

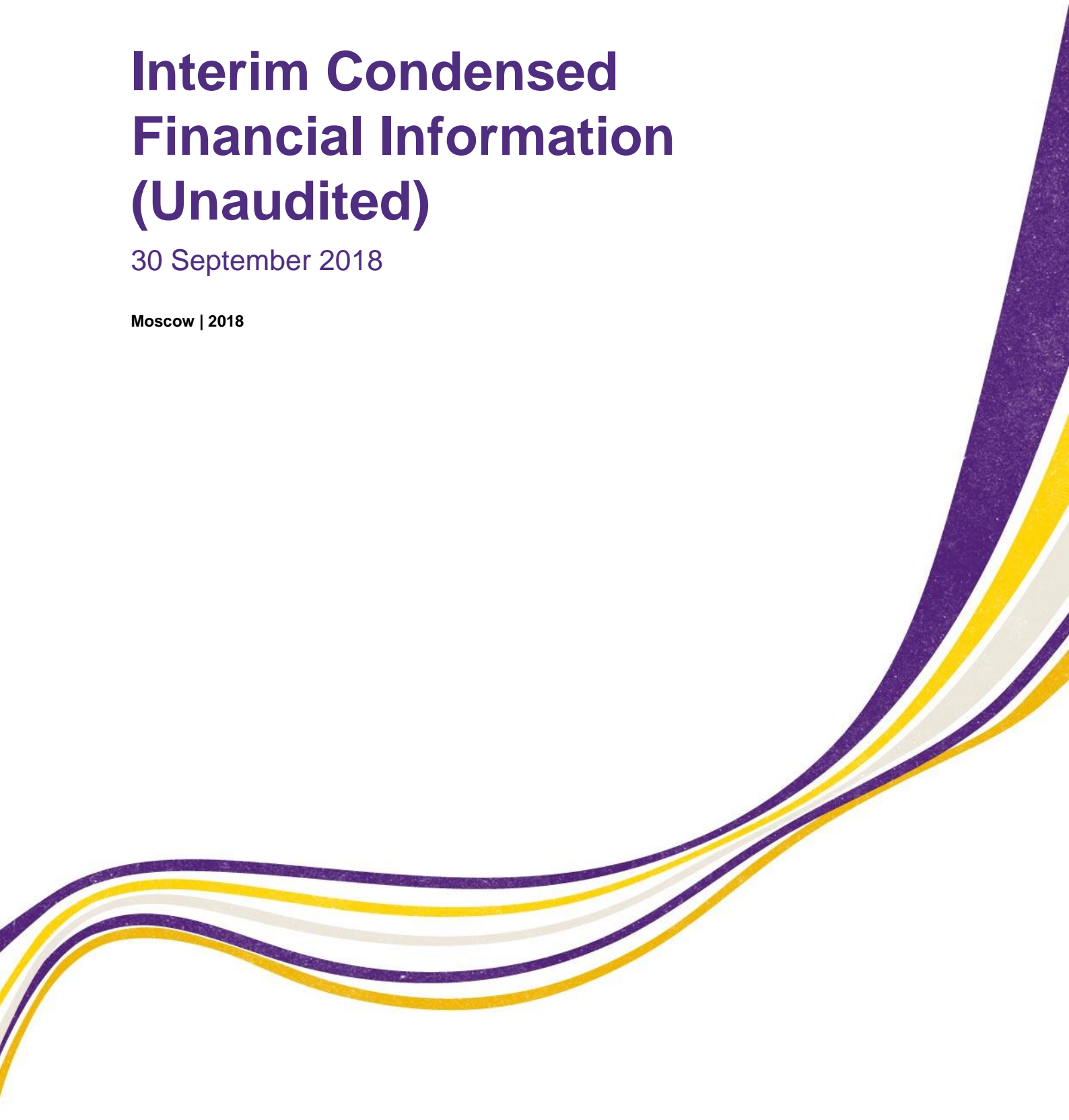
ФБК

OJSC Severneftegazprom

Interim Condensed Financial Information (Unaudited)

30 September 2018

Moscow | 2018



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Report on Review of Interim Condensed Financial Information

To the Shareholders and the Board of Directors of OJSC Severneftegazprom

Introduction

We have reviewed the accompanying interim condensed statement of financial position of OJSC Severneftegazprom as at 30 September 2018 and the related interim condensed statements of profit or loss and other comprehensive income, cash flows and changes in equity for the nine months ended 30 September 2018, and notes to the interim condensed financial information.

Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

Engagement partner



P.V. Sungurova
(audit qualification certificate
01-001300, ORNZ 21606047673)

Date of the Report on Review:

2 November 2018

Audited entity

Name:

Open Joint Stock Company Severneftegazprom
(OJSC Severneftegazprom).

Address of the legal entity within its location:

22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district,
the Yamalo-Nenets Autonomous District, Tyumen region,
629380, Russian Federation.

Official registration:

Registered by the State registration chamber under the Ministry
of Justice of the Russian Federation on June 15, 2001,
certificate: No R-16625.16. Entered in the Unified State Register
of Legal Entities on 19 December 2002 under primary state
registration number 1028900699035.

Auditor

Name:

FBK, LLC.

Address of the legal entity within its location:

44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian
Federation.

Official registration:

State Registration Certificate series YZ 3 No. 484.583 RP issued
by Moscow Registration Chamber on 15 November 1993. The
registration entry was made in the Unified State Register of Legal
Entities on 24 July 2002 under primary state registration number
1027700058286.

Membership in a self-regulatory organisation of auditors:

Self-regulatory organisation of auditors Association
"Sodruzhestvo".

Number in the register of self-regulatory organisation of
auditors:

Certificate of membership in the self-regulatory organisation of
auditors Association "Sodruzhestvo" No. 7198, principal number
of registration entry (ORNZ) – 11506030481.

OJSC SEVERNEFTEGAZPROM
INTERIM CONDENSED FINANCIAL STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 SEPTEMBER 2018
(In thousands of Russian Roubles, unless otherwise stated)

	Note	30 September 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	6	5,942,409	7,534,064
Trade and other receivables	7	9,640,957	5,277,560
Inventories	8	545,169	612,228
Current income tax prepayment		491,671	171,349
Other current assets	9	1,207	4,905
Total current assets		16,621,413	13,600,106
Non-current assets			
Property, plant and equipment	10	59,161,481	61,418,865
Long-term receivables	11	33,949	37,502
Total non-current assets		59,195,430	61,456,367
TOTAL assets		75,816,843	75,056,473
Liabilities and equity			
Current liabilities			
Trade and other payables	12	923,914	1,017,091
Taxes payable other than income tax	13	5,522,017	6,014,994
Total current liabilities		6,445,931	7,032,085
Non-current liabilities			
Provisions	14	6,462,617	6,354,397
Deferred income tax liabilities	15	7,082,045	6,803,018
Total non-current liabilities		13,544,662	13,157,415
Total liabilities		19,990,593	20,189,500
Equity			
Share capital	16	40,000	40,000
Share premium	16	25,099,045	25,099,045
Other reserves	16	921,489	660,146
Retained earnings		29,765,716	29,067,782
Total equity		55,826,250	54,866,973
TOTAL liabilities and equity		75,816,843	75,056,473

Approved for issue and signed on 02 November 2018 by the following members of management:



V.V. Dmitruk
General Director



A.A. Chernyshev
Deputy Director on economics and finance

OJSC SEVERNEFTEGAZPROM
INTERIM CONDENSED FINANCIAL STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(In thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Revenue	17	33,673,297	36,427,258
Cost of sales	18	(28,030,241)	(27,776,030)
Gross profit		5,643,056	8,651,228
General and administrative expenses	19	(817,561)	(654,375)
Exploration costs		(3,246)	(26,974)
Other operating income	20	51,738	66,976
Other operating expenses	21	(127,700)	(330,868)
Reversal of allowance for expected credit losses		-	2,221
Operating profit		4,746,287	7,708,208
Finance income	22	344,296	709,793
Finance expense	23	(404,734)	(423,068)
Profit before income tax		4,685,849	7,994,933
Income tax	15	(1,023,153)	(1,704,727)
Profit for the period		3,662,696	6,290,206
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	14	326,679	(205,528)
Related income tax		(65,336)	31,331
Total other comprehensive income / (loss) that will not be reclassified to profit or loss		261,343	(174,197)
Other comprehensive income / (loss) for the period		261,343	(174,197)
Comprehensive income for the period		3,924,039	6,116,009

Approved for issue and signed on 02 November 2018 by the following members of management:



V. V. Dmitruk
General Director



A.A. Chernyshev
Deputy Director on economics and finance

OJSC SEVERNEFTEGAZPROM
INTERIM CONDENSED FINANCIAL STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(In thousands of Russian Roubles, unless otherwise stated)

	Note	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Profit before income tax		4,685,849	7,994,933
Adjustments for:			
Interest income	22	(344,247)	(677,687)
Finance expense excluding foreign currency exchange losses	23	404,481	398,249
Depreciation	18	3,783,057	3,708,910
Gain on disposal of property, plant and equipment and assets classified as held for sale	20	(6,096)	(24,358)
Net foreign currency exchange loss / (gain)	22, 23	204	(7,287)
Reversal of allowance for expected credit losses		-	(2,221)
Accrual of impairment allowance on materials for extraction	21	-	13,892
Reversal of impairment allowance on materials for extraction	20	(22,031)	(12,229)
Loss on change in fair value of assets classified as held for sale		-	154,793
Change in provisions for post-employment benefits		3,092	23 194
Other non-cash transactions		22,965	28 983
Operating cash flows before changes in working capital		8,527,274	11,599,172
Change in inventories	8	89,090	19,999
Change in trade and other receivables, excluding interest receivables		(4,357,412)	(2,107,645)
Change in provisions, trade and other payables and taxes payable, excluding interest payable and payables for acquired property, plant and equipment and exploration and evaluation services		(555,785)	(626,753)
Change in payables for exploration and evaluation services		(3,246)	(26,974)
Income tax paid		(1,129,784)	(2,064,467)
Net cash from operating activities		2,570,137	6,793,332
Cash flows from investing activities			
Capital expenditures		(1,548,638)	(620,663)
Interest received		345,512	677,687
Proceeds from sale of property, plant and equipment and assets classified as held for sale		6,096	24,358
Net cash (used in) / from investing activities		(1,197,030)	81,382
Cash flows from financing activities			
Dividends paid	16	(2,964,762)	(10,231,059)
Net cash used in financing activities		(2,964,762)	(10,231,059)
Net decrease in cash and cash equivalents		(1,591,655)	(3,356,345)
Effect of foreign exchange rate changes on cash and cash equivalents		-	8,747
Cash and cash equivalents at the beginning of the period	6	7,534,064	9,860,006
Cash and cash equivalents at the end of the period	6	5,942,409	6,512,408

Approved for issue and signed on 02 November 2018 by the following members of management:


V. V. Dmitruk
General Director


A. A. Chernyshev
Deputy Director on economics and finance

OJSC SEVERNEFTEGAZPROM
INTERIM CONDENSED FINANCIAL STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
(In thousands of Russian Roubles, unless otherwise stated)

	Note	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as at							
1 January 2017		533,330	40,000	25,099,045	649,754	37,705,548	63,494,347
Profit for the period		-	-	-	-	6,290,206	6,290,206
Other comprehensive income for the period		-	-	-	(174,197)	-	(174,197)
Comprehensive income for the period		-	-	-	(174,197)	6,290,206	6,116,009
Dividends	16	-	-	-	-	(10,231,059)	(10,231,059)
Balance as at 30 September 2017		533,330	40,000	25,099,045	475,557	33,764,695	59,379,297
Balance as at							
1 January 2018		533,330	40,000	25,099,045	660,146	29,067,782	54,866,973
Profit for the period		-	-	-	-	3,662,696	3,662,696
Other comprehensive income for the period		-	-	-	261,343	-	261,343
Comprehensive income for the period		-	-	-	261,343	3,662,696	3,924,039
Dividends	16	-	-	-	-	(2,964,762)	(2,964,762)
Balance as at 30 September 2018		533,330	40,000	25,099,045	921,489	29,765,716	55,826,250

Approved for issue and signed on 02 November 2018 by the following members of management

V. V. Dmitruk
General Director

A.A. Chernyshev
Deputy Director on economics and finance

1. MAIN ACTIVITY

The core activities of Open Joint Stock Company Severneftegazprom (the “Company”) are exploration and development of the Yuzhno-Russkoye oil and gas field, prospecting, production and sales of gas.

The Company was established in 2001 as a result of reorganisation of Limited Liability Company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 30 September 2018 shareholders of the Company were represented by PJSC Gazprom which holds 50 % of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 2 class “A” and 1 class “C” preference shares and OMV Exploration & Production GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 3 class “B” preference shares. On 30 November 2017 UniPer Exploration and Production GmbH withdrew from the shareholders of Severneftegazprom by selling shares to the Austrian oil and gas company OMV Exploration and Production GmbH.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

Registered address and place of business: 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, situation in Ukraine, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company’s business in the current business and economic environment. The future economic and regulatory situation and its impact on the Company’s operations may differ from management’s current expectations.

The official Russian Rouble to US Dollar (“USD”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 65.5906 and 57.6002 as at 30 September 2018 and 31 December 2017, respectively. The official Russian Rouble to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 76.2294 and 68.8668 as at 30 September 2018 and 31 December 2017, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim condensed financial information is prepared in accordance with requirements of International Accounting Standard 34 Interim financial reporting (IAS 34). This interim condensed financial information should be read in conjunction with the financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”).

The significant accounting policies followed by the Company and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the financial statements for the year ended 31 December 2017, except for the application of new standards that became effective on 1 January 2018.

Certain amounts in comparative period were reclassified to provide their comparability with the information in the reported period.

The Company is incorporated in the Russian Federation and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation;

it's functional and presentation currency is the Russian Rouble ("RUB").

(b) Recent accounting pronouncements

Application of new IFRSs

IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)

a) Classification and measurement of financial assets

The Company classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

Financial assets measured subsequently at amortised cost

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest.

There were no changes in classification of financial assets that previously were also measured at amortised cost.

Financial assets measured subsequently at fair value with changes recognised in other comprehensive income

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest.

Gains and losses associated with this category of financial assets are recognised in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Company's management can make an irrevocable decision to recognise changes in fair value of equity instruments in other comprehensive income if the instrument is not held for trading.

As at 30 September 2018 and 31 December 2017 the Company had no such instruments; the application of the new standard had no impact on the financial statements of the Company.

Financial assets measured subsequently at fair value with changes recognised through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

These instruments previously met the fair value with changes recognised through profit or loss criteria.

b) Impairment of financial assets

The Company applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

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IFRS NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) FOR THE
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If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade receivables or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

The application of the new model did not result in any changes in the amount of the allowance for expected credit losses.

c) Classification and measurement of financial liabilities

The Company classifies all financial liabilities as measured subsequently at amortised cost.

The Company does not choose to classify any financial liabilities as measured at fair value through profit or loss.

The Company previously applied similar classification and measurement of financial liabilities.

Thus, application of IFRS 9 Financial Instruments had no significant effect on the interim condensed financial information of the Company. Accordingly, comparative data and the opening balance of retained earnings and other reserves as at 1 January 2018 were not restated.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018)

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the interim condensed financial information of the Company. Therefore, comparative data and opening balance of retained earnings and other reserves as at 1 January 2018 were not restated.

Application of Interpretations and Amendments to existing Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Company has reviewed these interpretations and amendments to standards while preparing interim condensed financial information. The interpretations and amendments to standards had no significant impact on the interim condensed financial information.

Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Company

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Company has not early adopted the standards, interpretations and amendments:

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- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

The Company is currently assessing the impact of the new standards, interpretations and amendments on its financial position and results of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 24).

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Classification of production licenses

Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in the interim condensed financial information.

Site restoration and environmental costs

Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognised when the Company has a present legal or constructive obligation as a result of past events, and 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. The cost is depreciated in accordance with the unit-of-production method during the whole usage period of these assets and reported in the comprehensive income. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be

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recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

For details of discounting rates used see Note 14.

Reserves estimation

Unit-of-production depreciation charges are principally measured based on Company's estimates of proved developed reserves. Proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets.

Accounting for assets and liabilities of the pension plan

The assessment of the obligations of the pension plan is based on the use of actuarial techniques and assumptions (see Note 14). Actual results may differ from estimates, and the Company's estimates may be adjusted in the future based on changes in the economic and financial situation. Management uses judgments on selected models, cash flows and their distribution over time, as well as other indicators, including the discount rate. The recognition of the assets of the pension plan is limited to an assessment of the present value of future benefits available to the Company under this plan. The cost of future benefits is determined on the basis of actuarial techniques and prerequisites. The value of the assets of the pension plan and these restrictions can be adjusted in the future.

5. FINANCIAL INSTRUMENTS

	Notes	30 September 2018	31 December 2017
Current assets			
Cash and cash equivalents	6	5,942,409	7,534,064
Receivables from related parties	7	7,217,843	5,132,700
Contracts asset from related parties	7	2,154,139	-
Other short-term receivables	7	68,402	62,889
Non-current assets			
Other long-term receivables	11	33,949	37,502
Total financial assets at amortised cost		15,416,742	12,767,155

	Notes	30 September 2018	31 December 2017
Current liabilities			
Trade payables	12	654,092	494,827
Payables to related parties	12	50,362	48,652
Other payables	12	8,440	8,415
Total financial liabilities at amortised cost		712,894	551,894

6. CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Deposit accounts	5,941,300	7,532,400
Current accounts	1,109	1,664
Total cash and cash equivalents	5,942,409	7,534,064

As at 30 September 2018 and 31 December 2017 cash was placed on deposit accounts for the period less than 3 months.

As at 30 September 2018 the weighted average interest rate on the deposit accounts of the Company was 7.11 % for Russian Roubles.

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IFRS NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED) FOR THE
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As at 31 December 2017 the weighted average interest rate on the deposit accounts of the Company was 6.58 % for Russian Roubles.

The fair value of cash and cash equivalents as at 30 September 2018 and 31 December 2017 approximates their carrying value.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents:

	Rating	Rating agency	Credit limit for one bank	30 September 2018	31 December 2017
Gazprombank (Joint-stock Company)	Ba2	Moody's	Not set	4,942,409	7,534,054
PJSC VTB Bank	Ba2	Moody's	Not set	1,000,000	10
Total cash and cash equivalents				5,942,409	7,534,064

7. TRADE AND OTHER RECEIVABLES

	30 September 2018	31 December 2017
Financial assets		
Receivables from related parties (Note 25)	7,217,843	5,132,700
Contracts asset from related parties (Note 25)	2,154,139	-
Other receivables	1,967,263	1,961,750
Allowance for expected credit losses	(1,898,861)	(1,898,861)
Total financial receivables	9,440,384	5,195,589
Non-financial assets		
Advances to suppliers	99,815	76,082
Prepaid taxes, other than income tax	3,784	5,678
VAT recoverable	96,974	211
Total non-financial receivables	200,573	81,971
Total trade and other receivables	9,640,957	5,277,560

As at 30 September 2018 and 31 December 2017 receivables from related parties are related to gas sales in the Russian Federation.

The Board of directors of OJSC Severneftegazprom held in October 2018 decided to change the Annual Program of activities and the Budget of OJSC Severneftegazprom for 2018 which resulted in the increase of the gas sales price for the second half of 2018 year by 22%. Accordingly contracts asset was recognised for the contracts with PJSC Gazprom, CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development as at 30 September 2018.

As at 30 September 2015 cash in the amount of RUB 1,851,570 thousand was placed on deposit accounts in LLC Vneshprombank. Due to the revocation of the bank license on 21 January 2016 the return probability of the deposit is assessed as low. As a result, the Company reclassified the deposit in the amount of RUB 1,851,570 into doubtful debt.

Allowance for expected credit losses was provided for all past due and doubtful receivables as at 30 September 2018 and 31 December 2017.

The ageing analysis of trade and other receivables is as follows:

Ageing from the due date	Total overdue receivables as at		Total allowance for expected credit losses as at		Total overdue receivables net of allowance for expected credit losses as at	
	30 September 2018	31 December 2017	30 September 2018	31 December 2017	30 September 2018	31 December 2017
Up to 1 year past due	-	-	-	-	-	-
1 to 3 years past due	1,896,520	1,896,520	(1,896,520)	(1,896,520)	-	-
Over 3 years past due	2,341	2,341	(2,341)	(2,341)	-	-
Total	1,898,861	1,898,861	(1,898,861)	(1,898,861)	-	-

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Change in the allowance for expected credit losses of accounts receivable is as follows:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Allowance for expected credit losses at the beginning of the period	(1,898,861)	(1,901,560)
Reversal of allowance for expected credit losses	-	2,221
Allowance for expected credit losses at the end of the period	(1,898,861)	(1,899,339)

As the principal debtors of the Company are related parties, the Company believes that the default risk is low. No receivables from related parties were past due or impaired as at 30 September 2018 and of 31 December 2017.

The fair value of accounts receivable as at 30 September 2018 and 31 December 2017 approximates their carrying value.

8. INVENTORIES

	30 September 2018	31 December 2017
Materials for extraction and goods for resale	731,068	822,533
Other materials	25,006	22,633
Impairment of materials for extraction	(210,905)	(232,938)
Total inventories	545,169	612,228

9. OTHER CURRENT ASSETS

	30 September 2018	31 December 2017
Assets held for sale	1,207	4,905
Total other current assets	1,207	4,905

As at 30 September 2018 assets held for sale are presented by one flat situated in the Urengoy settlement.

As at 31 December 2017 assets held for sale are presented by flats situated in the Urengoy settlement.

As at 30 September 2018 and 31 December 2017 assets held for sale were recognised at fair value.

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10. PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Others	Prepayments and assets under construction	Total
Cost as at 1 January 2017	9,754,068	11,630,318	39,062,599	17,540,886	13,684,925	193,256	1,720,732	93,586,784
Additions	-	-	3,779	86,575	-	18,742	511,566	620,662
Disposals	-	(8)	(620)	(38,017)	-	(1,601)	(251)	(40,497)
Transfer	-	52,447	358,255	233,136	-	-	(643,838)	-
Cost as at 30 September 2017	9,754,068	11,682,757	39,424,013	17,822,580	13,684,925	210,397	1,588,209	94,166,947
Additions	-	-	43,904	-	-	2,087	259,197	305,188
Change in component for decommissioning and site restoration obligation (Note 14)	(143,921)	(103,954)	(590,207)	(38,604)	-	-	-	(876,686)
Disposals	-	-	-	(6,283)	-	-	(62,506)	(68,789)
Transfer	-	3,493	61,043	452,907	-	-	(517,443)	-
Capitalised borrowing costs	-	299,448	185,300	18,291	95	-	(503,134)	-
Cost as at 31 December 2017	9,610,147	11,881,744	39,124,053	18,248,891	13,685,020	212,484	764,323	93,526,662
Additions	-	-	-	100,783	-	1,732	1,446,123	1,548,638
Disposals	-	-	-	(7,550)	-	-	-	(7,550)
Transfer of inventory	-	-	-	-	-	-	(9,991)	(9,991)
Transfer	-	-	272,945	63,245	-	-	(336,190)	-
Reconstruction	-	-	16,718	(16,718)	-	-	-	-
Cost as at 30 September 2018	9,610,147	11,881,744	39,413,716	18,388,651	13,685,020	214,216	1,864,265	95,057,759
Accumulated depreciation as at 1 January 2017	(3,239,043)	(3,156,782)	(11,326,628)	(5,063,327)	(4,363,336)	(132,935)	-	(27,282,051)
Depreciation	(359,563)	(470,545)	(1,560,782)	(805,065)	(514,454)	(13,457)	-	(3,723,866)
Disposals	-	(2)	(263)	(24,604)	-	(1,601)	-	(26,470)
Accumulated depreciation as at 30 September 2017	(3,598,606)	(3,627,325)	(12,887,147)	(5,843,788)	(4,877,790)	(144,791)	-	(30,979,447)
Depreciation	(131,490)	(194,914)	(567,506)	(323,779)	(188,144)	(5,077)	-	(1,410,910)
Change in component for decommissioning and site restoration obligation (Note 14)	46,224	21,548	205,087	6,196	-	-	-	279,055
Disposals	-	-	14	3,491	-	-	-	3,505
Accumulated depreciation as at 31 December 2017	(3,683,872)	(3,800,691)	(13,249,552)	(6,157,880)	(5,065,934)	(149,868)	-	(32,107,797)
Depreciation	(354,451)	(483,328)	(1,547,518)	(880,538)	(515,508)	(14,688)	-	(3,796,031)
Reconstruction	-	-	(6,465)	6,465	-	-	-	-
Disposals	-	-	-	7,550	-	-	-	7,550
Accumulated depreciation as at 30 September 2018	(4,038,323)	(4,284,019)	(14,803,535)	(7,024,403)	(5,581,442)	(164,556)	-	(35,896,278)
Net book value as at 1 January 2017	6,515,025	8,473,536	27,735,971	12,477,559	9,321,589	60,321	1,720,732	66,304,733
Net book value as at 30 September 2017	6,155,462	8,055,432	26,536,866	11,978,792	8,807,135	65,606	1,588,209	63,187,502
Net book value as at 31 December 2017	5,926,275	8,081,053	25,874,501	12,091,011	8,619,086	62,616	764,323	61,418,865
Net book value as at 30 September 2018	5,571,824	7,597,725	24,610,181	11,364,248	8,103,578	49,660	1,864,265	59,161,481

For the nine months ended 30 September 2018 and for the year ended 31 December 2017 borrowing costs were not capitalised in assets under construction.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 30 September 2018

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there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at this date.

As at 31 December 2017 the Company performed a test for impairment of property, plant and equipment at the cash-generating unit level.

The recoverable amount of each cash-generating unit was determined on the basis of the value in use indicator. The value of use was determined by discounting future cash flows that would result from the continued use of the unit. In determining the recoverable amount of future cash flows the following key assumptions were used:

- cash flow forecasts used in the calculations were based on the Company's budgets for a three-year period. Cash flows beyond the three-year period have been forecasted based on the information about a volume of production and a forecast of gas prices;
- the forecast of gas prices was based on the approved tariffs by the Federal Tariff Service;
- The discount rate of 14.89 % for determining the value of use was calculated on the basis of the industry average rates of the weighted average cost of capital.

As at 31 December 2017 an impairment of property, plant and equipment was not identified.

As at 30 September 2018 property, plant and equipment included prepayments for assets under construction in the amount of RUB 538,746 thousand (RUB 314 thousand as at 31 December 2017).

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Proved developed reserves are estimated by independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 5.981% for the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: 5.519%).

Estimates of gas reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of property, plant and equipment.

11. LONG-TERM RECEIVABLES

	30 September 2018	31 December 2017
Other receivables	33,949	37,502
Total long-term receivables	33,949	37,502

The fair value of long-term receivables as at 30 September 2018 and 31 December 2017 approximates their carrying value.

12. TRADE AND OTHER PAYABLES

	30 September 2018	31 December 2017
Financial liabilities		
Trade payables	654,092	494,827
Payables to related parties (Note 25)	50,362	48,652
Other payables	8,440	8,415
Total financial payables	712,894	551,894

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	30 September 2018	31 December 2017
Non-financial liabilities		
Wages and salaries payable	210,708	247,273
Prepayments received	312	-
Provision for employee bonuses	-	196,805
Provision for revegetation	-	21,119
Total non-financial payables	211,020	465,197
Total trade and other payables	923,914	1,017,091

13. TAXES PAYABLE OTHER THAN INCOME TAX

Taxes payable other than income tax comprise the following:

	30 September 2018	31 December 2017
Mineral extraction tax (MET)	3,675,855	3,530,065
Value added tax (VAT)	1,612,473	2,202,064
Property tax	147,960	148,183
Insurance contributions for employees	69,722	116,423
Personal income tax	15,523	17,501
Other taxes and accruals	484	758
Total taxes payable other than income tax	5,522,017	6,014,994

14. PROVISIONS

	30 September 2018	31 December 2017
Provision for decommissioning and site restoration	5,063,766	4,744,241
Provision for employee benefits	1,371,525	1,610,156
Provision for revegetation	27,326	-
Total provisions	6,462,617	6,354,397

Provision for decommissioning and site restoration

	Notes	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Provision for decommissioning and site restoration as at the beginning of the period		4,744,241	4,920,664
Increase in discounted value for the period	23	319,525	315,907
Provision for decommissioning and site restoration as at the end of the period		5,063,766	5,236,571

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye field after its development. Provision for decommissioning and site restoration was recognised in the financial statement for the nine months ended 30 September 2018 and for the year ended 31 December 2017 with a corresponding within property, plant and equipment (see Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 September 2018 was 8.98 % (31 December 2017 – 8.98 %), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

Provision for employee benefits

The Company operates post-employment and other long-term benefits system, which is recorded as defined benefit plan in the financial statements under IAS 19 Employee benefits. Defined benefit plan covers the majority employees of the Company. These benefits include pension benefits provided by the non-governmental pension fund, NPF GAZFUND, and post-retirement benefits from the Company provided upon retirement. The amount of post-employment and other long-term benefits depends on the time of work experience of employees, wages in recent years prior to retirement, a predetermined fixed amount or a combination of these factors.

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Provision for employee benefits recognised in the balance sheet is provided below:

	Provision for employee benefits as at	
	30 September 2018	31 December 2017
Present value of benefit obligations	2,003,271	2,085,118
Fair value of plan assets	(631,746)	(474,962)
Total net liabilities	1,371,525	1,610,156

The principal assumptions used for post-employment and other long-term benefit obligations for the nine months ended 30 September 2018 were the same as those applied for the year ended 31 December 2017 with the exception of the discount rate based on the interest rates of government securities. The increase in the discount rate from 7.5 % to 8.7 % resulted in recognition of an actuarial gain of RUB 230,989 thousand in other comprehensive income for the nine months ended 30 September 2018.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the periods ended 30 September 2018 and 30 September 2017 are provided below.

	Provision for employee benefits (post- employment benefits)	Provision for employee benefits (other long-term benefits)	Fair value of plan assets	Net liability / (asset)
As at 31 December 2017	2,003,894	81,224	(474,962)	1,610,156
Current service cost	236,215	10,336	-	246,551
Interest expense / (income)	107,344	4,329	(26,716)	84,957
Gain from remeasurements of other long-term benefit obligations	-	(9,435)	-	(9,435)
Total expenses / (income) included in staff cost	343,559	5,230	(26,716)	322,073
Gain from remeasurements of post-employment benefit obligations	(230,989)	-	-	(230,989)
Return on plan assets excluding amounts included in net interest expense	-	-	(95,690)	(95,690)
Total recognised in the other comprehensive income	(230,989)	-	(95,690)	(326,679)
Benefits paid	(191,104)	(8,543)	165,672	(33,975)
Contributions by employer	-	-	(200,050)	(200,050)
Closing balance as at 30 September 2018	1,925,360	77,911	(631,746)	1,371,525

	Provision for post-employment benefits	Fair value of plan assets	Net liability / (asset)
As at 1 January 2017	1,801,461	(509,816)	1,291,645
Current service cost	164,257	-	164,257
Interest expense / (income)	114,843	(32,501)	82,342
Total expenses included in staff cost	279,100	(32,501)	246,599
Loss from remeasurement of post-employment benefit obligations	126,914	-	126,914
Return on plan assets excluding amounts included in net interest expense	-	78,614	78,614
Total recognised in the other comprehensive loss	126,914	78,614	205,528
Benefits paid	(123,216)	96,356	(26,860)
Contributions by employer	-	(114,203)	(114,203)
Closing balance as at 30 September 2017	2,084,259	(481,550)	1,602,709

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15. INCOME TAX

Income tax expense comprises the following:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Current tax expense	809,462	1,639,742
Deferred tax expense	213,691	64,985
Total tax expense	1,023,153	1,704,727

Differences between IFRS and Russian statutory tax accounting cause certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20 %.

	Differences recognition and reversals			Differences recognition and reversals				
	30 September 2018	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2018	30 September 2017	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2017
Tax effect of taxable temporary differences:								
Property, plant and equipment	(7,161,554)	250,997	-	(7,412,551)	(7,639,266)	10,760	-	(7,650,026)
Total	(7,161,554)	250,997	-	(7,412,551)	(7,639,266)	10,760	-	(7,650,026)
Tax effect of deductible temporary differences:								
Inventories	35,502	(5,871)	-	41,373	48,680	(2,867)	-	51,547
Trade receivables	(59,722)	(429,190)	-	369,468	371,442	2,465	-	368,977
Other deductible temporary differences	103,729	(29,627)	(65,336)	198,692	143,714	(75,343)	31,331	187,726
Total	79,509	(464,688)	(65,336)	609,533	563,836	(75,745)	31,331	608,250
Total net deferred tax (liabilities) / assets	(7,082,045)	(213,691)	(65,336)	(6,803,018)	(7,075,430)	(64,985)	31,331	(7,041,776)

As at 30 September 2018 and as at 31 December 2017 all deferred tax assets and deferred tax liabilities formed during the period activity of the Company recalculated on the basis of the income tax rate of 20 % (including 2 % to the Federal budget).

Based on the amount of proved gas reserves and contracted sales, management believes that the Company will generate sufficient taxable profits in the future periods against which the deductible temporary differences will be reversed.

16. EQUITY

Share capital

Share capital of the Company authorised, issued and paid totals RUB 40,000 thousand as at 30 September 2018 and 31 December 2017 and consists of 533,324 ordinary shares with the nominal value of RUB 60 per share and 2 preference shares (type "A") with the nominal value of RUB 2,462 thousand, 3 preference shares (type "B") with the nominal value of RUB 667 thousand per share and 1 preference share (type "C") with the nominal value of RUB 1,077 thousand.

The excess of the proceeds from share issuance over the nominal value was recorded in equity as the share premium. After the share capital increase from its own funds (from the share premium) in 2011, the share premium amounted to RUB 25,099,045 thousand.

As at 30 September 2018 and 31 December 2017 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to reorganisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type "A") are calculated as 12.308 % of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type "B") as 5 % of the

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allocated profit for dividends; preference shares (type “C”) as 2.692 % of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

The basis for distribution is defined by legislation as the current year net profit calculated in accordance with the Russian statutory accounting. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial information.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognised in the financial statements at the fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount received net of respective deferred tax effect was recorded in equity as Other reserves. During 2007-2008 years the Company redeemed all the loans for which Other reserves were recognised. The fair value effect in the amount of RUB 873,253 thousand, net of respective deferred tax effect RUB 275,810 thousand, was recognised in Other reserves.

Other reserves include other comprehensive income related to the reassessment of post-employment benefit obligations net of related income tax.

Dividends

The Annual General Meeting of the Shareholders of the Company held on 1 June 2018 decided to pay dividends in the amount of RUB 2,964,762 thousand for the year ended 31 December 2017. The amount of dividends paid, net of tax, was RUB 2,721,650 thousand.

The Extraordinary General Meeting of Shareholders of OJSC Severneftegazprom, held on 15 December 2017, decided to pay dividends in the amount of RUB 4,200,000 thousand for the nine months ended 30 September 2017.

The Extraordinary General Meeting of Shareholders of OJSC Severneftegazprom, held on 2 June 2017, decided to pay dividends in the amount of RUB 3,800,000 thousand for the three months ended 31 March 2017.

The Annual General Meeting of the Shareholders of the Company held on 16 June 2017 decided to pay dividends in the amount of RUB 6,431,059 thousand for the year ended 31 December 2016.

In 2017 the Company accrued dividends in the amount of RUB 14,431,059 thousand. The amount of dividends paid, net of tax, was RUB 13,247,702 thousand.

All dividends are declared and paid in Russian Roubles.

17. REVENUE

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Revenue from gas sales	33,673,297	36,427,258
Total revenue	33,673,297	36,427,258

All customers of the Company represent related parties (see Note 25).

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18. COST OF SALES

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Mineral extraction tax	20,922,525	20,750,399
Depreciation	3,783,057	3,708,910
Staff costs	1,802,896	1,584,623
Property tax	532,362	602,168
Repairment and technical maintenance	435,685	526,742
Materials	167,073	186,750
Other outsourced production services	137,264	149,072
Insurance	107,441	116,323
Transportation costs	44,661	50,655
Fuel	30,666	30,233
Rent	13,726	18,710
Other	52,885	51,445
Total cost of sales	28,030,241	27,776,030

Depreciation in the amount of RUB 12,974 thousand for the nine months ended 30 September 2018 was capitalised (for the nine months ended 30 September 2017: RUB 14,953 thousand).

Average MET rate for the nine months 2018 was approximately RUB 1,146 per 1,000 cubic meters for the Cenomanian gas and RUB 221 per 1,000 cubic meters for the Turonian gas.

Average MET rate for the nine months of 2017 was approximately RUB 1,140 per 1,000 cubic meters for the Cenomanian gas and RUB 239 per 1,000 cubic meters for the Turonian gas.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Administrative staff costs	616,422	463,809
Rent	60,461	59,861
Services and other administrative expenses	140,678	130,705
Total general and administrative expenses	817,561	654,375

20. OTHER OPERATING INCOME

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Reversal of impairment allowance on materials for extraction	22,031	12,229
Gain on disposal of assets classified as held for sale	5,050	16,560
Fees and penalties due to violation of contract covenants	2,246	18,595
Gain on disposal of property, plant and equipment	1,046	7,798
Reimbursement of the road maintenance costs	187	1,080
Other	21,178	10,714
Total operating income	51,738	66,976

21. OTHER OPERATING EXPENSES

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Social costs	88,135	70,807
Loss on disposal of materials	11,050	980
Non-refundable VAT	3,269	65,610
Impairment allowance on materials for extraction	-	13,892
Loss on changes in the fair value of assets held for sale	-	154,793
Other	25,246	24,786
Total operating expenses	127,700	330,868

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22. FINANCE INCOME

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Interest income	344,247	677,687
Foreign currency exchange gains	49	32,106
Total finance income	344,296	709,793

23. FINANCE EXPENSE

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Unwinding of discount cost of provision for decommissioning and site restoration (Note 14)	319,525	315,907
Interest expense (pension obligations) (Note 14)	84,956	82,342
Foreign currency exchange losses	253	24,819
Total finance expense	404,734	423,068

24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was amended with effect from 1 January 2012 are more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Legislation provided the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2018 and in preceding years meets market condition. Company has implemented measures of internal controls to be in compliance with the transfer pricing legislation.

Given the specifics of transfer pricing rules, the impact of any claims to the Company's transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and / or the overall operations of the Company.

(b) Legal proceedings

The Company is subject of or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial statement.

(c) Capital commitments

The total investment program for 2018 amounted to RUB 3,124,550 thousand.

(d) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company regularly evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations of civil litigations or changes in legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that

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there are no significant liabilities for environmental damage that have not already been provided for.

(e) Operating lease commitments

As at 30 September 2018 and 31 December 2017 the Company does not have significant liabilities related to operating leases.

25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Transactions with shareholders and their related parties

The Company is under the control of PJSC Gazprom and is included in the Gazprom Group. PJSC Gazprom is the ultimate parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and OMV Exploration & Production GmbH, which is part of the OMV Group have significant influence on the Company (see Note 1).

Transactions of the Company with related parties for the nine months ended 30 September 2018 and 30 September 2017 are presented below:

	Note	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Sales of gas to PJSC Gazprom (Gazprom Group)	17	13,469,319	14,570,903
Sales of gas to CJSC Gazprom YRGM Trading (BASF SE Group)	17	11,785,654	12,749,540
Sales of gas to JSC Gazprom YRGM Development (Until 30 November 2017 – E.ON Group, since 1 December 2017 – OMV Group)	17	8,418,324	9,106,815
Purchases of goods and services from Gazprom Group		189,938	298,080

Information on significant transactions concerning cash and cash equivalents with related parties:

Cash and cash equivalents	Note	30 September 2018	31 December 2017
Gazprombank (Joint-stock Company)	6	4,942,409	7,534,054
Total cash and cash equivalents		4,942,409	7,534,054

Information on significant transactions concerning interest income with related parties:

Interest income	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Gazprombank (Joint-stock Company)	343,621	677,687
Total interest income	343,621	677,687

Significant balances with related parties are summarised as follows:

Trade and other receivables	Note	30 September 2018	31 December 2017
PJSC Gazprom		2,885,091	2,050,941
CJSC Gazprom YRGM Trading		2,524,455	1,794,573
JSC Gazprom YRGM Development		1,803,182	1,281,838
Gazprombank (Joint-stock Company)		2,545	3,793
Gazprom Group companies		2,570	1,555
Total trade and other receivables from related parties	7	7,217,843	5,132,700

As at 30 September 2018 and 31 December 2017 short-term receivables from related parties were non-interest bearing,

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had maturity within one year and were denominated mostly in Russian Roubles.

Contracts asset	Note	30 September 2018	31 December 2017
PJSC Gazprom		861,655	-
CJSC Gazprom YRGM Trading		753,949	-
JSC Gazprom YRGM Development		538,535	-
Total contracts asset from related parties	7	2,154,139	-

Trade and other payables	Note	30 September 2018	31 December 2017
Gazprom Group companies	12	50,362	48,652
Total trade and other payables to related parties		50,362	48,652

Transactions with parties under control of the Government

Information on significant balances concerning cash and cash equivalents with parties under control of the Government:

Cash and cash equivalents	Note	30 September 2018	31 December 2017
PJSC Bank VTB	6	1,000,000	-
Total cash and cash equivalents		1,000,000	-

The Company had no significant transactions with parties under control of the Government except the Gazprom Group companies and its related parties.

Transactions with Key Management Personnel and the Board of Directors

Key management personnel of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Short-term benefits	278,729	221 682
Total compensation	278,729	221 682

The Annual General meeting of the shareholders held in June 2018 has decided to pay compensation to the members of the Board of directors amounting to RUB 6,001 thousand.

The Annual General meeting of the shareholders held in June 2017 has decided to pay compensation to the members of the Board of directors amounting to RUB 5,780 thousand.

26. SUBSEQUENT EVENTS

There were no subsequent events to disclosure except for those disclosed in the interim condensed financial information (see Note 7).