

Notes
to the Balance Sheet and the Income Statement of
“Surgutneftegas” Public Joint Stock Company for 2019
(text form)

1. General Information on “Surgutneftegas” PJSC

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

Location of the issuer’s continuing executive body: ul.Grigoriya Kukuyevitskogo, 1, building 1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation.

Mailing address: 628415, Russian Federation, Tyumenskaya Oblast, Khanty-Mansiysky Autonomous Okrug – Yugra, Surgut, ul.Grigoriya Kukuyevitskogo, 1, building 1.

Full corporate name: “Surgutneftegas” Public Joint Stock Company.

Abbreviated corporate name: “Surgutneftegas” PJSC.

Date of introduction of the existing name: 03.07.2018.

Grounds for introduction of the corporate name: Federal Law of the Russian Federation No. 208-FZ dated 26.12.1995 “On Joint Stock Companies”.

State registration of the issuer:

Initial state registration:

State registration number: 12-4782.

Date of state registration: 27.06.1996.

Body that conducted the state registration: Administration of the city of Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast.

Registration of the legal entity:

Main state registration number of the legal entity: 1028600584540.

Registration date: 18.09.2002.

Name of the registration authority: Inspectorate of the Ministry of Taxation of the Russian Federation for Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra.

1.1. Core operations of “Surgutneftegas” PJSC

Core operations of “Surgutneftegas” PJSC (hereinafter – the Company) include:

crude oil, petroleum (associated) and natural gas production;
processing and marketing of oil and gas as well as their products and other related activities.

1.2. Management structure of the Company

General Shareholders’ Meeting of the Company.

Board of Directors of the Company.

Executive body of the Company (Director General).

The General Shareholders’ Meeting of the Company is the supreme management body of the Company.

Members of the Board of Directors:
 Erokhin Vladimir Petrovich (Chairperson)
 Bogdanov Vladimir Leonidovich
 Bulanov Alexander Nikolaevich
 Dinichenko Ivan Kalistratovich
 Egorov Valery Nikolaevich
 Krivosheev Viktor Mikhailovich
 Matveev Nikolai Ivanovich
 Mukhamadeev Georgy Rashitovich
 Usmanov Ildus Shagalievich.

Additional information is available at the website: www.surgutneftegas.ru.

Individual executive body of the Company:
 Bogdanov Vladimir Leonidovich – Director General.

1.3. Members of the Company's Auditing Committee

Oleynik Tamara Fedorovna
 Prishchepova Lyudmila Arkadyevna
 Musikhina Valentina Viktorovna

1.4. Number of the Company's employees

The average number of employees for 2019 was 101 653 people.

2. Information on accounting policy and amendments thereto

The accounting policy of "Surgutneftegas" PJSC for 2019 for accounting purposes complies with the legislation of the Russian Federation on accounting.

The accounting policy for 2019 has not undergone any significant amendments. Amendments in the Company's accounting policy are made subject to any amendments in the legislation of the Russian Federation and (or) accounting legal regulations when the Company develops or chooses a new method for accounting, which, when applied, increases the quality of information on an object of accounting and significant amendments in the operational conditions of the Company.

Significant methods for accounting are disclosed in the relevant sections of the Notes to the Company's Balance Sheet and the Income Statement.

3. Notes to the Balance Sheet Items

3.1. Intangible assets (hereinafter – IA)

The Company's IA include:
 exclusive rights to invention, industrial prototype, utility model;
 exclusive rights to computer programs and databases;
 exclusive rights to trademarks and service marks;
 other protected results of intellectual activities and individualization means.

Intangible assets are recorded at their actual (historical) cost determined as of the date when such assets were recorded.

The cost of IA is redeemed through accrued amortization under the straight-line method within the fixed period of their useful life.

The useful life of IA is determined when an item is entered in accounting records based on the term of a patent or certificate, and other limitations for the useful life of intellectual property in accordance with the legislation of the Russian Federation, and the expected useful life of such an item during which the Company expects to obtain economic benefits (income).

The Company does not have intangible assets with an indefinite useful life.

The useful life of IA is checked by the Company annually during inventory to see whether it needs to be adjusted. If the duration of the period during which the Company expects to use the asset changes by more than 5%, the useful life of such asset shall be adjusted.

Changes in estimated values caused by this are shown in prospect.

Intangible assets are not revalued and not tested for impairment.

In the Balance Sheet, IA are recorded at residual value with advances issued to acquire and make IA, as well as costs of creation (acquisition) of IA.

Information on availability and flow of intangible assets is given in Tables 1.1, 1.2, 1.3, 1.5 of the Notes to the Balance Sheet and the Income Statement (table form).

3.2. Research and Development Engineering (R&D)

The historical cost of R&D assets is the amount of actual expenses on their acquisition or development.

R&D cost is written off as cost of production of goods (performing of works, rendering of services) evenly under the straight-line method within the fixed period of their expected useful life (but within 5 years) from the first day of a month following the month when the R&D results were first applied.

Once R&D results have ceased to be used and when there is a clear proof that the use of R&D results will not bring economic benefits in the future, the residual value of R&D assets is subject to write-off as other expenses.

The Balance Sheet includes finalized R&D as well as R&D in progress (non-finalized R&D) recognized in investments in non-current assets.

Information on availability and flow of R&D results is given in Tables 1.4, 1.5 of the Notes to the Balance Sheet and the Income Statement (table form).

3.3. Intangible prospecting assets

Intangible prospecting assets include prospecting costs (costs of prospecting, appraisal of hydrocarbon fields and hydrocarbon resources exploration) associated with acquisition of licenses, paid for discovery of hydrocarbon fields and preliminary appraisal of reserves.

Prospecting costs paid by the Company for discovery of hydrocarbon fields and preliminary appraisal of reserves before production was proved to be commercially feasible are accumulated within a group of objects in every license block and recorded as investments in non-current assets.

Intangible prospecting assets are not amortized during prospecting, appraisal of hydrocarbon fields and hydrocarbon resources exploration, except for licenses which authorize to carry out prospecting, appraisal of hydrocarbon fields and hydrocarbon resources exploration.

Part of the cost of licenses which authorize to carry out prospecting and appraisal of hydrocarbon fields and hydrocarbon resources exploration is transferred equally during the term of these licenses and is included in the costs for creation of an exploration asset.

As of December 31, the Company analyzes factors which imply potential impairment of intangible prospecting assets.

Intangible prospecting assets are not revalued.

The Company's intangible prospecting assets are ceased to be recognized in relation to a certain subsoil area when hydrocarbon production is proved to be commercially feasible or recognized as unpromising.

If production of hydrocarbons in a relevant license area (field) is proved to be commercially feasible, intangible prospecting asset is tested for impairment and transferred to fixed assets or other non-current assets:

prospecting and exploration wells built in the process of formation of intangible prospecting assets and recognized by the Company as suitable for further use in production activity are recorded as fixed assets;

prospecting costs for discovery of hydrocarbon fields and preliminary appraisal of reserves form the value of exploration assets.

If production of hydrocarbons in the relative license area (field) is recognized as unpromising, the value of intangible prospecting assets constitutes the part of the Company's other expenses.

In the Balance Sheet, intangible prospecting assets are recorded with regard to advances issued.

Information on intangible prospecting assets is given in Table 1.6 of the Notes to the Balance Sheet and the Income Statement (table form).

3.4. Fixed assets and capital investments in progress

Assets are recorded as fixed assets if the requirements defined in Clause 4 of Accounting Regulations "Accounting of fixed assets" PBU 6/01 approved by Order of the Ministry of Finance of the Russian Federation No. 26n dated 30.03.2001 are all met.

The historical (replacement) cost of fixed assets recorded before 01.01.2002 is redeemed according to the procedure valid at the time when such assets were recorded, through depreciation under the straight-line method in conformity with depreciation rates for complete repair approved by Resolution No. 1072 of the USSR Council of Ministers dated 22.10.1990.

The historical (replacement) cost of fixed assets recorded on or after 01.01.2002 is redeemed through depreciation under the straight-line method in conformity with depreciation rates calculated on the basis of the useful life of such assets determined when such assets are entered in accounting records.

The following fixed assets are not depreciated:

objects with consumer properties that do not vary with time (land, objects of environmental management, etc.);

inactive objects that are not used in production of goods, performing of works, rendering of services.

In the Balance Sheet, fixed assets are recorded at residual value with regard to advances issued for construction, acquisition, production of fixed assets. This line also shows capital investments in progress that were made in the facilities which later will be recorded as fixed assets as well as expenses related to their reconstruction, upgrading, reequipment, etc.

Information on availability and flow of fixed assets, capital investments in progress and income yielding investments in tangible assets is given in Tables 2.1, 2.2, 2.3, 2.4 of the Notes to the Balance Sheet and the Income Statement (table form).

3.5. Financial investments

Financial investments are recorded by the Company at their historical cost. The historical cost of financial investments acquired at a charge is the amount of the actual costs of their acquisition.

The Company does not evaluate the discounted value of debt securities and loans granted.

When financial investments with current market value not being determined are retired, their value is determined at their historical cost of each unit of financial investments accounting.

When financial investments with current market value being determined are retired, their value is determined on the basis of their current book value.

As of December 31, the Company carries out an inspection for impairment of financial investments (not traded in any established securities market) with current market value that cannot be determined. If the inspection confirms that the cost of financial investments is substantially and persistently reducing (by more than 5%), an impairment reserve for financial investments is formed, for granted loans a reserve for doubtful debts is formed.

In the Balance Sheet the financial investments are recorded net of the formed reserve.

Income from sales of securities, interest and other income are recognized as other income.

Information on financial investments, maturity of which exceeds 12 months after the reporting date, is given in non-current assets in the line "Financial investments". Information on financial investments, maturity of which lies within 12 months after the reporting date, is given in current assets in the line "Financial investments (excluding cash equivalents)".

Treasury shares recognized as ownerless and received by the Company on the basis of the effective court decisions, are recorded in the line "Other current assets".

Long-term financial investments are transferred to short-term investments quarterly as of the date of preparation of the accounting (financial) statements if they mature in less than 12 months. In case of extension of maturity for contracts, short-term financial investments are transferred to long-term investments.

Information on financial investments is given in Tables 3.1, 3.2 of the Notes to the Balance Sheet and the Income Statement (table form).

3.6. Other non-current assets

Other non-current assets of the Company include:
 non-exclusive rights to the use of software products;
 licenses;
 certificates, permissions;
 deferred expenses with the write-off period exceeding 12 months after the reporting date;
 exploration assets.

The value of the exploration asset is charged to the cost of oil and gas production evenly within the fixed period of its useful life starting from the month following the month when the exploration asset was entered in accounting records. The useful life is determined when the asset is entered in accounting record based on its expected life during which the Company expects to obtain economic benefits (income).

In the Balance Sheet, other non-current assets are recorded at residual value.

3.7. Stocks

The Company accepts the following assets as material and production stocks (hereinafter – stocks):

assets used as raw materials, supplies, etc. in production of goods, performing works or rendering services;
 assets for sale.

Stocks are recorded at their actual cost.

Stocks (except for goods and assets with maximum value of RUB 40 000 per item) are written off to production or otherwise retired at their average cost. Assets with maximum value of RUB 40 000 per item are retired at cost of every item.

As of December 31, the Company forms a reserve for decreases in the value of tangible assets for slow moving stocks the market price of which went down during the reporting year or which became obsolete or which lost, either fully or partially, their original qualities.

In the Balance Sheet, stocks are recorded net of the formed reserve.

Information on stocks is given in Tables 4.1, 4.2 of the Notes to the Balance Sheet and the Income Statement (table form).

3.8. Accounts receivable

Accounts receivable include current amounts due to the Company from buyers and customers for finished goods, shipped goods, completed works and rendered services, advances paid under the existing contracts, as well as settlements with the budget and non-budget funds and other receivables.

As of December 31, the Company forms reserves for doubtful debts for accounts receivable if they are not redeemed or if there is a high risk of their non-redemption within the periods established by the contracts, and if they are not duly guaranteed.

Long-term accounts receivable are transferred to short-term accounts receivable if, pursuant to the contract, the term to maturity lies within 12 months

after the reporting date. Similarly, in case of delayed payment the short-term accounts receivable are transferred to long-term ones.

In the Balance Sheet, accounts receivable are recorded net of the formed reserves.

Information on accounts receivable is given in Tables 5.1, 5.2 of the Notes to the Balance Sheet and the Income Statement (table form).

3.9. Cash and cash equivalents

Cash and cash equivalents include balances on ruble and foreign currency settlement accounts, deposits with original maturities up to 3 months under the contract, petty cash and other monetary resources.

Indicator	thousand RUB	
	As of 31.12.2019	As of 31.12.2018
Cash and cash equivalents, total including:	173 193 638	71 923 660
letters of credit	306 000	800 968
deposits placed for up to 3 months	160 673 911	68 883 327
settlement account	12 210 447	2 233 373
petty cash	3 276	5 979
other monetary resources	4	13

Information on availability and flow of cash and cash equivalents in a foreign currency as of the beginning and the end of the reporting period is recorded in the Cash Flow Statement in rubles and are equal to the amount calculated at the official rate of a foreign currency to ruble established by the Central Bank of the Russian Federation as of the date the payment is made or received.

The difference caused by recalculation of cash flows of the Company and balances of cash and cash equivalents in a foreign currency at the exchange rates as of different dates is recorded in Cash Flow Statement in the line "Effect of changes in the exchange rates of foreign currency to the Russian ruble".

Cash Flow Statement contains brief information concerning:

proceeds and payments in connection with quick return, large amounts and short payment periods;

indirect taxes (VAT, excises) as part of proceeds from buyers and customers, payments to suppliers and contractors and payments to the budgetary system of the Russian Federation or reimbursement from it;

other calculations that relate more to the counterparties' activities than to the Company's ones, and (or) when proceeds from some persons determine relevant payments to other persons.

3.10. Capital

The Company's charter capital as of 31.12.2019 is RUB 43 427 993 thousand. The charter capital is divided into 35 725 995 thousand ordinary shares and 7 701 998 thousand preference shares, and is fully paid.

3.11. Deferred and permanent tax assets and liabilities, profit tax

The Company is a responsible member of the consolidated group of taxpayers.

Discovered temporary and permanent differences are determined by the Company based on its income and expenses included in consolidated tax base of the consolidated group of taxpayers subject to provisions of the Tax Code of the Russian Federation for the consolidated group of taxpayers.

The Balance Sheet shows deferred tax assets and deferred tax liabilities with regard to profit tax in detail; the sum of permanent tax liabilities (assets) is recorded in the Income Statement in short form. Provisional profit tax expense totals RUB 19 964 267 thousand.

Indicator	thousand RUB			
	As of 31.12.2018	Derived	Paid off	As of 31.12.2019
Deferred tax assets	39 534	148 676	(7 188)	181 022
Deferred tax liabilities	94 495 005	4 155 494	(2 743 815)	95 906 684
Permanent tax (assets)	x	(1 191 444)	x	x
Permanent tax liabilities	x	-	x	x

The amount of current tax calculated by the Company based on the tax base included in consolidated tax base of the consolidated group of taxpayers, is recorded in the Income Statement in line 2410 "Current profit tax".

3.12. Accounts payable

Accounts payable include amounts currently due from the Company to suppliers and contractors for delivered tangible assets, completed works and rendered services, for advances received from third parties under the existing contracts, due to the budget and non-budget funds, due to remuneration of labor and other operations.

Long-term accounts payable are transferred to short-term ones if, pursuant to the contract, the term to maturity lies within 12 months after the reporting date. Similarly, in case of a delayed payment the short-term accounts payable are transferred to long-term ones.

Information on accounts payable is given in Tables 5.3, 5.4 of the Notes to the Balance Sheet and the Income Statement (table form).

3.13. Deferred income

This line shows amounts of special purpose financing with regard to commissioned fixed assets.

The charged-off amount of deferred income that is formed using special purpose financing resources is recorded in other income within accumulated depreciation that refers to amounts of special purpose financing.

3.14. Estimated liabilities

The Company creates estimated liabilities which are reserves for future expenses for vacation payments to employees.

Liabilities are expected to be met within 12 months.

Information on estimated liabilities is given in Table 7 of the Notes to the Balance Sheet and the Income Statement (table form).

4. Net assets

thousand RUB		
Indicator	As of 31.12.2019	As of 31.12.2018
The Company's net asset value	4 304 845 563	4 282 272 774

Net asset value is calculated as per Order of the Ministry of Finance of the Russian Federation No. 84n dated 28.08.2014.

5. Notes to the Income Statement

5.1. Revenue, cost

For accounting purposes, revenue from sales of products (goods), works (services) of the Company is recognized pursuant to the Accounting Regulations "Income of an Enterprise" PBU 9/99 approved by Order No. 32n of the Ministry of Finance of the Russian Federation dated 06.05.1999.

Revenue from sales of products (goods), works (services) does not include VAT, excises and export duties.

Expenses related to the sale of oil, gas, oil products and gas refined products are included in selling expenses which are included in the cost of sales or other expenses at the end of a reporting period subject to the type of assets sold.

Business management expenses which are not directly related to the production process are recorded as general expenses, and at the end of the month are charged to the cost of oil, associated petroleum gas and natural gas production.

The Company's revenue accounting for five or more percent of the total income and relative cost of sales:

thousand RUB		
Indicator	For 2019	For 2018
Revenue (net) from sales, total	1 555 622 592	1 524 947 700
including:		
oil	1 002 849 192	1 011 114 933
oil products	513 702 766	474 803 426

Indicator	For 2019	For 2018
Cost of sales, total	1 071 835 567	1 033 857 472
including:		
oil	657 461 562	666 715 990
oil products	379 061 446	330 649 217

Costs of production (cost of sales, selling expenses) are shown in Table 6 of the Notes to the Balance Sheet and the Income Statement (table form).

5.2. Other income and other expenses

Other income accounting for five and more percent of the Company's total income and relative expenses:

	thousand RUB	
Other income	For 2019	For 2018
Total other income	1 598 220 476	2 040 068 002
including:		
foreign exchange transactions	1 356 496 048	1 288 324 977
exchange rate differences	207 730 971	740 532 129

Other expenses	For 2019	For 2018
Total expenses	1 969 041 130	1 530 425 890
including:		
foreign exchange transactions	1 355 068 922	1 284 458 451
exchange rate differences	567 659 233	210 974 031

To reflect business transactions in a foreign currency (including those to be paid in rubles) the official exchange rate of the relative foreign currency, determined by the Central Bank of the Russian Federation as of the date of transaction, is applied.

Exchange rate differences caused during the year by transactions on assets and liabilities in a foreign currency as well as by revaluation of their cost as of the reporting date are shown as part of other income and expenses.

5.3. Base profit per share

Base profit per share for 2019 is RUB 2,74.

6. Information on segments

Revenue from sales of products (goods), works (services) in the context of reported segments is given below:

	thousand RUB	
Indicator	For 2019	For 2018
Sales of oil, total	1 002 849 192	1 011 114 933
including:		
export oil sales	840 440 576	792 353 091
domestic oil sales	162 408 616	218 761 842

Indicator	For 2019	For 2018
Sales of oil products	513 702 766	474 803 426
including:		
export sales of oil products	403 448 874	361 342 887
domestic sales of oil products	110 253 892	113 460 539

Indicator	For 2019	For 2018
Other sales, total	39 070 634	39 029 341

including:		
domestic sales	39 070 634	39 029 341

7. Information on related parties

Subsidiaries which activities are affected by the Company and the share in their charter capital held by the Company, %:

LLC "KINEF" – 100,00;
 LLC "Pskovnefteproduct" – 100,00;
 LLC "Kaliningradnefteproduct" – 100,00;
 LLC "MA "Tvernefteproduct" – 100,00;
 LLC "Novgorodnefteproduct" – 100,00;
 LLC "Lengiproneftekhim" – 100,00;
 LLC "Kirishiavtoservis" – 100,00;
 LLC "Surgutmebel" – 100,00;
 JSC BANK SNGB – 97,7591;
 LLC "Media-Invest" – 100,00;
 LLC "Rion" – 100,00.

The full list of affiliates is available at the website: www.surgutneftegas.ru.

Information on operations with subsidiaries for 2019.

Revenue from sales of oil, oil products (including VAT) to the subsidiaries:

Indicator	thousand RUB	
	For 2019	For 2018
Sales of oil	-	27 274 158
Sales of oil products	38 964 194	47 034 388

Information on remuneration to key management personnel.

Remuneration with the regional coefficient and the Northern allowance included (salary for the reporting period, taxes and other compulsory payments to relevant budgets and non-budget funds accrued to salary, annual paid vacation for work in the reporting period and similar payments) to key management personnel (10 125 people), including business units, authorized and held responsible for planning, management and control of the Company's operations during the reporting period was RUB 36 851 838 thousand.

8. Contingencies

There are no lawsuits or claim disputes where the Company is a participant and which may substantially affect accounting (financial) statements. There is also no information about any economic events related to possible risks of disputes with tax authorities.

9. Subsequent Events

There were no economic events which affected or may affect the financial position, the cash flow or operating results of the Company in the period between the reporting date and the date when the accounting (financial) statements for the reporting period were signed.

10. Joint activity

In 2019, the Company did not enter into contracts with other companies on any joint activity.

Conclusion

The accounting (financial) statements of the Company for 2019 have been prepared in accordance with Federal Law of the Russian Federation No. 402-FZ "On Accounting" dated 06.12.2011, Accounting and Reporting Regulations in the Russian Federation approved by Order No. 34n of the Ministry of Finance of the Russian Federation dated 29.07.1998, the applicable accounting standards of the Russian Federation included in accounting and reporting regulation system in the Russian Federation.

The accounting (financial) statements of the Company are confirmed by the results of assets and liabilities inventory.

First Deputy Director General
"Surgutneftegas" PJSC
on Finance and Taxation

V.G.Barankov

Chief Accountant
"Surgutneftegas" PJSC

A.V.Druchinin

27 March 2020