	production sharing agreement
FC	football club
CDU TEK	Central Dispatch Office of the Fuel and Energy Sector
SPE (SPE-PRMS)	international standard for estimating and managing petroleum reserves
1P reserves	proven reserves
P2 reserves	probable reserves
2P reserves	proven and probable reserves
P3 reserves	possible reserves
3P reserves	proven, probable and possible reserves
3D seismic	seismic survey that produces a three-dimensional image of a reservoir

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Units of measurement

bbl	barrel
boe	barrel of oil equivalent
USD	U.S. dollar
sq km	square kilometre
m	metre
m^3	cubic metre
bcm	billion cubic metres
mn	million
bn	billion
oe	oil equivalent
linear km	linear kilometre
pp	percentage point
RUB	Russian rouble
K	thousand
pcs.	pieces

Conversion factors

1,000 m^3 of gas = 6.6 barrels of oil equivalent

1,000 m^3 of gas = 0.8 tonnes of oil equivalent

Oil reserves are converted from tonnes to barrels using various conversion factors linked to the field's oil density.

Disclaimer

This 2018 Annual Report was prepared based on the information available to RussNeft (the “Company”) as at the date hereof. Certain statements herein may contain assumptions or projections regarding future events in relation to the Company.

These forward-looking statements can usually be identified by the use of such words as “expects”, “estimates”, “forecasts”, “intends”, “plans”, “will”, “could”, or other similar words or phrases, including their negative forms. These statements are assumptions that involve risks and uncertainties, known or unknown to the Company.

Hence, the Company’s future operational and financial performance may differ from its current expectations, and users of the information presented in the Annual Report should not rely solely on this information.

The said forward-looking statements are not based on actual circumstances and include all statements with respect to the Company’s intentions, opinions and current expectations pertaining to its operational and financial activities and performance, plans, projects and expected results, dividend and CAPEX policies, as well as trends in prices, rates, production and sales volumes, estimated expenses and other similar factors and economic forecasts for the industry and markets.

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By their nature, these forward-looking statements are subject to risks and uncertainties that can cause the Company’s actual results to differ materially from those contained in the assumptions or projections. Such risks and uncertainties may include overall economic conditions and competitive environment in which the Company operates, rapid technology and other changes in the Company’s business areas, government activities in Russia and other jurisdictions where the Company conducts business.

The said list of risks and uncertainties is by no way exhaustive.

The Company does not give any warranties that the actual results, scale or performance of the Company or its industry will be in line with those explicitly stated or implied in any forward-looking statements contained herein.

The Company shall not be held liable for any losses that may be incurred by any person acting in reliance on the forward-looking statements contained herein.

Save as expressly provided for by the applicable laws, the Company shall not assume any obligations with respect to the distribution or publication of any updated or modified forward-looking statements reflecting any changes in expectations, new data, or future events, conditions or circumstances.

Contacts

For shareholders

Corporate Relations Department

Tel.: +7 495 411 6309

E-mail: shareholders@russneft.ru

For investors

IR Department

Tel.: +7 495 411 6309

E-mail: ir@russneft.ru

Media enquiries

PR Department

Tel.: +7 495 411 6324

E-mail: pr@russneft.ru

Other matters:

Tel.: +7 495 411 6309

Fax: +7 495 411 6325

E-mail: russneft@russneft.ru

Share registrar

Servis-Reestr JSC

Registered and postal address:
12 Sretenka St., Moscow, 107045, Russia

Tel.: +7 495 608 1043, +7 495 783 0162

E-mail: sekr@servis-reestr.ru

Working hours:
MON–THU from 9:00 to 16:00,
FRI from 9:00 to 13:00
(lunch break from 13:00 to 13:45)

Web address: www.servis-reestr.ru

Appendices to the Annual Report

PJSC RussNeft. Annual Report 2018 / Appendices

Appendices

Pursuant to the Regulations on Information Disclosure by Securities Issuers No. 454-P, dated 30 December 2014, the following Appendices are an integral part of the 2018 RussNeft Annual Report and are available on the Company's website.

Report on compliance with the principles and recommendations of the Corporate Governance Code.

RussNeft has developed its corporate governance frameworks in line with the Russian laws, the Moscow Exchange MICEX-RTS Public Joint-Stock Company (MICEX) Rules for Listing, the recommendations of the Corporate Governance Code as set out in Bank of Russia Letter No. 06-52/2463 dated 10 April 2014 “On the Corporate Governance Code”, and the Principles of Corporate Governance adopted by the Organization for Economic Cooperation and Development.

This report on compliance with the principles and recommendations of the Corporate Governance Code (the “Report”) was reviewed by RussNeft’s Board of Directors in its meeting on 16 May 2019.

The Board of Directors represents that this Report contains complete and reliable information about the Company’s compliance with the principles and recommendations of the Corporate Governance Code (the “Code”) throughout the year 2018.

The Company’s compliance with the corporate governance principles set forth in the Code was evaluated using the methodology described in the Bank of Russia Guidelines for Drafting a Report on Compliance with the Principles and Recommendations of the Corporate Governance Code as set forth in its Letter No. IN-06-52/8 dated 17 February 2016 (the “Guidelines”). Conclusions in this Report regarding the state of RussNeft’s corporate governance frameworks were based on the review of empirical data about the Company’s corporate governance practices over 2017 and their compliance with the corporate governance frameworks as set out in RussNeft’s by-laws at the end of the reporting period. As part of this exercise, the principles of the corporate governance frameworks adopted by the Company are compared with the principles in Part A of the Code, and the criteria for evaluating compliance with such principles are further applied as provided by Part B of the Code.

Throughout the reporting year, the Company consistently applied and updated state-of-the-art corporate governance procedures and principles. This Report highlights the Company’s progress in achieving compliance with all the recommendations of the Code as compared with the previous year.

In 2019, the Company will remain committed to complying with the principles of the Code and will use best practices to implement such principles at all corporate governance levels (i.e. governing bodies, corporate procedures, internal regulations, and documents).

To evaluate compliance with the Code principles and recommendations, the Company uses the form recommended in Bank of Russia letter No. IN-06-52/8 dated 17 February 2016.

No.	Corporate Governance Principle	Criterion for evaluating compliance with Corporate Governance Principle	Status of compliance with Corporate Governance Principle	Explanation for Non-compliance with Corporate Governance Principle
1.1.	***The Company must ensure equitable and fair treatment of all shareholders exercising their right to participate in the Company's management.***			
1.1.1.	The Company ensures most favourable conditions for shareholders to participate in general shareholders' meetings and facilitates their informed decisions on matters on the agenda of such general shareholders' meetings, coordination of their actions, and their ability to speak on the matters under discussion.	1. Company's internal regulations governing the proceedings of general meetings, approved by the general shareholders' meeting, are publicly accessible.	Compliant	
		2. The Company uses open communication channels (such as hotline, e-mail, or internet forums) to allow shareholders to express their opinions and make inquiries in relation to the meeting's agenda as part of the process of preparing general shareholders' meetings. The Company used such communication channels before each general shareholders' meeting held in the reporting period.	Compliant	
1.1.2.	Procedures for notifying shareholders of a general shareholders' meeting and communicating materials for general shareholders' meetings enable shareholders to properly prepare for such meetings	1. Notice of the general shareholders' meeting is posted online at least 30 days before the date of such meeting.	Compliant	
		2. Notice of the general shareholders' meeting specifies the venue of such meetings and the documents needed to be granted access to such venue.	Compliant	
		3. Shareholders were given access to information about persons submitting motions to the meeting or nominations to the Company's Board of Directors or Internal Audit Commission.	Compliant	
1.1.3.	In the course of preparing for and during the general shareholders' meeting, the shareholders were given unobstructed and timely access to information about the meeting and material for such meeting, and were given the opportunity to make inquiries to the Company's executive bodies and members of the Board of Directors and to communicate with each other.	1. During the reporting period, shareholders were able to ask questions to members of the Company's executive bodies and its Board of Directors prior to and during the annual general shareholders' meeting.	Compliant	
		2. Over the reporting period, the position of the Board of Directors (including minority reports included in the minutes) in relation to each item on the general shareholders' meeting agenda was included in material for such general shareholders' meeting.	Compliant	
		3. In relation to all general meetings held over the reporting period, the Company gave qualified shareholders access to the list of persons entitled to attend the general meeting, from the date it was received by the Company.	Compliant	
1.1.4.	Exercise by a shareholder of their right to convene a general meeting, to propose nominations to the governing bodies, and to submit motions to be included in the agenda for a general shareholders' meeting is not unreasonably hindered.	1. In the reporting period, shareholders were able to submit motions to be included in the annual general shareholders' meeting agenda for at least 60 days following the end of the respective calendar year.	Compliant	
		2. In the reporting period, the Company did not refuse to accept motions to be included in the meeting's agenda or nominations to the Company's governing bodies because of typing errors or other immaterial deficiencies in the shareholder's motion/nomination.	Compliant	
1.1.5.	Each shareholder was able to exercise their voting rights in the most straightforward and convenient manner, without any obstacles.	1. The Company's internal regulations (internal policy) contain provisions under which each participant at the general meeting may, before the meeting is closed, request a copy of the ballot they had completed, certified by the counting committee.	Compliant	
1.1.6.	Order of proceedings at the Company's general meetings ensures that all attendees are given equal opportunity to express their opinions or ask questions.	1. In the reporting period, sufficient time was allowed at general shareholders' meetings held in the form of joint presence for interventions and debates on the motions included on the agenda.	Compliant	

		2. Nominees to the Company's governing and supervisory bodies were available to answer shareholders' questions at the meeting at which the vote on their nominations was taken.	Compliant	
		3. When discussing matters associated with preparing and holding general shareholders' meetings, the Board of Directors considered the possibility of using telecommunication means to allow shareholders remote access to participate in general meetings in the reporting period.	Partially compliant	Throughout the reporting period, remote communications with shareholders were analysed. Based on the analysis, the 2018 annual meeting approved the relevant amendments to the Company's Articles of Association to guarantee shareholders the right to use telecommunication means to participate in general meetings.
1.2.	***Shareholders are given equitable and fair opportunity to participate in the Company's profit through dividends.***			
1.2.1.	The Company has developed and introduced a clear and transparent mechanism for determining the amount and payment of dividends.	1. Company's dividend policy has been developed, approved by the Board of Directors, and disclosed.	Compliant	
		2. If, in accordance with the Company's dividend policy, a dividend is calculated on the basis of the Company's performance indicators disclosed in its financial statements, the relevant provisions of the dividend policy require such calculations to be made on the basis of the consolidated financial statements.	Compliant	
1.2.2.	The Company does not pay dividends	1. The Company's dividend policy expressly refers to	Compliant	

	where any such payment is unreasonable from a business perspective or may give a misleading impression of the Company's affairs, even where such payment does not formally violate any legal provisions.	financial or business conditions under which the Company should not pay dividends.		
1.2.3.	The Company avoids anything that would adversely affect existing shareholders' rights to receive dividends.	1. In the reporting period, the Company took no actions that would have affected existing shareholders' rights to receive dividends.	Compliant	
1.2.4.	The Company is committed to preventing shareholders from using any mechanisms for earning profit/revenues at the Company's expense, other than through dividends or liquidating distributions.	1. To prevent shareholders from using any mechanisms for earning profit/revenues at the Company's expense, other than through dividends or liquidating distributions, the Company's internal regulations provide for control mechanisms to ensure timely identification and authorization of any transactions with parties affiliated/related to the Company's major shareholders (or other persons entitled to exercise voting rights attached to the Company's voting shares), where such transactions are not legally qualified as interested-party transactions transactions.	Compliant	
1.3.	***Corporate governance frameworks and practices ensure equal conditions for all holders of shares of the same category/type, including, without limitation, minority shareholders and foreign shareholders, and their equitable treatment by the Company.***			
1.3.1.	The Company has created an environment to facilitate equitable treatment of every shareholder by its governing bodies and controlling persons, and, in particular, to ensure zero tolerance towards any oppression of minority shareholders by major	1. Over the reporting period, the conflict of interest management procedures for major shareholders were effective, and the Board of Directors properly addressed any such conflicts of interest among shareholders.	Compliant	

	shareholders.			
1.3.2.	The Company avoids any actions that result or may result in unfair change of corporate control.	1. The Company does not have any quasi-treasury shares, or such shares did not vote in the reporting period.	Compliant	
1.4.	***The shareholders have access to reliable and efficient mechanisms for keeping records of the rights to their shares and are able to freely and easily dispose of their shares.***			
1.4.1.	The shareholders have access to reliable and efficient mechanisms for keeping records of the rights to their shares and are able to freely and easily dispose of their shares.	1. The quality and reliability of the maintenance of the Company's shareholder register by its registrar meets the requirements of the Company and its shareholders.	Compliant	
2.1.	***The Board of Directors carries out strategic management of the Company, defines key principles for and approaches to the organization of the Company's risk management and internal controls, supervises the Company's governing bodies, and exercises other key functions.***			
2.1.1.	The Board of Directors is responsible for appointing and removing the Company's executive bodies, in particular, removing for cause. The Board of Directors also ensures that the executive bodies act in accordance with the Company's approved development strategy and core business segments.	1. Under the Company's Articles of Association, the Board of Directors is authorized to appoint and remove members of the executive bodies and determine the terms and conditions of their employment contracts.	Compliant	
		2. The Board of Directors reviewed the report(s) by the Company's chief executive officer and members of the Company's collegial body on compliance with the Company's strategy.	Compliant	
2.1.2.	The Board of Directors sets the Company's long-term performance targets, evaluates and approves key performance indicators and key business targets, and reviews and approves the Company's strategy and business	1. In the reporting period, the Board of Directors reviewed at its meetings the progress in implementing and updating the strategy, approved the Company's financial and business budget, and reviewed criteria and indicators (including interim ones) measuring the implementation of the Company's strategy and business plans.	Compliant	

	plans in the core business segments.			
2.1.3.	The Board of Directors defines the principles of and approaches to the organization of the Company's risk management and internal controls.	1. The Board of Directors has defined the principles of and approaches to the organization of the Company's risk management and internal controls.	Compliant	
		2. In the reporting year, the Board of Directors evaluated the Company's risk management and internal controls.	Compliant	
2.1.4.	The Board of Directors develops the Company's policy for remuneration and/or reimbursement of expenses (compensation) for members of the Company's Board of Directors, executive bodies, and other key officers.	1. The Company has developed and implemented and the Board of Directors has approved the policy(ies) for remuneration and/or reimbursement of expenses (compensation) for members of the Company's Board of Directors, executive bodies, and other key officers.	Compliant	
		2. In the reporting period, the Board of Directors reviewed matters associated with such policy(ies).	Compliant	
2.1.5.	The Board of Directors plays the key role in preventing, identifying, and resolving conflicts among the Company's bodies, shareholders, and employees.	1. The Board of Directors plays the key role in preventing, identifying, and resolving corporate conflicts. 2. The Company has developed a mechanism for identifying interested-party transactions and measures to resolve such conflicts.	Compliant	
2.1.6.	The Board of Directors plays the key role in ensuring the Company's transparency, timely and complete disclosure by the Company of its information, and shareholders' unobstructed access to the Company's records.	1. The Board of Directors has approved the corporate disclosure policy.	Compliant	
		2. The Company has appointed persons responsible for the implementation of the corporate disclosure policy.	Compliant	
2.1.7.	The Board of Directors supervises the Company's corporate governance practice and plays the key role	1. In the reporting period, the Board of Directors discussed the corporate governance practice within the Company.	Compliant	

	in the Company's material corporate actions.			
2.2.	***The Board of Directors reports to the Company's shareholders.***			
2.2.1.	Information about the proceedings of the Board of Directors is disclosed and made available to shareholders.	1. The Company's annual report for the reporting period shows the attendance by each director at meetings of the Board of Directors and their committees.	Compliant	
		2. The annual report shows key results from the Board of Directors evaluation conducted in the reporting period.	Compliant	
2.2.2.	The Chairman of the Board of Directors makes himself/herself available to communicate with the Company's shareholders.	1. The Company has adopted a transparent procedure allowing shareholders to submit their questions to the Chairman of the Board of Directors and to communicate their position on certain matters.	Compliant	
2.3.	***The Board of Directors is an efficient and professional governing body for the Company able to make unbiased, independent judgements and take decisions benefiting the Company and its shareholders.***			
2.3.1.	Only persons with a sterling business and personal reputation, having the necessary knowledge, skills, and experience to take decisions reserved to the Board of Directors and to carry out their functions efficiently are elected to the Board of Directors.	1. The Company has adopted a procedure for evaluating the performance of the Board of Directors that includes, *inter alia*, a review of the professional qualification of the members of the Board of Directors.	Compliant	
		2. Over the reporting period, the Board of Directors (or its nominations committee) reviewed nominations to the Board of Directors to ensure candidates had the necessary experience, knowledge, and business reputation, and had no conflicts of interest, etc.	Compliant	
2.3.2.	Members of the Company's Board of Directors are elected by a transparent procedure allowing shareholders to obtain sufficient information about candidates to enable them to assess their personal and professional	1. For all general shareholders' meetings held in the reporting period where the agenda included the election of members to the Board of Directors, the Company provided shareholders with biographies of all Board of Directors nominees, the results of the review of the latter conducted by the Board of	Compliant	
	characteristics.	Directors (or its nominations committee), confirmation that each candidate met the criteria of independence as provided for by recommendations 102–107 inclusive of the Code, and each candidate's written agreement to being elected to the Board of Directors.		
2.3.3.	The Board of Directors is well-balanced, including, without limitation, in terms of its members' qualifications, experience, knowledge, and business expertise, and enjoys the shareholders' trust.	1. As part of its review of the Board of Directors performance conducted in the reporting period, the Board of Directors analysed its requirements in terms of professional qualifications, experience, and business skills.	Compliant	
2.3.4.	The number of members on the Board of Directors is sufficient for the Company to organize the Board of Directors' operations in the most efficient manner, in particular, to form committees of the Board of Directors, and to enable a nominee supported by material minority shareholders to be elected to the Board of Directors.	1. As part of its review of the Board of Directors performance conducted in the reporting period, the Board of Directors estimated whether the number of Board of Directors members is sufficient to meet the Company's requirements and shareholders' interests.	Compliant	
2.4.	***There is a sufficient number of independent directors on the Board of Directors.***			
2.4.1.	An independent director is a person having sufficient professional skills, experience, and independence to formulate their own position, to make fair, unbiased judgements unaffected by influence from the Company's executive bodies, particular groups of shareholders, or interested parties. It	1. In the reporting period, all independent members of the Board of Directors met all independence criteria as set forth in recommendations 102–107 inclusive of the Code, or were recognized as independent by a resolution of the Board of Directors.	Compliant	

	should be noted, however, that under normal circumstances a candidate (elected member of the Board of Directors) affiliated to the Company, its major shareholder, major counterparty, major competitors, or the government cannot be considered an independent director.			
2.4.2.	Nominees to the Board of Directors are reviewed to check their compliance with the independence criteria; compliance of independent directors on the Board of Directors with independence criteria is monitored on a regular basis. The substance over form principle applies to any such review.	1. In the reporting period, the Board of Directors (or its nominations committee) issued its opinion on the independence of each nominee to the Board of Directors and communicated the relevant report to shareholders.	Compliant	
		2. In the reporting period, the Board of Directors (or its nominations committee) at least once reviewed the independence of those current members of the Board of Directors declared by the Company in its annual report as independent directors.	Compliant	
		3. The Company has developed procedures determining actions required to be taken by a Board of Directors member if they cease to be independent, including the obligation to notify the Board of Directors in a timely manner.	Compliant	
2.4.3.	Independent directors account for one third of the elected Board of Directors members.	1. Independent directors do account for one third of the elected Board of Directors members.	Compliant	
2.4.4.	Independent directors play a key part in preventing corporate conflicts in the Company and in major corporate actions to be performed by the Company.	1. Independent directors (with no conflict of interest) conduct preliminary reviews of major corporate actions that may involve a possible conflict of interest, and the results of such reviews are submitted to the Board of Directors.	Compliant	

2.5.	***The Chairman of the Board of Directors facilitates the most efficient performance by the Board of Directors of its functions.***			
2.5.1.	An independent director is elected as Chair of the Board of Directors; alternatively, one of the elected independent directors is appointed senior director supervising the work of all independent directors and acting as the liaison with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director; or one of the independent directors is appointed senior independent director.	Not compliant	The Company's internal regulations provide for the position of a senior independent director.
		2. The role, rights, and obligations of the chair of the Board of Directors (and, if applicable, the senior independent director) are duly defined in the Company's internal regulations.	Compliant	
2.5.2.	The Chairman of the Board of Directors ensures a productive atmosphere at meetings, free debate on the matters included on the meeting agenda, and control over implementation of resolutions passed by the Board of Directors.	1. In the reporting period, the performance of the Board of Directors Chair was evaluated as part of the Board of Directors performance review.	Compliant	
2.5.3.	The Chair of the Board of Directors takes measures necessary to provide the Board of Directors members with timely information necessary for their decision-making in relation to the meeting agenda.	1. The obligation for the Chair of the Board of Directors to take measures to ensure timely provision of the necessary material to the board members in relation to the meeting agenda is laid down in the Company's internal regulations.	Compliant	
2.6.	***Members of the Board of Directors act reasonably and in good faith for the benefit of the Company and its shareholders based on sufficient knowledge with a due degree of care and diligence.***			

2.6.1.	In their decision-making, the members of the Board of Directors take into account all available in-formation and are free from any conflicts of interest; they treat all of the Company's shareholders equally and assume normal business risks.	1. In accordance with the Company's bylaws, a member of the Board of Directors must notify the Board of Directors of any conflict of interest they may have in relation to any item on the agenda of a meeting of the Board of Directors or its committee before the debate on such item commences.	Compliant	
		2. Under the Company's internal regulations, a member of the Board of Directors must refrain from voting on any motions in relation to which they have a conflict of interest.	Compliant	
		3. The Company has a adopted a procedure enabling the Board of Directors to engage professional advice on matters reserved to it, at the Company's expense.	Compliant	
2.6.2.	The rights and obligations of Board of Directors members are clearly defined and described in the Company's internal regulations.	1. The Company has adopted and published an internal regulation clearly defining the rights and obligations of members of the Board of Directors.	Compliant	
2.6.3.	Members of the Board of Directors have sufficient time to perform their duties.	1. Individual attendance at meetings of the Board of Directors and committees, and time spent preparing for meetings, were reviewed as part of the Board of Directors performance evaluation in the reporting period.	Compliant	
		2. In accordance with the Company's internal regulations, members of the Board of Directors must notify the Board of Directors of their intention to be appointed to governing bodies of other entities (save for those controlled by or affiliated with the Company), as well as of any such appointment.	Compliant	

2.6.4.	All members of the Board of Directors have equal access to the Company's records and information. Newly elected members of the Board of Directors are provided, as soon as possible, with sufficient information about the Company and about the operation of the Board of Directors.	1. In accordance with the Company's internal regulations, members of the Board of Directors are entitled to access Company records and make inquiries in relation to the Company and entities controlled by it, and the Company's executive bodies must provide such information and records.	Compliant	
		2. The Company has adopted a formal briefing process for newly-elected members of the Board of Directors.	Compliant	
2.7.	***Meetings of the Board of Directors, preparations for such meetings, and their attendance by the Board of Directors members ensure efficient operation of the Board of Directors.***			
2.7.1.	The Board of Directors meets as necessary, taking into account the scope of the Company's activities and its tasks for a certain period.	1. The Board of Directors met at least six times over the reporting year.	Compliant	
2.7.2.	The Company's internal regulations define the procedure for preparing for Board of Directors meetings, enabling the members to duly prepare for such meetings.	1. The Company has approved an internal regulation defining the procedure for preparing and holding meetings of the Board of Directors which specifies, *inter alia*, that notice of a meeting must be given at least five days prior to the date of the meeting.	Compliant	
2.7.3.	The form of a Board of Directors meeting is determined according to the importance of the business on such meeting's agenda. The most important business is transacted in meetings held in the form of physical presence.	1. In accordance with the Company's Articles of Association and its internal regulations, the most important business (as per the list in recommendation 168 of the Code) is to be transacted in meetings held in the form of physical presence.	Compliant	
2.7.4.	Resolutions on the most important matters of the	1. In accordance with the Company's Articles of Association, resolutions on the	Partially compliant	According to the Company's Articles of Association,

	Company's business are passed by a qualified majority or simple majority of all elected members of the Board of Directors.	most important matters, as listed in recommendation 170 of the Code, must be passed at a meeting of the Company's Board of Directors by a qualified majority of at least three-quarters of votes of all members present or by a simple majority of votes of all elected members of the Board of Directors.		resolutions on certain matters of greatest importance, as listed in recommendation 170 of the Code, are passed at a meeting of the Company's Board of Directors by a simple majority of votes. Certain other matters (such as approval of major transactions, recommendations regarding mandatory / voluntary offers) have to be resolved immediately, in particular due to timelines set by law. Given that the Board of Directors (12 members) presently includes four independent directors, two of whom are non-Russian citizens, it is not always possible to ensure their attendance at short notice. Despite this, the Company's Board of Directors usually sees high attendance by members. In the reporting period, all matters reserved to the Board of Directors were resolved by a majority of at least 80% of votes. No amendments to the Company's Articles of Association are planned at the present time.
2.8.	***The Board of Directors forms committees to discuss the most important matters of Company business.***			

2.8.1.	To ensure provisional review of matters associated with control over the Company's financial and business operations, the Board of Directors has formed an audit committee consisting of independent directors.	1. The Board of Directors has formed an audit committee consisting solely of independent directors.	Compliant	
		2. The Company's internal regulations lay down the tasks for the audit committee, including, without limitation, the tasks listed in recommendation 172 of the Code.	Compliant	
		3. At least one member of the audit committee who is an independent director has experience and knowledge in the area of preparing, analysing, evaluating, and auditing financial statements.	Compliant	
		4. The audit committee met at least once per quarter during the reporting period.	Compliant	
2.8.2.	To deal with matters relating to drafting an efficient, transparent remuneration policy, the Company has formed a remunerations committee consisting of independent directors and headed by an independent director who is not the Chairman of the Board of Directors.	1. The Board of Directors has formed its remunerations committee consisting of only independent directors.	Not Compliant	As at the last date of the reporting period, two independent directors were elected to the Company's remuneration and nominations committee, consisting of three directors. In the meantime, the existing members of the remuneration and nominations committee meet the requirements of Moscow Exchange Listing Rules which, in turn, are aimed at ensuring compliance with corporate governance principles. In the future, members of the remuneration and nominations committees will be elected depending on the composition of

				the Board of Directors elected by the shareholders, taking into account their professional qualifications and experience, their compliance with the independence criteria, and their being recommended for the position.
		2. The Chairman of the remuneration committee is an independent director who is not the Chairman of the Board of Directors.	Compliant	
		3. The Company’s internal regulations define the tasks for the remuneration committee, including tasks listed in recommendation 180 of the Code.	Compliant	
2.8.3.	To discuss matters relating to human resources (succession planning, professional composition, and efficiency of the Board of Directors), the board has formed a nominations committee, and the majority of members of said committee are independent directors.	1. The Board of Directors has formed its nominations committee (or the tasks of such committee, as listed in recommendation 186 of the Code, are handled by another committee), and the majority of its members are independent directors.	Compliant	The tasks of the nominations committee are handled by the Board of Directors remuneration and nominations committee.
		2. The Company’s internal regulations lay down the tasks for the nominations committee (or the relevant committee performing such functions), including tasks listed in recommendation 186 of the Code.	Compliant	
2.8.4.	Taking into account the scope of the Company’s activities and its risk levels, the Board of Directors ensures that the composition of its committees is wholly in line with the purposes of the Company’s business. Additional committees	1. In the reporting period, the Board of Directors evaluated whether the composition of its committees is in line with the tasks of the Board of Directors and the Company’s purposes. Additional committees were either formed, or were not deemed necessary.	Compliant	

	were either formed, or were not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety, and environment committee, etc.)			
2.8.5.	Members of the committees were selected in such a way as to ensure comprehensive debate of business under review, taking various opinions into account.	1. Board of Directors committees are headed by independent directors.	Compliant	
		2. The Company’s internal regulations / policies include provisions under which persons who are not members of the audit or nominations and re-muneration committees may attend meetings of the committees, if in-vited to do so by the chair of the respective committee.	Compliant	
2.8.6.	Chairs of committees regularly report the proceedings of their respective committees to the Board of Directors and its chair.	1. In the reporting period, the chairs of the committees reported regularly on the committees’ activities to the Board of Directors.	Compliant	
2.9.	***The Board of Directors ensures evaluation of performance of the Board of Directors, its committees, and members.***			
2.9.1.	Performance evaluation of the Board of Directors is intended to determine the efficiency of the Board of Directors, its committees, and members, establish whether their work meets the requirements of the Company’s development, increase the performance of the Board of Directors, and identify areas where its performance may be improved.	1. Self-evaluation and external evaluation of the Board of Directors’ performance conducted in the reporting period included performance evaluation of the committees, certain members of the Board of Directors, and the Board of Directors as a whole.	Compliant	
		2. The results of the self-evaluation or external evaluation of the Board of Directors held in the reporting period were discussed at a meeting of the Board of Directors.	Compliant	

2.9.2.	Performance evaluation of the Board of Directors and its members is conducted on a regular basis at least once a year. An external service provider / advisor is engaged to conduct an independent Board of Directors performance evaluation at least once every three years.	1. To conduct an independent performance evaluation of the Board of Directors over the last three reporting periods, the Company engaged an external service provider / advisor at least once.	Not compliant	The possibility of engaging an external service provider / advisor to conduct an independent performance evaluation of the Board of Directors is being currently considered.
3.1.	***The Company's corporate secretary efficiently handles routine interaction with shareholders, co-ordinates the Company's defence of shareholders' rights and interests, and supports efficient operation of the Board of Directors.***			
3.1.1.	The corporate secretary has knowledge, experience, and skills appropriate for their duties, is of sterling reputation, and enjoys the trust of the shareholders.	1. The Company has adopted and disclosed its corporate secretary regulations. 2. The Company has posted online and disclosed in its annual report the biography of its corporate secretary, providing the same level of detail as for the members of the Company's Board of Directors and executives.	Compliant	
3.1.2.	The corporate secretary is sufficiently independent of the Company's executive bodies and has the authority and resources required to accomplish the tasks set for them.	1. The Board of Directors approves the appointment, removal, and any additional remuneration of the corporate secretary.	Compliant	
4.1.	***Remuneration paid by the Company is sufficient to hire, motivate, and retain persons having the required expertise and skills. The Company pays remuneration to the members of its Board of Directors, executive bodies, or key officers in accordance with the remuneration policy adopted by the Company.***			
4.1.1.	Remuneration paid by the Company to the members of its Board of Directors, executive bodies, or key officers offers adequate motivation to ensure they are able to work efficiently, enabling the Company to hire and retain skilled, experienced staff. The Company avoids paying compensation that is higher than necessary, or creating an unreasonable gap between the remuneration of such officers and that of other Company employees.	1. In its internal regulations, the Company has adopted a remuneration policy for the members of the Company's Board of Directors, executive bodies, or other key officers that clearly lays down the approach to setting remuneration for such persons.	Compliant	
4.1.2.	The Company's remuneration policy has been developed by the remuneration committee and approved by the Board of Directors. The Board of Directors, supported by the remuneration committee, supervises the adoption and implementation by the Company of the remuneration policy, and, if necessary, revises and amends such policy.	1. Over the reporting period, the remuneration committee reviewed the remuneration policy(ies) and their implementation practice and, where necessary, made relevant recommendations to the Board of Directors.	Compliant	

4.1.3.	The Company's remuneration policy provides transparent mechanisms for setting the remuneration for members of the Board of Directors and executive bodies, and key officers of the Company, and regulates all compensations, benefits and incentives granted to such persons.	1. The Company's remuneration policy(ies) does (do) provide transparent mechanisms for setting the remuneration for members of the Board of Directors and executive bodies, and key officers of the Company, and does (do) regulate all compensations, benefits and incentives granted to such persons.	Compliant	
4.1.4.	The Company sets the policy for expenses reimbursement / compensation, listing all reimbursable expenses, and specifying the service class granted to Board of Directors members, executive bodies, and key officers of the Company. Such policy may be part of the Company's remuneration policy.	1. The Company's remuneration policy(ies) or other internal regulations lay down the rules for reimbursement of expenses incurred by members of the Board of Directors, executive bodies, and key officers of the Company.	Compliant	.
4.2.	***Incentive scheme for the members of the Board of Directors aligns directors' financial interests with the long-term financial interests of shareholders.***			

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4.2.1.	The Company pays fixed annual remuneration to the members of its Board of Directors. The Company does not provide any remuneration for attendance at certain meetings of the board or Board of Directors committees. The Company does not offer any short-term benefits or any other additional incentives to the members of its Board of Directors.	1. Fixed annual remuneration was the only form of cash remuneration awarded to the members of the Board of Directors in the reporting period.	Partially compliant	In accordance with the Code recommendations, the Company's general shareholders' meeting may, by its resolution, pay members of the Board of Directors fixed annual remuneration in an amount that varies depending on the scope of their duties, in particular as the Chair of the Board of Directors, Chair or member of a Board of Directors committee. Independent directors also receive additional fixed remuneration for their attendance at meetings in person. Such additional remuneration is widely used in national and international practice and, in the Company management's opinion, fairly accounts for the role of independent directors in the operation of the Board of Directors and its committees. The Company does not use any other forms of motivation or additional financial incentives to members of the Board of Directors.
4.2.2.	Long-term shareholding in the Company is a major factor facilitating the alignment of the financial interests of the Board of Directors members with the	1. If the Company's internal regulations remuneration policy(ies) provide(s) for the provision of Company shares to members of the Board of Directors, any such regulation must also specify and disclose clear rules for the holding of	Compliant	The proposed evaluation criterion does not apply to the Company, as its internal regulations do not provide for the provision of Company shares to members of

	long-term financial interests of shareholders. The Company does not link the right to sell shares to achievement of certain performance targets, and Board of Directors members do not participate in option schemes.	shares by the Board of Directors' members aimed at promoting long-term holding of such shares.		the Board of Directors.
4.2.3.	The Company does not provide any additional benefits or compensation in the event of members of the Board of Directors are removed due to a change of control in the Company or other events.	1. The Company does not provide any additional benefits or compensation in the event members of the Board of Directors are removed due to a change of control in the Company or other events.	Compliant	
4.3.	***Remuneration scheme for the Company's executive bodies and key officers links remuneration to the Company's performance and such persons' contribution to such performance.***			
4.3.1.	Remuneration of the members of the Company's executive bodies and other key officers of the Company is determined in a manner that will ensure reasonable and justified balance between the fixed and floating components linked to the Company's performance and the respective employee's individual contribution to such performance.	1. Over the reporting period, annual performance indicators approved by the Board of Directors were used to determine the floating component of remuneration of the executives bodies' members and other key officers of the Company.	Compliant	
		2. As part of the most recent evaluation of the remuneration scheme for members of the Company's executive bodies and key officers, the Board of Directors / its remuneration com-mittee confirmed that the Company maintain-ed an efficient balance between the fixed and floating components of remuneration.	Compliant	

		3. The Company has developed a procedure to ensure recovery by the Company of bonuses wrongfully paid to members of its executive bodies or key officers.	Partially compliant	The incentive scheme used by the Company provides for bonuses based on objective performance indicators and a reliable system for evaluating and monitoring these. Furthermore, the applicable Russian laws establish a proper mechanism for recovery of damage caused by employees' misdeeds. The Company does not have any history of improper bonus payments. The Company does not anticipate amending the Company's internal regulations at any time in the near future.
4.3.2.	The Company has in place a long-term share-based incentive scheme for members of the Company's executive bodies and key officers (options or other derivatives using Company shares as the underlying asset).	1. The Company does have in place a long-term share-based incentive scheme for members of the Company's executive bodies and key officers (financial instruments using Company shares as the underlying asset).	Compliant	
		2. Under the Company's long-term incentive scheme for members of the Company's executive bodies and key officers, the right to sell shares or other financial instruments used in such schemes arises not less than three years after the date of their provision. Such right is triggered by the Company's achieving certain performance indicators.	Compliant	
4.3.3.	Golden parachutes paid by the Company at its discretion to members of its executive bodies or key officers upon early termination of their employment in	1. In the reporting period, golden parachutes paid by the Company at its discretion to members of its executive bodies or key officers upon early termination of their employment in the absence of improper actions on their part	Compliant	

	the absence of any improper actions on their part do not exceed twice the fixed component of the respective employee's annual remuneration.	did not exceed twice the fixed component of the respective employee's annual remuneration.		
5.1.	***The Company has developed efficient risk management and internal controls frameworks in order to obtain reasonable assurance that the Company achieves its goals.***			
5.1.1.	The Company's Board of Directors has defined principles and approaches to risk management and internal controls within the Company.	1. The Company's internal regulations / respective policy clearly defines the functions of the Company's governing bodies and business units as part of the risk management framework and internal controls.	Compliant	
5.1.2.	The Company's executive bodies ensure the development and support the functioning of efficient risk management and internal controls frameworks in the Company.	1. The Company's executive bodies ensured distribution of risk management and internal control functions and authority among the heads of the respective business units and departments.	Compliant	
5.1.3.	The Company's risk management and internal controls frameworks provide an unbiased, fair, and clear view of the Company's current situation and prospects, integrity and transparency in the Company's financial statements, and the reasonableness and acceptability of the risks being assumed by the Company.	1. The Company has adopted an anti-corruption policy. 2. The Company has organized an accessible channel to report to the Board of Directors or its audit committee any breaches of laws, internal procedures, or the Company code of ethics.	Compliant	
5.1.4.	The Company's Board of Directors takes the necessary measures to ensure the compliance of the risk management and internal controls frameworks currently operated by the Company with their	1. In the reporting period, the Board of Directors or its audit committee evaluated the efficiency of the risk management and internal controls frameworks within the Company. The major findings of this evaluation were included in the Company's annual report.	Compliant	

	organizational principles and approaches approved by the Board of Directors, and their efficient functioning.			
5.2.	***The Company conducts internal audits as a regular independent evaluation of the reliability and efficiency of its risk management and internal controls frameworks and its corporate governance practices.***			
5.2.1.	To conduct its internal audits, the Company formed a separate unit or engaged an independent external service provider. The internal audit team reports to different departments functionally and administratively. Functionally, the internal audit team reports to the Board of Directors.	1. To conduct its internal audits, the Company formed a separate internal audit team that functionally reports to the Board of Directors or the audit committee, or engaged an independent external organization based on the same principle of accountability.	Compliant	
5.2.2.	The internal audit team evaluates the efficiency of the internal controls, risk management, and corporate governance frameworks. The company uses generally-accepted internal audit standards.	1. In the reporting period, the Company evaluated the efficiency of the internal controls and risk management frameworks as part of the internal audit exercise.	Compliant	
		2. The company uses generally-accepted internal audit and risk management standards.	Compliant	
6.1.	***The Company and its business are transparent for shareholders, investors, and other stakeholders.***			
6.1.1.	The Company developed and introduced a corporate disclosure policy to support efficient communications between the Company, its shareholders, investors, and other stakeholders.	1. The Company's Board of Directors has approved the corporate disclosure policy developed in accordance with the recommendations of the Code.	Compliant	
		2. The Board of Directors (or its committee) discussed matters relating to the Company's compliance with its corporate disclosure policy at least once in the reporting period.	Compliant	

6.1.2.	The Company discloses information about its corporate governance frameworks and practice, including detailed information about its compliance with the Code principles and recommendations.	1. The Company discloses information about its corporate governance and general corporate governance principles applied within the Company, *inter alia*, online on the Company’s website.	Compliant	
		2. The Company discloses information about the members of its executive bodies and Board of Directors, the independence of the Board of Directors members, and their involvement in the board’s committees (as defined in the Code).	Compliant	
		3. If the Company has a controlling person, the Company discloses such controlling person’s statement regarding their plans in relation to the corporate governance within the Company.	Compliant	
6.2.	***The Company discloses complete, up-to-date, and reliable information about the Company in a timely fashion, to allow well-informed decision-making by the Company’s shareholders and investors.***			
6.2.1.	The Company discloses its information in accordance with the principles of regularity, consistency, timeliness and accessibility, reliability, completeness, and comparability of the disclosed information.	1. The Company’s corporate disclosure policy defines the approaches and criteria for identifying information that may materially affect the valuation of the Company or the price of its securities, and procedures to ensure timely disclosure of such information.	Compliant	
		2. If the Company’s securities are publicly traded outside Russia, the Company discloses its material information within Russia and abroad simultaneously and equivalently throughout the reporting year.	Compliant	The proposed criterion does not apply as the Company’s securities are not publicly traded outside Russia.
		3. If any foreign persons hold material stakes in the Company, in the reporting period the Company disclosed its information both in Russian and in one of the most widely spoken languages.	Compliant	

6.2.2.	The Company avoids a formal approach to disclosure of its information and discloses material information about its business, even if such disclosure is not required by law.	1. In the reporting period, the Company disclosed its annual and six-month IFRS-based financial statements. In the reporting period, the Company’s annual report includes its IFRS-based annual financial statements, together with the audit report relating to such statements.	Compliant	
		2. The Company discloses full information about its capital structure, as required under Recommendation 290 of the Code, both in its annual report and online on the Company’s website.	Compliant	
6.2.3.	As one of the most important tools for communicating with shareholders and other stakeholders, the annual report contains information allowing the Company’s performance over the year to be assessed.	1. The Company’s annual report contains information about the key aspects of the Company’s operations and its financial results.	Compliant	
		2. The Company’s annual report contains information about environmental and social aspects of the Company’s business.	Compliant	
6.3.	***Upon request, the Company affords its shareholders equal and unhindered access to its information and documents.***			
6.3.1.	The Company provides to its shareholders, upon request, equal and unhindered access to its information and documents.	1. The Company’s corporate disclosure policy defines the procedure for shareholders’ unhindered access, at their request, to information, including information about entities under the Company’s control.	Compliant	
6.3.2.	In disclosing its information to shareholders, the Company maintains a reasonable balance between the interests of specific shareholders and the Company’s interest in keeping confidential important commercial information that may materially affect its competitiveness.	1. Over the reporting period, the Company did not deny shareholders’ requests for information, or such requests were reasonable.	Compliant	
		2. In the circumstances provided for by the Company’s disclosure policy, shareholders are notified of the confidential nature of information, and accept the obligation to keep such information confidential.	Compliant	
7.1.	***Any actions which have or might have any material effect on the structure of the Company’s share capital or the Company’s financial position, and hence the shareholders’ position,***			

	(“material corporate actions”) are carried out in an equitable manner, ensuring that the rights and interests of shareholders and other stakeholders are respected.			
7.1.1.	Material corpor-ate actions are reorganization of the Company, purchase of 30 or more percent of the Company’s voting shares (takeover), material transactions by the Company, increase or reduction of its share capital, listing or delisting of the Company’s shares, or other actions that may result in material changes to shareholders’ rights or adversely affect their interests. The Company’s Articles of Association define the list of criteria for determining transactions and other actions that constitute material corpor-ate actions, and such actions are reserved to the Company’s Board of Directors.	1. The Company’s Articles of Association list transactions or other actions that constitute material corporate actions, and criteria for classifying these. Resolutions in relation to material corporate actions are reserved to the Board of Directors. If, under law, such corporate actions are expressly reserved to a General Shareholders’ Meeting, the Board of Directors issues its recommendations to the shareholders.	Partially compliant	All matters classified as material corporate actions under the Code are set forth in the Company’s Articles of Association and are included within the scope of authority of the Board of Directors or the General Shareholders’ Meeting. If the resolution is to be passed by the shareholders’ meeting, under the Company’s Articles of Association, shareholders are to obtain recommendations from the Board of Directors. As part of its corporate governance reform, the Company expects to amend its Articles of Association by, *inter alia*, revising the list of material corporate actions.
		2. Under the Company’s Articles of Association, material corporate actions by the Company are, as a minimum, the following: reorganization, purchase of 30 or more percent of the Company’s voting shares (takeover), material transactions by the Company, increase or reduction of its share capital, listing or delisting of the Company’s shares.	Partially compliant	
7.1.2.	The board of directors plays the key role in making decisions or preparing recommendations in relation to material corporate actions; in doing so, the board of directors relies on the opinion of the Company’s independent directors.	1. The Company has developed a procedure enabling independent directors to express their position in relation to material corporate actions before such actions are approved.	Compliant	

7.1.3.	In taking material corporate actions affecting shareholders’ rights and legitimate interests, the Company provides equal conditions for all shareholders of the Company; if legal mechanisms aimed at protecting shareholders’ rights are inadequate, the Company takes additional measures to protect the rights and legitimate interests of its shareholders. In doing so, the Company is guided not only by formal legal requirements, but also by the corporate governance principles set forth in the Code.	1. Taking into account the specific nature of the Company’s business, the Company’s Articles of Association provide for minimum criteria for classifying Company transactions as major corporate actions that are more stringent than those provided for under law.	Compliant	
		2. In the reporting period, all material corporate transactions were pre-approved.	Compliant	
7.2.	***The Company implements a procedure for executing material corporate actions that allows shareholders to obtain timely, complete information about such actions, enables them to influence such actions, and guarantees the respect of and adequate level of protection for their rights in connection with such actions.***			
7.2.1.	Material corpor-ate actions are disclosed, together with an explanation of the reasons, conditions, and consequences of such actions.	1. In the reporting period, the Company disclosed detailed information about its material corporate actions, including the justification and timeline for such actions, in a timely manner.	Compliant	
7.2.2.	Rules and procedures associated with the Company’s material corporate actions are set forth in the Company’s internal regulations.	1. The Company’s internal regulations require an independent appraiser to be engaged in order to evaluate the property to be transferred or acquired as part of a major transaction or an interested-partytransaction.	Partially compliant	The Company has an efficient mechanism in place to ensure internal protection of the Company’s financial interest, which involves keeping comprehensive, reliable records of the Company’s property, and monitoring the way it is being used and managed. In most cases, an independent appraiser is involved in such transactions. Any transactions

				involving the purchase, transfer, or encumbrance of property whose value exceeds certain thresholds set forth in the Company's internal regulations are subject to the Regulations on the Approval of Transactions involving Assets (approved by Company order No. 56 dated 14 April 2010), in particular, subject to review by a task force in order to make sure such transactions are on an "arm's length" basis. The task force consists of heads of the Company's core business units. The Company's management believes that this internal protection mechanism is efficient and minimizes risks. The Company engages an independent appraiser in all cases as provided by law, and, voluntarily, as part of material corporate actions.
		2. The Company's internal regulations require engaging an independent appraiser to evaluate the purchase or redemption value of the Company's shares.	Compliant	
		3. The Company's internal regulations contain a broader list of events within which members of the Company's Board of Directors and other persons specified by law are deemed to be the Company's related parties for the purpose of its transactions.	Not compliant	Federal Law on "Joint Stock Companies" (as amended after the adoption of the Corporate Governance Code by the Bank of Russia) sets forth an exhaustive list of events in which the relevant persons are deemed related parties.

Transactions executed in the reporting year and qualifying as "major transactions" under the Federal Law "On Joint-stock Companies"

In 2018, RussNeft did not execute any transactions qualifying as "major" under the Federal Law "On Joint-stock Companies".

Transactions Executed in the Reporting Year and Qualifying as Interested-Party Transactions under the Federal Law "On Joint-stock Companies"[1]

No	Description[2]	Counterparty	Parties Concerned	Governing Body that Pre-authorized or Post-approved the Transaction, Date of Resolution	Value, RUB
1	Oil supplies by RussNeft to the entity in 2018 under Supply Agreement No. 33960-80/17-47 dated 02 December 2016 [3]	ADAMAS	Members of RussNeft's Board of Directors M.S. Gutseriev, S.M. Gutseriev, and S.S. Gutseriev	RussNeft Annual General Shareholders' Meeting, resolution dated 22 June 2018	6,767,986,980.41
2	Oil supplies by RussNeft to the entity in 2018 under Agreement No. 33960-80/17-33 dated 12 December 2016 [3]	ForteInvest	Members of RussNeft's Board of Directors M.S. Gutseriev, S.M. Gutseriev, and S.S. Gutseriev, and RussNeft President E.V. Tolochek	RussNeft Annual General Shareholders' Meeting, resolution dated 22 June 2018	32,864,109,831.53
3	Oil supplies by RussNeft to the entity in 2018 under Agreement No. 33960-80/17-49 dated 01 December 2016 [3]	ForteInvest	Members of RussNeft's Board of Directors M.S. Gutseriev, S.M. Gutseriev, and S.S. Gutseriev, and RussNeft President E.V. Tolochek	RussNeft Annual General Shareholders' Meeting, resolution dated 22 June 2018	7,984,066,950.94
4	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 02 April 2018 under Agreement No. 33960-00/18-313 dated 02 April 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	130,221,277.19
5	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 02 March 2018 under Agreement No. 33960-00/18-269 dated 02 March 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	124,235,743.8
6	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 04 June 2018 under Agreement No. 33960-00/18-453 dated 04 June 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 19 November 2018	279,460,005.34
7	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 02 July 2018 under Agreement No. 33960-00/18-556 dated 02 July 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 25 October 2018	198,066,164.16
8	Changes in the amount of monthly rent payments and the list of assets subleased by RussNeft to its subsidiary under Agreement No. 33960-00/17-564 dated 01 September 2017 for upstream works and services at the Novo-Aganskoe oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 19 November 2018	34,071,279.34
9	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 11 July 2018 under Agreement No. 33960-00/18 560 dated 11 July 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 25 October 2018	62 616 822,92
10	Provision of sidetracking services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/16-261 dated 01 July 2016	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	565,383,171.40
11	Provision of well construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-799 dated 17 November 2017 [2]	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	7,585,693,694.48
12	Provision of sidetracking services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-848 dated 11 December 2017	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	1,635,470,509.96
13	Provision of well-workover services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-422 dated 01 September 2017	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	145,554,065.85
14	Provision of well construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/16-417 dated 01 February 2016	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	3,144,345,473.6
15	Provision of upstream works and services to RussNeft in 2018 by its subsidiary under Agreement No. 33960-60/17-3 dated 08 December 2016 [2]	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	RussNeft Annual General Shareholders' Meeting, resolution dated 22 June 2018	16,650,167,209.32
16	Gas supplies by RussNeft to its subsidiary in 2018 under Agreement No. 33960-80/17-25 dated 12 December 2016	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	1,282,618,280.8
17	Road-building material supplies by RussNeft to its subsidiary in 2018 under Supply Agreement No. 18-39 dated 15 January 2018	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 12 February 2018	196,013,006.69

No	Description[2]	Counterparty	Parties Concerned	Governing Body that Pre-authorized or Post-approved the Transaction, Date of Resolution	Value, RUB
18	Oil supplies by RussNeft to its subsidiary in 2018 under Agreement No. 33960-80/17-42 dated 02 December 2016	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	77,509,654.40
19	Oil supplies to RussNeft from its subsidiary in 2018 under Agreement No.33960-80/18-4 dated 04 December 2017[2]	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	15,893,417,060.23
20	Oil supplies to RussNeft from its subsidiary in 2018 under Agreement No. 33960-80/19-32 dated 10 December 2018	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 22 December 2017	65,579,990.16
21	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 01 January 2018 under Agreement No. 33960-00/18-140 dated 01 January 2018 for upstream works and services at the Novo-Aganskoe and the Tagrinskoye oil fields	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 23 April 2018	2,565,599,775.13
22	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 01 September 2017 under Agreement No. 33960-00/17-639 dated 01 September 2017 for upstream works and services at the Zapadno-Varioganskoye and the Tagrinskoye oil fields	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 10 November 2017	3,145,513,871.12
23	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 01 December 2017 under Agreement No. 33960-00/17-872 dated 01 December 2017 for the performance of works associated with geological survey, including field prospecting and evaluation, exploration and production, within the Valyuninsky licence area	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 23 April 2018	44,197,767.66
24	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 02 Januray 2018 under Agreement No. 33960-00/18-123 dated 02 January 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 23 April 2018	140,604,017.97
25	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 02 February 2018 under Agreement No. 33960-00/18-159 dated 02 February 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 23 April 2018	150,702,377.75
26	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 03 May 2018 under Agreement No. 33960-00/18-373 dated 03 May 2018 for upstream works and services at the Novo-Aganskoe and the Tagrinskoye oil fields	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	189,114,098.69
27	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 04 June 2018 under Agreement No. 33960-00/18-466 dated 04 June 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	118,824,297.97
28	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 18 June 2018 under Agreement No. 33960-00/18-452 dated 18 June 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	57,262,495.77
29	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 03 May 2018 under Agreement No. 33960-00/18-379 dated 03 May 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 20 July 2018	24,588,212.30
30	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 22 June 2018 under Agreement No. 33960-00/18-474 dated 22 June 2018 for upstream works and services at the Tagrinskoye oil field	Varioganneft	Member of RussNeft's Board of Directors Ya.R. Tikhonova and RussNeft President E.V. Tolochek	Resolution of RussNeft's Board of Directors dated 25 October 2018	44,702,513.62
31	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 13 February 2018 under Agreement No. 33960-00/18-172 dated 13 February 2018 for upstream works and services at the Verkhne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 20 July 2018	44,391,277,00
32	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 03 May 2018 under Agreement No. 33960-00/18-390 dated 03 May 2018 for upstream works and services at the Verkhne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 20 July 2018	137,300,843.15
33	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 12 March 2018 under Agreement No. 33960-00/18-266 dated 12 March 2018 for upstream works and services at the Verkhne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 24 Decemberl 2018	60,487,010.67
34	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 13 April 2018 under Agreement No. 33960-00/18-318 dated 13 April 2018 for upstream works and services at the Sredne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 20 July 2018	76,052,059.12

No	Description[2]	Counterparty	Parties Concerned	Governing Body that Pre-authorized or Post-approved the Transaction, Date of Resolution	Value, RUB
35	Changes in the amount of monthly rent payments for assets leased by RussNeft from its subsidiary for an indefinite term under Agreement No. 33960-00/17-89 dated 03 April 2017 for upstream works and services at the Peschanoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 23 April 2018	25,592,225.37
36	Changes in the amount of monthly rent payments for assets leased by RussNeft from its subsidiary for an indefinite term under Agreement No. 33960-00/17-54 dated 03 April 2017 for the performannce of works and provision of services associated with hydrocarbons production at the Peschanoye oil field and the Ovalniy licence area	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 23 April 2018	139,133,430.45
37	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 06 June 2018 under Agreement No. 33960-00/18-456 dated 06 June 2018 for upstream works and services at the Verkhne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 31 August 2018	85,420,105.80
38	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 02 July 2018 under Agreement No. 33960-00/18-554 dated 02 July 2018 for upstream works and services at the Verkhne-Shapshinskoye oil field	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 25 October 2018	164,773,150.42
39	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/15-294 dated 28 December 2015	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	40,904,920.20
40	Provision of sidetracking services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/18-406 dated 04 June 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	88,311,782.28
41	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/15-295 dated 25 September 2015	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	442,966,460.26
42	Provision of well construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-4 dated 09 January 2017	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	1,123,824,282.57
43	Provision of well construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-847 dated 11 December 2017[2]	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	5,373,000,718.28
44	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/15-296 dated 20 January 2015	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	29,229,140.03
45	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/16-457 dated 19 September 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	26,558,170.60
46	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/16-461 dated 19 January 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	223,390,719.82
47	Provision of upstream works and services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-60/17-1 dated 08 December 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	8,236,736,661.98
48	Provision of facilities construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/13-392 dated 23 October 2013	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	113,509,541.28
49	Oil supplies by RussNeft to its subsidiary in 2018 under Agreement No. 33960-80/17-1 dated 12 December 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 22 December 2017	125,865,416.35
50	Oil supplies by RussNeft to its subsidiary in 2018 under Agreement No. 33960-80/17-41 dated 08 December 2016	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 22 December 2017	62,170,345.43
51	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 01 September 2017 under Agreement No. 33960-00/17-561 dated 01 September 2017 for upstream works and services at the Vodorazdelny licence area	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 10 November 2017	66,426,326.01

No	Description[2]	Counterparty	Parties Concerned	Governing Body that Pre-authorized or Post-approved the Transaction, Date of Resolution	Value, RUB
52	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/14-541 dated 19 September 2014	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	111,310,132.01
53	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/14-540 dated 10 October 2014	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	160,905,168.96
54	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/12-482 dated 26 December 2012	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	7,956,319.48
55	Provision of facilities construction and reconstruction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/14-539 dated 31 January 2014	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 29 January 2018	24,979,371.67
56	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 01 January 2018 under Agreement No. 33960-00/18-144 dated 01 January 2018 for upstream works and services at the at the Verkhne-Shapshinskoye and the Nizhne-Shapshinskoye oil fields	Aki-Otyr	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 23 April 2018	711,399,819.60
57	Changes in the amount of monthly rent payments and the list of assets subleased by RussNeft to its subsidiary for upstream works and services at the Perelyubskoye oil field under Agreement No. 33960-00/17-552 dated 01 August 2017	Saratovneftegaz	Member of RussNeft's Board of Directors D.V. Romanov	Resolution of RussNeft's Board of Directors dated 24 Decemberl 2018	53,468,798.02
58	Changes in the amount of monthly rent payments and the list of assets subleased by RussNeft to its subsidiary for upstream at the Alekseevskoye and the Osinovskoye oil fields under Agreement No. 33960-00/17-543 dated 01 August 2017	Saratovneftegaz	Member of RussNeft's Board of Directors D.V. Romanov	Resolution of RussNeft's Board of Directors dated 23 April 2018	81,845,447.04
59	Provision of upstream works and services to RussNeft in 2018 by its subsidiary under Agreement No. 33960-60/17-2 dated 30 December 2016 [2]	Saratovneftegaz	Member of RussNeft's Board of Directors D.V. Romanov	Resolution of RussNeft's Board of Directors dated 22 December 2017	5,739,912,577.60
60	Provision of upstream works and services to RussNeft in 2018 by its subsidiary under Agreement No. 33960-60/17-5 dated 08 December 2016	Ulyanovskneft	Member of RussNeft's Board of Directors D.V. Romanov	Resolution of RussNeft's Board of Directors dated 22 December 2017	4,774,616,261.53
61	Provision of upstream works and services to RussNeft in 2018 by its subsidiary under Agreement No. 33960-60/17-6 dated 08 December 2016 [2]	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 22 December 2017	7,220,575,634.18
62	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 01 January 2018 under Agreement No. 33960-00/18-142 dated 01 January 2018 for upstream works and services at the Roslavlskoye, Yeguryakhskoye and Mokhtikovskoye oil fields	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 23 April 2018	218,097,500.31
63	Asset sublease from RussNeft to its subsidiary for an indefinite term starting from 01 September 2017 under Agreement No. 33960-00/17-641 dated 01 September 2017 for upstream works and services at the Mokhtikovskoye oil field	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 10 November 2017	152,985,294.79
64	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 01 September 2017 funder Agreement No. 33960-00/17-643 dated 01 September 2017 for upstream works and services at the Yuzhno-Yeguryakhskoye oil field	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 10 November 2017	154,126,053.63
65	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 01 September 2017 under Agreement No. 33960-00/17-645 dated 01 September 2017 for upstream works and services at the Chernogorskoye oil field	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 10 November 2017	73,880,477.01
66	Provision of sidetracking services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/18-577 dated 24 August 2018	TD Aganneftegazgeologiya	Member of RussNeft's Board of Directors V.L. Scherbak	Resolution of RussNeft's Board of Directors dated 22 December 2017	70,286,582.09
67	Lease of office to RussNeft by the entity for a term up to 31 December 2021 under Agreement No. 33960-00/07-360 dated 25 December 2007	Pyatnitsky Business Centre	Members of RussNeft's Board of Directors M.S. Gutseriev, S.M. Gutseriev, and S.S. Gutseriev	Resolution of RussNeft's Board of Directors dated 08 September 2018	410,932,227.36
68	Provision of upstream works and services to RussNeft in 2018 by its subsidiary under Agreement No. 33960-60/17-4 dated 08 December 2016 [2]	Tomskaya Neft	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 22 December 2017	6,741,182,033.46
69	Provision of well construction services to RussNeft in 2018 by its subsidiary as a general contractor under Agreement No. 33960-00/17-17 dated 18 January 2017	Tomskaya Neft	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 22 December 2017	34,727,812.96
70	Asset lease from RussNeft to its subsidiary for an indefinite term starting from 01 January 2018 under Agreement No. 33960-00/18-143 dated 01 January 2018 for upstream works and services at the Poselkovoye and the Stolbovoye oil fields	Tomskaya Neft	Member of RussNeft's Board of Directors Ya.R. Tikhonova	Resolution of RussNeft's Board of Directors dated 23 April 2018	119,479,758.30
71	Oil supplies made by RussNeft in 2018 to its subsidiary under Agreement No. 33960-80/17-54 dated 21 December 2016	SLAVNEFTEKHIM	Members of RussNeft's Board of Directors M.S. Gutseriev, S.M. Gutseriev, S.S. Gutseriev, and D.V. Romanov	Resolution of RussNeft's Board of Directors dated 22 December 2017	3,672,052,071.12

1 As many of the interested party transactions entered into by the issuer were not completed by the reporting date and the terms and conditions of such translactions depend on various variables determined, inter alia, by subsequent approval, the final amount of each transaction cannot be determined. The information in this list is provided for the purposes of fair disclosure, based on actual performance by the issuer under each transaction in the reporting period.

2 Where a transaction involves a substantial number of goods, works, services and/or other assets as its subject-matter, their generic characteristics are specified. A full list of such goods, works, services and/or other property may be made available to the parties concerned on the grounds and in the manner prescribed by the applicable laws of the Russian Federation on joint-stock companies and the securities market.

3 This is a series of interrelated transactions entered into in the ordinary course of business. The amount of each such transaction did not exceed 2% of the Company's net asset value as at the transaction date.

The Company's power consumption in the reporting year by power source

(nuclear power, heating, electric power, electromagnetic power, oil, petrol, diesel, heating oil, natural gas, coal, oil shale, peat, etc.),

in kind and in cash

Type	2017		2018	
	Volume (l)	Amount (RUB)	Volume (l)	Amount (RUB)
Ai-92 petrol	200,00	5 802,00	25,00	849,58
Ai-95 petrol	93 062,10	3 150 809,19	90 396,82	3 357 468,24
ECTO Plus petrol	7 609,49	263 902,88	5 234,01	198 990,40
Other petrol	116,81	4 350,00		
Diesel	8 104,31	258 690,60	7 741,52	279 581,17
Oils (diesel, turbine, etc.)	790,00	133 171,97	666,00	63 876,98
Total		**3 816 726,64**		**3 900 766,37**

Independent auditor's report on RAS accounting statements for the reporting year; RAS financial statements for the reporting year

BDO

Tel: +7 495 797 56 65
Fax: +7 495 797 56 60
reception@bdo.ru
www.bdo.ru

BDO Unicon AO
Suite 50, Office I, 3rd Floor, Section 11,
Block 1, Bldg. 125, Warshavskoe Shosse,
Moscow, 117587, Russia

Translation from the Russian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PJSC "RussNeft"

Qualified Opinion

We have audited the financial statements of PJSC "RussNeft" (the Company) (OGRN 1027717003467, 69 Pyatnitskaya Str., Moscow, 115054, Russian Federation), which comprise the balance sheet as at 31 December 2018, and the statement of income for the year ended 31 December 2018, supplements to the balance sheet and the statement of income, including: statement of changes in equity for the year ended 31 December 2018 and statement of cash flows for the year ended 31 December 2018, and explanatory notes to the financial statements for the year ended 31 December 2018.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of PJSC "RussNeft" as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Russian Accounting and Financial Reporting Rules.

Basis for Qualified Opinion

1) As at 31 December 2018, 31 December 2017 and 31 December 2016, line 1170 "Financial investments" of the balance sheet includes, inter alia, financial investments in the amount of RUB 38,197,812 thousand. We were unable to obtain sufficient appropriate audit evidence about measurement of possible impairment of these financial investments according to RAS 19/02 "Accounting for Financial Investments", as we were not provided with the results of impairment testing of the financial investments performed by the Company. As a result, we are unable to determine whether any adjustments to lines 1170 "Financial investments" and 1370 "Retained earnings" of the balance sheet and line 2350 "Other expenses" of the statement of income are necessary.

2) As at 31 December 2018 and 31 December 2017, balance sheet line 1170 "Financial investments" includes loans issued in the amounts of RUB 4,862,942 thousand and RUB 4,032,014 thousand, respectively. As at 31 December 2018 and 31 December 2017, balance sheet line 1230 "Accounts receivable" includes, inter alia, receivables in the amounts of RUB 2,794,469 thousand and RUB 1,934,117 thousand, respectively. We were unable to obtain sufficient appropriate audit evidence regarding collectability of these financial investments and accounts receivable, as we have not received information with the analysis of the debtors' financial condition and assessment of probability of repayment of the debt due to the Company. As a result, we are unable to determine whether any adjustments to the above items and the financial statement lines related to them are necessary.

   We were unable to obtain sufficient appropriate audit evidence about whether the debtors involved in those transactions are not related parties of the Company. As a result, we are unable to determine whether disclosure of transactions mentioned above is necessary within information on related party transactions in the notes to the financial statements.

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We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Disclosure of related party transactions

Disclosure of related party transactions is material for our audit, as the Company is involved in a significant number of related party transactions and the impact of such transactions on the financial statements is material. The nature of relationship and transactions between related parties may give rise to higher risks of material misstatement of the financial statements than the risks of transactions between unrelated parties. The list of the Company's related parties involved in related party transactions comprises a large number of entities, including non-residents under general control of the ultimate beneficiary.

As part of our audit procedures we evaluated the Company's internal control procedures for the purpose of identifying the Company's related parties and disclosing information on related party transactions. We have also reviewed the completeness of the related party list prepared by the Company and the adequacy of related party disclosures in the notes to the financial statements.

Information on related party transactions is set out in Note 21 to the financial statements.

As a result of the procedures performed, we have not found any material inconsistencies, except for the matter described in the Basis for Qualified Opinion section of our report.

Impairment of financial investments and receivables

Assessment of impairment of financial investments is material for our audit due to materiality of financial investments and receivables and also, due to the fact that impairment assessment is a complex process involving the use of significant judgments by management.

We have paid particular attention to impairment of loans and interest receivable on loans issued. As at 31 December 2018, the carrying amount of long-term loans issued, including the accrued interest, amounted to RUB 105,409 million.

As part of our audit procedures, we reviewed the analysis of the factors of permanent reduction in the value of financial investments and identification of signs of impairment performed by Company's management. We have also reviewed the loan collectability analysis conducted by Company's management, taking into account the assessment of the borrowers' solvency and other factors considered by management.

In the course of the audit, we checked the adequacy of disclosures relating to impairment of financial investments and receivables in the notes to the financial statements.

Information on financial investments, receivables and their impairment is disclosed in Notes 6 and 9 to the financial statements, and Notes 3 and 5 to the financial statements in the respective tables.

Except for the matter described in the Basis for Qualified Opinion section, we have not found any material inconsistencies.

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Other Information

President is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

President (management) is responsible for the preparation and fair presentation of the financial statements in accordance with the Russian Accounting and Financial Reporting Rules, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Translation from the Russian original

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Signed by:

The engagement partner on the audit resulting in this independent auditor's report is Andrey Baliakin

Audit company:
BDO Unicon Aktsionernoe Obshchestvo
Main State Registration Number: 1037739271701
Suite 50, Office I, 3rd Floor, Section 11, Block 1, Bldg. 125, Warshavskoye Shosse, Moscow, 117587, Russia
Member of the Self-regulated organization of auditors “Russian Union of auditors” (Association)
Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: 11603059593

21 February 2019

Balance Sheet

as at 31 December 2018

		Code		
	Form as per the Russian National Classifier of Management Documentation (OKUD)	0710001		
	Date (day, month, year)	31	12	2018
Organization: Public Joint Stock Company "RussNeft"	As per the Russian National Classifier Businesses and Organizations (OKPO)	59107064		
Taxpayer Identification Number	TIN	7717133960		
Busines stype: Crude oil production	As per the Russian National Classifier of Economic Activities (OKVED)	06.10.1		
Legal form / Ownership: Public Joint Stock Company / Joint private and foreign	As per the Russian National Classifiers of Legal Forms / Forms of Ownership	12247	34	
Unit of measurement: '000 RUB	As per the Russian National Classifier of Units of Measurement	384		

Location (address)
69 Pyatnitskaya St., 115054 Moscow

Notes	Item	Code	31 December 2018	31 December 2017	31 December 2016
	ASSETS				
	I. Non-current assets				
1.1, 1.2, 1.3	Intangible assets	1110	344	1 493	1 524
	Research and development results	1120	-	-	-
1.4, 1.5	Intangible development assets	1130	177 834	185 946	-
1.5	Tangible development assets	1140	3 115	206 061	-
2.1, 2.2, 2.3, 2.4	Fixed assets	1150	41 216 352	22 611 341	4 245 322
	Income-bearing investments in tangible assets	1160	-	-	-
3.1, 3.2	Financial investments	1170	157 071 214	157 713 856	162 536 430
12.1	Deferred tax assets	1180	15 713 222	17 282 736	17 671 542
	Other intangible assets	1190	390 740	-	-
	Section I Total	1100	214 572 821	198 001 433	184 454 818
	II. Current assets				
4.1, 11	Inventories	1210	4 222 110	3 392 270	2 975 104
	Value added tax on purchased assets	1220	342 434	271 295	300 601
5.1, 5.2	Deferred liabilities	1230	43 047 491	35 785 867	31 759 949
	Accounts receivable (falling due more than 12 months after the reporting date)	1231	34 481 783	26 443 347	21 090 626
	Accounts receivable (falling due within 12 months after the reporting day)	1232	8 565 708	9 342 520	10 669 323
	Financial investments (other than cash equivalents)	1240	-	-	-
10	Cash and cash equivalents	1250	2 438 854	1 706 501	2 759 967
	Other current assets	1260	-	-	-
	Section II Total	1200	50 050 889	41 155 933	37 795 621
	Balance	1600	264 623 710	239 157 366	222 250 439

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Notes	Item	Code	31 December 2018	31 December 2017	31 December 2016
	Liabilities				
	III. EQUITY AND RESERVES				
	Share capital	1310	196 076	196 076	196 076
	Treasury shares	1320	-	-	-
	Revaluation of non-current assets	1340	-	-	-
	Additional paid-in capital (without revaluation)	1350	64 972 376	64 972 376	64 972 376
	Surplus reserve	1360	9 804	9 804	9 804
	Retained earnings (uncovered loss)	1370	20 454 941	11 254 049	2 809 244
	Section III Total	1300	85 633 197	76 432 305	67 987 500
	IV. LONG-TERM LIABILITIES				
5.5	Borrowings	1410	83 472 771	74 725 434	78 959 325
12.2	Deferred tax liabilities	1420	2 484 294	1 422 692	482 776
7	Estimated liabilities	1430	186 215	103 642	-
5.3	Other liabilities	1450	19 301 824	-	-
	Section IV Total	1400	105 445 104	76 251 768	79 442 101
	V. SHORT-TERM LIABILITIES				
5.5	Borrowings	1510	6 474 809	128 430	112 986
5.3, 5.4	Accounts payable	1520	66 979 636	86 260 381	74 621 425
	Deferred income	1530	-	-	-
7	Estimated liabilities	1540	90 964	84 482	86 427
	Other liabilities	1550	-	-	-
	Section V Total	1500	73 545 409	86 473 293	74 820 838
	Balance	1700	264 623 710	239 157 366	222 250 439

Head ____________ (signature) **Evgeny Viktorovich Tolochek** (print name)

13 February 2019

Income Statement

January – December 2018

		Code
	Form as per the Russian National Classifier of Management Documentation (OKUD)	**0710002**
	Date (day, month, year)	**31** / **12** / **2018**
Organization **Public Joint Stock Company "RussNeft"**	As per the Russian National Classifier Businesses and Organizations (OKPO)	**59107064**
Taxpayer Identification Number	TIN	**7717133960**
Business type **Crude oil production**	As per the Russian National Classifier of Economic Activities (OKVED)	**06.10.1**
Legal form / Ownership **Public Joint Stock Ventures / Joint private and foreign**	As per the Russian National Classifiers of Legal Forms / Forms of Ownership	**12247** / **34**
Unit of measurement: '000 RUB	As per the Russian National Classifier of Units of Measurement	**384**

Notes	Item	Code	January – December 2018	January – December 2017
13	Revenue	2110	176 365 171	123 115 217
14	Cost of sales	2120	(133 450 445)	(97 040 656)
14	Gross profit (loss)	2100	42 914 726	26 074 561
15	Selling expenses	2210	(9 753 054)	(9 614 838)
16	Administrative expenses	2220	(3 906 940)	(2 914 902)
	Operating profit (loss)	2200	29 254 732	13 544 821
17	Income from shareholdings	2310	341 055	25 356
18	Interest receivable	2320	4 969 907	6 506 155
19	Interest payable	2330	(8 057 266)	(5 619 219)
20	Other income	2340	532 162	349 459
21	Other expenses	2350	(8 764 507)	(1 673 277)
	Profit (loss) before tax	2300	18 276 083	13 133 295
	Current income tax	2410	(1 574 756)	(1 000 206)
22	including permanent tax liabilities (assets)	2421	(597 606)	318 807
23.1	Changes in deferred tax liabilities	2430	(1 061 602)	(939 917)
23.2	Changes in deferred tax assets	2450	(1 554 829)	(1 000 272)
24.1, 24.2	Other	2460	(2 332 513)	611 961
	Net profit (loss)	2400	11 752 383	10 804 861

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Notes	Item	Code	January – December 2018	January – December 2017
	Revaluation of non-current assets not included in net profit (loss) for the period	2510	-	-
	Other transactions not included in net profit (loss) for the period	2520	-	-
	Aggregate financial result for the period	2500	11 752 383	10 804 861
	For reference Basic earnings (loss) per share	2900	0,031	0,029
	Diluted earnings (loss) per share	2910	-	-

РуководиHead ____________ (signature)   Evgeny Viktorovich Tolochek (print name)

13 Feburary 2019

Statement of Changes in Equity
for January – December 2018

		Codes
	Form as per the Russian National Classifier of Management Documentation (OKUD)	0710003
	Date (day, month, year)	31 / 12 / 2018
Organization: **Public Joint Stock Company "RussNeft"**	As per the Russian National Classifier Businesses and Organizations (OKPO)	59107064
TIN	TIN	7717133960
Economic Activity: **Crude oil production**	As per the Russian National Classifier of Economic Activities (OKVED)	06.10.1
Legal form / Ownership: **Public Joint Stock Companies / Joint private and foreign**	As per the Russian National Classifiers of Legal Forms / Forms of Ownership	12247 / 34
Unit of measure: '000 RUB	As per the Russian National Classifier of Units of Measurement	384

1. Changes in equity

Item	Code	Share capital	Treasury stock	Additional paid-in capital	Surplus reseve	Retained earnings (uncovered loss)	Total
Equity as at 31 December 2016	3100	196 076	-	64 972 376	9 804	2 809 244	67 987 500
For 2017							
Equity increase, total	3210	-	-	-	-	10 804 861	10 804 861
including: net profit	3211	X	X	X	X	10 804 861	10 804 861
property revaluation	3212	X	X	-	X	-	-
income recognised directly in equity	3213	X	X	-	X	-	-
additional share issue	3214	-	-	-	X	X	-
increase of the par value of shares	3215	-	-	-	X	-	X
reorganisation	3216	-	-	-	-	-	-
	3217	-	-	-	-	-	-
Equity decrease, total	3220	-	-	-	-	(2 360 056)	(2 360 056)
including: loss	3221	X	X	X	X	-	-
property revaluation	3222	X	X	-	X	-	-
expenses recognised directly in equity	3223	X	X	-	X	-	-
decrease in the par value of shares	3224	-	-	-	X	-	-
decrease in the number of shares	3225	-	-	-	X	-	-
reorganisation	3226	-	-	-	-	-	-
dividends	3227	X	X	X	X	(2 360 056)	(2 360 056)

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Item	Code	Share capital	Treasury shares	Additional paid-in capital	Surplus reserve	Retained earning (uncovered loss)	Total
Changes in additional paid-in capital	3230	X	X	-	-	-	X
Changes in surplus reserve	3240	X	X	X	-	-	X
	3245	-	-	-	-	-	-
Equity as at 31 December 2017	3200	196 076	-	64 972 376	9 804	11 254 049	76 432 305
For 2018							
Equity increase, total	3310	-	-	-	-	11 752 383	11 752 383
including:							
net profit	3311	X	X	X	X	11 752 383	11 752 383
property revaluation	3312	X	X	-	X	-	-
income recognised directly in equity	3313	X	X	-	X	-	-
additional share issue	3314	-	-	-	X	X	-
increase in par the value of shares	3315	-	-	-	X	-	X
reorganisation	3316	-	-	-	-	-	-
	3317	-	-	-	-	-	-
Equity decrease, total	3320	-	-	-	-	(2 551 491)	(2 551 491)
including:							
loss	3321	X	X	X	X	-	-
property revaluation	3322	X	X	-	X	-	-
expenses recognised directly in equity	3323	X	X	-	X	-	-
decrease in the par value of shares	3324	-	-	-	X	-	-
decrease in the number of shares	3325	-	-	-	X	-	-
reorganisation	3326	-	-	-	-	-	-
dividends	3327	X	X	X	X	(2 551 491)	(2 551 491)
Changes in additional paid-in capital	3330	X	X	-	-	-	X
Changes in surplus reserve	3340	X	X	X	-	-	X
	3345	-	-	-	-	-	-
Equity as at 31 December 2018	3300	196 076	-	64 972 376	9 804	20 454 941	85 633 197

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2. Adjustments due to changes in the accounting policy and correction of errors

Item	Code	As at 31 December 2016	Changes in equity for 2017		As of 31 December 2017
			due to net profit (loss)	due to other factors	
Total equity					
before adjustments	3400	67 987 500	8 444 805	-	76 432 305
adjustment due to:					
changes in the accounting policy	3410	-	-	-	-
correction of errors	3420	-	-	-	-
after adjustments	3500	67 987 500	8 444 805	-	76 432 305
including:					
retained earnings (uncovered loss):					
before adjustments	3401	2 809 244	8 444 805	-	11 254 049
adjustment due to:					
changes in the accounting policy	3411	-	-	-	-
correction of errors	3421	-	-	-	-
after adjustments	3501	2 809 244	8 444 805	-	11 254 049
before adjustments	3402	65 178 256	-	-	65 178 256
adjustment due to:					
changes in the accounting policy	3412	-	-	-	-
correction of errors	3422	-	-	-	-
after adjustments	3502	65 178 256	-	-	65 178 256

3. Net assets

Item	Code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Net assets	3600	85 633 197	76 432 305	67 987 500

Head ____________ (signature) **Evgeny Viktorovich Tolochek** (print name)

13 February 2019

Cash Flow Statement
January – December 2018

	Codes
Form as per the Russian National Classifier of Management Documentation (OKUD)	0710004
Date (day, month, year)	31 / 12 / 2018
As per the Russian National Classifier Businesses and Organizations (OKPO)	59107064
TIN	7717133960
As per the Russian National Classifier of Economic Activities (OKVED)	06.10.1
As per the Russian National Classifiers of Legal Forms / Forms of Ownership	12247 / 34
As per the Russian National Classifier of Units of Measurement	384

Organization **Public Joint Stock Company "RussNeft"**
TIN
Business type **Crude oil production**
Legal form / Ownership
Public Joint Stock Company / Joint private and foreign
Unit of measurement: '000 RUB

Item	Code	January – December 2018	January – December 2017
Cash flows from operating activities			
Total receipts	4110	193 708 094	139 835 121
including:			
sale of products, goods, work and services	4111	184 538 430	135 284 188
lease payments, license payments, royalties, commissions and other similar payments	4112	8 677 092	2 421 013
resale of financial investments	4113	-	-
other receipts	4119	492 572	2 129 920
Total payments	4120	(174 342 530)	(124 620 095)
including:			
payments to suppliers (contractors) for raw materials, materials, work and services	4121	(75 564 159)	(61 998 438)
payroll-related payments	4122	(2 190 182)	(1 735 461)
interest on debt obligations	4123	(7 914 176)	(5 075 936)
income tax	4124	(2 055 387)	(830 974)
other payments	4129	(86 618 626)	(54 979 286)
Net cash flows from operating activities	4100	19 365 564	15 215 026
Cash flows from investing activities			
Total receipts	4210	13 049 706	7 000 334
including:			
sale of non-current assets (other than financial investments)	4211	383	397
sale of shareholdings	4212	-	-
repayment of loans granted and sale of debt securities (debt claims)	4213	11 432 716	2 312 849
dividends, interest on debt financial instruments and similar receipts from shareholdings	4214	1 616 607	4 687 088
other receipts	4219	-	-
Total payments	4220	(25 114 530)	(20 182 054)
including:			
purchase, creation, upgrade, workover and preparation of non-current assets for use	4221	(24 234 270)	(20 130 184)
purchase of shareholdings	4222	(577 830)	(300)
purchase of debt securities (debt claims), grant of loans	4223	(302 430)	(51 570)
interest on debt obligations included in the value of investment assets	4224	-	-
other payments	4229	-	-
Net cash flows from investing activities	4200	(12 064 824)	(13 181 720)

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Item	Code	January – December 2018	January – December 2017
Cash flows from financing activities			
Total receipts	4310	-	-
including: loans raised	4311	-	-
cash contributions of shareholders	4312	-	-
issue of shares	4313	-	-
issue of bonds, bills of exchange, promissory notes, other debt securities	4314	-	-
other receipts	4319	-	-
Total payments	4320	(6 870 709)	(2 898 880)
including: share repurchase payments and payments to withdrawing shareholders	4321	-	-
dividends and other distributions of income among shareholders	4322	(2 523 344)	(2 381 744)
repayment (redemption) of promissory notes and other debt securities, repayment of loans	4323	-	(491 120)
other payments	4329	(4 347 365)	(26 016)
Net cash flows from financing activities	4300	(6 870 709)	(2 898 880)
Net cash flows for the reporting period	4400	430 031	(865 574)
Balance of cash and cash equivalents at the beginning of the reporting period	4450	1 706 501	2 759 967
Balance of cash and cash equivalents at the end of the reporting period	4500	2 438 854	1 706 501
Effect of changes in the exchange rate of a foreign currency to the rouble	4490	302 322	(187 892)

Head (signature) **Evgeny Viktorovich Tolochek** (print name)

13 February 2019

Notes to PJSC "RussNeft" Financial Statements for 2018

CONTENTS

Notes in Table Form

1. Information about the Company and its Operations

1.1. General information about the Company

Full name: Public Joint Stock Company "RussNeft"

Short name: PJSC "RussNeft"

Registered address (place of business): 69 Pyatnitskaya St., 115054 Moscow, Russian Federation

Date of state registration: September 17, 2002

Primary State Registration Number (OGRN): 1027717003467

Form of incorporation: public joint stock company

Form of ownership: joint private and foreign

1.2. Share capital and key shareholders

As at 31 December 2018, the share capital of the Company amounting to RUB 196,076 thousand consists of 392,152,000 uncertificated shares, each with a par value of RUB 0.50, including:

• 294,120,000 ordinary shares (75% of total shares);

• 98,032,000 preferred shares (25% of total shares).

Company shareholders holding at least 5% of its share capital or at least 5% of its ordinary shares, as at 31 December 2018:

Name	Percentage of share capital, %	Percentage of ordinary shares, %
Nadezhnost IC OJSC	4.95	6.60
Mlada CJSC	7.70	10.27
BELYRIAN HOLDINGS LIMITED	12.05	16.07
RAMBERO HOLDING AG	23.46	31.28
TRUST Bank (PJSC)	27.71	3.61

1.3. Registrar

In the reporting year, the Company's registrar was Joint Stock Company Servis-Reestr acting under Register Maintenance License No. 045-13983-000001 issued on 2 March 2004, by the Federal Commission for the Securities Market (FCSM) of Russia.
Registered address: 12 Sretenka St., 107045 Moscow.

1.4. Headcount

In 2018, the average headcount of the Company, including its branch, amounted to 450 people, compared to an average headcount of 409 people in 2017.

1.5. Management bodies of the Company

According to the Articles of Association, the Company's management bodies are:
• General Shareholders' Meeting;
• Board of Directors;
• President (sole executive body).

1.5.1. General Shareholders' Meeting

The General Shareholders' Meeting is the Company's supreme governing body. The General Meeting carries out its activities in the manner and within the competence in accordance with Russian federal legislation and the Company's Articles of Association.

1.5.2. Board of Directors

The Board of Directors carries out general management of the Company's activities, except for matters which fall within the competence of the General Meeting.

Members of the Board of Directors as at 31 December 2018:

Mikhail Gutseriev	Chairman of RussNeft's Board of Directors
Avet Mirakyan	
Yana Tikhonova	
Said Gutseriev	
Sait-Salam Gutseriev	
Andrey Derekh	Independent director
Andrey Zarubin	
Victor Martynov	Independent director
Dmitry Romanov	
Robert Jacobs Alexander Skidelsky	Independent director
Sergey Stepashin	Independent director
Vladimir Scherbak	

1.5.3. President

The sole executive body of the Company is the President of RussNeft.
Evgeny Tolochek was appointed President of RussNeft by the decision of the Board of Directors dated 7 November 2016.

1.6. Internal Audit Commission of the Company

Members of the Internal Audit Commission of the Company as at 31 December 2018:

Elena Samorukova	Head of Tax at RussNeft
Elena Sergeyeva	Head of Internal Audit at RussNeft
Sergey Chernyshev	Financial Controller at Glencore International AG representative office
Veronika Shkaldova	Deputy Chief Accountant at RussNeft

1.7. Main activities of the Company

RussNeft's main activities in 2018 were: prospecting, exploration, and production of oil, gas condensate, and gas on in subsoil licence areas located in the territory of the Republic of Kalmykia, the Khanty-Mansi and Yamal-Nenets Autonomous Districts, and the Tomsk, Saratov, Volgograd, Penza, and Ulyanovsk Regions, as well as wholesale of own and purchased oil and gas in the domestic market and outside of the Russian Federation, and real estate lease.
The Company has 103 subsoil licences covering 117 fields. Information on subsoil licences is disclosed in Table 25 (Notes in Table Form).

1.8. Branches and separate subdivisions

RussNeft has a branch in the city of Khanty-Mansiysk.

Branch name: Public Joint Stock Company "RussNeft", Khanty-Mansiysk branch.
Location of the branch: 1 Mikhail Znamensky St., 628010 Khanty-Mansiysk, Khanty-Mansi Autonomous District – Yugra, Russia.

1.9. Reorganisation of the Company
No reorganisation was carried out in the reporting year.

2. Accounting Policy, Accounting, and Financial Statements

2.1. Company accounting policy

In 2018, the Company had an accounting policy approved by Order No. 171 dated 29 December 2017.
The accounting policy of the Company for accounting purposes complies with the requirements of the applicable accounting laws of the Russian Federation. Information about the details of the accounting policy is disclosed in the relevant sections of the Notes.

2.2. Accounting record keeping. Software used

The Company's accounts are maintained in accordance with Federal law No. 402-FZ dated 6 December 2011 "On Accounting" and the Regulations for Accounting Record Keeping in the Russian Federation approved by Order No. 34n dated 29 July 1998 of the Ministry of Finance of the Russian Federation.
Accounting in the Company in the reporting period was carried out using the following software:

- 1C: Holding Management, version 1.3
- 1C: Payroll and HR Management CORP, version 3.1

2.3. Laws and regulation taken into account in preparing the financial statements

When preparing the financial statements for 2018, the Company was guided by the current versions of the following regulatory documents:

- Federal Law No. 402-FZ dated 6 December 2011 "On Accounting";
- Regulations for Accounting Record-Keeping in the Russian Federation approved by Order No. 34n, dated 29 July 1998, of the Ministry of Finance of the Russian Federation;
- "Corporate Financial Statements" Accounting Regulation (PBU 4/99), approved by Order No. 43n, dated 6 July 1999, of the Ministry of Finance of the Russian Federation;
- Order No. 66n "On Financial Statement Forms", dated 2 July 2010, of the Ministry of Finance of the Russian Federation.

2.4. Notes to the Income Statement

The 2018 income statement shows income and expenses for the following same type transactions:
- foreign exchange gains/losses;
- income and expenses from currency purchase and sale transactions;
- income and expenses from hedging transactions;
- income and expenses from transfers of inseparable improvements to leased fixed assets;
- income and expenses from the sale of fixed assets;
- income and expenses from the sale of other property.

2.5. Notes to the Cash Flow Statement

The Company's cash flow statement was generated in the currency of the Russian Federation, subject to the following:

• cash deposited with credit institutions is classified as cash equivalents; transfer of cash to and from the deposit account are not regarded as cash flow;

• foreign currency cash flow amounts are converted into roubles at the official rouble exchange rate for this foreign currency established by the Central Bank of the Russian Federation on the date of payment or receipt;

• foreign currency cash and cash-equivalent balances at the beginning and end of the reporting period are recorded in roubles in the amount determined in accordance with the Accounting Regulation on "Accounting for assets and liabilities denominated in foreign currencies" (PBU 3/2006);

• the difference arising from the translation of the Company's foreign currency cash flows and cash and cash-equivalent balances at foreign exchange rates as at different dates is recorded as the effect of changes in the exchange rate of a foreign currency to the rouble, separately from the Company's cash flows from operating, investing and financing activities;

• cash flows between the Company and its related parties are disclosed separately in the Notes in Table Form (Table 28 "Cash flows to/from related parties");

• cash flow summaries are given in the Cash Flow Statement in the following cases:

a) receipt and return of cash within the same reporting period;

b) value-added tax received as a part of proceeds from buyers and customers, paid to suppliers and contractors, paid to and refunded from the budget of the Russian Federation.

The Company did not apply any approaches other than those described in the Accounting Regulation on "Cash flow statement" (PBU 23/2011) to classify cash flows, to convert cash flows denominated in foreign currency into roubles, or to summarize cash flows.

In connection with the alignment of the cash flow statement form with the form approved by Order No. 66n "On Financial Statement Forms", dated 02 July 2010, of the Ministry of Finance of the Russian Federation, according to which insurance contributions are from now on recorded together with payroll related payments, the Company made adjustments to certain items for the last reporting period. For the purposes of comparability with the relevant lines in the 2018 Cash Flow Statement, the 2017 values in lines 4122, 4125, 4126, and 4129 were adjusted.

Adjustments to the 2017 Cash Flow Statement are shown in the table below:

'000 RUB

Item	Line code	Before adjustment	Adjustment	After adjustment
Payroll	4122	(1,396,895)	(338,566)	(1,735,461)
Tax settlements	4125	(41,565,673)	41,565,673	-
Settlements on insurance contributions	4126	(338,566)	338,566	-
Other payments	4129	(13,413,613)	(41,565,673)	(54,979,286)

Material items of the Cash Flow Statement are itemized in the table below:

'000 RUB

Item	Code	January–December 2018	January–December 2017
Other payments,	**4129**	**86,618,626**	**54,979,286**
including:			
Tax settlements (other than profit tax)		64,278,912	41,565,673
Advance payments for oil customs clearance		18,205,518	12,153,468
Charitable contributions		1,768,379	922,103
Other payments		2,365,817	338,042

Cross-references between individual items of the Cash Flow Statement and the relevant items of the Balance Sheet are presented in the table below:

'000 RUB

Item	Code	31 December 2018	31 December 2017	31 December 2016	Statement

Cash and cash equivalents	1250	2,438,854	1,706,501	2,759,967	Balance sheet
Cash and cash equivalents as at the beginning and end of the reporting period	4450 4500	1,706,501 2,438,854	2,759,967 1,706,501	1,364,224 2,759,967	Cash flow statement

3. Intangible Assets

In accordance with the accounting policy, intangible assets are recorded at their historical cost (cost of acquisition (creation)). Intangible assets are not revalued.
The Company determines the useful life of intangible assets and amortizes them in accordance with the rules of the Accounting Regulation on “Accounting for intangible assets” (PBU 14/2007).
The amortization method is straight-line.
In the reporting year, the Company did not carry out any research and development activities.
Line 1110 of the Balance sheet shows intangible assets at their residual value and in-progress investments in the development of intangible assets.
Information on intangible assets is given in the Notes in Table Form:

- Table 1.1 “Intangible assets: status and movements”;
- Table 1.2 “Fully amortised intangible assets”;
- Table 1.3. “Intangible assets under development”.

4. Exploration Assets

In accordance with the accounting policy, tangible exploration assets include the following items used in the exploration and evaluation of mineral deposits and mineral prospecting:
- facilities (wells, well pads, pipeline systems, etc.);
- equipment (specialized drilling rigs, pumping units, tanks, etc.);
- vehicles.

Intangible exploration assets include:
- the right to prospect and evaluate mineral deposits and/or prospect minerals, supported by an appropriate licence;
- information obtained as a result of topographic, geological, and geophysical studies.

Other exploration costs are recognized as regular operating expenses and comprise the cost value of own finished products in the reporting period in which they are actually incurred.
Exploration assets are entered on the books at their actual acquisition (creation) cost.
Exploration assets are depreciated straight-line over a specified useful life, starting with the month following the month in which they are recognized as exploration assets for accounting purposes. The depreciation period is determined on the basis of the expected useful life of the asset.
At the end of each reporting year, the Company conducts an analysis of the circumstances that may indicate possible impairment of the exploration assets in accordance with the requirements of item 19 of the Accounting Regulation “Accounting for the cost of development of natural resources” (PBU 24/2011).
When the commercial feasibility of mining in a subsoil block is confirmed, the exploration assets are checked for impairment and reclassified as fixed assets, intangible assets, or other non-current assets that are intended for the development and extraction of minerals.
During the reporting period, the Company incurred exploration costs of RUB 30,472 thousand. As at the reporting date, its tangible and intangible exploration assets were RUB 3,115 thousand and RUB 177,834 thousand, respectively. No new intangible exploration assets were added, and existing intangible assets were neither sold nor written off in the reporting period.
In the previous period, the Company incurred exploration costs of RUB 393,991 thousand. As at 31 December 2017, its tangible and intangible exploration assets were RUB 206,061 thousand and RUB 185,946 thousand, respectively.
During the reporting year, the items related to the Sobolinoye field were declassified as tangible exploration assets, including:
- items valued at RUB 230,286 thousand were classified as fixed assets;
- items valued at RUB 3,132 thousand were recognized as capital construction.

Information about intangible and tangible exploration assets is provided in the Notes in Table Form:
- Table 1.4 “Exploration assets”;
- Table 1.5 “Exploration assets under construction/development”.

5. Fixed Assets and Construction in Progress

Fixed assets include land plots, buildings, structures, transmission facilities, machinery, equipment, vehicles worth more than RUB 40,000 (excluding VAT) with a useful life of more than 12 months.

Real estate constructed, brought into operation and actually used but not yet registered in the manner prescribed by law are recorded separately as part of fixed assets.

In the financial statements, fixed assets are shown at their historical cost, subject to modernisation, workover, upgrade, additional equipment and partial decommissioning costs, less depreciation accumulated over the entire period of operation.

Fixed assets are recognized at the actual cost of acquisition (construction).

Assets bearing the classification properties of fixed assets, but with a value of no more than RUB 40,000 per unit, were written off to general expenses or the cost of goods, works, or services, depending on the type of use, when they were brought into production or operation. With the goal of preserving these items, they were recorded at their historical cost on the off-balance sheet account Inventory.05 “Low-value assets” by facility, materially responsible person, and location. When they could no longer be used, these assets were completely written off. As at 31 December 2018, a total of 8,866 such assets were posted to the off-balance sheet account, with a total value of RUB 33,347 thousand.

As at 31 December 2017, the value of such assets was RUB 32,465 thousand, RUB 29,090 thousand as at 31 December 2016.

Fixed assets were depreciated straight-line at the depreciation rates calculated on the basis of the lower threshold of the useful life of a particular depreciation group as determined in accordance with Order No. 1 “On Classification of Fixed Assets Included in Depreciation Groups”, dated 01 January 2002, of the Government of the Russian Federation (as amended and supplemented), or of the useful life recommended by the manufacturer or set in the technical documentation. The useful life of a fixed asset is set when it is put into operation by the Commission for Acceptance and Transfer of Fixed Assets.

The useful lives of items entered on the books are as follows for their key categories:

Fixed asset group	Useful life (years)
Structures	3–30
Vehicles	3–7
Machinery and equipment	1–30
Manufacturing and other tools and implements	1–20
Other fixed assets	7–15

No depreciation is accrued on:
- land plots and environmental management objects;
- assets mothballed for a period of more than three months or being reworked with reworking periods in excess of 12 months.

Fixed assets were not revalued in the previous and reporting periods.
Line 1150 “Fixed assets” includes the value of construction-in-progress assets, workover, modernisation and technical reequipping costs, as well as of the asset created, such value amounting to the decommissioning provision.
Information on the availability and the movement of fixed assets and construction in progress is reflected in:
- Table 2.1 “Fixed assets: status and movements”;
- Table 2.2 “Construction in progress”;
- Table 2.3 “Changes in the value of fixed assets as a result of completion, retrofitting, reconstruction, or partial

decommissioning".
Fixed assets received for temporary use under lease agreements are recorded on memorandum account 001 "Leased fixed assets" by facility, lease agreement, or lessor, at the appraised value set forth in the lease agreement.
Information about fixed assets taken on lease, own and leased assets leased out, and real estate put into operation but not yet registered for state purposes is reflected in Table 2.4 "Other use of fixed assets".

6. Financial Investments

In accordance with the accounting policy, financial investments in the form of securities that do not have a readily determinable fair market value are recorded in the accounting statements at their historical cost.
If the current market value of financial investments cannot be determined and there are signs of impairment, the Company conducts an impairment test.
The Company performs this audit once a year as at 31 December of the reporting year.
If the impairment test confirms a significant (at least 20% of the carrying amount of financial investments) decrease in the value of the financial investments, the Company makes a provision for impairment of financial investments in the amount of the difference between the carrying value and the appraised value of such financial investments.
The said provision is financed out of the Company's financial results (as a part of "other expenses").
In the financial statements, the value of such financial investments is stated at cost less the amount of the impairment provision.
In 2018, the provision for impairment of financial investments was adjusted – based on the results of their impairment testing, it was reduced by the difference between the carrying value and the estimated value of such financial investments in the amount of RUB 721 thousand.
As at 31 December 2018, the provision amounted to RUB 7,146,705 thousand. This provision was equal to RUB 7,147,426 thousand as at 31 December 2017 and RUB 7,149,108 thousand as at 31 December 2016.
The Company has no financial investments with a readily determinable fair market value.
When assets recorded as financial investments are disposed of, their value is determined as follows:
- the value of financial investments that do not have a readily determinable fair market value is assumed to be equal to the historical cost of each unit of financial investment;
- the value of financial investments with a readily determinable fair market value is based on the latest valuation results.
In the Balance Sheet, financial investments are divided into short-term and long-term financial investments, depending on their maturity. Financial investments are recorded as short-term if their maturity (repayment) period is no more than 12 months after the reporting date; all other financial investments are recorded as long-term.
As at the end of the reporting period, all financial investments are long-term and are reflected in the Balance Sheet in the section "Non-current assets" in line 1170 "Financial investments".
Information on financial investments is given in the Notes in Table Form:
- Table 3.1 "Financial investments: status and movements";
- Table 3.2 "Other use of financial investments".

7. Other Non-current Assets

Other non-current assets are payments under investment agreements for the construction of industrial infrastructure facilities. They are reflected in line 1190 "Other non-current assets" excluding VAT, which is reported in accounts receivable.

8. Inventories

In accordance with the accounting policy, inventories are evaluated and recorded at the actual cost of their acquisition (procurement) for each type (group) of inventories. Acquisition and procurement of inventories are accounted for without using Account 15 "Procurement and acquisition of inventories" and Account 16 "Deviation in the value of inventories".
Materials issued for production or otherwise disposed of are valued at the cost of each unit.

Items purchased for sale are valued at their purchase price. The costs of procurement and delivery of goods to the places of transfer for sale are included in selling costs.
Production costs for finished products are recorded in Account 20 "Main production". Direct costs directly related to the production of finished products are directly attributed to the relevant types of finished products.
The cost of oil, associated gas, natural gas, gas condensate, and gas-processing by-products is calculated without taking into account work in progress and semi-finished products. Hydrocarbon (HC) production is carried on independently by the Company's branch and by third parties (operators) under contracts to perform works and services for HC production.
Operators' costs relating to HC production that cannot be directly attributed to a particular type are accumulated during the reporting month in Account 20.01 "Main production" under the "HC production costs under operator contracts" item group, which is used to calculate the actual production costs to be allocated by type of finished product. To determine the share of costs attributable to each type of finished product manufactured from the HC produced, the costs incurred are allocated *pro rata* to the share of the revenue from the sale (excluding VAT) of the respective types of finished products in the total revenue from finished product sales in the reporting period (excluding the revenue of the branch).

Costs incurred by the Company's branch in the production of finished products during the reporting period are recorded in Account 20.01 "Main production" by cost centre, finished product, and cost item. "Auxiliary production costs" and "General production costs", recorded in Accounts 23 and 25, respectively, are written off in accordance with the rules described in the "Regulations on cost accounting and calculation of the cost of finished products, works and services", approved by Company order No. 175 dated 29 December 2017. Branch costs associated with the production of finished products at the end of the reporting period are fully written off to Account 43 "Finished products" by type of finished product.
No inventories were provided as security in the reporting period.
Inventories also include deferred expenses, i.e., expenses incurred by the Company in the reporting period, but relating to subsequent reporting periods instead of generating assets of the types as governed by accounting laws and regulations.
Information on inventories is shown in the Notes in Table Form:
- Table 4.1 "Inventories: status and movements",
- Table 11 "Breakdown of deferred expenses".

9. Accounts Receivable

Accounts receivable include debts owed to the Company by its buyers and customers for goods, works, services, suppliers' liabilities on advances paid by the Company, debt claims, and other receivables.
Accounts receivable are recorded on the basis of the terms of the contracts entered into by the Company with its counterparties, net of the provision for doubtful debts.
Bad debts not provided for are written off as a loss.
Long-term accounts receivable include outstanding interest accrued on loans issued by the Company to other entities and falling due more than 12 months after the reporting date.
As at 31 December 2018, the Company's long-term accounts receivable increased by RUB 8,038,436 thousand compared to the previous reporting period, including through increased interest receivable:
on foreign currency loans (up RUB 7,222,709 thousand);
on loans denominated in roubles (up RUB 61 366 thousand);
on advances paid (up RUB 754,361 thousand.
The increase in the amount of interest accrued was due to the fact that, under the terms of the loan agreements, interest is repaid together with the principal.
Compared to the previous reporting period, as at 31 December 2018, the Company's total short-term accounts receivable decreased by RUB 776,812 thousand, with short-term trade receivables down by RUB 985,051 thousand, receivables on advances paid up by RUB 839,694 thousand, and receivables on settlements with customs down by RUB 670,646 thousand.
Information on receivables is shown in the Notes in Table Form:
- Table 5.1 "Accounts receivable: status and movements";
- Table 5.2 "Overdue accounts receivable".

10. Cash and Cash Equivalents

"Cash and cash equivalents" include the Company's cash on hand, in bank accounts and certificates of deposit (placed for a period of up to 3 months), and other cash. Cash in foreign currency is posted and reported in roubles, at the official exchange rate of the Central Bank of the Russian Federation as at the date of the transaction involving foreign currency cash and as at the reporting date. The value of foreign currency banknotes on hand and in bank accounts (bank deposits) is not recalculated as the exchange rate changes.
Information on the Company's cash position as at the end of the reporting period is set out in the Notes in Table Form (Table 10 "Cash breakdown").

11. Capital

The share capital as at 31 December 2018 is RUB 196,076 thousand and is divided into 294,120,000 ordinary shares and 98,032,000 preferred shares with a par value of RUB 0.50 each. The share capital is fully paid up, its value corresponds to the constituent documents (with changes registered in the established manner). The share capital did not change during the reporting period.
In the reporting year, 2017 dividends on preferred shares were paid in the amount of USD 40 million, corresponding to RUB 2,523,344 thousand at the exchange rate on the payment date.
Additional paid-in capital as at 31 December 2018 is RUB 64,972,376 thousand and represents the share premium obtained from the surplus of the 2016 IPO price of 47,060 ordinary shares and 49,016 preferred shares over their par value.
The surplus reserve as at the reporting date is RUB 9,804 thousand, which is 5% of the share capital.
The Company does not have any treasury stock.
Retained earnings as at the end of the reporting period are RUB 20,454,941 thousand.
As at 31 December 2018, net assets stand at RUB 85,633,197 thousand. Net assets were RUB 76,432,305 thousand as at 31 December 2017, and RUB 67,987,500 thousand as at 31 December 2016.
The calculation of net assets is presented in the Notes in Table Form, in Table 27 "Calculation of net assets".

12. Borrowings

In accordance with the accounting policy, loans raised are accounted for as short-term liabilities (if maturing within 12 months under the agreement) or as long-term liabilities (where the maturity period under the agreement exceeds 12 months).
Long-term liabilities are reclassified as short-term liabilities when the remaining life of the loan or credit under the terms of the loan agreement drops to 365 days.
Interest payable on loans raised and outstanding as at the end of the reporting period is recorded as short-term (if the principal matures within 12 months under the contract) or long-term (if the maturity period under the contract exceeds 12 months).
In the financial statements, outstanding loans are shown as at the reporting date with interest accrued thereon.
Total outstanding loans were RUB 89,947,580 thousand as at the reporting date.
The maturity profile of the loan debt was as follows:

'000 RUB

Maturity	Up to 1 year	1 to 2 years	2 to 4 years	Over 4 years
Total debt including accrued interest	6,474,809	8,380,085	12,669,423	62,423,263

As at 31 December 2017, loans raised amounted to RUB 74,853,864 thousand, and to RUB 79,072,311 thousand as at 31 December 2016.

Information on long-term and short-term loans raised is presented in the Notes in Table Form, in Table 5.5 "Borrowings: status and movements".

13. Accounts Payable

Accounts payable include the Company's payables to suppliers and contractors for inventories received, work

performed, or services rendered, salaries and wages payable, payments due to budget and off-budget funds, arrears on advances received from buyers and customers, settlements on claims, and other payables.
As at 31 December 2018, the Company's accounts payable were up RUB 21,079 thousand compared to the previous reporting period. At the same time, advances received from buyers fell by RUB 2,775,673 thousand, and the amount of accrued taxes, fines, and penalties rose by RUB 2,362,392 thousand.
As at 31 December 2017 accounts payable stood at RUB 86,260,381 thousand, and as at 31 December 2016: RUB 74,621,425 thousand.
Information on accounts payable is given in the Notes in Table Form:
- Table 5.3 "Accounts payable: status and movements";
- Table 5.4 "Overdue accounts payable".

14. Estimated Liabilities

Estimated liabilities are shown in the provisions for future expenses account.
The Company also provides for future paid leave payments.
In accordance with the accounting policy, the Company makes quarterly provisions for upcoming decommissioning of oil-producing fixed assets and rehabilitation of land in need of repair as at the reporting date by revising the then existing provision, the number of fixed assets to be decommissioned, and/or the area of land to be repaired.
The provision covers oil-producing fixed assets owned by the Company, as well as the area of land (both owned and leased) to be rehabilitated and brought to a condition suitable for its subsequent use.
The provision is created for the group of fixed assets and land in need of repair as a whole, with a breakdown by subgroup depending on the date of the obligation to decommission fixed assets and repair land. The maturity of the obligation is defined as the end date for development of the reserves over a group of fields by geographical region, which in turn is determined by the valuation of proven oil and gas reserves as at 31 December of the reporting year presented in the independent oil and gas appraiser's report.
The asset created in the amount of the provision is depreciated and written off against operating activities. Depreciation is applied according to the unit-of-production method, based on estimates of proven reserves.
Information on estimated liabilities is presented in Table 7 "Estimated liabilities" (Notes in Table Form).

15. Contingent Liabilities

In accordance with the accounting policy, the financial statements reflect contingencies of economic activities which exist on the date the financial statements are prepared and which may or may not occur depending on the result of one or more uncertain future events. Contingent liabilities are recognized as material if they constitute at least 5% of total liabilities. The monetary assessment of the consequences of a contingency is done on the basis of information available on the date as of which the financial statements are signed.

15.1. Contingent liabilities. Guarantees issued to third parties

Before the reporting date, the Company issued sureties (guarantees) in favour of third parties in the amount of RUB 24,671,362 thousand, exceeding the previous year's figure by RUB 3,437,444 thousand. As at the reporting date, these were not expired.
Sureties (guarantees) issued as at 31 December 2017 stood at RUB 21,233,918 thousand; as at 31 December 2016: RUB 6,425,508 thousand.
Information on contingent liabilities is presented in Table 9.2 "Breakdown of debt security instruments issued" (Notes in Table Form).

15.2. Contingent liabilities. Hedging transactions

In 2017, in order to stabilize its cash flow from operating activities the Company entered into hedging arrangements which involved buying put options and, simultaneously, selling compound call options. Insignificant movement of the rouble exchange rate as compared with oil prices may trigger the Company's obligations under the call option. The specifics of call options do not allow the amount of future liabilities to be reliably and reasonably estimated as at the reporting date. Information on option exercise transactions in 2018 is provided in Table 21 in the Notes in Table Form.

16. Operating Income and Expenses. Segment Information

In accordance with the Company's accounting policy, income from the Company's operating activities is recognized as revenue from the sale of goods (trade) and own products, and from the performance of works and provision of services, including providing property for rent (sublease). Revenue from the sale of finished products and goods (works, services) is shown in the financial statements less VAT and export customs duties paid when exporting oil.
Expenses from the Company's operating activities are those relating to the purchase of goods (trade), its own production, and the performance of work and provision of services.
When compiling operating expenses, the Company groups them by elements.
Information on costs grouped by elements is presented in Table 6 "Production costs" in the table section of the Notes.
Costs associated with the sale of goods and finished products comprise selling expenses and are written off in full on a monthly basis to Account 90 "Sales" with a breakdown by product type. Selling expenses that cannot be attributed to a particular type of product are written off monthly, in full, except for the cost of transportation to the storage depot (terminals for transhipment of goods or finished products) attributable to the balance of the goods in the depot, debiting Account 90 "Sales", with a breakdown by type of product *pro rata* to the share of revenue (excluding VAT) in the total revenue (excluding VAT).
Expenses incurred by the Company for management purposes, not directly related to the production process, together with accrued property tax and transport tax, constitute administrative expenses and are written off monthly, in full, debiting Account 90 "Sales" with a breakdown by activity *pro rata* to the share of revenue (excluding VAT) in the total revenue (excluding VAT).
In the reporting period, the Company's revenue from the sale of its own products increased significantly, with a simultaneous increase in income from trading activities and from the provision of services (rental of property).
In 2018, the share of net revenue from the sale of produced minerals in total revenue remained at approximately the same level, amounting to 82.62% (in 2017: 84.23%), while gross profit increased by 2.68% compared to the previous reporting period.
Gross profit increased by RUB 16,840,165 thousand in the reporting period compared to the previous year, mainly due to the increase in the volume of own products sold, as well as favourable price conditions.
Operating profit increased by 15,709,911 thousand compared to 2017.
Information on operating income and expenses is given in the Notes in Table Form:
- Table 13 "Revenue breakdown";
- Table 14 "Breakdown of cost of sales and gross profit";
- Table 15 "Selling expenses";
- Table 16 "Administrative expenses".

The Company recognizes the following reporting segments:
- operating segments;
- geographical segments.

The operating segments include:
- production and sale of oil, gas condensate, gas, and liquefied petroleum gases (LPG);
- wholesale of purchased oil and gas;
- other activities.

The volumes of production, acquisition, and sale of oil, gas condensate, and gas are presented by activity in the table below[1]:

Activity	Indicator	2018		2017	
		Crude oil and gas condensate (tonnes)	Gas and LPG (thou. m³)	Crude oil and gas condensate (tonnes)	Gas and LPG (thou. m³)
Crude oil and gas production	Produced	6,441,376	2,193,110	6,170,334	1,926,171
	Sold	6,398,525	2,092,444	6,187,402	1,849,523
Wholesale	Purchased	981,861	22,575	955,220	–
	Sold	981,515	22,575	961 156	–

The share of each segment is as follows:

Activity	Distribution by segment 2018			Distribution by segment 2018		
	Revenue	Cost of goods sold	Gross profit	Revenue	Cost of goods sold	Gross profit
Wholesaling purchased oil and gas	12.35%	14.97%	4.19%	13.04%	14.57%	7.36%
Production and sale of crude oil, gas condensate, gas and LPG	82.62%	79.22%	93.19%	84.23%	82.54%	90.51%
Other activities	5.03%	5.81%	2.62%	2.73%	2.89%	2.13%

Information on operating segments is provided in Table 13 "Revenue breakdown" and Table 14 "Breakdown of sales costs and gross profit" of the Notes in Table Form.

Geographical segments include:

- domestic market sales;
- export sales to non-CIS countries;
- export sales to CIS countries (Belarus and Kyrgyzstan).

Geographical reporting segmentation is based on the location of markets for goods and finished products[1]

Market	2018		2017		Change in sales volume (tonnes)
	Sales volume (tonnes)	Proportion of total volume	Sales volume (tonnes)	Proportion of total volume	
Domestic	4,783,542	64.82%	4,596,050	64.29%	+187,492
Non-CIS countries	2,320,782	31.45%	2,287,108	32.00%	+33,674
CIS countries	275,716	3.73%	265,400	3.71%	+10,316
Total volume of sold oil and gas condensate	**7,380,040**	100%	**7,148,558**	100%	**+231,482**

In 2018, gas and LPG were only sold in the domestic market. In 2018, 2,115,019 thousand cubic metres of gas were sold, compared to 1,849,523 thousand cubic meters in 2017.[1] Sales of gas and LPG grew 14.35% in the reporting year over the previous year.

[1] Unaudited information

Revenue from crude oil and gas sales by market is as follows:

'000 RUB

Type of product / goods / service	Market	2018			2017		
		Net revenue	Cost of goods sold	Gross profit	Net revenue	Cost of goods sold	Gross profit
Crude oil and gas condensate	Domestic market	106,742,284	(81,444,381)	25,297,903	75,029,573	(60,353,190)	14,676,383
	Non-CIS countries	51,777,590	(38,926,428)	12,851 162	37,880,686	(29,561,730)	8,318,956
	CIS countries	6,451,352	(4,475,569)	1,975,783	4,520,137	(3,410,673)	1 109,464
Natural gas, APG and LPG	Domestic market	2,515,696	(847,336)	1,668,360	2,326,757	(912,102)	1,414,655
	Non-CIS countries	–	–	–	–	–	–
	CIS countries	–	–	–	–	–	–
Services	Domestic market	8,878,249	(7,756,731)	1 121,518	3,358,064	(2,802,961)	555,103
	Non-CIS countries	–	–	–	–	–	–
	CIS countries	–	–	–	–	–	–
TOTAL		**176,365,171**	**(133,450,445)**	**42,914,726**	**123,115,217**	**(97,040,656)**	**26,074,561**

Net revenue from major buyers (more than 5% of sales per market) by geographical segment (market) is shown in the table:

'000 RUB

Market	Buyer	Revenue, excluding VAT and export duties		Change in sales volume
		2018	2017	
Domestic market	ForteInvest JSC	34,617,099	26,261,321	+8,355,778
	Slavyansk ECO LLC	8,578,683	7,144,922	+1,433,761
	Varioganneft OJSC	7,593,156	3,355,549	+4,237,604
	Petrol LLC	6,867,268	3,227,571	+3,639,697
	VPK-Oil LLC	6,656,772	3,997,324	+2,659,448
	ADAMAS KOMPANIYA JSC	5,735,582	4,755,324	+980,258
Non-CIS countries	Russneft UK Ltd	51,777,590	37,880,686	+13,896,904
CIS countries	Slavneftekhim IP FE CJSC	6,419,048	4,520,137	+1,898,911

The Company operates in the Russian Federation.

Its core assets, capital investments, and reserves are also located in the Russian Federation and belong to the same geographical segment: "Domestic market".

In terms of operating segments, the Company's main assets and liabilities are related to hydrocarbon production.

The Company produces hydrocarbons using its own fixed assets and personnel or those of third-party companies contracted under operatorship agreements to provide production services.

17. Other Income and Expenses

Expenses for other activities in 2018 exceeded income by RUB 10,978,649 thousand. The main factors influencing this result are: losses from hedging transactions amounting to RUB 4,390,780 thousand; a RUB 3,087,359 thousand difference between interest payable and interest receivable; foreign exchange differences amounting to RUB 1 204 000 thousand, together with charitable contributions amounting to RUB 1,768,379 thousand.
In the previous reporting period, the negative result from other operating activities was significantly lower at RUB 411,526 thousand, while the effect of exchange rate differences was positive, amounting to RUB 286,936 thousand, and charitable contributions amounted to RUB 922,103 thousand.
Information on other income and expenses is given in the Notes in Table Form:

- Table 17 "Income from shareholdings";
- Table 18 "Interest receivable";
- Table 19 "Interest payable";
- Table 20 "Other income";
- Table 21 "Other expenses";
- Table 26 "Information on charitable support of non-profit organizations".

18. Deferred Tax Assets and Liabilities. Permanent Tax Assets and Liabilities. Profit Tax Calculations

The difference between the accounting profit and taxable profit in 2018 arises as a result of the different treatment of income and expenses under Russian accounting regulations and tax legislation. Deferred tax liabilities and assets and permanent tax liabilities (assets) were created and recognized in accordance with the Accounting Regulation on "Accounting for profit tax factors" (PBU 18/02).

Current profit tax assessment based on accounting data

'000 RUB

	Item	2018	2017
1.	Profit (loss) before tax	18,276,083	13,133,295
1a	including:		
	– profit (loss) taxable at 20%	17,967,905	13,107,939
	– profit (loss) taxable at 0%	308,178	25,356
	Item	**2018**	**2017**
2.	Contingent profit tax expense (income) *:	3,593,581	2,621,588
2a	including:		
	– 20% profit tax expense (income)	3,593,581	2,621,588
	– 0% profit tax expense (income)	–	–
3.	Change in deferred tax asset (reduction)	(1,554,829)	(1,000,272)
4.	Change in deferred tax liability (increase)	(1,061,602)	(939,917)
5.	Permanent tax liability (asset)	597,606	318,807
6.	Tax paid by tax agent	–	–
7.	Current profit tax (Company return, pages 2–6)	1,574,756	1,000,206

* Contingent profit tax expense amount is determined by multiplying accounting profit for the reporting period by the applicable profit tax rate.

Information on permanent and deferred tax liabilities (assets) is presented in the Notes in Table Form:
- Table 22 "Permanent tax liabilities (assets)";
- Table 23.1 "Change in deferred tax liabilities";
- Table 23.2 "Change in deferred tax assets".

19. Earnings per Share

The Company's net profit for 2018 is RUB 11,752,383 thousand.
The weighted average number of ordinary shares is 294,120,000.
Underlying profit used to calculate basic earnings per share in 2018 is RUB 8,973,559 thousand.
Basic earnings per share are RUB 30.51.
Compared to 2017:
Net profit: RUB 10,804,861 thousand.
Weighted average number of shares: 294,120,000.
Underlying profit: RUB 8,500,853 thousand.
Basic earnings per share: RUB 28.90.
No securities that could potentially have a diluting effect were issued.

20. Foreign Currency Transactions

20.1. Foreign exchange differences

The official exchange rates of the Central Bank of the Russian Federation set for the relevant currency as at the transaction date were applied in accounting for economic transactions made in a foreign currency, including those to be settled in roubles.

Central Bank of Russia exchange rates

Currency	Exchange rate as at 31 December 2018	Exchange rate as at 31 December 2017	Change
US Dollar	69.4706	57.6002	+11.8704
Euro	79.4605	68.8668	+10.5937

Foreign exchange differences for the reporting period arising on the translation of assets and liabilities denominated and payable in a foreign currency:
- positive: RUB 26,118,950 thousand (2017: RUB 14,843,452 thousand).
- negative: RUB 27,322,356 thousand (for the previous period: RUB 14,556,547 thousand).

Foreign exchange differences for the reporting period arising on the translation of assets and liabilities denominated in a foreign currency and payable in roubles:
- positive: RUB 486 thousand (2017: RUB 130 thousand);
- negative: RUB 1,079 thousand (2017: RUB 99 thousand).

In the reporting year, foreign exchange losses of RUB 1,204,000 thousand are included in other expenses in the Profit and Loss Statement. For comparability, in 2017 the Company reported foreign exchange gains amounting to RUB 286,936 thousand as other income.

20.2. Foreign currency loans

As at the beginning of the reporting period, the Company's total loan liabilities (including accrued and unpaid interest) amounted to RUB 74,853,864 thousand.
The Company's liabilities for foreign currency loans raised (including interest accrued but unpaid) at the beginning of the reporting period was USD 1,265,528 thousand, equivalent to RUB 72,894,680 thousand at the exchange rate on 31 December 2017. At the beginning of the reporting period, foreign currency loans accounted for 97.38% of all of the Company's loan debt.
During the reporting period:
- interest accrued on foreign currency liabilities amounted to USD 100,670 thousand;
- accrued interest paid: USD 100,883 thousand.

In accordance with the agreed schedule, no principal amount of foreign currency liabilities was repaid in the reporting period.
The Company's loan liabilities (including accrued and unpaid interest) as at 31 December 2018 stands at RUB 89 947 581 thousand.
The increase in total loan liabilities resulted solely from the revaluation of the foreign currency loan debt due to the significant strengthening of the US dollar.
The Company's liabilities for foreign currency loans raised (including accrued interest) as at the end of the reporting period was USD 1,265,315 thousand, equivalent to RUB 87,902,207 thousand at the rate on 31 December 2018. As at the end of the reporting period, foreign currency loans accounted for 97.73% of all of the Company's loan debt.

20.3. Foreign currency revenue

The gross foreign currency revenue from the sale of oil for export in the reporting period amounted to USD 1,238,197 thousand, equivalent to RUB 77,104,135 thousand on the date the revenue was posted to the accounts.

Export duties during the reporting period were RUB 18,193,875 thousand, equivalent to USD 299,916 thousand (2017: RUB 11,505,407 thousand, equivalent to USD 198,848 thousand).

Expressed in roubles, net revenue (excluding export duties) from foreign currency sales amounted to

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RUB 58,228,942 thousand, up by RUB 20,348,256 thousand compared to the previous year (2017: RUB 37,880,686 thousand).

Total net revenue for the reporting period amounted to RUB 176,365,171 thousand (including foreign currency earnings in rouble equivalent). The share of foreign exchange earnings in total revenue from the sale of goods (works, services) for the reporting period amounted to 33.02% (2017: 30.76%).

20.4. Financial investments in foreign currency

At the beginning of the reporting period, the Company's total loans granted were RUB 72,886,690 thousand.
Outstanding foreign currency loans amounted to USD 838,479, equivalent to RUB 48,296,530 at the exchange rate as at 31 December 2017.
Loans denominated in a foreign currency accounted for 66.26% of all of the Company's loans granted as at the beginning of the reporting period.
Interest accrued and unpaid on foreign currency loans granted as at the end of the reporting period amounted to USD 278,128 thousand, which is equivalent to RUB 16,020,242 thousand at the rate as at 31 December 2018, and is recognized in the Company's accounts receivable.
During the reporting period:
- cash in the amount of USD 2,500 thousand was received in payment of the principal balance of the loans;
- interest accrued on foreign currency loans granted in the amount of USD 56,444 thousand.

As at the end of the reporting period, the Company's total loans granted amount to RUB 71,682,026 thousand.
Outstanding foreign currency loans as at the end of the reporting period are USD 835,979 thousand, which is equivalent to RUB 58,075,929 thousand at the exchange rate as at 31 December 2018.
Loans denominated in a foreign currency account for 81.02% of all of the Company's loans granted as at the end of the reporting period.
Interest accrued and unpaid on foreign currency loans granted as at the end of the reporting period amounts to USD 334,572 thousand, which is equivalent to RUB 23,242,951 thousand at the exchange rate as at 31 December 2018, and is recognized in the Company's accounts receivable.

21. Related Parties

Based on the substance over form requirement, the Company identified the following list of related party groups to be disclosed in accounting statements:
- subsidiaries;
- associated entities;
- major corporate shareholders;
- key executives;
- other related parties.

Other related parties include entities that are, directly or through other legal entities, controlled by or under significant influence of the same legal entity and/or individual (the same group of entities), depending on the nature of the relationship between the Company and the related party.

Mikhail Gutseriev is the indirect individual beneficial owner of the Company. In the reporting period, no transactions, other than those specified in Section 21.5., were made with this related party.

21.1. Types and volumes of transactions with related parties (subsidiaries, affiliates and other related parties)

Due to the large number of related parties, information on types of business transactions is disclosed by group of related parties. Related party transactions were settled in cash or by netting mutual claims. The types of transactions subject to VAT are disclosed with VAT included.

('000 RUB)

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Type of transaction	Year	Major shareholders	Subsidiaries	Associated entities	Other related parties	Total related parties
Domestic sales of goods, works and services	2018	–	14,661,897	–	47,707,238	**62,369,135**
	2017	–	7,400,762	–	36,718,536	**44,119,298**
Export of goods, works and services	2018	–	73,743,767	–	–	**73,743,767**
	2017	–	53,906,230	–	–	**53,906,230**
Purchase of goods, works and services	2018	–	93,882,025	–	949,507	**94,831,532**
	2017	–	82,944,789	–	876,902	**83,821,691**
Accrual of interest receivable	2018	–	1,342,195	–	3,168,587	**4,510,782**
	2017	–	1,844,022	–	4,228,740	**6,072,762**
Accrual of interest payable	2018	–	86,189	–	–	**86,189**
	2017	–	33,657	–	–	**33,657**
Accrual of early payment discount	2018	–	1,588,534	–	–	**1,588,534**
	2017	–	447,409	–	–	**447,409**
Dividends and other income from shareholdings	2018	–	341,055	–	–	**341,055**
	2017	2,360,056	25,356	–	–	**2,385,412**
Contribution to assets as per adopted Resolution	2018	–	467,504	–	–	**467,504**
	2017	–	53,991	–	–	**53,991**
Demurrage accrual	2018	–	79,548	–	–	**79,548**
	2017	–	87,782	–	–	**87,782**
Loan granted	2018	–	- –	–	302,430	**302,430**
	2017	–	- –	–	51,570	**51,570**
Repayment of loan raised	2018	–	- –	–	–	**–**
	2017	–	491 120	–	–	**491 120**
Repayment of loan granted	2018	–	11,310,235	–	122,481	**11,432,716**
	2017	–	1,810,033	–	502,815	**2,312,848**
Purchase of shares in subsidiaries	2018	–	577,800	–	–	**577,800**
	2017	–	–	–	–	**–**
Charitable contributions	2018	–	–	–	942,024	**942,024 –**
	2017	-	-	–	586,557	**586,557**
Other transactions	2018	-	52	–	116,550	**116,602**
	2017	–	–	–	–	**-**

For related party transactions, the Company:
- did not create provisions for doubtful debts at the end of the reporting period;
- did not write off accounts receivable past the statute of limitation or other debts that could not be collected, including from the provision for doubtful debts.

21.2. Amounts, terms and conditions, and methods of settlement for transactions outstanding as at 31 December 2016.

('000 RUB)

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Type of transaction	Major shareholders	Subsidiaries	Associated entities	Other related parties	Total related parties	Terms, conditions and method of settlement
Loans granted	-	26,272,346	–	943,035	**27,215,381**	Cash. Due in 12+ months
Trade receivables	–	1,783,420	–	2,479,110	**4,262,530**	Cash
Interest receivables	-	8,426,067	–	12,664,559	**21,090,626**	Cash. Due in 12+ months
Dividend receivables	-	4,162,944	-	-	**4,162,944**	Cash
Debt claims	–	-	–	50,495,566	**50,495,566**	Cash. Due in 12+ months
Other accounts receivable	–	–	–	1,049,364	**1,049,364**	Due within 12 months
Debit total					**108,276,411**	
Trade payables	–	37,860,846	–	63,710	**37,924,556**	Cash
Advances received	–	27,638,069	–	–	**27,638,069**	Sales of goods, works and services
Loans raised and interest accrued	–	2,331,550	-	-	**2,331,550**	Cash
Early repayment interest payables	–	883,304	–	–	**883,304**	Cash
Credit total					**68,777,479**	

21.3. Amounts, terms and conditions, and methods of settlements for transactions outstanding as at 31 December 2017

('000 RUB)

Type of transaction	Major shareholders	Subsidiaries	Associated entities	Other related parties	Total related parties	Terms, conditions and method of settlement
Loans granted	-	24,443,972	-	491,789	**24,935,761**	Cash. Due in 12+ months
Trade receivable s	–	3,480,079	-	2,251,931	**5,732,010**	Cash
Interest receivables	-	10,089,473	-	14,995,759	**25,085,232**	Cash. Due in 12+ months
Dividend receivables	–	-	-	43,918,915	**43,918,915**	Cash. Due in 12+ months

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Debt claims	-	-	-	420,481	**420,481**	Due within 12 months
Debit total					**100,092,399**	
Trade payables	–	42,128,590	-	2,902,673	**45,031,263**	Cash
Advances received	–	31,985,831	-	-	**31,985,831**	Sales of goods, works and services
Loans raised and interest accrued	–	1,959,184	-	-	**1,959,184**	Cash.
Early payment discount payables	–	1,282,624	-	-	**1,282,624**	Cash
Other accounts payable	-	1,243	-	-	**1,243**	Cash
Credit total					**80,260,145**	

21.4. Amounts, terms and conditions, methods of settlement for transactions outstanding as at 31 December 2018

('000 RUB)

Transaction	Major shareholders	Subsidiaries	Associated entities	Other related parties	Total related parties	Terms, conditions and method of settlement
Loans granted	–	13,177,506	–	671,739	**13,849,245**	Cash. Due in 12+ months
Trade receivable	–	2,934,574	–	1,713,001	**4,647,575**	Cash
Interest receivables	–	10,226,645	–	21,401,013	**31,627,658**	Cash. Due in 12+ months
Dividend receivables	–	–	–	1,655,428	**1,655,428**	Sales of goods, works and services
Debt claims	–	–	–	52,969,840	**52,969,840**	Cash. Due in 12+ months
Other accounts receivable	-	-	-	507,135	**507,135**	Cash
Debit total					**105,256,881**	
Trade payables	–	44,184,870	–	333,079	**44,517,949**	Cash
Advances received	–	28,458,316	–	119,534	**28,577,850**	Sales of goods, works and services
Loans raised and interest accrued	–	2,045,374	–	–	**2,045,374**	Cash
Early payment discount payables	–	1,596,804	–	–	**1,596,804**	Cash
Credit total					**76,737,977**	

21.5. Information on the amount of remuneration paid to key executives in the reporting year.

The Company's key executives are:

- President;
- Senior Vice President;
- Vice Presidents;
- Chief Accountant;
- Company officers with authority and responsibility in matters pertaining planning, management and control of the Company's activities;
- Board of Directors members;
- Internal Audit Commission members.

Remuneration to members of the Board of Directors and members of the Internal Audit Commission for participation in the management bodies of the Company was approved by the General Shareholders' Meeting at RUB 72, 588 thousand for the year ended 31 December 2018 and at RUB 69,199 thousand for the year ended 31 December 2017.

Short-term remuneration of key executives, including salary and bonuses, amounted to RUB 323,976 thousand for the year 2018 and RUB 318,430 thousand for the year 2017. Both amounts are inclusive of personal income tax. The remuneration of each key executive is determined in their employment contract.

Bonuses to key executives accrued in the reporting period but pertaining to the previous period amounted to RUB 204,870 thousand in 2018 and RUB 150,217 thousand in 2017

No long-term remuneration accrued to key executives under the Occupational Pension Insurance Agreement in 2018 and 2017.

In accordance with the Russian legislation, the Company assesses and pays statutory pension, medical and social insurance contributions, the latter including short-term disability and maternity insurance and insurance against industrial accidents and occupational diseases) (insurance contributions). Insurance contributions assessed for key executives amounted to RUB 94,255 thousand and RUB 84,190 thousand in 2018 and 2017, respectively.

The Company also provides voluntary health insurance and insurance against accidents and diseases to key executives. Voluntary health insurance payments amounted to RUB 1,271 thousand and RUB 730 thousand in 2018 and 2017, respectively. Contributions for voluntary insurance against accidents and diseases were not assessed in 2018, while in 2017 amounted to RUB 937 thousand.

22. Events after the Reporting Period

The following significant events occurred after the reporting date:

- in January 2019, the formation of the Khanty-Mansiysk branch and the transition to hydrocarbon production in the region by own means were completed. The number of employees of the Khanty-Mansiysk branch increased by 501 people due to the transfer of employees from NAK Aki-Otyr OJSC;

- on 31 January 2019, decision No. 52-22-16/3745p dated 27 September 2018, issued by the Federal Tax Service` Inter-regional Inspectorate for Major Taxpayers No. 1 upon the field tax audit for the years 2014-2016, and prescribing to hold the Company responsible for tax violations worth RUB 2,303,143 thousand, entered into force. These additional charges are reflected in the accounting records and financial statements for the year 2018, while 8 February 2019 the Company paid a part of the assessed additional profit tax in the amount of RUB 700,000 thousand;

- in January and February 2019, the Company made payments to settle in cash the "call" options exercised by the holders. Losses on the hedging transactions amounted to RUB 173,176 thousand.

23. Risk Management

The Company's operating and financing activities depend on many factors that may affect their results.
The Company has an integrated risk management framework based on the minimization of possible consequences of external and internal factors, for which a set of measures is carried out to identify, assess and manage risks. In 2018, the Company approved the Risk Management Policy setting forth the key risk management principles, along with procedures to identify and assess risks in the main areas of activity and their potential impact. Based on risk assessment results, the Company's management may revise existing approaches to the management of each of these types of risks and take timely measures to eliminate or mitigate them.

Furthermore, in late 2018, RussNeft developed, and the Board of Directors approved, the Internal Control Policy for the following key purposes:
– efficient protection of the rights and legitimate interests of shareholders and investors for reasonable confidence as to the achievement of targets set
– ongoing unbiased information about the Company's current position and outlook
– compliance with legal requirements for the Company as a going concern
– development of financial reporting controls for the Company
– protection of assets.
The main risks that may adversely affect the Company's financial assets, liabilities and future cash flows include financial risks, legal risks, country and regional risks, and reputational risks. Risks that are the most significant for fuel and energy sector enterprises, are presented below with their potential impact on the Company.

23.1. Financial risks

The financial risks to which the Company is exposed include: market risk, credit exposure and liquidity risk.

Market risk is the risk that the Company may suffer adverse consequences if certain market variables change. Risks arising from changes in market variables include the risk of financial market instability, commodity price risk, interest rate risk, and foreign exchange risk. The Company's balance sheet items exposed to market risk primarily include loans.
The Company monitors market risk by assessing from time to time potential losses that may arise as a result of adverse market changes.

Risk of financial market instability
Current adverse market conditions affecting the Company's customers can affect its financial results with respect to cash flows, and may also lead to impairment of financial and other assets. Based on the available information, the management has made the most accurate assumptions when assessing possible impairment of the Company's assets. Yet, taking into account all uncertainties, it appears impossible to produce a robust evaluation of the potential impact that further liquidity reduction and deterioration of the situation in the financial markets may have on the financial position of the Company.

Commodity price risk
The Company's activity may be significantly affected by changes in the prices of hydrocarbons and refined products, both on the world market and on the domestic market of the Russian Federation.
The Company believes that high volatility of commodity prices will continue, and their further reduction may lead to a decrease in cash flows, and may also have an impact on the Company's ability to fulfil its obligations under its contracts.
To protect its cash flow from operating activities, the Company entered into oil price hedging arrangements in 2017. These transactions allow the Company to stabilize operating cash flows for the term of the hedges.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows relating to the Company's assets and liabilities will fluctuate due to changes in market interest rates.
The development of the Company's activities and expanding of its resource base were mainly financed out of borrowed funds, which is common for high-growth companies. A part of the Company's debt is represented by loans with a variable rate linked to USD 3-month LIBOR, interest rate changes may have a significant impact on the Company. Given the ongoing general trend of increasing interest rates, the risks relating to interest rate changes are assessed as significant. Thus, in 2018, the US Dollar (USD) 3-month LIBOR interest rate continued to increase dynamically, from 1.69693% as at 2 January 2018 to 2.80763% as at 31 December 2018.
At present, the Company does not hedge this risk.

Foreign exchange risk
The Company is exposed to the risk of adverse changes in the exchange rate of its transactions. Foreign exchange risk is inherent in sales transactions and transactions to raise debt denominated in currencies other than the Company's operating currency. Significant changes in foreign exchange rates increase the Company's liabilities and their servicing cost and, as a result, lead to lower profits and impair the Company's ability to service debts. Further significant devaluation of the rouble may lead to an additional financial burden as the Company meets these obligations. As a result of significant changes in foreign exchange rates, the Company's liquidity ratios may change, including in a negative way. The Company's overall debt structure by currency reflects the structure of its income, which reduces the dependence on exchange rate fluctuations. The Company does not use hedging instruments to mitigate this risk. It controls foreign exchange risk by monitoring changes in the exchange rates of the currencies in which it holds cash, as well as those in which its loans are denominated. At the same time, the Company has contracts in foreign currency for the sale of oil to CIS and non-CIS countries.
The Company holds derivative financial instruments whose price is dependent on the exchange rate and the cost of oil. If both the exchange rate and the cost of oil increase above a predetermined level, the Company may incur additional liabilities under existing financial instruments.

Credit risk
The Company is exposed to credit risk that may result in losses if a counterparty fails to repay all or any part of accounts receivable, borrowed funds or cash deposited in bank accounts. To manage this risk, the Company monitors on an ongoing basis settlements with counterparties for completeness and timeliness, analyses accounts receivable and the rational use of financial resources, and conducts a comprehensive audit of potential debtors, including their credit history and financial position. In addition, the Company controls the contracting process and creates debt impairment provisions.
The Company holds its funds with reliable banks with high credit ratings. The Company only opens accounts with reliable banks and financial institutions and believes, therefore, that it is not exposed to significant credit risk with respect to its cash and cash equivalents. The Company only enters into transactions with recognized creditworthy unrelated parties. The risk of an individual counterparty is managed through an assessment of its creditworthiness.
The financial and business activities of the Company are influenced by political and economic changes in the country and the world which are beyond the Company's control. However, the Company's financial strategy is such as to ensure sustainable growth, a balanced financial policy and mitigation of financial risks.
The Company has introduced the Risk Management Policy, which assesses the credit risk of all counterparties. In the event of a concentration of credit risk, the Company switches over to advance payments. In addition, accounts receivable balances are constantly monitored, so the risk of bad debts is insignificant. Despite the fact that the receivables repayment rate depends on economic factors, the Company's management believes that, given the age of its receivables, there is no significant risk of losses in excess of the debt impairment provision. Information on the provision for doubtful debts is shown in Table 5.1 of the Notes in Table Form.
The Company believes that as at 31 December 2018, its maximum credit risk is equal to the carrying value of the financial assets recorded in its statements.

Liquidity risk
Liquidity risk is associated with the Company's ability to timely and fully repay its financial liabilities (trade

accounts payable and loans raised) as at the reporting date.
In 2017, in light of continued volatility of oil prices, the Company entered into hedging arrangements which involved buying put options and, simultaneously, selling call options. Higher oil prices and insignificant movement of the rouble exchange rate as compared with oil prices may trigger the Company's obligations under the call options. However, estimating the Company's future obligations under its hedging arrangements is problematic, as price movement is unpredictable.
The Company manages its liquidity risk by selecting the optimal capital gearing in accordance with management's plans. This approach allows the Company to maintain an adequate level of liquidity and financing resources in such a way as to minimise borrowing costs, as well as to optimise the debt structure and maturity profile. The Company analysed the concentration of risk in relation to refinancing its debt and concluded that it was low. The Company believes it has sufficient access to sources of financing, as well as to existing and potential lenders to meet its expected demand for borrowed funds.

23.2. Legal risks

Legal risks are associated with changes in foreign exchange and customs regulations, as well as in tax legislation.
The Company closely follows legislative developments, with a particular focus on participation in workshops and meetings with leading experts in these areas.

23.3. Country and regional risks

The Company primarily operates in the Russian Federation, and in view of the sectoral sanctions imposed by a number of EU countries and the United States in 2Q 2014, which are aimed, in particular, against the fuel and energy companies and a number of state-owned banks of the Russian Federation, the Company may experience a shortage or a severe increase in the price of various services.
Even though the Company itself is not sanctioned, it may face higher borrowing costs when raising new debt financing.
The Company's management believes that at present, no circumstances exist that could result in a significant outflow of buyers (customers) due to a negative perception of the quality of goods (works, services) produced and sold by the Company, its adherence to delivery deadlines or participation in any price-fixing arrangements. Therefore, reputational risks are assessed by the Company as insignificant.

24. Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. The interpretation made by the Company's management in relation to the Company's operations and activities may be challenged by the relevant regional or federal regulatory authorities. The tax authorities may take a harder line in legislative interpretation and during a review of tax returns. As a result, the tax authorities may challenge transactions and accounting methods that have never caused any earlier objections from them.
The tax authorities may go back three calendar years immediately preceding the year in which the audit is ordered. Under certain conditions, earlier accounting periods may also be covered. The fact that a given year or any tax return relating to that year has been audited does not mean that a repeated tax audit cannot be conducted during the said three-year period.
Russian transfer pricing legislation allows the Russian tax authorities to apply tax base adjustments and charge an additional profit tax on controlled transactions if the price applied in a transaction differs from the market price.
The list of controlled transactions includes transactions between related parties, as well as certain types of cross-border transactions. The transfer pricing rules existing in Russia have significantly increased the tax compliance burden on taxpayers in comparison with the pre-2012 transfer pricing legislation. In particular, the burden of proof has been shifted from the Russian tax authorities to taxpayers. Transfer pricing rules apply to both cross-border and domestic transactions. Transactions made in the domestic market are recognized as controlled when the aggregated value of all related party transactions exceeds RUB 2 billion in 2013 or RUB 1 billion thereafter. If the additional profit tax has been imposed on a party to a domestic transaction, the other party can make an appropriate adjustment to its profit tax liabilities. Special transfer pricing rules apply to transactions involving securities and derivatives.

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Between 2013-2018, the Company benchmarked its transaction prices against the market. As part of tax control over price levels in related party transactions, in 2017, the Company and the Federal Tax Service signed a pricing agreement for 2014 tax purposes, and the Company discharged in full its obligations thereunder.
At the end of 2015, 2016 and 2017, the Company independently assessed an additional profit tax for each year in the amounts of RUB 25,471 thousand, RUB 38,221 thousand and RUB 52,922 thousand.
Due to the legal uncertainty and lack of enforcement practice of the Russian transfer pricing legislation, the Russian tax authorities may challenge prices used by the Company in controlled transactions and charge additional taxes unless the Company provides evidence that the prices are market prices and that the Company has disclosed the relevant information to the Russian tax authorities and submitted supporting transfer pricing documents available to it. However, the Company may have the right to make a compensating adjustment:

- if the other party to the controlled transaction complies with the tax authority`s decision to assess an additional tax in the amount of the arrears specified in the decision. The right to compensating adjustments arises from the date of receipt of notification of the possible compensating adjustments;
- on the basis of information provided to it by the other party to the controlled transaction upon adjustment of its own tax base and tax liability amount, provided it also submits documents evidencing its payment of the tax arising out of the adjustments made.

Based on the results of 2015, 2016, 2017, and according to the information provided by other parties to controlled transactions on the adjustments made to the tax base and the amount of tax (loss), the Company made compensating adjustments that resulted in additional profit taxes assessed in the amount of RUB 6,767 thousand, RUB 2,223 thousand and RUB 27,631 thousand, respectively.
In 2015, amendments to the Tax Code of the Russian Federation concerning taxation of the profits of controlled foreign companies came into force, which, in particular:

- obligate a controlling person to notify the tax authorities of its participation in controlled foreign companies;
- set a procedure to account for the profits of a controlled foreign company in determining the tax base of the controlling person;
- list cases when the profits of a controlled foreign company may be exempt from taxation.

Income in the form of profits from controlled foreign companies is deemed received on December 31 of the calendar year following the tax period in which the period for which the financial statements are prepared in accordance with the personal law of the controlled foreign company ends. In accordance with the current tax legislation, the amount of profit of controlled foreign companies for 2016 and 2017 to be included in the tax base for the Company's profit tax in 2017 and 2018 is zero.
In connection with the transfer to the Company of the rights to use subsoil in the years 2014-2018 in accordance with Article 17.1 of the Law of the Russian Federation No. 2395-1 "On Subsoil" dated 21 February 1992, and further in connection with the grant of subsoil licences to it, the Company is a MET payer. In 2018, its self-assessed MET amounted to RUB 63,615,139 thousand.
Management believes that the Company complies with all regulatory requirements, and reports and pays all applicable taxes.

25. Going Concern

The Company assessed its ability to continue as a going concern for at least 12 months following the reporting year.
As at 31 December 2018, the short-term liabilities of the Company amounted to RUB 73,545,409 thousand, current assets stood at RUB 50,050,889 thousand. Short-term liabilities decreased from the previous year by RUB 12,927,884 thousand.
The Company improved in 2018 its financial results from operating activities compared to 2017. Its operating profit in the reporting period amounted to RUB 29,254,732 thousand, which is up RUB 15,911,709 thousand vs. 2017. The sales margin shows an upward trend, increasing from 11.00% in 2017 to 16.59% in the reporting year.
The Company:
- has rights to use subsoil and produces hydrocarbons in accordance with its licence agreements (the information is disclosed in Table 25 "List of licences to use subsoil");
- has liquid assets on its books that generate income. In 2018, the Company earned RUB 341,055 in accrued dividends;

- has no overdue tax liabilities;
- complies with the duty to pay its employees;
- has no creditors' claims pending against it. The Company's key short-term debt creditors are Group entities, which means that there is no risk of uncontrolled claims.

The Company complies with all the provisions of the Federal Laws "On Joint Stock Companies" (dated 26 December 1995 No. 208-FZ) and "On State Registration of Legal Entities and Individual Entrepreneurs" (dated 08 August 2001 No. 129-FZ) requiring disclosure of its net asset value. The Company has no signs of bankruptcy as per Article 3 of the Federal law "On Insolvency (Bankruptcy)" (dated 26 October 2002 No. 127-FZ).

Thus, the Company's management takes all necessary actions to ensure its ability to continue as a going concern and to repay its obligations in a timely manner. The Company has no intention and no need to liquidate or significantly reduce its business.

President of PJSC "RussNeft" **E.V. Tolochek**

____ February 2019

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Notes in Table Form

1.1. Intangible assets: status and movements

Item	Code	Period	Beginning of the year		Changes over the period							End of the period	
			original value	accumulated amortisation and impairment losses	received	retired: original value	retired: accumulated amortisation and impairment losses	accumulated amortisation	impairment loss	revaluation: original value	revaluation: accumulated amortisation	original value	accumulated amortisation and impairment losses
Intangible assets – total, including:	**5100**	**2018**	**6,720**	**(5,514)**	–	–	–	**(1,206)**	–	–	–	**6,720**	**(6,720)**
	5110	**2017**	**5,809**	**(4,285)**	**911**	–	–	**(1,229)**	–	–	–	**6,720**	**(5,514)**
Trademarks	5101	2018	123	(123)	–	–	–	–	–	–	–	123	(123)
	5111	2017	123	(123)	–	–	–	–	–	–	–	123	(123)
Other intangible assets	5101	2018	6,597	(5,391)	–	–	–	(1,206)	–	–	–	6,597	(6,597)
	5111	2017	5,686	(4,162)	911	–	–	(1,229)	–	–	–	6,597	(5,391)

1.2. Fully amortised intangible assets

Item	Code	Original value		
		31 December 2018	31 December 2017	31 December 2016
Total, including:	**5130**	**6,720**	**4,219**	**4,219**
Trademarks	5131	123	123	123
Board of Directors' portal	5132	6,597	4,096	4,096

1.3. Intangible assets under development

Item	Code	Period	Beginning of the year	Changes over the period: costs for the period	Changes over the period: written off	Changes over the period: recognised as intangible assets	End of the period
Intangible asset value creation	5,141	2018	287	57	–	–	344
	5,142	2017	–	1 198	–	(911)	287

1.4. Exploration assets

Item	Code	Period	Beginning of the year: original value	Beginning of the year: accumulated amortisation and impairment losses	Changes over the period: received	Changes over the period: retired: original value	Changes over the period: retired: accumulated amortisation and impairment losses	Changes over the period: accumulated amortisation	Changes over the period: impairment loss	Changes over the period: revaluation: original value	Changes over the period: revaluation: accumulated amortisation	End of the period: original value	End of the period: accumulated amortisation and impairment losses
Intangible exploration assets	5151	2018	187,930	(1,984)	–	–	–	(8,112)	–	–	–	187,930	(10,096)
	5152	2017	–	–	187,930	–	–	(1,984)	–	–	–	187,930	(1,984)

1.5. Exploration assets under construction/development

Item	Code	Period	Beginning of the year	Changes over the period: costs for the period	Changes over the period: written off	Changes over the period: recognised as an exploration asset	End of the period
Value creation: tangible exploration assets	5161	2018	206,061	30,472	(233,418)	–	3,115
	5162	2017	–	206,061	–	–	206,061
Value creation: intangible exploration assets	5163	2018	–	–	–	–	–
	5164	2017	–	187,930	–	(187,930)	–

2.1. Fixed assets: status and movements

Item	Code	Period	Beginning of the year: original value	Beginning of the year: accumulated depreciation	Changes over the period: received	Changes over the period: disposal: original value	Changes over the period: disposal: accumulated depreciation	Changes over the period: accumulated depreciation	Changes over the period: revaluation: original value	Changes over the period: revaluation: accumulated depreciation	End of the period: original value	End of the period: accumulated depreciation
Fixed assets (excluding profitable investments) – Total, including:	**5200**	**2018**	**22,209,567**	**(1,696,947)**	**19,223,040**	**(19,106)**	**19,106**	**(4,034,747)**	–	–	**41,413,501**	**(5,712,588)**
	5210	**2017**	**4,274,880**	**(340,416)**	**17,955,360**	**(20,673)**	**20,445**	**(1,376,976)**	–	–	**22,209,567**	**(1,696,947)**
Buildings, structures	5201	2018	21,728,896	(1,403,546)	18,554,320	-	-	(3,913,182)	–	–	40,283,216	(5,316,728)
	5211	2017	3,945,330	(92,618)	17,783,566	-	-	(1,310,928)	–	–	21,728,896	(1,403,546)
Machinery, equipment, tools	5202	2018	291,488	(202,791)	507,503	(10,556)	10,556	(69,136)	–	–	788,435	(261,371)
	5212	2017	225,086	(163,002)	77,382	(10,980)	10,963	(50,752)	–	–	291,488	(202,791)
Manufacturing and other tools and implements	5203	2018	21,826	(20,742)	28,749	(587)	587	(27,660)	–	–	49,988	(47,815)
	5213	2017	23,381	(21,880)	247	(1,802)	1,762	(624)	–	–	21,826	(20,742)
Other fixed assets	5204	2018	1,304	(796)	75,814	(30)	30	(7,048)	–	–	77,088	(7,814)
	5214	2017	1,337	(820)	88	(121)	121	(97)	–	–	1,304	(796)
Vehicles	5205	2018	125,361	(69,072)	7,348	(7,933)	7933	(12,377)	–	–	124,776	(73,516)
	5215	2017	79,746	(62,096)	53,385	(7,770)	7,599	(14,575)	–	–	125,361	(69,072)
Land plots and environmental management objects	5206	2018	1,934	–	2,022	–	–	–	–	–	3,956	–
	5216	2017	–	–	1,934	–	–	–	–	–	1,934	–
Decommissioning provision	5207	2018	38,758	–	47,284	–	–	(5,344)	–	–	86,042	(5,344)
	5217	2017	–	–	38,758	–	–	–	–	–	38,758	–

2.2. Construction in progress

Item	Code	Period	Beginning of the year	Changes over the period			End of the period
				costs for the period	written off	recognised as fixed assets, financial investments / increase in value	
Construction in progress and outstanding transactions to purchase, upgrade etc. fixed or other assets – Total, including	**5240**	**2018**	**2,098,721**	**24,664,674**	**(1,725,378)**	**(19,522,578)**	**5,515,439**
	5250	**2017**	**310,858**	**21,065,618**	**(1,362,813)**	**(17,914,942)**	**2,098,721**
Acquisition of specific fixed assets	5,241	2018	321	1,673,425	–	(1,673,746)	-
	5,251	2017	27,255	1,877,743	–	(1,904,677)	321
Fixed asset construction	5,242	2018	2,098,183	22,412,119	(1,725,378)	(17,269,702)	5,515,222
	5,252	2017	283,603	19,187,446	(1,362,813)	(16,010,053)	2,098,183
Value creation: long-term financial investments	5,243	2018	–	579,130	–	(579,130)	–
	5,253	2017	–	–	–	–	–
Equipment to be installed	5244	2018	217	–	–	–	217
	5254	2017	–	429	–	(212)	217

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2.3. Changes in the value of fixed assets as a result of upgrade, additional equipment, workover, and partial decommissioning

Item	Code	2018	2017	2016
Increase in the value of fixed assets as a result of upgrade, additional equipment, workover – Total, including:	**5260**	**337,729**	**203,450**	**311**
Buildings	5261	330,225	203,341	-
Machinery and equipment	5262	6,655	109	311
Manufacturing and other tools and implements	5263	849	-	-

2.4. Other use of fixed assets

Item	Code	31 December 2018	31 December 2017	31 December 2016
Fixed assets leased out, not derecognised	5280	40,562,040	21,773,235	3,966,574
Fixed assets leased out and derecognised	5281	27,781,066	27,786,859	-
Fixed assets leased in and recognised	5282	-	-	-
Fixed assets leased in, not recognised	5283	32,132,419	32,089,689	1,681,037
Real estate accepted for operation and actually used, pending state registration	5284	3,292,659	4,027,735	2,108,326
Mothballed fixed assets	5285	-	-	-
Other use of fixed assets (pledge, etc.))	5286	-	-	-

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3.1. Financial investments: status and movements

Item	Code	Period	Beginning of the year: original value	Beginning of the year: impairment provision	received	derecognised (repaid): original value	derecognised (repaid): impairment provision	current market value (impairment losses)	exchange difference (+/-)	long-term investments reclassified as short-term and vice versa	End of the period: original value	End of the period: impairment provision
Long-term – Total, including:	**5301**	**2018**	**164,861,282**	**(7,147,426)**	**881,560**	**(11,450,545)**	–	**721**	**9,925,622**	-	**164,217,919**	**(7,146,705)**
	5311	**2017**	**169,685,538**	**(7,149,108)**	**51,570**	**(2,312,849)**	–	**1,682**	**(2,562,977)**	-	**164,861,282**	**(7,147,426)**
Loans issued	5302	2018	24,935,761	–	302,430	(11,432,716)	–	–	43,769	–	13,849,244	–
	5312	2017	27,215,380	–	51,570	(2,312,849)	–	–	(18,340)	–	24,935,761	–
Claim purchased	5303	2018	47,950,929	–	–	–	–	–	9,881,853	–	57,832,782	–
	5313	2017	50,495,566	–	–	–	–	–	(2,544,637)	–	47,950,929	–
Shares and interests	5304	2018	91,974,592	(7,147,426)	579,130	(17,829)	–	721	–	–	92,535,893	(7,146,705)
	5314	2017	91,974,592	(7,149,108)	–	–	–	1,682	–	–	91,974,592	(7,147,426)
Foreign currency debt securities (promissory notes)	–	2018	–	–	–	–	–	–	–	–	–	–
	–	2017	–	–	–	–	–	–	–	–	–	–
Short-term – Total, including:	**5305**	**2018**	–	–	–	–	–	–	–	–	–	–
	5315	**2017**	–	–	–	–	–	–	–	–	–	–
Loans issued	5306	2018	–	–	–		–	–	–		–	–
	5316	2017	–	–	–		–	–	–		–	–
Foreign currency debt securities (promissory notes)	5307	2018	–	–	–	–	–	–	–	–	–	–
	5317	2017	–	–	–	–	–	–	–	–	–	–
Financial investments – total	**5300**	**2018**	**164,861,282**	**(7,147,426))**	**881,560**	**(11,450,545)**	–	**721**	**9,925,622**	-	**164,217,919**	**(7,146,705)**
	5310	**2017**	**169,685,538**	**(7,149,108)**	**51,570**	**(2,312,849)**	–	**1,682**	**(2,562,977)**	–	**164,861,282**	**(7,147,426)**

3.2. Other use of financial investments

Item	Code	31 December 2018	31 December 2017	31 December 2016
Pledged financial investments– Total, including:	**5320**	**39,432,049**	**39,432,049**	**39,432,049**
Shares / interests	5321	39,432,049	39,432,049	39,432,049
Financial investments transferred to third parties (except for sale)	5325	–	–	–
Other use of financial investments	5329	–	–	–

4.1. Inventories: status and movements

Item	Code	Period	Beginning of the year: cost	Beginning of the year: write-down provision	Changes over the period: additions and subtractions	Changes over the period: derecognised cost	Changes over the period: derecognised write-down provision	Changes over the period: write-down losses	Changes over the period: movement between inventory groups (types)	End of the period: cost	End of the period: write-down provision
Inventory – Total, including:	**5400**	**2018**	**3,392,270**	–	**137,084,482**	**(136,254,642)**	–	–	–	**4,222,110**	–
	5420	**2017**	**2,975,104**	–	**105,153,309**	**(104,736,143)**	–	–	–	**3,392,270**	–
Raw materials, including:	***5401***	**2018**	**30,287**	–	**376,399**	**(368,434)**	–	–	–	**38,252**	–
	5421	**2017**	**27,867**	–	**353,971**	**(351,551)**	–	–	–	**30,287**	–
Crude oil and gas condensate		2018	–	–	–	–	–	–	–	–	–
		2017	–	–	–	–	–	–	–	–	–
Oil products		2018	114	–	3,936	(3,875)	–	–	–	175	–
		2017	54	–	3,782	(3,722)	–	–	–	114	–
Other		2018	30,173	–	372,463	(364,559)	–	–	–	38,077	–
		2017	27,813	–	350,189	(347,829)	–	–	–	30,173	–
Finished products and goods for resale, including:	***5403***	***2018***	**2,390,466**	–	**126,409,864**	**(125,922,590)**	–	–	–	**2,877,740**	–
	5423	***2017***	**2,426,025**	–	**94,416,776**	**(94,452,335)**	–	–	–	**2,390,466**	–
Crude oil and gas condensate		2018	2,390,418	–	125,520,936	(125,033,614)	–	–	–	2,877,740	–
		2017	2,425,981	–	93,478,190	(93,513,753)	–	–	–	2,390,418	–
Natural gas		2018	–	–	484,223	(484,223)	–	–	–	–	–
		2017	–	–	523,148	(523,148)	–	–	–	–	–
APG and gas products		2018	48	–	404,204	(404,252)	–	–	–	–	–
		2017	44	–	408,708	(408,704)	–	–	–	48	–
Other		2018	–	–	501	(501)	–	–	–	–	–
		2017	–	–	6,730	(6,730)	–	–	–	–	–
Goods shipped, with handling costs, including:	***5404***	***2018***	–	–	**9,753,054**	**(9,753,054)**	–	–	–	–	–
	5424	***2017***	–	–	**9,614,838**	**(9,614,838)**	–	–	–	–	–
Crude oil and gas condensate		2018	–	–	9,748,055	(9,748,055)	–	–	–	–	–
		2017	–	–	9,592,498	(9,592,498)	–	–	–	–	–
Natural gas		2018	–	–	4,999	(4,999)	–	–	–	–	–
		2017	–	–	22,340	(22,340)	–	–	–	–	–
Deferred expenses	***5405***	2018	**971,517**	–	**545,165**	**(210,564)**	–	–	–	**1,306,118**	–
	5425	2017	**521,212**	–	**767,724**	**(317,419)**	–	–	–	**971,517**	–

5.1. Accounts receivable: status and movements

Item	Code	Period	Beginning of the year: recognised as per contract terms	Beginning of the year: provision for doubtful debts	Changes over the period: recognised: as a result of business transactions (amounts due under transactions) (*)	Changes over the period: recognised: interest, penalties and other charges due (*)	Changes over the period: derecognised: repaid	Changes over the period: derecognised: written off as a loss (*)	Changes over the period: Provision adjustment	Changes over the period: Reclassified as short-term debt	Changes over the period: Foreign exchange differences	End of the period: recognised as per contract terms	End of the period: provision for doubtful debts
Long-term accounts receivable – total, including:	**5501**	**2018**	**26,443,347**	–	**754,361**	**4,929,232**	**(1,308,429)**	–	–	–	**3,663,272**	**34,481,783**	–
	5521	**2017**	**21,090,626**	–	–	**6,446,329**	**(439,304)**	–	–	–	**(654,304)**	**26,443,347**	–
Interest accrued on long-term loans and promissory notes	5502	2018	26,443,347	–	–	4,929,232	(1,308,429)	–	–	–	3,663,272	33,727,422	-
	5522	2017	21,090,626	–	–	6,446,329	(439,304)	–	–	–	(654,304)	26,443,347	-
Advances issued (**)	5503	2018	–	–	754,361	–	–	–	–	–	–	754,361	-
	5523	2017	–	–	–	–	–	–	–	–	–	–	-
Short-term accounts receivable – total, including:	**5510**	**2018**	**9,342,520**	–	**22,264,795**	**25**	**(23,160,851)**	–	**(5,210)**	-	**124,429**	**8,570,918**	**(5,210)**
	5530	**2017**	**10,669,735**	**(412)**	**22,914,398**	–	**(24,188,732)**	–	**412**	-	**(52,881)**	**9,342,520**	–
Trade receivables	5512	2018	5,811,603	–	4,962,277	–	(5,941,982)	–	–	–	(5,346)	4,826,552	–
	5532	2017	4,109,828	–	10,276,189	–	(8,574,414)	–	–	–	–	5,811,603	–
Tax receivables	5513	2018	5	–	55	–	(5)	–	–	–	–	55	–
	5533	2017	38,154	–	5	–	(38,154)	–	–	–	–	5	–
Dividend receivables	5514	2018	–	–	-	–	–	–	–	–	–	–	–
	5534	2017	4,162,944	–	-	–	(4,162,944)	–	–	–	–	–	–
Interest receivable on short-term loans and promissory notes	5515	2018	–	–	–	–	-	–	–	–	–	–	–
	5535	2017	–	–	–	–	-	–	–	–	–	–	–
Advances issued (**)	5516	2018	912,277	–	1,940,626	–	(1 100,932)	–	–	–	–	1,751,971	–
	5536	2017	495,257	(412)	1,426,877	–	(1,009,857)	–	412	–	–	912,277	–
Payments for securities	5517	2018	300	–	112,101	–	(300)	–	–	–	11,071	123,172	–
	5537	2017	–	–	300	–	–	–	–	–	–	300	–
Customs duty receivables	5518	2018	715,108	–	44,462	–	(715,108)	–	–	–	–	44,462	–
	5538	2017	67,996	–	715,108	–	(67,996)	–	–	–	–	715,108	–
Other receivables	5519	2018	1,903,227	–	15,205,274	25	(15,402,524)	–	(5,210)	–	118,704	1,824,706	(5,210)
	5539	2017	1,795,556	–	10,495,919	–	(10,335,367)	–	–	–	(52,881)	1,903,227	–
Total	**5500**	**2018**	**35,785,867**	–	**23,019,156**	**4,929,257**	**(24,469,280)**	–	**(5,210)**	x	**3,787,701**	**43,052,701**	**(5,210)**
	5520	**2017**	**31,760,361**	**(412)**	**22,914,398**	**6,446,329**	**(24,628,036)**	–	**412**	x	**(707,185)**	**35,785,867**	–

NOTE. *) Net of accounts receivable recognised and repaid (written off) in the same reporting period.
**) Value added tax included.

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5.2. Overdue accounts receivable

Item	Code	31 December 2018: recognised as per contract terms	31 December 2018: carrying value	31 December 2017: recognised as per contract terms	31 December 2017: carrying value	31 December 2016: recognised as per contract terms	31 December 2016: carrying value
Total, including:	**5540**	**5,217**	**7**	**1,245**	**1,245**	**4,163,356**	**4,162,944**
Tax receivables	5541	–	–	–	–	–	–
Dividend receivables	5542	–	–	–	–	4,162,944	4,162,944
Advances issued	5544	7	7	–	–	412	–
Trade receivables	5545	–	–	–	–	–	–
Other accounts receivable	5546	5,210	–	1,245	1,245	–	–

5.3. Accounts payable: status and movements

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Item	Code	Period	Balance as of beginning of the year	Changes over the period: received – as a result of business transactions (the amount of debt on the transaction) (*)	received – interest, penalties and other charges due (*)	retired – repayment	retired – write-off for financial result, including exchange rate difference (*)	transfer from short-term debt to long-term debt	Balance as of end of the period
Long-term accounts payable – Total, including:	**5551**	**2018**	**–**	**36,717**	**–**	**(2,386,941)**	**(1,469)**	**21,653,517**	**19,301,824**
	5571	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Trade payables	5552	2018	-	36,717	-	-	-	23,657	60,374
	5572	2017	-	-	-	-	-	-	-
Advances received (**)	5553	2018	-	-	-	(2,251,343)	(215,756)	20,669,331	18,202,232
	5573	2017	-	-	-	-	-	-	-
Early payment discounts payable	5554	2018	-	-	-	(135,598)	214,287	960,529	1,039,218
	5574	2017	-	-	-	-	-	-	-
Short-term accounts payable – Total, including:	**5560**	**2018**	**86,260,381**	**50,591,769**	**591,970**	**(48,810,967)**	-	(21,653,517)	**66,979,636**
	5580	**2017**	**74,621,425**	**48,889,684**	**404,842**	**(37,655,570)**	–	–	**86,260,381**
Trade payables	5561	2018	45,724,202	33,131,786	-	(33,122,613)	-	(23,657)	45,709,718
	5581	2017	40,850,241	32,942,516	–	(28,068,555)	–	–	45,724,202
Tax payables	5562	2018	5,577,874	7,940,266	-	(5,577,874)	-	-	7,940,266
	5582	2017	3,643,065	5,577,874	–	(3,643,065)	–	–	5,577,874
Advances received (**)	5563	2018	33,566,112	9,344,849	-	(9,653,423)	-	(20,669,331)	12,588,207
	5583	2017	29,114,758	10,208,498	–	(5,757,144)	–	–	33,566,112
Early payment discounts payable	5564	2018	1 178,557	-	591,970	(252,412)	-	(960,529)	557,586
	5584	2017	773,715	–	404,842	–	–	–	1 178,557
Salary and wages payables	5565	2018	33,145	37,500	-	(33,145)	-	-	37,500
	5585	2017	30,938	33,145	–	(30,938)	–	–	33,145
Other accounts payable	5566	2018	180,491	137,368	-	(171,500)	-	-	146,359
	5586	2017	208,708	127,651	–	(155,868)	–	–	180,491
Total	**5550**	**2018**	**86,260,381**	**50,628,486**	**591,970**	**(51 197,908)**	**(1,469)**	x	**86,281,460**
	5570	**2017**	**74,621,425**	**48,889,684**	**404,842**	**(37,655,570)**	–	x	**86,260,381**

NOTE. *) Net of accounts payable recognised and repaid (written off) in the same reporting period.
**) VAT included.

5.4. Overdue accounts payable

Item	Code	31 December 2018	31 December 2017	31 December 2016
Total, including:	**5590**	**2,411**	–	**16,330,029**
Interest on loans raised	5591	–	–	–
Agency and commission fees payable	5592	–	–	–
Trade payables	5593	2,411	–	–
Advances received	5594	–	–	15,680,419
Other accounts payable	5594	–	–	649,610

5.5. Borrowings: status and movements

Item	Code	Period	As of beginning of the period	Changes over the period: received	accrued interest	repaid	Exchange difference (+/-)	transfer from long-term to short-term or short-term to long-term	other movement	End of the period
Long-term – Total, including:	**5301**	**2018**	**74,725,434**	–	**86,189**	–	**14,697,562**	**(6,036,414)**	–	**83,472,771**
	5311	**2017**	**78,959,325**	–	**126,464**	**(498,830)**	**(3,861,525)**	–	–	**74,725,434**
Bank loans	*5302*	*2018*	72,766,249	–	–	–	14,697,562	(6,036,414)	–	81,427,398
	5312	*2017*	76,627,774	–	–	–	(3,861,525)	–	–	72,766,249
Non-bank loans raised	*5303*	*2018*	1,959,185	–	86,189	–	–	–	–	2,045,373
	5313	*2017*	2,331,551	–	126,464	(498,830)	–	–	–	1,959,185
Foreign currency debt securities (promissory notes)	*5304*	*2018*	–	–	–	–	–	–	–	–
	5314	*2017*	–	–	–	–	–	–	–	–
Short-term – Total, including:	**5305**	**2018**	**128,430**	–	**6,382,543**	**(6,457,823)**	**385,245**	**6,036,414**	–	**6,474,809**
	5315	**2017**	**112,986**	–	**5,045,347**	**(5,068,226)**	**38,323**	–	–	**128,430**
Bank loans	*5306*	*2018*	128,430	–	6,382,543	(6,457,823)	385,245	6,036,414	–	6,474,809
	5316	*2017*	112,986	–	5,045,347	(5,068,226)	38,323	–	–	128,430
Non-bank loans raised	*5306*	*2018*	–	–	–	–	–	–	–	–
	5316	*2017*	–	–	–	–	–	–	–	–
Foreign currency debt securities (promissory notes)	*5307*	*2018*	–	–	–	–	–	–	–	–
	5317	*2017*	–	–	–	–	–	–	–	–
Borrowings – total	**5300**	**2018**	**74,853,864**	–	**6,468,732**	**(6,457,823)**	**15,082,807**	–	–	**89,947,580**
	5310	**2017**	**79,072,311**	–	**5,171,811**	**(5,567,056)**	**(3,823,202)**	–	–	**74,853,864**

6. Production costs

Item	Code	2018	2017
Materials	5610	61,981,731	51,270,127
Labour	5620	1,915,507	1,596,576
Social contributions	5630	355,325	305,168
Depreciation	5640	4,035,866	1,378,138
Other costs	5650	79,309,284	54,987,248
Total production costs	**5660**	**147,597,713**	**109,537,257**
Change in balances (increase [-], reduction [+]):	**5670, 5680**	**(487,274)**	**33,139**
Feedstock and materials		-	(2,420)
Work in progress		-	–
Goods for resale		16,230	94,526
Finished products		(503,504)	(58,967)
Handling costs		-	–
Goods shipped		-	–
Total operating expenses	**5600**	**147,110,439**	**109,570,396**

7. Estimated liabilities

Item	Code	Period	As at the beginning of the year	Recognised	Repaid	Written off as excessive	As at the end of the period
Estimated liabilities – Total, including:	**5700**	**2018**	**188,124**	**312,017**	**(190,642)**	**(32,320)**	**277,179**
		2017	**86,427**	**238,567**	**(136,870)**	–	**188,124**
Provision for paid leave payments	5710	2018	84,482	198,342	(159,540)	(32,320)	90,964
		2017	86,427	134,925	(136,870)	–	84,482
Decommissioning provision	5720	2018	103,642	113,675	(31 102)	–	186,215
		2017	–	103,642	–	–	103,642

8. Debt security instruments

Item	Code	31 December 2018	31 December 2017	31 December 2016
Received – Total, including:	**5800**	**50,232**	**12,395**	**5,076**
Suretyships entered into in favour of the Company (reserve amount)		50,232	12,395	5,076
Issued – Total, including:	**5810**	**24,912,680**	**21,475,236**	**6,664,691**
Suretyships entered into by the Company as a surety for third parties		24,671,362	–	3,248,459
Collateral (pledge) provided		180,245	180,245	180,245
including: Collateral (pledge) provided for third parties		–	–	–
Other security instruments (guarantees) issued		61,073	21,294,991	3,235,987
including: security instruments (guarantees issued for third parties)		–	21,233,918	3,177,049

9.1. Breakdown of debt security instruments received

Issuer	Debtor	Security instrument	31 December 2018	31 December 2017	31 December 2016
Yugraspetsmontazh LLC	Yugraspetsmontazh LLC	Guarantee	13,131	1,709	–
RusIntegral-Engineering LLC	RusIntegral-Engineering LLC	Guarantee	12,781	1,475	–
Sibkhimservis LLC	Sibkhimservis LLC	Guarantee	10,751	–	–
Severavtostroy-montazh LLC	Severavtostroy-montazh LLC	Guarantee	4,731	4,643	–
Standart LLC	Standart LLC	Guarantee	4,577	2,207	–
MontazhEnergoServis LLC	MontazhEnergoServis LLC	Guarantee	2,698	1,335	–
StroyGarant LLC	StroyGarant LLC	Guarantee	738	–	–
SO KVADRAT LLC	SO KVADRAT LLC	Guarantee	462	–	–
StroyNefteTrans LLC	StroyNefteTrans LLC	Guarantee	363	363	3,612
SEM LLC	SEM LLC	Guarantee		663	–
LesStroy-Rekonstruktsia LLC	LesStroy-Rekonstruktsia LLC	Guarantee		–	1,464
TOTAL			**50,232**	**12,395**	**5,076**

9.2. Breakdown of debt security instruments issued

Beneficiary	Debtor	Security instrument	Due date	31 December 2018	31 December 2017	31 December 2016
Glencore Energy UK Ltd	Russneft (UK) Limited	Suretyship	31 December 2019 (with annual renewal)	24,671,362	–	–
VTB Bank (PJSC)	PJSC "RussNeft"	Pledge	22 March 2026	180,245	180,245	180,245
Pyatnitsky Business Centre LLC	PJSC "RussNeft"	Guarantee	31 December 2021	56,680	56,680	56,680
Pyatnitsky Business Centre LLC	PJSC "RussNeft"	Guarantee	28 February 2019 (with annual renewal)	2,253	2,253	2,253
Inzhenergosbyt LLC	PJSC "RussNeft"	Guarantee	31 December 2019 (with annual renewal)	2,135	2,135	–
Pervy avtokombinat im. G.L. Krauze (*G.K. Krauze First Motor Vehicle Fleet Operator*) OJSC	PJSC "RussNeft"	Guarantee	30 November 2019 (with annual renewal)	5	5	5
VTB Bank (PJSC)	Avtoklub LLC	Guarantee	28 April 2025	–	17,280,060	–
VTB Capital Trading LLC	ForteInvest JSC	Guarantee	-	–	3,953,858	3,177,049
VTB CAPITAL TRADING LIMITED	Russneft (UK) Limited	Suretyship	-	–	–	3,248,459
TOTAL				**24,912,680**	**21,475,236**	**6,664,691**

10. Cash breakdown

Category	31 December 2018	31 December 2017	31 December 2016
Cash on hand	398	460	486
Cash in bank	38,325	804,346	48,041
Foreign currency accounts	2,400,131	901,695	315,392
Short-term deposits	–	–	2,395,863

Other cash	–	–	185
TOTAL	**2,438,854**	**1,706,501**	**2,759,967**

11. Breakdown of deferred expenses

falling due more than 12 months after the reporting date

Type of expense	31 December 2018	31 December 2017	31 December 2016
Computer software, software licences	17,378	8,531	16,509
Hydrocarbon production costs	1,079,982	826,611	259,050
Sand mining costs	1,363	1,636	2,051
Provision for reclamation of the leased lands	91,486	64,884	–
TOTAL	**1 190,209**	**901,662**	**277,610**

falling due within 12 months after the reporting date

Type of expense	31 December 2018	31 December 2017	31 December 2016
Computer software, software licences	57,188	59,452	34,357
Costs of hydrocarbon production	58,722	10,345	209,245
Sand mining costs	–	58	–
Other deferred expenses	–	–	–
TOTAL	**115,910**	**69,855**	**243,602**
TOTAL deferred expenses	**1,306,118**	**971,517**	**521,212**

12.1. Breakdown of deferred tax assets

Item	31 December 2018		31 December 2017		31 December 2016	
	Amount	Deferred tax	Amount	Deferred tax	Amount	Deferred tax
Fixed assets	2,871	574	8	2	–	–
Estimated liabilities and provisions	90,964	18,193	–	–	–	–
Deferred expenses	689	138	–	–	–	–
Provisions for doubtful debts	5,210	1,042	–	–	–	–
Prior year losses	47,947,897	9,589,579	55,848,221	11 169,644	57,783,252	11,556,651
Loss on the sale of securities	27,282,413	5,456,483	27,329,296	5,465,859	27,329,296	5,465,859
Loss from liquidation of Benodet Investments Limited (non-convertible shares), 2016	3,131 125	626,225	3,131 125	626,225	3,131 125	626,225
Current year losses (Research & Technology Centre)	–	–	–	–	25,521	5,104
Prior year losses (Research & Technology Centre)	104,857	20,972	104,857	20,972	88,005	17,601
Loss on the sale of fixed assets (Research & Technology Centre)	51	10	141	28	478	96
Financial investments	31	6	31	6	31	6
TOTAL	**78,566,108**	**15,713,222**	**86,413,679**	**17,282,736**	**88,357,708**	**17,671,542**

12.2. Breakdown of deferred tax liabilities

Item	31 December 2018		31 December 2017		31 December 2016	
	Amount	Deferred liability	Amount	Deferred liability	Amount	Deferred liability
Finished products	1,580,539	316,108	1,571 150	314,230	1,513,885	302,777
Fixed assets	10,060,424	2,012,085	5,486,349	1,097,270	899,997	179,999
Pre-production costs (sidetracking)	251,892	50,378	55,962	11 192	–	–
Deferred expenses	350,782	70,156	–	–	–	–
Pre-production costs (intangible exploration assets)	177,834	35,567	–	–	–	–
TOTAL	**12,421,471**	**2,484,294**	**7,113,461**	**1,422,692**	**2,413,882**	**482,776**

13. Revenue breakdown

Type of activity	2018				2017			
	Gross revenue	VAT	Customs duty	Net revenue	Gross revenue	VAT	Customs duty	Net revenue
Sales of goods, including:	**26,746,207**	**(2,848,614)**	**(2,121,884)**	**21,775,709**	**19,590,199**	**(1,902,120)**	**(1,629,362)**	**16,058,717**
Oil and gas condensate	26,651,409	(2,834,153)	(2,121,884)	21,695,371	19,590,199	(1,902,120)	(1,629,362)	16,058,717
Natural gas	94,798	(14,461)	-	80,337	-	-	-	-
Sales of finished products, including:	**179,282,344**	**(16,817,822)**	**(16,753,308)**	**145,711,213**	**125,596,500**	**(12,022,019)**	**(9,876,045)**	**103,698,436**
Oil and gas condensate	176,408,621	(16,379,458)	(16,753,308)	143,275,855	122,850,927	(11,603,203)	(9,876,045)	101,371,679
Flammable natural gas	1 170,990	(178,626)	-	992,365	1,301,769	(198,575)	-	1 103,194
APG and gas products	1,702,733	(259,739)	-	1,442,994	1,443,804	(220,241)	-	1,223,563
Sales of services	**10,476,334**	**1,598,085**	**-**	**8,878,249**	**3,962,516**	**(604,452)**	**-**	**3,358,064**
TOTAL	**216,504,885**	**(21,264,521)**	**(18,875,193)**	**176,365,171**	**149,149,215**	**(14,528,591)**	**(11,505,407)**	**123,115,217**

14. Breakdown of cost of sales and gross profit

Type of activity	2018			2017		
	Net revenue	Cost	Gross profit	Net revenue	Cost	Gross profit
Sales of goods, including:	**21,775,709**	**(19,976,063)**	**1,799,646**	**16,058,718**	**(14,138,702)**	**1,920,016**
Oil and gas condensate	21,695,372	(19,910,594)	1,784,778	16,058,718	(14,138,702)	1,920,016
Natural gas	80,337	(65,469)	14,868	-	-	-
Sales of finished products, including:	**145,711,213**	**(105,717,651)**	**39,993,562**	**103,698,435**	**(80,098,993)**	**23,599,442**
Oil and gas condensate	143,275,855	(104,935,784)	38,340,071	101,371,679	(79,186,892)	22,184,787
Flammable natural gas	992,364	(418,754)	573,610	1 103,193	(523,148)	580,045
APG and gas products	1,442,994	(363,113)	1,079,881	1,223,563	(388,953)	834,610
Sales of services	**8,878,249**	**(7,756,731)**	**1 121,518**	**3,358,064**	**(2,802,961)**	**555,103**
TOTAL	**176,365,171**	**(133,450,445)**	**42,914,726**	**123,115,217**	**(97,040,656)**	**26,074,561**

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15. Selling expenses

Type of expenses	2018	2017
Oil transportation	8,520,003	8,312,959
Railway tariff (oil)	653,600	665,221
Trans-shipment, handling	342,752	368,097
Loss in transit	125,414	127,486
Oil blending	87,345	98,035
Gas transportation	-	22,340
Storage	7,958	12,771
Customs brokerage, feasibility study	10,605	2,665
Shipping	194	1,959
Agency fee	3,356	1,802
Customs duties under temporary customs declarations and provisional cargo customs declarations	971	949
Certification	856	554
TOTAL	**9,753,054**	**9,614,838**

16. Administrative expenses

Type of expenses	2018	2017
Salaries and wages	1,797,463	1,567,439
Taxes and charges	930,419	540,732
Rent (premises, vehicles)	341,121	335,558
Information services and software support	287,594	167,393
Advertising expenses	140,647	18,637
Oil and gas reserves assessment services	92,412	64,321
Research and production services	78,489	–
Depreciation of fixed assets and intangible assets	46,184	46,885
Travel expenses	65,060	46,554
Security costs	44,579	42,761
Repair and maintenance of vehicles, premises and computer equipment and other fixed assets	26,326	35,286
Audit, consulting, notary, legal services	24,819	24,858
Insurance	14,315	6,163
Telecommunication service	6,931	6,524
Stationery and household supplies	6,834	4,046
Other administrative expenses	3,747	1,747
Special events	-	5,070
Sand mining costs	-	928
TOTAL	**3,906,940**	**2,914,902**

17. Income from shareholdings

Issuer	2018	2017

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Varioganneft OJSC	10,006	13,154
Saratovneftegaz OJSC	7,538	12,202
Slavneftekhim FE CJSC	323,511	–
TOTAL	**341,055**	**25,356**

18. Interest receivable

Type of income / Counterparty	2018	2017
Interest receivable (foreign currency)	3,559,438	4,567,911
Interest receivable (RUB)	1,369,794	1,878,418
Interest on cash deposits	40,152	55,527
Interest on current account balances	523	4,299
TOTAL	**4,969,907**	**6,506,155**

19. Interest payable

Type of expense / Counterparty	2018	2017
Interest payable (foreign currency)	6,382,543	5,045,346
Interest payable (RUB)	86,189	126,464
Early payment discounts	1,588,534	447,409
TOTAL	**8,057,266**	**5,619,219**

20. Other income

Type of income	2018	2017
2017 MET adjustment	307,803	-
Sales of securities	93,765	-
Foreign exchange differences	-	286,936
Sales of materials	56,590	27,044
Adjustment of estimated payroll liabilities to employees	32,321	-
Sales (purchase) of foreign currency	26,807	-
Fines and penalties for breach of contract	6,833	19,821
Savings on contracted construction and installation works	3,884	-
Accounts payable past the statute of limitation	-	8,907
Other sales	1,680	518
Sales of fixed assets	1 113	609
Provision for impairment of financial investments (recovery)	1,051	1,682
Prior year profit identified in the reporting year	123	3,554
Other income	192	388
TOTAL	**532,162**	**349,459**

21. Other expenses

Type of expenses	2018	2017
Exercise/non-exercise of commodity options	4,390,780	–
Charity, grant aid and the transfer of property	1,773,489	933,764
Foreign exchange differences	1,204,000	–
Contribution to assets	467,504	53,991

Air travel	206,594	225,518
Fines and penalties for breach of contract	119,119	7,831
Excessive oil and gas losses	82,793	79,309
Demurrage	79,548	87,782
Remuneration, compensation to members of the Board of Directors	73,756	69,683
Other services	67,728	11,506
Corporate and festive events	58,943	38,175
Social advertising	50,000	52,005
Services of banks and lending institutions	46,792	49,871
Assessment of dividend income tax payable to the budget of the Republic of Belarus	38,821	–
Lease and sublease expenses	25,608	3,482
Compensation payments under agreements with the administration and the indigenous people of the North	22,069	-
Other expenses	17,985	8,172
Staff-related costs	13,810	3,782
Non-employee training	9,840	8,990
Provision for doubtful debts	5,210	–
Costs of holding shareholders' meetings	4,248	8,712
Office decoration and maintenance	3,112	2,563
Payments for negative environmental impact	1,627	–
Other derecognition (write-off) of assets	801	–
Provision for impairment of financial investments	330	–
Prior year losses identified in the reporting period	–	23,300
Non-deductible VAT	–	2,851
Purchase and sale of foreign currency	–	1,586
Uncollectible accounts receivable written-off	–	404
TOTAL	**8,764,507**	**1,673,277**

22. Permanent tax liabilities (assets)

Permanent differences	2018	2017
Expenses	**3,028,155**	**1,604,864**
Interest payable (foreign currency)	17,780	10,976
Interest payable (RUB)	-	1,827
Charity, grant aid and transfer of property	1,773,489	933,764
Property investments	467,504	53,991
Demurrage	79,548	87,782
Social advertising costs	50,000	52,005
Other expenses	13,512	18,846
Lease and sublease expenses	25,608	3,482
Remuneration, compensation to members of the Board of Directors	73,756	69,683
Other general expenses	-	(659)
Provision for impairment of financial investments	330	

Corporate and festive events	51,266	37,262
Non-deductible VAT	-	645
Payments for individuals (included in gross income)	11,896	3,773
Travel expenses	138	-
Non-employee training	9,840	8,990
Above-standard loss of gas	20,480	18,715
Above-standard loss of oil	25,361	27,045
Special events	7,677	5,983
Office decoration (maintenance of plants, aquarium, floral products)	3,112	2,564
Uncollectible accounts receivable	-	(255)
Additional borrowing costs	9,755	20,500
Registration fee	2,525	250
Fines and penalties for breach of contract (expenses)	117,745	1,511
Penalties for taxes, insurance contributions	15	2,117
Prior year losses recognised in the reporting year	-	19,746
Air travel, charter flights, accommodation	206,823	225,518
Depreciation of fixed assets	67	-
Estimated liabilities (payroll-based insurance contributions)	(13,196)	(4,821)
Estimated liabilities (salaries according to the staffing table)	(71,286)	3,624
Legal and notary services	45,438	-
Compensation payments under agreements with the administration and the indigenous peoples of the North	22,069	-
Payments for negative impact on the environment	1,628	-
Production of business cards and other printing services	15,339	-
Hot meals	1,914	-
Depreciation of the decommissioning provision	5,344	-
Write-off of deferred expenses (decommissioning assets)	8,688	-
Electricity	5,169	-
Permanent differences: expenses (20%)	**2,989,334**	**1,604,864**
Withholding tax (on dividends to foreign organizations)	38,821	-
Permanent differences: expenses (0%)	**38,821**	**-**
Permanent tax liability	**597,867**	**320,973**
Income	**1,307**	**10,829**
Other income	78	240
Provision for impairment of financial investments (income)	1,051	1,682
Penalties for taxes, insurance contributions	54	-
Accounts payable past the statute of limitation	-	8,907
Prior year profit (loss) identified (recognized) in the reporting year	123	
Permanent differences: income (20%)	**1,307**	**10,829**
Permanent differences: income (0%)	**-**	**-**
Permanent tax asset	**261**	**2,166**
TOTAL Permanent tax liability (asset)	**597,606**	**318,807**

23.1. Changes in deferred tax liabilities

Item	2018		2017	
	Amount	Deferred liability	Amount	Deferred liability
Difference in finished products	(9,389)	(1,878)	(57,265)	(11,453)
Differences in fixed assets	(4,574,075)	(914,815)	(4,586,353)	(917,272)
Difference in pre-production costs (sidetrack)	(195,930)	(39,186)	(55,962)	(11 192)
Difference in deferred expenses	(350,782)	(70,156)	-	-
Difference in pre-production costs (intangible exploration assets)	(177,834)	(35,567)	-	-
Difference in dividends received, 0%	-	-	(4,162,944)	-
TOTAL, including	**(5,308,010)**	**(1,061,602)**	**(8,862,524)**	**(939,917)**
- at 20% rate	(5,308,010)	(1,061,602)	(4,699,580)	(939,917)
- at 0% rate	-	-	(4,162,944)	-

23.2. Changes in deferred tax assets

Item	2018		2017	
	Amount	Deferred asset	Amount	Deferred asset
Differences in fixed assets	2,863	572	8	2
Loss on 2014 profit tax	(7,826,897)	(1,565,379)	(5,001,032)	(1,000,206)
Difference in estimated liabilities and provisions	90,964	18,193	-	-
Difference in provisions for doubtful debts	5,210	1,042	-	-
Difference in deferred expenses	689	138	-	-
Prior year losses from securities transactions	(46,882)	(9,377)	-	-
Loss from the sale of fixed assets (RussNeft Research& Technology Centre)	(90)	(18)	(337)	(68)
TOTAL, including	**(7,774,143)**	**(1,554,829)**	**(5,001,361)**	**(1,000,272)**
– at 20% rate	(7,774,143)	(1,554,829)	(5,001,361)	(1,000,272)

24.1. Tax fines and penalties

Tax	2018		2017	
	Description	Amount	Description	Amount
Penalties on taxes and charges	Federal Tax Service decision dated 31 January 19 No. CA-4-9/1643@	(348,433)	Resolution No. 09АП-33642/2017 dated 18 August 2017	16
Profit tax fine	Federal Tax Service decision dated 31 January 19 No. CA-4-9/1643@	(315,249)		
Other	Federal Tax Service decision dated 31 January 19 No. CA-4-9/1643@	(63,217)		
TOTAL		**(726,899)**		**16**

24.2. Prior year profit tax

Tax	2018		2017	
	Description	Amount	Description	Amount
Profit tax on controlled transactions	2017	(29,370)	2016	(32,048)
Upward loss adjustment loss under the Controlled Transactions Agreement			2014	645,249
Profit tax (RussNeft Research & Technology Centre)			2016	(1,734)
Profit tax, 2014–2016	Federal Tax Service decision dated 31 January 19 No. CA-4-9/1643@	(1,576,244)	Resolution No. 09АП-33642/2017 dated 18 August 2017	478
TOTAL		**(1,605,615)**		**611,945**

25. List of subsoil licences

25. List of subsoil licences

No.	Subsoil area	Licence No.	Licence validity	Field
Ulyanovsk Region				
1	Zimnitsky	УЛН 16181 НЭ	15 November 2016 – 31 December 2099	Zimnitskoye
				Severo-Zimnitskoye (part)
2	Severo-Zimnitsky	УЛН 16182 НЭ	15 November 2016 – 23 May 2028	Severo-Zimnitskoye
3	Vostochny	УЛН 09198 НЭ	01 March 2017 – 01 July 2039	Vostochnoye
4	Birlinsky	УЛН 09199 НЭ	01 March 2017 – 31 December 2089	Birlinskoye
5	Yuzhno-Filippovsky	УЛН 09200 НЭ	01 March 2017 – 31 December 2081	Yuzhno-Filippovskoye
6	Varvarovsky	УЛН 09201 НЭ	01 March 2017 – 01 July 2037	Varvarovskoye
7	Baranovsky	УЛН 09202 НЭ	01 March 2017 – 01 July 2037	Baranovskoye
8	Volodarsky	УЛН 09203 НЭ	01 March 2017 – 01 July 2033	Volodarskoye
9	Vishensky	УЛН 09204 НЭ	01 March 2017 – 01 July 2038	Vishenskoye
10	Golodyaevsky	УЛН 09205 НЭ	01 March 2017 – 31 December 2059	Golodyaevskoye
11	Repyevsky	УЛН 09206 НЭ	01 March 2017 – 01 July 2039	Repyevskoye
12	Novospassky	УЛН 09207 НЭ	01 March 2017 – 31 December 2054	Novospasskoye
13	Zapadny	УЛН 09208 НЭ	01 March 2017 – 01 July 2037	Zapadnoye
14	Novobesovsky	УЛН 09209 НЭ	01 March 2017 – 01 January 2033	Novobesovskoye
15	Novolabitovsky	УЛН 09210 НЭ	01 March 2017 – 31 December 2099	Novolabitovskoye
16	Rudnevsky	УЛН 09211 НЭ	01 March 2017 – 31 December 2051	Rudnevskoye
				Mordovoozerskoye (Eastern part)
17	Filippovsky	УЛН 09212 НЭ	01 March 2017 – 31 December 2052	Filippovskoye
18	Yuzhno-Vishensky	УЛН 09213 НЭ	01 March 2017 – 01 July 2039	Yuzhno-Vishenskoye
19	Pravdisnky	УЛН 09214 НЭ	01 March 2017 – 31 December 2087	Pravdinskoye
20	Ravninny	УЛН 09215 НЭ	01 March 2017 – 01 January 2033	Ravninnoye
21	Allagulovsky	УЛН 09216 НЭ	01 March 2017 – 01 January 2033	Allagulovskoye
22	Mordovoozersky	УЛН 09217 НЭ	01 March 2017 – 01 January 2033	Mordovoozerskoye
23	Vostocho-Filippovsky	УЛН 09218 НЭ	01 March 2017 – 01 July 2037	Vostochno-Filippovskoye
24	Bezymyanny	УЛН 09219 НЭ	31 March 2017 – 31 December 2088	Bezymyannoye
25	Ovrazhny	УЛН 09220 НЭ	31 March 2017 – 31 December 2029	Ovrazhnoye
26	Zapadno-Raduzhny	УЛН 09221 НЭ	31 March 2017 – 31 December 2034	Zapadno-Raduzhnoye
27	Kudryashovsky	УЛН 09222 НЭ	31 March 2017 – 31 December 2097	Kudryashovskoye
Republic of Kalmykia				
28	Bairsky	ЭЛИ 00397 НЭ	26 December 2016 – 01 January 2038	Bairskoye
Penza Region				
29	Verkhozimsky	ПНЗ 01450 НЭ	27 December 2016 – 01 January 2068	Verkhozimskoye
30	Komarovsky	ПНЗ 01451 НЭ	27 December 2016 – 01 January 2050	Komarovskoye
Volgograd Region				
31	Belokamennoye field	ВЛГ 02240 НЭ	18 January 2017 – 31 December 2033	Belokamennoye
Saratov Region				
32	Zapadno-Stepnoy	СРТ 01791 НЭ	28 February 2017 – 31 December 2066	Zapadno-Stepnoye

33	Yazykovsky	СРТ 01792 НЭ	28 February 2017 – 31 December 2053	Yazykovskoye
34	Zapadno-Rybushansky	СРТ 01793 НЭ	28 February 2017 – 31 December 2065	Zapadno-Rybushanskoye
35	Vostochno-Suslovsky	СРТ 01794 НЭ	28 February 2017 – 31 December 2075	Vostochno-Suslovskoye
36	Generalsky	СРТ 01795 НЭ	28 February 2017 – 31 December 2044	Generalskoye
37	Danilovsky	СРТ 01796 НЭ	28 February 2017 – 31 December 2078	Danilovskoye
38	Vasnetsovsky	СРТ 01797 НЭ	28 February 2017 – 31 December 2071	Vasnetsovskoye
39	Belokamenny	СРТ 01798 НЭ	28 February 2017 – 31 December 2110	Belokamennoye
40	Rodionovsky	СРТ 01799 НЭ	28 February 2017 – 31 December 2038	Rodionovskoye
41	Rogozhinsky	СРТ 01800 НЭ	28 February 2017 – 31 December 2046	Rogozhinskoye
42	Malinoovrazhny	СРТ 01801 НЭ	28 February 2017 – 31 December 2101	Malinoovrazhnoye
43	Mayaksky	СРТ 01802 НЭ	28 February 2017 – 31 December 2038	Mayakskoye
44	Luzyaninsky	СРТ 01803 НЭ	28 February 2017 – 31 December 2085	Luzyaninskoye
45	Mechetkinsky	СРТ 01804 НЭ	28 February 2017 – 31 December 2069	Mechetkinskoye
46	Mikhalkovsky	СРТ 01805 НЭ	28 February 2017 – 31 December 2062	Mikhalkovskoye
47	Uritsky	СРТ 01806 НЭ	28 February 2017 – 31 December 2037	Uritskoye
48	Osinovsky	СРТ 01807 НЭ	28 February 2017 – 31 December 2044	Osinovskoye
49	Furmanovsky	СРТ 01808 НЭ	28 February 2017 – 31 December 2029	Furmanovskoye
50	Teplovsky	СРТ 01809 НЭ	28 February 2017 – 31 December 2080	Teplovskoye Pridorozhnoye Yuzhno-Teplovskoye
51	Tambovsky	СРТ 01810 НЭ	28 February 2017 – 31 December 2042	Tambovskoye
52	Kvasnikovsky	СРТ 01811 НЭ	28 February 2017 – 31 December 2056	Kvasnikovskoye
53	Zapadno-Vishnevsky	СРТ 01812 НЭ	28 February 2017 – 31 December 2070	Zapadno-Vishnevskoye
54	Oktyabrsky	СРТ 01813 НЭ	28 February 2017 – 31 December 2062	Oktyabrskoye

55	Razinsky	СРТ 01814 НЭ	28 February 2017 – 31 December 2045	Razinskoye
56	Radischevsko-Gartovsky	СРТ 01815 НЭ	28 February 2017 – 31 December 2085	Radischevsko-Gartovskoye
57	Razumovsky	СРТ 01816 НЭ	28 February 2017 – 31 December 2053	Razumovskoye
58	Guselsky	СРТ 01817 НЭ	28 February 2017 – 31 December 2031	Guselskoye
59	Zarechny	СРТ 01818 НЭ	28 February 2017- 31 December 2080	Zarechnoye
60	Ilovlinsky	СРТ 01819 НЭ	28 February 2017 – 31 December 2037	Ilovlinskoye
61	Kolotovsky	СРТ 01820 НЭ	28 February 2017 – 31 December 2039	Kolotovskoye Mayakskoye (part)
62	Zvezdny	СРТ 01821 НЭ	28 February 2017- 30 December 2026	Zvezdnoye
63	Pionersky	СРТ 01822 НЭ	28 February 2017 – 31 December 2066	Pionerskoye
64	Yuzhno-Pervomaisky	СРТ 01823 НЭ	28 February 2017 – 31 December 2061	Yuzhno-Pervomaiskoye Kamelik-Pervomaiskoye
65	Pogranichny	СРТ 01824 НЭ	28 February 2017 – 31 December 2051	Pogranichnoye
66	Sokolovogorsky	СРТ 01825 НЭ	28 February 2017 – 31 December 2052	Sokolovogorskoye
67	Suslovsky	СРТ 01826 НЭ	28 February 2017 – 31 December 2045	Suslovskoye
68	Alekseevsky	СРТ 01827 НЭ	28 February 2017 – 31 December 2047	Alekseevskoye
69	Limano-Grachevsky	СРТ 01828 НЭ	28 February 2017 – 31 December 2057	Limano-Grachevskoye
70	Kulikovsky	СРТ 01829 НЭ	28 February 2017 – 31 December 2073	Kulikovskoye
71	Aleksandrovsky	СРТ 01830 НЭ	28 February 2017 – 31 December 2061	Aleksandrovskoye
72	Irinovsky	СРТ 01848 НЭ	29 March 2017 – 31 December 2074	Irinovskoye
73	Perelyubsky	СРТ 01857 НЭ	19 May 2017 – 31 December 2097	Perelyubskoye Zapadno-Perelyubskoye (part)
Tomsk Region				
74	Duklinsky	ТОМ 02115 НЭ	01 March 2017 – 28 January 2033	Duklinskoye
75	Yuzhno-Myldzhinsky	ТОМ 02116 НЭ	01 March 2017 –	Verkhnesalatskoye

			31 December 2070	Yuzhno-Myldzhinskoye Rechnoye
76	Grushevy	ТОМ 02117 НЭ	01 March 2017 – 31 December 2039	Grushevoye
77	Stolbovoy	ТОМ 02118 НЭ	01 March 2017 – 31 December 2039	Stolbovoye Olenye (part)
78	Poselkovy	ТОМ 02119 НЭ	01 March 2017 – 31 December 2033	Poselkovoye
79	Fedyushkinsky	ТОМ 02120 НЭ	01 March 2017 – 31 December 2033	Fedyushkinskoye
80	Soboliny	ТОМ 02121 НР	01 March 2017 – 27 August 2038	Gurarinskoye Yasnoye
81	Sobolinoye field	ТОМ 02122 НЭ	01 March 2017 – 31 December 2039	Sobolinoye
Khanty-Mansi Autonomous District				
82	Sredne-Shapshinsky	ХМН 03338 НЭ	06 April 2017 – 31 December 2128	Sredne-Shapshinskoye
83	Ovalny	ХМН 03339 НР	06 April 2017 – 31 December 2024	Arzhanovskoye Ovalnoye
84	Mokhtikovsky	ХМН 03340 НЭ	06 April 2017 – 14 September 2038	Mokhtikovskoye
85	Nizhne-Shapshinsky	ХМН 03341 НЭ	06 April 2017 – 31 December 2060	Nizhne-Shapshinskoye Sredne-Shapshinskoye (edge)
86	Zapadno-Mogutlorsky	ХМН 03342 НЭ	07 April 2017 – 31 December 2079	Zapadno-Mogutlorskoye Mogutlorskoye Vat-Eganskoye Zhilinskoye Severo-Pokachevskoye
87	Roslavlsky	ХМН 03343 НЭ	07 April 2017 – 19 October 2024	Roslavlskoye
88	Chukhlorsky	ХМН 03344 НР	07 April 2017 – 15 April 2032	Chukhlorskoye Yuzhno-Roslavlskoye Roslavlskoye (part)
89	Tagrinsky	ХМН 03345 НЭ	07 April 2017 – 31 December 2089	Tagrinskoye
90	Peschany	ХМН 03346 НР	10 April 2017 – 22 September 2024	Peschanoye
91	Novo-Agansky	ХМН 03347 НЭ	10 April 2017 – 29 June 2038	Novoaganskoye
92	Zapadno-Variogansky	ХМН 03348 НЭ	10 April 2017 – 31 December 2113	Zapadno-Varioganskoye
93	Nizhny Roslavlsky	ХМН 03349 НР	11 April 2017 – 14 June 2040	Geological survey
94	Verkhne-Shapshinsky	ХМН 03350 НЭ	11 April 2017 – 31 December 2095	Verkhne-Shapshinskoye Prirazlomnoye (edge)
95	Chernogorskoye field	ХМН 03351 НЭ	11 April 2017 – 08 December 2037	Chernogorskoye
96	Eguryakhsky	ХМН 03352 НР	11 April 2017 – 18 June 2022	Eguryakhskoye Golevoye Yuzhno-Eguryakhskoye Vostochno-Golevoye
97	Zapadno-Uzunsky	ХМН 03353 НР	12 April 2017 – 09 February 2041	Geological study
98	Pikovy	ХМН 03354 НР	12 April 2017 – 09 February 2041	Geological study
99	Vodorazdelny	ХМН 03363 НР	10 May 2017 – 31 December 2132	Vostochno-Kamennoye
100	Valyuninsky	ХМН 16431 НЭ	01 December 2017 – 31 December 2117	Valyuninskoye Vyngapurovskoye (part)
101	Edges of Tagrinskoye field under development	ХМН 03421 НП	27 April 2018 – 26 April 2023	Geological study
102	Khantymansiysko-Frolovsky	ХМН 03425 НР	22 May 2018 – 31 December 2069	Khanty-Mansiyskoye
Yamal-Nenets Autonomous District				
103	Yuzhno-Yarainersky	СЛХ 16398 НР	24 July 2017 – 31 December 2072	Yuzhno-Yarainerskoye Tagrinskoye (Northern part)

Note.

Total licences: 103, total fields: 117 (Severo-Zimnitskoye, Mordovoozerskoye, Mayakskoye, Sredne-Shapshinskoye, Tagrinskoye, and Roslavlskoye fields are located on two different subsoil areas).

26. Charitable aid provided to non-profit organizations

Beneficiary	2018	2017
SAFMAR Charitable Foundation	942,024	586,557
Classic Charity Fund for Support of Cultural and Social Programmes	569,700	107,300
New Wave Foundation	60,000	57,000
Charitable Foundation for Support of Track-and-Field Athletics	37,500	-
Government of the Khanty-Mansi Autonomous District – Yugra	28,000	26,000
Government of the Ulyanovsk Region	27,000	22,700
Tomsk Region municipal administrations	17,500	15,500
Lomonosov Moscow State University	16,792	16,996
Administration of Orsk, Orenburg Region	16,000	-
Khanty-Mansi Autonomous District – Yugra municipalities administrations	12,300	12,250
Saratov Region municipal administrations	11,000	10,000
Rovesnik Children's Wellness Centre	11,000	8,800
Penza Regional Development Foundation	7,000	-
Russian Union of Industrialists and Entrepreneurs	6,563	5,000
Ulyanovsk Region municipal administrations	3,000	3,000
Administration of the Staray Poltavka District of the Volgograd Region	1,400	1,000
Administration of the Pur District of the Yamal-Nenets Autonomous District	1,000	-
Administration of the Iki-Burul District of Kalmykia	600	-
Russian Basketball Federation LLC	-	30,000
Gubkin Russian State University of Oil and Gas	-	15,000
Moscow Regional Transport Union	-	3,000
Administration of the Kuznetsk District of the Penza Region	-	1,500
Saratov Development Support Foundation	-	500
Total:	**1,768,379**	**922,103**

27. Calculation of net assets

ASSETS

Item	31 December 2018	31 December 2017	31 December 2016
Intangible assets	344	1,493	1,524
Intangible and tangible exploration assets	180,949	392,007	–
Fixed assets	41,216,352	22,611,341	4,245,322
Income-bearing investments in tangible assets	-	–	–
Long-term and short-term investments	157,071,214	157,713,856	162,536,430
Deferred tax assets, other non-current assets	16,103,962	17,282,736	17,671,542
Inventories	4,222,110	3,392,270	2,975,104
Value added tax on purchased assets	342,434	271,295	300,601
Accounts receivables	43,047,491	35,785,867	31,759,949
Cash	2,438,854	1,706,501	2,759,967
Other current assets	-	–	–
Total assets included	**264,623,710**	**239,157,366**	**222,250,439**

LIABILITIES

Item	31 December 2018	31 December 2017	31 December 2016
Long-term loans	83,472,771	74,725,434	78,959,325
Other long-term liabilities	2,484,294	1,422,692	482,776
Estimated liabilities	186,215	103,642	–
Other liabilities	19,301,824	–	–
Short-term loans	6,474,809	128,430	112,986
Accounts payable	66,979,636	86,260,381	74,621,425
Dividends payable to members (founders)	-	–	–
Provision for anticipated expenses	90,964	84,482	86,427
Other short-term liabilities	-	–	–
Total liabilities included	**178,990,513**	**162,725,061**	**154,262,939**
Net assets value	**85,633,197**	**76,432,305**	**67,987,500**

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28. Cash flows to/from related parties

Type of transaction	Subsidiaries		Major shareholders		Other related parties		Key executives		TOTAL for related parties	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Cash flows from operating activities	**24,096,033**	**14,866,616**	**–**	**–**	**35,539,177**	**30,148,046**	**(52,413)**	**(63,722)**	**59,582,797**	**44,950,940**
cash receipts from the sale of products, goods, works and services	74,729,627	59,445,636	–	–	40,933,175	31,231,672	–	–	115,662,802	90,677,308
lease payments, licence fees, royalties, commissions and other similar payments	8,647,565	2,386,184	–	–	3,711	10,667	–	–	8,651,276	2,396,851
other cash receipts		1,440,180	–	–		38,221	–	–	–	1,478,401
cash paid to suppliers (contractors) for feedstock, materials, works, services	(57,171,218)	(48,185,410)	–	–	(3,773,614)	(545,957)	–	–	(60,944,832)	(48,731,367)
debt interest paid	(1,456,352)	(7,710)	–	–			–	–	(1,456,352)	(7,710)
other cash payments	(653,589)	(212,264)	–	–	(1,624,095)	(586,557)	(52,413)	(63,722)	(2,330,097)	(862,543)
Cash flows from investing activities	**(8,759,299)**	**(12,376,447)**	**–**	**–**	**(126,071)**	**680,028**	**–**	**–**	**(8,885,370)**	**(11,696,419)**
repayment of loans issued, sale of debt securities (claims)	11,310,235	1,810,033	–	–	122,481	502,816	–	–	11,432,716	2,312,849
dividends, interest on debt financial investments and similar income from shareholdings	1,562,729	4,357,747	–	–	53,878	282,272	–	–	1,616,607	4,640,019

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purchase, creation, upgrade and preparation of non-current assets for use	(21,054,463)	(18,544,227)	–	–	–	(53,490)	–	–	(21,054,463)	(18,597,717)
purchase of shares (interest) in other entities	(577,800)	–	–	–	–	–	–	–	(577,800)	–
purchase of debt securities (claims), loans issued	–	–	–	–	(302,430)	(51,570)	–	–	(302,430)	(51,570)
Cash flows from financing activities	**–**	**(491 120)**	**–**	**(2,381,744)**	**–**	**–**	**–**	**–**	**–**	**(2,872,864)**
payment of dividends and other income distributions to shareholders (participants)	–	–	–	(2,381,744)	–	–	–	–	–	(2,381,744)
repayment (redemption) of promissory notes and other debt securities, repayment of loans	–	(491 120)	–	–	–	–	–	–	–	(491 120)
Cash flow balance for the reporting period	**15,336,734**	**1,999,049**	**–**	**(2,381,744)**	**35,413,106**	**30,828,074**	**(52,413)**	**(63,722)**	**50,697,427**	**30,381,657**

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