



## **Gazprom Neft Group**

**Interim Condensed Consolidated Financial Statements (unaudited)**

**As of and for the three and six months ended 30 June 2017**



## Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of PJSC Gazprom Neft:

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC Gazprom Neft and its subsidiaries (the "Group") as of 30 June 2017 and the related interim condensed consolidated statements of profit and loss and other comprehensive income for the three-month and six-month periods then ended, and changes in shareholders' equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information 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 consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

9 August 2017

Moscow, Russian Federation

*I.V. Shanina*  
*AO PricewaterhouseCoopers Audit*

I.V. Shanina, certified auditor (licence no. 01-001340), AO PricewaterhouseCoopers Audit

Audited entity: PJSC Gazprom Neft

State registration certificate № 38606450 issued by the Omsk Registration Bureau on 06 October 1995

Certificate of inclusion in the Unified State Register of Legal Entities issued on 21 August 2002 under registration № 1025501701686

Russian Federation, 190000, St. Petersburg, Galernaya str., 5, lit. A

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

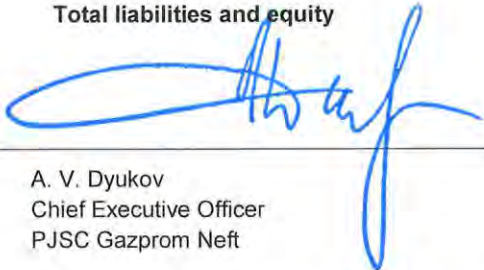
ORNZ 11603050547 in the register of auditors and audit organizations

**Gazprom Neft Group**  
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**As of and for the three and six months ended 30 June 2017**

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	Notes	30 June 2017	31 December 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	69,756	33,621
Short-term financial assets	6	42,405	42,113
Trade and other receivables	7	102,877	115,559
Inventories	8	89,257	100,701
Current income tax prepayments		5,698	10,353
Other taxes receivable	9	58,795	53,482
Other current assets	10	45,292	40,503
<b>Total current assets</b>		<b>414,080</b>	<b>396,332</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	1,878,857	1,726,345
Goodwill and other intangible assets		70,157	70,151
Investments in associates and joint ventures	12	218,017	201,548
Long-term trade and other receivables		4,363	5,129
Long-term financial assets	13	39,247	40,167
Deferred income tax assets		6,719	8,039
Other non-current assets	14	86,085	101,100
<b>Total non-current assets</b>		<b>2,303,445</b>	<b>2,152,479</b>
<b>Total assets</b>		<b>2,717,525</b>	<b>2,548,811</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	15	142,914	80,187
Current finance lease liabilities	21	1,369	-
Trade and other payables	16	172,190	95,624
Other current liabilities	17	28,876	28,680
Current income tax payable		4,671	2,296
Other taxes payable	18	67,128	67,259
Provisions and other accrued liabilities		14,847	15,406
<b>Total current liabilities</b>		<b>431,995</b>	<b>289,452</b>
<b>Non-current liabilities</b>			
Long-term debt	19	532,380	596,221
Non-current finance lease liabilities	21	22,038	-
Other non-current financial liabilities	20	58,750	89,744
Deferred income tax liabilities		87,264	81,347
Provisions and other accrued liabilities		47,827	45,942
Other non-current liabilities		2,505	1,938
<b>Total non-current liabilities</b>		<b>750,764</b>	<b>815,192</b>
<b>Equity</b>			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		58,664	51,047
Retained earnings		1,337,091	1,276,210
Other reserves		45,822	33,955
<b>Equity attributable to Gazprom Neft shareholders</b>		<b>1,440,505</b>	<b>1,360,140</b>
Non-controlling interest		94,261	84,027
<b>Total equity</b>		<b>1,534,766</b>	<b>1,444,167</b>
<b>Total liabilities and equity</b>		<b>2,717,525</b>	<b>2,548,811</b>

  
A. V. Dyukov  
Chief Executive Officer  
PJSC Gazprom Neft

  
A. V. Yankevich  
Chief Financial Officer  
PJSC Gazprom Neft

	Notes	3 months ended 30 June 2017	3 months ended 30 June 2016	6 months ended 30 June 2017	6 months ended 30 June 2016
<b>Sales</b>		475,668	405,075	944,274	771,077
Less export duties and sales related excise tax		(34,476)	(33,352)	(71,917)	(69,402)
<b>Total revenue from sales</b>	<b>28</b>	<b>441,192</b>	<b>371,723</b>	<b>872,357</b>	<b>701,675</b>
<b>Costs and other deductions</b>					
Purchases of oil, gas and petroleum products		(109,997)	(84,758)	(226,960)	(158,328)
Production and manufacturing expenses		(54,059)	(45,156)	(100,372)	(93,806)
Selling, general and administrative expenses		(24,237)	(25,999)	(47,948)	(50,421)
Transportation expenses		(34,744)	(31,820)	(71,394)	(66,735)
Depreciation, depletion and amortisation		(33,984)	(32,343)	(66,294)	(60,229)
Taxes other than income tax	<b>18</b>	(111,644)	(98,522)	(226,031)	(169,132)
Exploration expenses		(42)	(191)	(146)	(299)
<b>Total operating expenses</b>		<b>(368,707)</b>	<b>(318,789)</b>	<b>(739,145)</b>	<b>(598,950)</b>
<b>Operating profit</b>		<b>72,485</b>	<b>52,934</b>	<b>133,212</b>	<b>102,725</b>
Share of profit of associates and joint ventures	<b>12</b>	7,892	10,307	18,710	16,031
Net foreign exchange (loss) / gain	<b>22</b>	(7,477)	13,815	5,705	16,110
Finance income	<b>23</b>	2,713	2,717	5,226	5,264
Finance expense	<b>24</b>	(6,543)	(8,714)	(13,261)	(18,438)
Other loss, net		(2,513)	(11,393)	(3,379)	(12,153)
<b>Total other (expenses) / income</b>		<b>(5,928)</b>	<b>6,732</b>	<b>13,001</b>	<b>6,814</b>
<b>Profit before income tax</b>		<b>66,557</b>	<b>59,666</b>	<b>146,213</b>	<b>109,539</b>
Current income tax expense		(10,450)	(6,499)	(20,614)	(8,136)
Deferred income tax expense		(2,790)	(3,012)	(7,548)	(9,656)
<b>Total income tax expense</b>		<b>(13,240)</b>	<b>(9,511)</b>	<b>(28,162)</b>	<b>(17,792)</b>
<b>Profit for the period</b>		<b>53,317</b>	<b>50,155</b>	<b>118,051</b>	<b>91,747</b>
<b>Other comprehensive income / (loss)</b>					
Currency translation differences		23,013	(14,399)	10,614	(28,769)
Cash flow hedge, net of tax		856	1,657	5,905	28,777
Other comprehensive income / (loss)		479	(27)	497	(81)
<b>Other comprehensive income / (loss) for the period</b>		<b>24,348</b>	<b>(12,769)</b>	<b>17,016</b>	<b>(73)</b>
<b>Total comprehensive income for the period</b>		<b>77,665</b>	<b>37,386</b>	<b>135,067</b>	<b>91,674</b>
<b>Profit attributable to:</b>					
- Gazprom Neft shareholders		49,316	48,854	111,269	90,395
- Non-controlling interest		4,001	1,301	6,782	1,352
<b>Profit for the period</b>		<b>53,317</b>	<b>50,155</b>	<b>118,051</b>	<b>91,747</b>
<b>Total comprehensive income / (loss) attributable to:</b>					
- Gazprom Neft shareholders		64,652	40,898	123,136	98,834
- Non-controlling interest		13,013	(3,512)	11,931	(7,160)
<b>Total comprehensive income for the period</b>		<b>77,665</b>	<b>37,386</b>	<b>135,067</b>	<b>91,674</b>
Earnings per share attributable to Gazprom Neft shareholders					
Basic earnings (RUB per share)		10.45	10.35	23.58	19.16
Diluted earnings (RUB per share)		10.45	10.35	23.58	19.16
Weighted-average number of common shares outstanding (millions)		4,718	4,718	4,718	4,718

	Attributable to Gazprom Neft shareholders					Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves			
<b>Balance as of 1 January 2017</b>	<b>98</b>	<b>(1,170)</b>	<b>51,047</b>	<b>1,276,210</b>	<b>33,955</b>	<b>1,360,140</b>	<b>84,027</b>	<b>1,444,167</b>
Profit for the period	-	-	-	111,269	-	111,269	6,782	118,051
<b>Other comprehensive income</b>								
Currency translation differences	-	-	-	-	5,465	5,465	5,149	10,614
Cash flow hedge, net of tax	-	-	-	-	5,905	5,905	-	5,905
Other comprehensive income	-	-	-	-	497	497	-	497
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111,269</b>	<b>11,867</b>	<b>123,136</b>	<b>11,931</b>	<b>135,067</b>
<b>Transactions with owners, recorded in equity</b>								
Dividends to equity holders	-	-	-	(50,388)	-	(50,388)	(1,697)	(52,085)
Transaction under common control (Note 20)	-	-	7,617	-	-	7,617	-	7,617
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>7,617</b>	<b>(50,388)</b>	<b>-</b>	<b>(42,771)</b>	<b>(1,697)</b>	<b>(44,468)</b>
<b>Balance as of 30 June 2017</b>	<b>98</b>	<b>(1,170)</b>	<b>58,664</b>	<b>1,337,091</b>	<b>45,822</b>	<b>1,440,505</b>	<b>94,261</b>	<b>1,534,766</b>

	Attributable to Gazprom Neft shareholders					Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves			
<b>Balance as of 1 January 2016</b>	<b>98</b>	<b>(1,170)</b>	<b>44,326</b>	<b>1,078,626</b>	<b>35,189</b>	<b>1,157,069</b>	<b>91,420</b>	<b>1,248,489</b>
Profit for the period	-	-	-	90,395	-	90,395	1,352	91,747
<b>Other comprehensive (loss) / income</b>								
Currency translation differences	-	-	-	-	(20,257)	(20,257)	(8,512)	(28,769)
Cash flow hedge, net of tax	-	-	-	-	28,777	28,777	-	28,777
Other comprehensive (loss)	-	-	-	-	(81)	(81)	-	(81)
<b>Total comprehensive income / (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,395</b>	<b>8,439</b>	<b>98,834</b>	<b>(7,160)</b>	<b>91,674</b>
<b>Transactions with owners, recorded in equity</b>								
Dividends to equity holders	-	-	-	(2,595)	-	(2,595)	(1,131)	(3,726)
Acquisition through business combination	-	-	(114)	-	-	(114)	112	(2)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(114)</b>	<b>(2,595)</b>	<b>-</b>	<b>(2,709)</b>	<b>(1,019)</b>	<b>(3,728)</b>
<b>Balance as of 30 June 2016</b>	<b>98</b>	<b>(1,170)</b>	<b>44,212</b>	<b>1,166,426</b>	<b>43,628</b>	<b>1,253,194</b>	<b>83,241</b>	<b>1,336,435</b>

Currency – RUB millions

	Notes	6 months ended 30 June 2017	6 months ended 30 June 2016
<b>Cash flows from operating activities</b>			
Profit before income tax		146,213	109,539
<b>Adjustments for:</b>			
Share of profit of associates and joint ventures	12	(18,710)	(16,031)
Gain on foreign exchange differences	22	(5,705)	(16,110)
Finance income	23	(5,226)	(5,264)
Finance expense	24	13,261	18,438
Depreciation, depletion and amortisation		66,294	60,229
Net impairment of receivables and other assets		-	10,962
Other non-cash items		2,644	539
<b>Operating cash flow before changes in working capital</b>		<b>198,771</b>	<b>162,302</b>
<b>Changes in working capital:</b>			
Accounts receivable		15,067	(26,198)
Inventories		9,073	(539)
Taxes receivable		(5,193)	(3,405)
Other assets		(4,067)	6,014
Accounts payable		3,682	21,919
Taxes payable		(414)	23,158
Other liabilities		(1,445)	(8,016)
<b>Total effect of working capital changes</b>		<b>16,703</b>	<b>12,933</b>
Income taxes paid		(14,835)	(12,166)
Interest paid		(20,283)	(19,248)
Dividends received		772	1,974
<b>Net cash provided by operating activities</b>		<b>181,128</b>	<b>145,795</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired		-	(738)
Acquisition of investments in joint ventures		(457)	-
Disposal of investments in joint ventures		476	-
Bank deposits placement		(417)	(20,110)
Repayment of bank deposits		1,071	68,549
Proceeds from sales of other investments		-	3,181
Short-term loans issued		-	(3,007)
Repayment of short-term loans issued		883	6,827
Long-term loans issued		(1,075)	(14,052)
Repayment of long-term loans issued		2,468	7,137
Purchases of property, plant and equipment and intangible assets		(154,235)	(166,398)
Proceeds from sale of property, plant and equipment and intangible assets		194	503
Interest received		3,074	2,810
<b>Net cash used in investing activities</b>		<b>(148,018)</b>	<b>(115,298)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		318	5,326
Repayment of short-term borrowings		(4,602)	(2,272)
Proceeds from long-term borrowings		158,239	41,603
Repayment of long-term borrowings		(149,820)	(103,761)
Dividends paid to Gazprom Neft shareholders		(2)	(3)
Dividends paid to non-controlling interest		(716)	(75)
Repayment of finance lease liabilities		(244)	-
<b>Net cash provided by / (used in) financing activities</b>		<b>3,173</b>	<b>(59,182)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>36,283</b>	<b>(28,685)</b>
Effect of foreign exchange on cash and cash equivalents		(148)	(6,379)
<b>Cash and cash equivalents as of the beginning of the period</b>		<b>33,621</b>	<b>114,198</b>
<b>Cash and cash equivalents as of the end of the period</b>		<b>69,756</b>	<b>79,134</b>

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements

## 1. General

### Description of business

PJSC Gazprom Neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. PJSC Gazprom (“Gazprom”, a state controlled entity), the Group’s ultimate parent company, owns 95.7% of the shares in the Company.

## 2. Summary of significant accounting policies

### Basis of presentation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Interim Condensed Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (“IFRS”).

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard **IAS 34 Interim Financial Reporting**.

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements as of and for the year ended 31 December 2016, such as significant accounting policies, estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group’s Consolidated Financial Statements as of and for the year ended 31 December 2016.

Subsequent events occurring after 30 June 2017 were evaluated through 09 August 2017, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the three and six months ended 30 June 2017 are not necessarily indicative of the results expected for the full year.

The Group as a whole is not subject to significant seasonal fluctuations.

### Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2016, except for those described in the Application of new IFRS paragraph.



### Foreign currency translation

The following exchange rates for Roubles to US dollars, EURO and Serbian Dinars applied while preparing these Interim Condensed Consolidated Financial Statements:

	Reporting date spot rate	
	30 June 2017	31 December 2016
USD 1	59.09	60.66
EUR 1	67.50	63.81
RSD 1	0.56	0.52

### 3. Application of new IFRS

The following standards or amended standards became effective for the Group from 1 January 2017:

***The amendments to IAS 7 – Statement of Cash Flow (issued in January 2016 effective for annual periods beginning on or after 1 January 2017)*** require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group will present the disclosure in the Consolidated Financial Statements as of and for the year ended 31 December 2017.

***The amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 effective for annual periods beginning on or after 1 January 2017)***. These amendments did not have any material impact on the Group.

### 4. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2018 or later, and that the Group has not early adopted.

***IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)***. Key features of the new standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

**IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) and Amendments to IFRS 15 (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

**IFRS 16 – Leases (issued in January 2016 and replaces the previous IAS 17 Leases, effective for annual periods beginning on or after 1 January 2019 with early adoption permitted in case of implementation of IFRS 15 Revenue from Contracts with Customers).** Key features of the standard are:

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:
  - (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
  - (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.
- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
- IFRS 16 does not change the accounting for services.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

**IFRIC 23 – Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019).** IFRIC 23 clarifies the accounting for uncertainties in income taxes.

The Group is currently assessing the impact of the new interpretation on its Consolidated Financial Statements.

## 5. Cash and cash equivalents

Cash and cash equivalents as of 30 June 2017 and 31 December 2016 comprise the following:

	30 June 2017	31 December 2016
Cash on hand	681	882
Cash in bank	37,985	21,284
Deposits with original maturity of less than three months	28,489	8,647
Other cash equivalents	2,601	2,808
<b>Total cash and cash equivalents</b>	<b>69,756</b>	<b>33,621</b>

## 6. Short-term financial assets

Short-term financial assets as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Short-term loans issued	42,179	41,136
Deposits with original maturity more than 3 months less than 1 year	226	886
Forward contracts - cash flow hedge	-	91
<b>Total short-term financial assets</b>	<b>42,405</b>	<b>42,113</b>

## 7. Trade and other receivables

Trade and other receivables as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Trade receivables	106,780	121,229
Other financial receivables	8,987	6,604
Less impairment provision	(12,890)	(12,274)
<b>Total trade and other receivables</b>	<b>102,877</b>	<b>115,559</b>

Trade receivables represent amounts due from customers in the ordinary course of business and are short-term by nature.

## 8. Inventories

Inventories as of 30 June 2017 and 31 December 2016 consist of the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Petroleum products and petrochemicals	41,114	47,467
Materials and supplies	25,027	26,277
Crude oil and gas	15,484	20,059
Other	8,996	8,378
Less provision	(1,364)	(1,480)
<b>Total inventory</b>	<b>89,257</b>	<b>100,701</b>

## 9. Other taxes receivable

Other taxes receivable as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Value added tax receivable	51,983	44,936
Prepaid custom duties	4,866	6,419
Other taxes prepaid	1,946	2,127
<b>Total other taxes receivable</b>	<b>58,795</b>	<b>53,482</b>

## 10. Other current assets

Other current assets as of 30 June 2017 and 31 December 2016 consist of the following:

	30 June 2017	31 December 2016
Advances paid	20,645	27,671
Prepaid expenses	2,738	1,104
Other assets	21,909	11,728
<b>Total other current assets, net</b>	<b>45,292</b>	<b>40,503</b>

Other assets as of 30 June 2017 include a prepayment for participation in an auction for an exploration and development license in the amount of RUB 7.4 billion.

## 11. Property, plant and equipment

Movements in property, plant and equipment for the six months ended 30 June 2017 and 2016 are as follows:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
<b>Cost</b>						
<i>As of 1 January 2017</i>	<b>1,569,525</b>	<b>308,192</b>	<b>152,871</b>	<b>23,531</b>	<b>369,304</b>	<b>2,423,423</b>
Additions	670	898	-	-	194,430	195,998
Changes in decommissioning obligations	(3)	-	-	-	-	(3)
Capitalised borrowing costs	-	-	-	-	14,811	14,811
Transfers	65,727	5,563	28,110	1,217	(100,617)	-
Internal movement	(550)	12	158	108	272	-
Disposals	(1,870)	(785)	(333)	(293)	(754)	(4,035)
Translation differences	216	4,515	3,224	133	(850)	7,238
<i>As of 30 June 2017</i>	<b>1,633,715</b>	<b>318,395</b>	<b>184,030</b>	<b>24,696</b>	<b>476,596</b>	<b>2,637,432</b>
<b>Depreciation and impairment</b>						
<i>As of 1 January 2017</i>	<b>(553,140)</b>	<b>(89,106)</b>	<b>(49,052)</b>	<b>(5,780)</b>	-	<b>(697,078)</b>
Depreciation charge	(50,070)	(6,510)	(5,366)	(1,102)	-	(63,048)
Internal movement	91	-	(10)	(81)	-	-
Disposals	1,126	126	171	282	-	1,705
Translation differences	1,954	(1,286)	(776)	(46)	-	(154)
<i>As of 30 June 2017</i>	<b>(600,039)</b>	<b>(96,776)</b>	<b>(55,033)</b>	<b>(6,727)</b>	-	<b>(758,575)</b>
<b>Net book value</b>						
<i>As of 1 January 2017</i>	<b>1,016,385</b>	<b>219,086</b>	<b>103,819</b>	<b>17,751</b>	<b>369,304</b>	<b>1,726,345</b>
<i>As of 30 June 2017</i>	<b>1,033,676</b>	<b>221,619</b>	<b>128,997</b>	<b>17,969</b>	<b>476,596</b>	<b>1,878,857</b>

Currency – RUB millions (unless otherwise stated)

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
<b>Cost</b>						
<b>As of 1 January 2016</b>	<b>1,355,282</b>	<b>308,037</b>	<b>152,795</b>	<b>17,933</b>	<b>369,274</b>	<b>2,203,321</b>
Additions	1,350	326	-	-	137,987	139,663
Acquisitions through business combinations	-	38	-	64	-	102
Changes in decommissioning obligations	1,094	-	-	-	-	1,094
Capitalised borrowing costs	-	-	-	-	5,854	5,854
Transfers	72,359	13,486	3,722	971	(90,538)	-
Internal movement	25,381	(6,343)	5,599	2,050	(26,687)	-
Disposals	(2,742)	(620)	(605)	(26)	(745)	(4,738)
Translation differences	(40,897)	(8,569)	(7,943)	(226)	(13,472)	(71,107)
<b>As of 30 June 2016</b>	<b>1,411,827</b>	<b>306,355</b>	<b>153,568</b>	<b>20,766</b>	<b>381,673</b>	<b>2,274,189</b>
<b>Depreciation and impairment</b>						
<b>As of 1 January 2016</b>	<b>(489,288)</b>	<b>(81,461)</b>	<b>(41,440)</b>	<b>(3,479)</b>	-	<b>(615,668)</b>
Depreciation charge	(38,818)	(6,586)	(5,572)	(768)	-	(51,744)
Impairment	(5,028)	-	-	-	-	(5,028)
Internal movement	930	1,525	(1,130)	(1,325)	-	-
Disposals	2,067	101	352	15	-	2,535
Translation differences	18,342	2,008	2,054	104	-	22,508
<b>As of 30 June 2016</b>	<b>(511,795)</b>	<b>(84,413)</b>	<b>(45,736)</b>	<b>(5,453)</b>	-	<b>(647,397)</b>
<b>Net book value</b>						
<b>As of 1 January 2016</b>	<b>865,994</b>	<b>226,576</b>	<b>111,355</b>	<b>14,454</b>	<b>369,274</b>	<b>1,587,653</b>
<b>As of 30 June 2016</b>	<b>900,032</b>	<b>221,942</b>	<b>107,832</b>	<b>15,313</b>	<b>381,673</b>	<b>1,626,792</b>

Capitalised borrowing costs for the six months ended 30 June 2017 include exchange losses arising from foreign currency borrowings in the amount of RUB 3.2 billion.

## 12. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as of 30 June 2017 and 31 December 2016 are summarised below:

		Ownership percentage	30 June 2017	31 December 2016
Slavneft	Joint venture	49.9	101,300	97,084
SeverEnergy	Joint venture	46.7	94,361	86,599
Northgas	Joint venture	50.0	12,377	11,517
Messoyakha	Joint venture	50.0	4,525	353
Others			5,454	5,995
<b>Total investments</b>			<b>218,017</b>	<b>201,548</b>

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

### Slavneft

The Group's investment in OJSC NGK Slavneft and various minority stakes in Slavneft subsidiaries (Slavneft) are held through a series of legal entities. Slavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

### SeverEnergy

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie, an entity jointly controlled by the Group and PJSC NOVATEK). SeverEnergy, through its subsidiary OJSC Arctic Gas Company (Arcticgas), is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The carrying amount of the Group's investment exceeds the Group's share in the underlying net assets of SeverEnergy by RUB 18.3 billion as of 30 June 2017 due to complex holding structure, current financing scheme and goodwill arising on acquisition (RUB 18.2 billion as of 31 December 2016).

### Northgas

The Group's investment in CJSC Northgas (Northgas) is held through Gazprom Resource Northgas LLC which is controlled by the Group and owns a 50% share in Northgas. Northgas is engaged in development of natural gas and oil field.

### Messoyakha

JSC Messoyakhaneftegaz (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

The summarised financial information for the significant associates and joint ventures as of 30 June 2017 and 31 December 2016 and for the six months ended 30 June 2017 and 2016 is presented in the tables below.

<b>30 June 2017</b>	<b>Slavneft</b>	<b>SeverEnergy</b>	<b>Northgas</b>	<b>Messoyakha</b>
Cash and cash equivalents	5,731	13,203	2,510	4
Other current assets	43,793	12,809	2,951	6,138
Non-current assets	328,080	372,681	54,267	137,986
Current financial liabilities	(34,564)	(39,087)	(2,868)	(87,505)
Other current liabilities	(25,081)	(9,497)	(2,977)	(1,896)
Non-current financial liabilities	(83,479)	(134,012)	(23,049)	(40,176)
Other non-current liabilities	(37,431)	(53,068)	(4,717)	(5,920)
<b>Net assets</b>	<b>197,049</b>	<b>163,029</b>	<b>26,117</b>	<b>8,631</b>

<b>31 December 2016</b>	<b>Slavneft</b>	<b>SeverEnergy</b>	<b>Northgas</b>	<b>Messoyakha</b>
Cash and cash equivalents	4,333	13,530	277	98
Other current assets	22,505	16,506	3,280	15,684
Non-current assets	312,935	357,480	52,986	114,347
Current financial liabilities	(46,727)	(53,439)	(2,677)	(82,745)
Other current liabilities	(25,368)	(12,368)	(54)	(3,512)
Non-current financial liabilities	(42,876)	(123,252)	(24,990)	(37,920)
Other non-current liabilities	(36,587)	(51,995)	(4,415)	(5,665)
<b>Net assets</b>	<b>188,215</b>	<b>146,462</b>	<b>24,407</b>	<b>287</b>

6 months ended 30 June 2017	Slavneft	SeverEnergy	Northgas	Messoyakha
Revenue	111,410	67,892	10,889	24,051
Depreciation and amortisation	(17,799)	(11,092)	(1,178)	(4,151)
Finance income	593	563	569	3
Finance expense	(2,578)	(10,256)	(1,449)	(3,309)
Total income tax expense	(1,813)	(2,976)	(816)	(2,028)
Profit for the period	8,757	16,568	3,262	8,344
Total comprehensive income for the period	8,838	16,568	3,262	8,344

6 months ended 30 June 2016	Slavneft	SeverEnergy	Northgas	Messoyakha
Revenue	104,500	63,568	12,932	42
Depreciation and amortisation	(15,595)	(11,392)	(1,305)	(266)
Finance income	860	462	654	25
Finance expense	(3,700)	(13,777)	(1,963)	(2,559)
Total income tax (expense) / benefit	(4,352)	(900)	(500)	889
Profit / (loss) for the period	17,101	11,637	1,582	(3,621)
Total comprehensive income / (loss) for the period	16,962	11,637	1,582	(3,621)

### Others

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group's share of those joint ventures' and associates' profit or loss and other comprehensive income are not significant.

### 13. Long-term financial assets

Long-term financial assets as of 30 June 2017 and 31 December 2016 comprise the following:

	30 June 2017	31 December 2016
Long-term loans issued	32,610	34,015
Available for sale financial assets	8,214	7,549
Less impairment provision	(1,577)	(1,397)
<b>Total long-term financial assets</b>	<b>39,247</b>	<b>40,167</b>

### 14. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 81.8 billion and RUB 97.2 billion as of 30 June 2017 and 31 December 2016, respectively).

### 15. Short-term debt and current portion of long-term debt

As of 30 June 2017 and 31 December 2016 the Group has short-term debt and current portion of long-term debt outstanding as follows:

	30 June 2017	31 December 2016
Bank loans	2,957	6,321
Other borrowings	48	1,061
Current portion of long-term debt	139,909	72,805
<b>Total short-term debt and current portion of long-term debt</b>	<b>142,914</b>	<b>80,187</b>

Short-term debt and current portion of long-term debt include interest payable as of 30 June 2017 and 31 December 2016.

## 16. Trade and other payables

Accounts payable as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Trade accounts payable	82,519	78,161
Dividends payable	53,670	2,115
Forward contracts - cash flow hedge	30,430	11,358
Other accounts payable	5,571	3,990
<b>Total trade and other payables</b>	<b>172,190</b>	<b>95,624</b>

## 17. Other current liabilities

Other current liabilities as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
Advances received	18,661	21,293
Payables to employees	3,771	2,627
Other non-financial payables	6,444	4,760
<b>Total other current liabilities, net</b>	<b>28,876</b>	<b>28,680</b>

## 18. Other taxes payable

Other taxes payable as of 30 June 2017 and 31 December 2016 comprise the following:

	<b>30 June 2017</b>	<b>31 December 2016</b>
VAT	24,189	20,140
Mineral extraction tax	19,995	25,261
Excise tax	13,862	11,389
Social security contributions	4,045	4,721
Other taxes	5,037	5,748
<b>Total other taxes payable</b>	<b>67,128</b>	<b>67,259</b>

Tax expense other than income tax expense for the three and six months ended 30 June 2017 and 2016 comprise the following:

	<b>3 months ended 30 June 2017</b>	<b>3 months ended 30 June 2016</b>	<b>6 months ended 30 June 2017</b>	<b>6 months ended 30 June 2016</b>
Mineral extraction tax	70,606	62,129	151,388	102,728
Excise tax	32,954	29,665	58,391	50,410
Social security contributions	4,761	4,338	9,860	9,090
Other taxes	3,323	2,390	6,392	6,904
<b>Total taxes other than income tax</b>	<b>111,644</b>	<b>98,522</b>	<b>226,031</b>	<b>169,132</b>



## 19. Long-term debt

As of 30 June 2017 and 31 December 2016 the Group has long-term outstanding debt as follows:

	30 June 2017	31 December 2016
Bank loans	338,447	348,142
Loan participation notes	228,755	231,250
Bonds	97,143	81,879
Other borrowings	7,944	7,755
Less current portion of long-term debt	(139,909)	(72,805)
<b>Total long-term debt</b>	<b>532,380</b>	<b>596,221</b>

### Bank loans

In March 2017 the Group performed principal repayment in the total amount of USD 307 million (RUB 18.1 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Mizuho) according to the payment schedule.

In March 2017 the Group performed principal repayment in the total amount of USD 100 million (RUB 5.7 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Commerzbank) according to the payment schedule.

In May and June 2017 the Group performed pre-scheduled principal repayment in the total amount of RUB 65 billion under term and revolving loan facilities with PJSC Sberbank.

In June 2017 the Group borrowed RUB 42.4 billion under long-term facility agreements with PJSC Bank VTB due payable in June 2022.

In June 2017 the Group borrowed RUB 42.7 billion under long-term facility agreement with PJSC Sberbank due payable in June 2022.

The loan agreements contain financial covenant that limits the Group's ratio of "Consolidated financial indebtedness to Consolidated EBITDA". The Group is in compliance with all covenants as of 30 June 2017.

### Bonds

In April 2017 the Group placed five-year Rouble Bonds (001P-01R series) with the total par value of RUB 15 billion. The bonds bear interest of 8.7% per annum.

## 20. Other non-current financial liabilities

Other non-current financial liabilities as of 30 June 2017 and 31 December 2016 comprise the following:

	30 June 2017	31 December 2016
Deferred consideration	55,498	60,384
Forward contracts - cash flow hedge	1,840	28,015
Other liabilities	1,412	1,345
<b>Total other non-current financial liabilities</b>	<b>58,750</b>	<b>89,744</b>

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. In February 2017 the payment schedule was modified. The effect of the change in carrying value of liability due to the contract term revision in amount of RUB 7.6 billion was reflected in additional paid-in capital.

## 21. Finance lease

In 2016 the Group entered into an agreement to lease vessels and the contract was classified as a finance lease. During the six months ended 30 June 2017 the Group became entitled to exercise the right to use the assets. The net book value of the leased assets as of 30 June 2017 is RUB 25.3 billion. Upon termination of lease term ownership title to the vessels transfers to the Group. The lease contract also contains an option for early purchase of the assets by the Group.

Net book value of other items of PPE under finance lease contracts is non significant.

The reconciliation between future minimum lease payments and their present value as of 30 June 2017 is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
<b>30 June 2017</b>		
Less than one year	2,831	2,737
Between one and five years	11,437	9,461
More than five years	19,208	11,209
<b>Total minimum lease payments</b>	<b>33,476</b>	<b>23,407</b>

The difference between the minimum lease payments and their present value represents future finance charges on finance lease liabilities.

## 22. Net foreign exchange (loss) / gain

Net foreign exchange gain for the three and six months ended 30 June 2017 and 2016 comprise the following:

	3 months ended 30 June 2017	3 months ended 30 June 2016	6 months ended 30 June 2017	6 months ended 30 June 2016
<b>Net foreign exchange (loss) / gain on financing activities, including:</b>	<b>(17,532)</b>	<b>26,245</b>	<b>9,572</b>	<b>44,266</b>
foreign exchange gain	419	28,442	10,327	73,023
foreign exchange loss	(17,951)	(2,197)	(755)	(28,757)
<b>Net foreign exchange gain / (loss) on operating activities</b>	<b>10,055</b>	<b>(12,430)</b>	<b>(3,867)</b>	<b>(28,156)</b>
<b>Net foreign exchange (loss) / gain</b>	<b>(7,477)</b>	<b>13,815</b>	<b>5,705</b>	<b>16,110</b>

## 23. Finance income

Finance income for the three and six months ended 30 June 2017 and 2016 comprise the following:

	3 months ended 30 June 2017	3 months ended 30 June 2016	6 months ended 30 June 2017	6 months ended 30 June 2016
Interest income on loans issued	2,040	1,811	4,099	3,411
Interest on bank deposits	462	360	699	942
Other financial income	211	546	428	911
<b>Total finance income</b>	<b>2,713</b>	<b>2,717</b>	<b>5,226</b>	<b>5,264</b>

## 24. Finance expense

Finance expense for the three and six months ended 30 June 2017 and 2016 comprise the following:

	<b>3 months ended 30 June 2017</b>	<b>3 months ended 30 June 2016</b>	<b>6 months ended 30 June 2017</b>	<b>6 months ended 30 June 2016</b>
Interest expense	12,051	10,896	23,524	23,100
Decommissioning provision: unwinding of discount	580	616	1,305	1,192
Less: capitalised interest	(6,088)	(2,798)	(11,568)	(5,854)
<b>Finance expense</b>	<b>6,543</b>	<b>8,714</b>	<b>13,261</b>	<b>18,438</b>

## 25. Fair value measurement

The following assets and liabilities are measured at fair value in the Interim Condensed Consolidated Financial Statements: derivative financial instruments (forward exchange contracts and interest rate swaps used as hedging instrument), Stock Appreciation Rights plan (SARs) and financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses. Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly or indirectly. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value. The fair value of the liability under the SAR plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Company's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. There were no transfers between the levels of the fair value hierarchy during the interim period. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy.

As of 30 June 2017 the fair value of bonds and loan participation notes is RUB 334,025 million (RUB 315,488 million as of 31 December 2016). Carrying value of other financial assets and liabilities approximate their fair value.

## 26. Commitments and contingencies

### Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. The years 2014-2017 are currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

Russian tax legislation on tax control over prices applied for tax purposes in related party transactions (“transfer pricing rules”) was amended starting from 1 January 2012 to introduce significant reporting and documentation requirements regarding market environment at the date of transaction. Compared to the old rules the new transfer pricing rules appear to be more technically elaborate and better aligned with the Transfer Pricing Guidelines developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing rules allow the tax authorities to make transfer pricing adjustments to the respective tax bases and impose additional tax liabilities in respect of controllable transactions (transactions with related parties and some transactions with unrelated parties), in cases where the prices of such transactions do not correspond to the ranges of prices deemed to be fair market prices for tax purposes defined in compliance with the said rules.

The compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. As of 30 June 2017 fifteen pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded.

However, given that the practice of enforcement of the new transfer pricing rules has not yet developed and some clauses of the applicable law are ambiguous and contain contradictions, the impact of the transfer pricing rules on the Group's tax liabilities cannot be reliably estimated.

#### Economic environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Tax, monopoly, 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, uncertainty and volatility of the financial markets and other risks may have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government 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 Group's business in the current business and economic environment.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2016. In August 2017 the U.S. signed an act to impose further sanctions against the Russian Federation, North Korea and Iran. The Group is currently assessing the impact of the new sanctions on its activity.

#### 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 Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

#### Capital commitments

As of 30 June 2017 the Group has entered into contracts to purchase property, plant and equipment for RUB 313,802 million (RUB 300,978 million as of 31 December 2016).

## 27. Related party transactions

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. 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.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other companies controlled by the Russian Government. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 9 and 18. The Group also leases vessels under time-charter agreements with a government related entity (lease expense amounted RUB 2.6 billion for the six months ended 30 June 2017). The tables below summarise transactions in the ordinary course of business with either the parent company or associates and joint ventures.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

As of 30 June 2017 and 31 December 2016 the outstanding balances with related parties were as follows:

30 June 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	24,195	-
Short-term financial assets	-	-	41,518
Trade and other receivables	3,010	3,727	14,695
Other assets	620	3,558	1,024
Long-term financial assets	-	-	28,848
<b>Total assets</b>	<b>3,630</b>	<b>31,480</b>	<b>86,085</b>
Short-term debt and other current financial liability	-	-	15
Trade and other payables	50,116	2,216	14,331
Other current liabilities	1,438	502	64
Long-term debt and other non-current financial liability	56,711	59,085	-
<b>Total liabilities</b>	<b>108,265</b>	<b>61,803</b>	<b>14,410</b>

Currency – RUB millions (unless otherwise stated)

31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	7,723	-
Short-term financial assets	-	860	40,381
Trade and other receivables	3,693	4,160	13,212
Other assets	614	4,290	1,224
Long-term financial assets	-	-	30,273
<b>Total assets</b>	<b>4,307</b>	<b>17,033</b>	<b>85,090</b>
Short-term debt and other current financial liability	-	-	1,029
Trade and other payables	1,921	3,236	8,066
Other current liabilities	772	392	201
Long-term debt and other non-current financial liability	60,276	60,657	-
<b>Total liabilities</b>	<b>62,969</b>	<b>64,285</b>	<b>9,296</b>

For the six months ended 30 June 2017 and 2016 the following transactions occurred with related parties:

6 months ended 30 June 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	17,000	18,833	27,547
Other revenue	2	2,472	5,860
Purchases of crude oil, gas and oil products	-	21,502	61,185
Production related services	12	11,341	9,775
Transportation costs	4,706	728	5,061
Interest expense	2,732	1,690	27
Interest income	-	86	3,782

6 months ended 30 June 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	12,811	18,074	26,073
Other revenue	14	2,162	3,262
Purchases of crude oil, gas and oil products	-	20,091	44,473
Production related services	19	9,056	9,088
Transportation costs	3,275	846	3,027
Interest expense	3,229	2,051	76
Interest income	-	82	2,938

#### Transactions with Key Management Personnel

For the six months ended 30 June 2017 and 2016 the Group recognised RUB 967 million and RUB 910 million, respectively, as compensation for key management personnel (members of the Board of Directors and Management Committee). Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

## 28. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group's operating segments for the six months ended 30 June 2017 and 2016 is presented below:

<b>6 months ended 30 June 2017</b>	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Revenue from sales:				
External customers	106,394	765,963	-	872,357
Inter-segment	254,150	9,542	(263,692)	-
<b>Total revenue from sales</b>	<b>360,544</b>	<b>775,505</b>	<b>(263,692)</b>	<b>872,357</b>
Adjusted EBITDA	190,609	55,198	-	245,807
Depreciation, depletion and amortisation	50,505	15,789	-	66,294
Capital expenditure	94,150	60,085	-	154,235
<b>6 months ended 30 June 2016</b>	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Revenue from sales:				
External customers	37,967	663,708	-	701,675
Inter-segment	239,791	9,690	(249,481)	-
<b>Total revenue from sales</b>	<b>277,758</b>	<b>673,398</b>	<b>(249,481)</b>	<b>701,675</b>
Adjusted EBITDA	148,882	54,649	-	203,531
Depreciation, depletion and amortisation, including:	43,886	16,343	-	60,229
Impairment of assets	5,028	-	-	5,028
Capital expenditure	113,306	53,092	-	166,398

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Adjusted EBITDA represents the Group's EBITDA and its share in associates' and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

The geographical segmentation of the Group's revenue and capital expenditures for the six months ended 30 June 2017 and 2016 is presented below:

	Russian Federation	CIS	Export and international operations	Total
<b>6 months ended 30 June 2017</b>				
Sales of crude oil	46,171	14,255	219,260	279,686
Sales of petroleum products	392,996	34,773	187,942	615,711
Sales of gas	18,059	-	707	18,766
Other sales	24,453	943	4,715	30,111
Less custom duties and sales related excises	-	(573)	(71,344)	(71,917)
<b>Revenues from external customers, net</b>	<b>481,679</b>	<b>49,398</b>	<b>341,280</b>	<b>872,357</b>
<b>6 months ended 30 June 2016</b>				
Sales of crude oil	44,052	14,260	107,499	165,811
Sales of petroleum products	341,899	33,873	185,403	561,175
Sales of gas	14,308	-	961	15,269
Other sales	23,058	952	4,812	28,822
Less custom duties and sales related excises	-	(484)	(68,918)	(69,402)
<b>Revenues from external customers, net</b>	<b>423,317</b>	<b>48,601</b>	<b>229,757</b>	<b>701,675</b>

	Russian Federation	CIS	Export and international operations	Total
Non-current assets as of 30 June 2017	1,969,123	11,127	316,476	2,296,726
Capital expenditures for the 6 months ended 30 June 2017	144,793	327	9,115	154,235
Non-current assets as of 31 December 2016	1,822,912	11,396	310,132	2,144,440
Capital expenditures for the 6 months ended 30 June 2016	155,048	195	11,155	166,398
Impairment of assets for the 6 months ended 30 June 2016	-	-	5,028	5,028

Adjusted EBITDA for the three and six months ended 30 June 2017 and 2016 is reconciled below:

	3 months ended 30 June 2017	3 months ended 30 June 2016	6 months ended 30 June 2017	6 months ended 30 June 2016
Profit for the period	53,317	50,155	118,051	91,747
Total income tax expense	13,240	9,511	28,162	17,792
Finance expense	6,543	8,714	13,261	18,438
Finance income	(2,713)	(2,717)	(5,226)	(5,264)
Depreciation, depletion and amortisation	33,984	32,343	66,294	60,229
Net foreign exchange (loss) / gain	7,477	(13,815)	(5,705)	(16,110)
Other loss, net	2,513	11,393	3,379	12,153
	<b>114,361</b>	<b>95,584</b>	<b>218,216</b>	<b>178,985</b>
less share of profit of associates and joint ventures	(7,892)	(10,307)	(18,710)	(16,031)
add share of EBITDA of associates and joint ventures	21,544	21,889	46,301	40,577
<b>Total adjusted EBITDA</b>	<b>128,013</b>	<b>107,166</b>	<b>245,807</b>	<b>203,531</b>



## 29. Subsequent events

In August 2017 the Group placed seven-year Rouble Bonds (001P-02R series) with the total par value of RUB 15 billion. The bonds bear interest of 8.25% per annum.

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