Gazprom Neft Group

Consolidated Financial Statements

As of and for the year ended 31 December 2016

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the PJSC Gazprom Neft (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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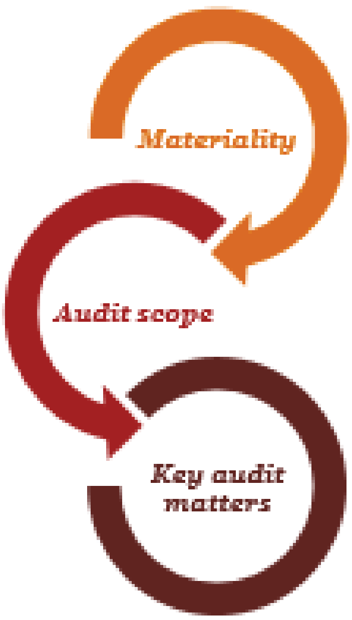
Our audit approach

Overview



- Overall group materiality: 10,500 million Russian Roubles ("RUB"), which represents 2.5% of the adjusted EBITDA.

- We conducted audit work on 30 Group entities in 4 countries.
- The group engagement team visited the following locations: Saint-Petersburg and Omsk (Russia) as well as Belgrade (Serbia).
- Our audit scope addressed more than 76% of the Group's revenues and more than 74% of the Group's absolute value of underlying profit before tax.

- Revenue recognition
- Impairment assessment of goodwill and fixed assets

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we have determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	RUB 10,500 million
How we determined it	2.5% of the adjusted EBITDA
Rationale for the materiality benchmark applied	We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group's performance (see Note 39). Management uses adjusted EBITDA as a 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. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition *Refer to note 2 ("Revenue recognition") in the consolidated financial statements for the related disclosures of accounting policies.* We focused on revenue recognition because the Group has various revenue streams with different terms underlying revenue recognition, including price determination, title, as well as risk and rewards transfer. Due to the high volume of transactions, possible manual intervention, different management accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error. The Group's revenue consists of different streams, comprising mainly sales of crude oil, petroleum products and other materials. The Group sells oil products to industrial customers, via small-scale wholesale distribution channels and via the Group's own network of retail petrol stations in the Russian Federation and abroad. Under ISAs, there is a rebuttable presumption of fraud risk in revenue recognition on every audit engagement. We focused on judgements in	We assessed the consistency in the application of the revenue recognition accounting policy against various sources of the Group's revenues. We tested the design and operating effectiveness of controls (including Information Technology ("IT") controls) over revenue recognition across the Group to determine the extent of additional substantive testing required. We checked operational effectiveness of controls over the formulation of prices at petrol stations, over reconciliation of data between operating and accounting systems in both quantitative and monetary terms and over cash collection. We performed analytical procedures (based on investigation of contract details and reconciling and testing the details of inventory movement starting from production through to final sale) and we tested the details over revenue transactions. We submitted requests for confirmation letters to financial institutions for confirmation of collected cash and cash received through credit card sales and customers for confirmation of

Key audit matter	How our audit addressed the Key audit matter
relation to revenue recognition under certain contractual arrangements and assessed the risk of fraud and error in revenue recognition for each revenue stream.	certain transactions or accounts receivable balances. We checked the appropriateness of the timing of revenue recognition by testing a sample of transactions and comparing ownership, and the dates of the transfer of risks and rewards against the corresponding dates of revenue recognition. We checked whether the Group was entitled to, and appropriately recognised, revenue in line with their contractual obligations and the Group's revenue recognition policy. We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to source shipping documents. No significant exceptions were noted from our testing.
Impairment assessment of goodwill and fixed assets *Refer to notes 12 and 13 in the consolidated financial statements.* We focused on this area due to the size of goodwill (RUB 31,926 million at 31 December 2016) and fixed assets balance (RUB 1,726,345 million at 31 December 2016) and because the management assessment of the 'value in use' of the Group's Cash Generating Units ("CGU's") involves judgements and estimates about the future results of the business, commodity prices and discount rates. In the current economic environment we note high volatility of macroeconomic parameters used in models which makes forecasting more difficult and judgemental. We focused on evaluating projects whose pay-off period could be increased due to a sharp decline in crude oil prices that is not compensated for by the weakening of the Russian Rouble. Such projects are development and production projects in Kurdistan and Badra, and are governed by the terms of the Production Sharing Agreement (PSA) and the Development and Production Service Contract (PDSC). The Iraqi business was entered into by the Group in 2012.	We assessed the risk of impairment of tangible and intangible assets, which involves the analysis of the estimation of future cash flows. We evaluated and challenged the composition of management's future cash flow forecasts, and the process by which they were prepared. In particular, we focused on whether they had identified all significant cash generating units. We found that management had followed their formal, approved process for the preparation of future cash flow forecasts, which was subject to timely oversight and challenge by senior management. We compared the current year actual results to the figures included in the prior year forecast, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic. We extended the use of our own valuation experts and external data from independent sources in critically assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions are those regarding future oil prices, reserves and resources volumes as per the report from independent appraisers DeGolyer and

Key audit matter	How our audit addressed the Key audit matter
Performance since then has been impacted by a general deterioration in the macroeconomic environment both globally and in Iraq, and by the PSA and DPSC terms and conditions, resulting in the recognition of impairment in the preceding and current year. Impairment amount and carrying value of the remaining assets related to those projects as of the date of impairment test is disclosed in N0te 12 Property, plant and equipment.	MacNaughton as well as discount rates depending on Iraq's country risk. For the purpose of the analysis of future market prices we have used Brent crude quotations as per IHS, Wood Mackenzie, PIRA Energy Group's data. We have also performed an analysis of the competence, independence and objectivity of the external expert engaged by the Group. We tested input data which was submitted to the external expert. We checked that the revised estimation of reserves was appropriately accounted for in the impairment analysis. For all CGUs we also challenged management's assumptions in forecasts for long term growth rates by comparing them to economic and industry forecasts; and the discount rate, by assessing the cost of capital for the particular CGU and comparable organisations, as well as considering country/territory specific factors. We found the assumptions to be consistent and in line with our expectations. We also performed audit procedures on the reliability and consistency of data used in the impairment models and sensitivity analysis as well as procedures aimed to ensure the completeness of the impairment charge and exploration costs write-offs. No significant exceptions were noted.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company, corporate centre located in Saint-Petersburg, Russia), Naftna Industrija Srbije a.d., Novi Sad (Serbian subsidiary), Gazpromneft – Regionalnye Prodazhi LLC (Russian subsidiary responsible for regional wholesale and retail oil products sales) and Gazpromneft – Center LLC (Russian subsidiary responsible for retail oil products sales). In addition, we performed specified audit procedures over selected financial information of several non-significant components located in Russia, Iraq and Austria in order to increase coverage and audit comfort, including procedures at Business-Service LLC (Russian subsidiary located at Omsk, Noyabrsk and Ekaterinburg responsible for accounting and bookkeeping services for all entities of the Group in Russia).

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months ended December 31 and September 30, 2016 and years ended December 31, 2016 and 2015" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the PJSC Gazprom Neft complete Annual Report and 1st quarter 2017 Quarterly Issuer's Report, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the PJSC Gazprom Neft complete Annual Report and 1st quarter 2017 Quarterly Issuer's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Irina Shanina.

AO PricewaterhouseCoopers Audit

21 February 2017

Moscow, Russian Federation

Jason Wardell, Partner, for 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

Consolidated Financial Statements

As of and for the year ended 31 December 2016

Contents

Gazprom Neft Group
Consolidated Statement of Financial Position

Currency – RUB millions

	Notes	31 December 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	*6*	33,621	114,198
Short-term financial assets	*7*	42,113	65,157
Trade and other receivables	*8*	115,559	95,241
Inventories	*9*	100,701	102,378
Current income tax prepayments		10,353	13,903
Other taxes receivable	*10*	53,482	57,700
Other current assets	*11*	40,503	62,167
Total current assets		**396,332**	**510,744**
Non-current assets			
Property, plant and equipment	*12*	1,726,345	1,587,653
Goodwill and other intangible assets	*13*	70,151	75,090
Investments in associates and joint ventures	*14*	201,548	169,611
Long-term trade and other receivables		5,129	8,867
Long-term financial assets	*16*	40,167	50,884
Deferred income tax assets	*17*	8,039	22,099
Other non-current assets	*18*	101,100	60,518
Total non-current assets		**2,152,479**	**1,974,722**
Total assets		**2,548,811**	**2,485,466**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*19*	80,187	147,319
Trade and other payables	*20*	95,624	104,830
Other current liabilities	*21*	28,680	32,870
Current income tax payable		2,296	1,096
Other taxes payable	*22*	67,259	49,011
Provisions and other accrued liabilities	*23*	15,406	13,938
Total current liabilities		**289,452**	**349,064**
Non-current liabilities			
Long-term debt	*24*	596,221	670,779
Other non-current financial liabilities	*25*	89,744	115,375
Deferred income tax liabilities	*17*	81,347	68,752
Provisions and other accrued liabilities	*23*	45,942	31,065
Other non-current liabilities		1,938	1,942
Total non-current liabilities		**815,192**	**887,913**
Equity			
Share capital	*26*	98	98
Treasury shares	*26*	(1,170)	(1,170)
Additional paid-in capital		51,047	44,326
Retained earnings		1,276,210	1,078,626
Other reserves		33,955	35,189
Equity attributable to Gazprom Neft shareholders		**1,360,140**	**1,157,069**
Non-controlling interest	*37*	84,027	91,420
Total equity		**1,444,167**	**1,248,489**
Total liabilities and equity		**2,548,811**	**2,485,466**

A. V. Dyukov
Chief Executive Officer
PJSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
PJSC Gazprom Neft

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

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Sales		1,695,764	1,655,775
Less export duties and sales related excise tax		(150,156)	(187,832)
Total revenue from sales	***39***	**1,545,608**	**1,467,943**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(351,294)	(345,909)
Production and manufacturing expenses		(201,862)	(214,267)
Selling, general and administrative expenses		(108,981)	(100,176)
Transportation expenses		(132,984)	(133,320)
Depreciation, depletion and amortisation		(129,845)	(114,083)
Taxes other than income tax	***22***	(381,131)	(353,145)
Exploration expenses		(1,195)	(922)
Total operating expenses		**(1,307,292)**	**(1,261,822)**
Operating profit		**238,316**	**206,121**
Share of profit of associates and joint ventures	***14***	34,116	24,956
Net foreign exchange gain / (loss)	***29***	28,300	(67,910)
Finance income	***30***	11,071	14,732
Finance expense	***31***	(34,282)	(33,943)
Other (loss) / gain, net	***28***	(17,982)	1,494
Total other income / (expenses)		**21,223**	**(60,671)**
Profit before income tax		**259,539**	**145,450**
Current income tax expense		(21,290)	(38,026)
Deferred income tax (expense) / benefit		(28,524)	8,774
Total income tax expense	***32***	**(49,814)**	**(29,252)**
Profit for the period		**209,725**	**116,198**
Other comprehensive (loss) / income			
Currency translation differences		(48,319)	43,739
Cash flow hedge, net of tax	***33***	31,501	(9,333)
Other comprehensive loss		(166)	(199)
Other comprehensive (loss) / income for the period		**(16,984)**	**34,207**
Total comprehensive income for the period		**192,741**	**150,405**
Profit attributable to:			
- Gazprom Neft shareholders		200,179	109,661
- Non-controlling interest		9,546	6,537
Profit for the period		**209,725**	**116,198**
Total comprehensive income / (loss) attributable to:			
- Gazprom Neft shareholders		198,945	133,746
- Non-controlling interest		(6,204)	16,659
Total comprehensive income for the period		**192,741**	**150,405**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		42.43	23.24
Diluted earnings (RUB per share)		42.43	23.24
Weighted-average number of common shares outstanding (millions)		4,718	4,718

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

Currency – RUB millions

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 1 January 2016	**98**	**(1,170)**	**44,326**	**1,078,626**	**35,189**	**1,157,069**	**91,420**	**1,248,489**
Profit for the period	-	-	-	200,179	-	200,179	9,546	209,725
Other comprehensive (loss) / income								
Currency translation differences	-	-	-	-	(32,569)	(32,569)	(15,750)	(48,319)
Cash flow hedge, net of tax	-	-	-	-	31,501	31,501	-	31,501
Other comprehensive loss	-	-	-	-	(166)	(166)	-	(166)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**200,179**	**(1,234)**	**198,945**	**(6,204)**	**192,741**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(2,595)	-	(2,595)	(1,273)	(3,868)
Transaction under common control (Note 25)	-	-	6,835	-	-	6,835	-	6,835
Acquisition through business combination	-	-	(114)	-	-	(114)	84	(30)
Total transactions with owners	**-**	**-**	**6,721**	**(2,595)**	**-**	**4,126**	**(1,189)**	**2,937**
Balance as of 31 December 2016	**98**	**(1,170)**	**51,047**	**1,276,210**	**33,955**	**1,360,140**	**84,027**	**1,444,167**

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 1 January 2015	**98**	**(1,170)**	**50,074**	**1,005,642**	**11,104**	**1,065,748**	**64,037**	**1,129,785**
Profit for the period	-	-	-	109,661	-	109,661	6,537	116,198
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	33,617	33,617	10,122	43,739
Cash flow hedge, net of tax	-	-	-	-	(9,333)	(9,333)	-	(9,333)
Other comprehensive loss	-	-	-	-	(199)	(199)	-	(199)
Total comprehensive income for the period	**-**	**-**	**-**	**109,661**	**24,085**	**133,746**	**16,659**	**150,405**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(36,677)	-	(36,677)	(1,842)	(38,519)
Transaction under common control	-	-	(5,748)	-	-	(5,748)	12,566	6,818
Total transactions with owners	**-**	**-**	**(5,748)**	**(36,677)**	**-**	**(42,425)**	**10,724**	**(31,701)**
Balance as of 31 December 2015	**98**	**(1,170)**	**44,326**	**1,078,626**	**35,189**	**1,157,069**	**91,420**	**1,248,489**

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

Currency – RUB millions

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before income tax		259,539	145,450
Adjustments for:			
Share of profit of associates and joint ventures	***14***	(34,116)	(24,956)
(Gain) /loss on foreign exchange differences	***29***	(28,300)	67,910
Finance income	***30***	(11,071)	(14,732)
Finance expense	***31***	34,282	33,943
Depreciation, depletion and amortisation	***12,13***	129,845	114,083
Net impairement of receivables and other assets		7,587	2,090
Write-off payables		-	(16,107)
Other non-cash items		3,801	4,488
Operating cash flow before changes in working capital		**361,567**	**312,169**
Changes in working capital:			
Accounts receivable		(30,397)	16,019
Inventories		(3,462)	6,128
Taxes receivable		4,218	1,704
Other assets		8,999	6,294
Accounts payable		12,288	(2,245)
Taxes payable		19,729	(2,905)
Other liabilities		3,841	(6,653)
Total effect of working capital changes		**15,216**	**18,342**
Income taxes paid		(22,158)	(19,522)
Interest paid		(36,476)	(28,229)
Dividends received		3,148	2,415
Net cash provided by operating activities		**321,297**	**285,175**
Cash flows from investing activities			
Acquisition of subsidiaries and joint operations, net of cash acquired		(1,040)	303
Increase in cash due to acquisition of a subsidiary under common control		-	2,229
Proceeds from disposal of subsidiaries, net of cash disposed		-	(9)
Acquisition of associates and joint ventures		(988)	(106)
Bank deposits placement		(1,425)	(128,298)
Repayment of bank deposits		49,942	174,043
Acquisition of other investments		-	(4,476)
Proceeds from sales of other investments		3,241	-
Short-term loans issued		(6,940)	(26,169)
Repayment of short-term loans issued		10,815	27,883
Long-term loans issued		(21,904)	(25,578)
Repayment of long-term loans issued		12,684	5,737
Purchases of property, plant and equipment and intangible assets		(384,817)	(349,036)
Proceeds from sale of property, plant and equipment and intangible assets		1,008	982
Proceeds from sale of other non-current assets	***18***	11,186	-
Interest received		4,384	7,984
Net cash used in investing activities		**(323,854)**	**(314,511)**
Cash flows from financing activities			
Proceeds from short-term borrowings		81,319	35,171
Repayment of short-term borrowings		(95,656)	(13,691)
Proceeds from long-term borrowings		142,947	153,748
Repayment of long-term borrowings		(192,539)	(53,663)
Transaction costs directly attributable to the borrowings received		(649)	(350)
Dividends paid to Gazprom Neft shareholders		(2,598)	(36,346)
Dividends paid to non-controlling interest		(1,254)	(2,676)
Net cash (used in) / provided by financing activities		**(68,430)**	**82,193**
(Decrease) / increase in cash and cash equivalents		**(70,987)**	**52,857**
Effect of foreign exchange on cash and cash equivalents		(9,590)	8,174
Cash and cash equivalents as of the beginning of the period		**114,198**	**53,167**
Cash and cash equivalents as of the end of the period		**33,621**	**114,198**

The accompanying notes are an integral part of these 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 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").

Subsequent events occurring after 31 December 2016 were evaluated through 21 February 2017, the date these Consolidated Financial Statements were authorised for issue.

Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SARs) are stated at fair value.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement have the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

Business combinations

The Group accounts for its business combinations according to IFRS 3 *Business Combinations*. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

Goodwill

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interest

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisitions from entities under common control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

Investments in associates

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Joint operations and joint ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

Non-derivative financial assets

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss.

<u>Non-derivative financial liabilities</u>

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

<u>Derivative financial instruments</u>

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

Intangible asset group	Average useful life
Licenses and software	1-5 years
Land rights	25 years

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Oil and gas properties

Exploration and evaluation assets

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies, that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field' basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

Development costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, depletion and amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset group	Average useful life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as other assets.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of non-current assets

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generated units - CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit and loss.

Impairment of non-derivative financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, marketing and distribution: the Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income taxes

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 *Income Taxes*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Common stock

Common stock represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders' meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-based compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and other benefit obligations

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant post-retirement benefits or other significant compensated benefits requiring accrual.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of revenues

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

Buy / sell transactions

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

Transportation costs

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the PJSC "AK "Transneft" pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Other Comprehensive income / loss

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related deferred tax.

Changes in presentation and classification

In 2016 the Group changed presentation of asset impairement loss and gain in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. These items were reclassified to financial statements line item Depreciation, depletion and amortisation from Other gain and loss line item. The Group believes that the change provides reliable and more relevant information. Impairment loss in the amount of RUB 15,582 million recognised in 2015 was reclassified to financial statements line item Depreciation, depletion and amortization to conform to the current year's presentation. Such reclassifications have no effect on profit for the period, net cash flow or shareholders' equity. Since the reclassification has no effect on Consolidated Statement of Financial Position line items the Consolidated Statement of Financial Position as of 01 January 2015 was not presented.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Impairment of non-current assets

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Estimation of oil and gas reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful lives of property, plant and equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Joint arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Risks include the possibilities of losses from idle capacities or technological obsolense and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the the assets's economic life and of gain from appreciation in value or realization of a residual value.

Other leases are classified as operating leases. In most cases leasing of vessels under time-charter agreements are accounted for as operating leases under IAS 17 Leases.

4. Application of new IFRS

The following standards or amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14 - Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 – Presentation of Financilal Statements (issued in December 2014 and effective for annual periods on or after 1 January 2016).

- Amendments to IFRS 7 – Financial instruments: Disclosures (issued in September 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IAS 19 – Employee Benefits (issued in September 2014 and effective for annual periods on or after 1 January 2016).
- Amendments to IAS 34 – Interim Financial Reporting Presentation of Financial Statements (issued in September 2014 effective for annual periods beginning on or after 1 January 2016).

5. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 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 January 1, 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 January 1, 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.

Currency – RUB millions (unless otherwise stated)

- 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.

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 this disclosure in the Consolidated Financial Statements for 2017.

The following other new standards are not expected to have any material impact on the Group when adopted:

- 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).
- Amendments to IFRS 15 – Revenue from Contracts with Customers (issued in April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 – Share-based Payment (issued in June 2016 effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

6. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Cash on hand	882	986
Cash in bank	21,284	39,937
Deposits with original maturity of less than three months	8,647	69,891
Other cash equivalents	2,808	3,384
Total cash and cash equivalents	**33,621**	**114,198**

7. Short-term financial assets

Short-term financial assets as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Short-term loans issued	41,136	15,802
Deposits with original maturity more than 3 months less than 1 year	886	49,206
Forward contracts - cash flow hedge	91	-
Financial assets held to maturity	-	149
Total short-term financial assets	**42,113**	**65,157**

The loans issued in 2016 mainly comprise loans issued to a joint venture.

Currency – RUB millions (unless otherwise stated)

8. Trade and other receivables

Trade and other receivables as of 31 December 2016 and 2015 comprise the following:

	Notes	31 December 2016	31 December 2015
Trade receivables		121,229	112,572
Other financial receivables		6,604	7,254
Less impairment provision	***34***	(12,274)	(24,585)
Total trade and other receivables		**115,559**	**95,241**

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

9. Inventories

Inventories as of 31 December 2016 and 2015 consist of the following:

	31 December 2016	31 December 2015
Petroleum products and petrochemicals	47,467	41,692
Materials and supplies	26,277	38,782
Crude oil and gas	20,059	16,947
Other	8,378	8,497
Less provision	(1,480)	(3,540)
Total inventory	**100,701**	**102,378**

As part of the management of inventory the Group may enter transactions to buy and sell crude oil or petroleum products from the same counterparty. Such transactions are referred to as buy / sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total values of buy / sell transactions undertaken for the years ended 31 December are as follows:

	2016	2015
Buy / sell transactions for the year ended 31 December	92,932	92,949

10. Other taxes receivable

Other taxes receivable as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Value added tax receivable	44,936	47,616
Prepaid custom duties	6,419	6,728
Other taxes prepaid	2,127	3,356
Total other taxes receivables	**53,482**	**57,700**

11. Other current assets

Other current assets as of 31 December 2016 and 2015 comprise the following:

	Notes	31 December 2016	31 December 2015
Advances paid		27,671	40,080
Prepaid expenses		1,104	999
Other assets	***34***	11,728	21,088
Total other current assets, net		**40,503**	**62,167**

The movement in impairement provision in respect of other current assets is presented in Note 34.

Currency – RUB millions (unless otherwise stated)

12. Property, plant and equipment

Movement in property, plant and equipment for the years ended 31 December 2016 and 2015 is presented below:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
Cost						
As of 1 January 2016	**1,355,282**	**308,037**	**152,795**	**17,933**	**369,274**	**2,203,321**
Additions	2,280	1,365	-	-	319,426	323,071
Acquisitions through business combinations	-	38	-	452	16	506
Changes in decommissioning obligations	9,626	-	-	-	-	9,626
Capitalised borrowing costs	-	-	-	-	13,840	13,840
Transfers	248,107	21,528	10,280	4,473	(284,388)	-
Internal movement	25,813	(6,474)	6,192	1,711	(27,242)	-
Disposals	(5,588)	(1,250)	(1,753)	(604)	(4,530)	(13,725)
Translation differences	(65,995)	(15,052)	(14,643)	(434)	(17,092)	(113,216)
As of 31 December 2016	**1,569,525**	**308,192**	**152,871**	**23,531**	**369,304**	**2,423,423**
Depreciation and impairment						
As of 1 January 2016	**(489,288)**	**(81,461)**	**(41,440)**	**(3,479)**	**-**	**(615,668)**
Depreciation charge	(83,199)	(13,083)	(11,305)	(1,918)	-	(109,505)
Impairment	(14,763)	-	-	-	-	(14,763)
Internal movement	828	1,558	(1,240)	(1,146)	-	-
Disposals	5,222	221	1,050	561	-	7,054
Translation differences	28,060	3,659	3,883	202	-	35,804
As of 31 December 2016	**(553,140)**	**(89,106)**	**(49,052)**	**(5,780)**	**-**	**(697,078)**
Net book value						
As of 1 January 2016	**865,994**	**226,576**	**111,355**	**14,454**	**369,274**	**1,587,653**
As of 31 December 2016	**1,016,385**	**219,086**	**103,819**	**17,751**	**369,304**	**1,726,345**

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
Cost						
As of 1 January 2015	**1,120,873**	**260,219**	**134,430**	**18,659**	**245,847**	**1,780,028**
Additions	12,641	1,016	-	-	311,871	325,528
Acquisitions through business combinations	-	-	24	283	47	354
Changes in decommissioning obligations	(214)	-	-	-	-	(214)
Capitalised borrowing costs	-	-	-	-	14,558	14,558
Transfers	183,139	38,093	16,543	1,921	(239,696)	-
Internal movement	(12,394)	(75)	(483)	(394)	11,893	(1,453)
Disposals	(12,249)	(1,061)	(2,747)	(2,800)	(2,871)	(21,728)
Translation differences	63,486	9,845	5,028	264	27,625	106,248
As of 31 December 2015	**1,355,282**	**308,037**	**152,795**	**17,933**	**369,274**	**2,203,321**
Depreciation and impairment						
As of 1 January 2015	**(383,053)**	**(68,395)**	**(32,593)**	**(2,187)**	**-**	**(486,228)**
Depreciation charge	(70,978)	(11,032)	(10,552)	(1,256)	-	(93,818)
Impairment	(15,582)	-	-	-	-	(15,582)
Acquisitions through business combinations	-	-	-	(143)	-	(143)
Internal movement	222	(31)	1,114	148	-	1,453
Disposals	8,246	199	1,600	62	-	10,107
Translation differences	(28,143)	(2,202)	(1,009)	(103)	-	(31,457)
As of 31 December 2015	**(489,288)**	**(81,461)**	**(41,440)**	**(3,479)**	**-**	**(615,668)**
Net book value						
As of 1 January 2015	**737,820**	**191,824**	**101,837**	**16,472**	**245,847**	**1,293,800**
As of 31 December 2015	**865,994**	**226,576**	**111,355**	**14,454**	**369,274**	**1,587,653**

Currency – RUB millions (unless otherwise stated)

As of 31 December 2016 the exploration and evaluation assets relating to Garmian block in Iraq region were reclassified to proved oil and gas assets due to start of commercial development. The reclassification is presented as internal movement.

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 6.0% for the year ended 31 December 2016 (11.0% for the year ended 31 December 2015). Capitalised borrowing costs for the year ended 31 December 2015 include exchange losses arising from foreign currency borrowings in the amount of RUB 5.9 billion.

The information regarding Group's exploration and evaluation assets (part of O&G properties) is presented below:

	2016	**2015**
As of January 1	**83,005**	**75,294**
Additions	13,670	26,032
Impairment	(9,362)	(4,024)
Unsuccessful exploration expenditures derecognised	(628)	(132)
Transfer to proved property	(2,214)	(26,323)
Disposals	(268)	(279)
Translation differences	(8,860)	12,437
As of December 31	**75,343**	**83,005**

During 2016 the Group performed impairment testing and recognised an impairment loss in relation to upstream oil and gas assets and exploration and evaluation assets located in Iraq region in the amount of RUB 14.4 billion. The impairement loss is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

The Group recognized the impairment loss for the amount by which the book value of these assets exceeded its recoverable amount of RUB 79.0 billion (translated into Roubles at the exchange rate as of date of impairement testing). The impairment loss was due to revision of expected economic performance of the assets (decrease in international oil prices, changes in exploration and development programs and investment plans).

The recoverable amount was determined as the present value of estimated future cash flows using available forecasts of oil prices from globally recognised research institutions and production quantities based on reserve reports and long-term strategic plans. The pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset and amounts to 11.1% per annum in real terms.

Currency – RUB millions (unless otherwise stated)

13. Goodwill and other intangible assets

The information regarding movements in Group's intangible assets is presented below:

Cost	Goodwill	Software	Land rights	Other IA	Total
As of 1 January 2016	**36,537**	**24,243**	**17,582**	**15,451**	**93,813**
Additions	-	3,556	9	2,238	5,803
Acquisitions through business combinations	-	7	-	865	872
Internal movement	-	1,250	31	(1,281)	-
Disposals	-	(520)	-	(1,007)	(1,527)
Translation differences	(4,431)	(1,557)	(101)	(260)	(6,349)
As of 31 December 2016	**32,106**	**26,979**	**17,521**	**16,006**	**92,612**
Amortisation and impairment					
As of 1 January 2016	**(228)**	**(11,030)**	**(4,457)**	**(3,008)**	**(18,723)**
Amortisation charge	-	(3,528)	(759)	(1,290)	(5,577)
Internal movement	-	35	-	(35)	-
Disposals	-	318	-	149	467
Translation differences	48	1,145	2	177	1,372
As of 31 December 2016	**(180)**	**(13,060)**	**(5,214)**	**(4,007)**	**(22,461)**
Net book value					
As of 1 January 2016	**36,309**	**13,213**	**13,125**	**12,443**	**75,090**
As of 31 December 2016	**31,926**	**13,919**	**12,307**	**11,999**	**70,151**

Cost	Goodwill	Software	Land rights	Other IA	Total
As of 1 January 2015	**33,635**	**19,327**	**17,513**	**14,881**	**85,356**
Additions	-	3,529	-	1,881	5,410
Internal movement	-	989	-	(711)	278
Disposals	-	(767)	-	(830)	(1,597)
Translation differences	2,902	1,165	69	230	4,366
As of 31 December 2015	**36,537**	**24,243**	**17,582**	**15,451**	**93,813**
Amortisation and impairment					
As of 1 January 2015	**(196)**	**(7,778)**	**(3,829)**	**(2,313)**	**(14,116)**
Amortisation charge	-	(3,035)	(627)	(1,021)	(4,683)
Internal movement	-	(309)	-	31	(278)
Disposals	-	666	-	400	1,066
Translation differences	(32)	(574)	(1)	(105)	(712)
As of 31 December 2015	**(228)**	**(11,030)**	**(4,457)**	**(3,008)**	**(18,723)**
Net book value					
As of 1 January 2015	**33,439**	**11,549**	**13,684**	**12,568**	**71,240**
As of 31 December 2015	**36,309**	**13,213**	**13,125**	**12,443**	**75,090**

Goodwill acquired through business combination has been allocated to Upstream and Downstream in the amounts of RUB 25.1 billion and RUB 6.8 billion as of 31 December 2016 (RUB 29.2 billion and RUB 7.1 billion as of 31 December 2015). Goodwill was tested for impairment and no impairment was identified.

Currency – RUB millions (unless otherwise stated)

14. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as of 31 December 2016 and 2015 are summarised below:

		Ownership percentage	31 December 2016	31 December 2015
Slavneft	Joint venture	49.9	97,084	83,301
SeverEnergy	Joint venture	46.7	86,599	72,128
Northgas	Joint venture	50.0	11,517	8,196
Others			6,348	5,986
Total investments			**201,548**	**169,611**

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation. The reconciliation of carrying amount of investments in associates and joint ventures as of the beginning of the reporting period and as of the end of the reporting period is shown below:

	2016	2015
Carrying amount as of 1 January	**169,611**	**150,727**
Share of profit of associates and joint ventures	34,116	24,956
Dividends declared	(3,152)	(2,862)
Share of other comprehensive (loss) / income of associates and joint ventures	(174)	141
Other changes in cost of associates and joint ventures	1,147	(3,351)
Carrying amount as of 31 December	**201,548**	**169,611**

The total amount of dividends received from joint ventures in 2016 amounts to RUB 3,144 million (RUB 2,415 million in 2015).

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 18.2 billion as of 31 December 2016 due to complex holding structure, current financing scheme and goodwill arising on acquisition (RUB 18.3 billion as of 31 December 2015).

Northgas

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

Currency – RUB millions (unless otherwise stated)

The summarised financial information for the significant associates and joint ventures as of 31 December 2016 and 2015 and for the years ended 31 December 2016 and 2015 is presented in the table below.

	Slavneft		SeverEnergy		Northgas	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	4,333	8,078	13,530	13,875	277	2,160
Other current assets	22,505	15,830	16,506	13,941	3,280	3,131
Non-current assets	312,935	288,077	357,480	363,513	52,986	49,695
Current financial liabilities	(46,727)	(49,748)	(53,439)	(31,762)	(2,677)	(6,110)
Other current liabilities	(25,368)	(18,294)	(12,368)	(9,309)	(54)	(2,001)
Non-current financial liabilities	(42,876)	(54,562)	(123,252)	(185,376)	(24,990)	(24,841)
Other non-current liabilities	(36,587)	(30,034)	(51,995)	(49,297)	(4,415)	(3,645)
Net assets	**188,215**	**159,347**	**146,462**	**115,585**	**24,407**	**18,389**

	Slavneft		SeverEnergy		Northgas	
	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
Revenue	214,509	224,224	133,229	125,450	25,692	28,888
Depreciation and amortisation	(33,732)	(32,169)	(23,445)	(20,786)	(2,600)	(2,328)
Finance income	1,652	2,074	1,080	2,354	1,332	1,151
Finance expense	(6,593)	(5,279)	(26,100)	(36,041)	(3,697)	(5,275)
Total income tax expense	(6,224)	(6,486)	(3,447)	(3,570)	(1,608)	(2,004)
Profit for the period	29,101	19,566	30,877	20,991	6,019	8,008
Total comprehensive income	28,698	19,054	30,877	20,991	6,019	8,008

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 is not significant.

15. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development as Joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

16. Long-term financial assets

Long-term financial assets as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Long-term loans issued	34,015	41,047
Available for sale financial assets	7,549	11,534
Financial assets held to maturity	-	3
Less impairment provision	(1,397)	(1,700)
Total long-term financial assets	**40,167**	**50,884**

Currency – RUB millions (unless otherwise stated)

17. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

As of 31 December 2016	Assets	Liabilities	Net
Property, plant and equipment	5,424	(96,586)	(91,162)
Intangible assets	1	(3,662)	(3,661)
Investments	719	(988)	(269)
Inventories	894	(962)	(68)
Trade and other receivables	2,321	(30)	2,291
Loans and borrowings	-	(2,152)	(2,152)
Provisions	7,258	(8)	7,250
Tax loss carry-forwards	14,152	-	14,152
Other	2,857	(2,546)	311
Net-off	(25,587)	25,587	-
Tax assets / (liabilities)	**8,039**	**(81,347)**	**(73,308)**
As of 31 December 2015			
Property, plant and equipment	11,775	(93,593)	(81,818)
Intangible assets	6	(3,887)	(3,881)
Investments	732	(630)	102
Inventories	747	(997)	(250)
Trade and other receivables	611	(27)	584
Loans and borrowings	-	(1,066)	(1,066)
Provisions	5,498	(29)	5,469
Tax loss carry-forwards	32,896	-	32,896
Other	2,897	(1,586)	1,311
Net-off	(33,063)	33,063	-
Tax assets / (liabilities)	**22,099**	**(68,752)**	**(46,653)**

Movement in temporary differences during the period:

	As of 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2016
Property, plant and equipment	(81,818)	(12,029)	2,684	1	(91,162)
Intangible assets	(3,881)	290	-	(70)	(3,661)
Investments	102	(108)	(263)	-	(269)
Inventories	(250)	182	-	-	(68)
Trade and other receivables	584	1,827	(120)	-	2,291
Loans and borrowings	(1,066)	(1,086)	-	-	(2,152)
Provisions	5,469	1,911	(130)	-	7,250
Tax loss carry-forwards	32,896	(18,587)	(164)	7	14,152
Other	1,311	(924)	(78)	2	311
	(46,653)	**(28,524)**	**1,929**	**(60)**	**(73,308)**

Currency – RUB millions (unless otherwise stated)

	As of 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2015
Property, plant and equipment	(64,043)	(14,552)	(3,346)	123	(81,818)
Intangible assets	(4,137)	256	-	-	(3,881)
Investments	1,715	1,132	(2,745)	-	102
Inventories	(516)	266	-	-	(250)
Trade and other receivables	330	183	71	-	584
Loans and borrowings	(1,132)	66	-	-	(1,066)
Provisions	2,989	2,368	28	84	5,469
Tax loss carry-forwards	13,958	19,088	(150)	-	32,896
Other	1,264	(33)	82	(2)	1,311
	(49,572)	**8,774**	**(6,060)**	**205**	**(46,653)**

18. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 97.2 billion and RUB 55.2 billion as of 31 December 2016 and 2015, respectively).

In 2016 the Group transferred advances for tanker vessels to a third party under agreement of novation with the intention to lease the vessels back under finance lease agreements. The cash inflow from the transaction in the amount of RUB 11.2 billion is presented as proceeds from sale of other non-current assets in the Consolidated Statement of Cash Flows.

19. Short-term debt and current portion of long-term debt

As of 31 December 2016 and 2015 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	31 December 2016	31 December 2015
Bank loans	6,321	24,193
Other borrowings	1,061	1,731
Current portion of long-term debt	72,805	121,395
Total short-term debt and current portion of long-term debt	**80,187**	**147,319**

In 2015 the Group obtained revolving loan USD 300 million under the club term and revolving facilities agreement with a number of banks (facility agent – Commerzbank) at an interest rate of Libor +1% per annum. In September 2016 the Group performed full repayment according to the payment schedule.

Short-term bank loans and other borrowings include interest payable on short-term debt. Current portion of long-term debt includes interest payable on long-term borrowings.

20. Trade and other payables

Accounts payable as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Trade accounts payable	78,161	76,372
Forward contracts - cash flow hedge	11,358	23,545
Dividends payable	2,115	2,659
Other accounts payable	3,990	2,254
Total trade and other payables	**95,624**	**104,830**

Currency – RUB millions (unless otherwise stated)

21. Other current liabilities

Other current liabilities as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Advances received	21,293	23,008
Payables to employees	2,627	2,864
Other non-financial payables	4,760	6,998
Total other current liabilities	**28,680**	**32,870**

22. Other taxes payable

Other taxes payable as of 31 December 2016 and 2015 comprise the following:

	31 December 2016	31 December 2015
Mineral extraction tax	25,261	14,898
VAT	20,140	17,578
Excise tax	11,389	6,738
Social security contributions	4,721	4,275
Other taxes	5,748	5,522
Total other taxes payable	**67,259**	**49,011**

Tax expense other than income tax expense for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Mineral extraction tax	237,300	256,477
Excise tax	112,102	68,358
Social security contributions	18,530	15,599
Other taxes	13,199	12,711
Total taxes other than income tax	**381,131**	**353,145**

Currency – RUB millions (unless otherwise stated)

23. Provisions and other accrued liabilities

Movement in provisions and other accrued liabilities for the years ended 31 December 2016 and 2015 is below:

	Decommissioning provision	Other	Total
Carrying amount as of 1 January 2015	**23,456**	**20,984**	**44,440**
Short-term part	*168*	*18,396*	*18,564*
Long-term part	*23,288*	*2,588*	*25,876*
New obligation incurred	2,085	8,634	10,719
Utilisation of provision / accrual	(123)	(11,557)	(11,680)
Change in estimates	(2,939)	-	(2,939)
Unwind of discount	2,172	-	2,172
Translation differences	1,446	845	2,291
Carrying amount as of 31 December 2015	**26,097**	**18,906**	**45,003**
Short-term part	*121*	*13,817*	*13,938*
Long-term part	*25,976*	*5,089*	*31,065*
New obligation incurred	5,783	13,134	18,917
Utilisation of provision / accrual	(182)	(5,665)	(5,847)
Change in estimates	3,987	-	3,987
Unwind of discount	2,308	-	2,308
Translation differences	(1,632)	(1,388)	(3,020)
Carrying amount as of 31 December 2016	**36,361**	**24,987**	**61,348**
Short-term part	*151*	*15,255*	*15,406*
Long-term part	*36,210*	*9,732*	*45,942*

24. Long-term debt

As of 31 December 2016 and 2015 the Group has long-term outstanding loans as follows:

	31 December 2016	31 December 2015
Bank loans	348,142	451,887
Loan participation notes	231,250	280,193
Bonds	81,879	51,748
Other borrowings	7,755	8,346
Less current portion of long-term debt	(72,805)	(121,395)
Total long-term debt	**596,221**	**670,779**

Bank loans

In May 2011 the Group signed a USD 870 million Club term loan facility with the syndicate of international banks (facility agent – SMBC) at an interest rate of Libor+1.5% per annum and final maturity date in September 2016. In February and August 2016 the Group performed principal repayment in the total amount of USD 348.0 million (RUB 24.6 billion) according to the payment schedule. The loan is fully repaid.

In July 2012 the Group signed EUR 258 million ECA-covered term loan facility with the group of international banks (facility agent – HSBC) at an interest rate of Euribor+1.45% per annum and final maturity date in December 2022. During 2016 the Group performed principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is EUR 154.8 million (RUB 9.9 billion).

In April 2013 the Group signed USD 700 million club term loan facility with the group of international banks (facility agent – Commerzbank) at an interest rate of Libor+1.75% per annum and final maturity date in October 2018. In March and September 2016 the Group performed partial principal repayment in the total amount of USD 200 million (RUB 13.2 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is USD 400 million (RUB 24.3 billion).

In November 2013 the Group signed USD 2,150 million club term loan facility with the group of international banks (facility agent – Mizuho) at an interest rate of Libor+1.50% per annum and final maturity date in March 2019. In March and September 2016 the Group performed partial principal repayment in the total amount of USD 614 million (RUB 41.5 billion) according to the payment schedule. The outstanding balance as of 31 December 2016 is USD 1,536 million (RUB 93.3 billion).

In September 2014 the Group signed a RUB 30 billion term loan facility with JSC Rosselkhozbank at an interest rate of 11.9% per annum and final maturity date in September 2019. In June and December 2016 the Group performed pre-scheduled repayment. As of 31 December 2016 the term loan facility is fully repaid.

In September 2014 the Group signed RUB 35.0 billion term loan facilities with PJSC Sberbank with final maturity date in September 2019. As of 31 December 2016, the interest rates vary from 10.98% to 11.08% per annum and the outstanding balance is RUB 35.0 billion.

In March 2015 the Group signed USD 350 million term loan facilities with one of the Russian privately owned banks due in September 2020 at an interest rate of Libor +5% per annum. In December 2016 the Group made an amendment of the term loan facilities to revolving loan facilities. As of 31 December 2016 the outstanding balance is RUB 0.

In first half 2015 the Group signed several long-term facility agreements with final settlement in August 2019. As of 31 December 2016 the amount outstanding is RUB 60.7 billion.

In August 2015 the Group signed a long-term facility agreement in the amount of RUB 13.9 billion with Sberbank. The interest rate is determined as the interest rate offered to the Russian local bank by the Central Bank of Russia for refinancing of loan provided under this agreement in accordance with the Program of support of investment projects + margin 2.5% per annum (the margin was lowered to 1,5% from 18 January 2017); the final maturity date is August 2025. The outstanding balance as of 31 December 2016 is RUB 7.2 billion.

In February and October 2016 the Group signed several long-term facility agreements with PJCS Bank VTB with the due dates in June - December 2021. As of 31 December 2016 the Group borrowed RUB 49.6 billion under the agreements.

In November 2016 the Group signed term loan facilities with Sberbank with final maturity date in November 2021 at an interest rate of 10.28-10,3% per annum. In 2016 the Group borrowed RUB 30.0 billion under the agreements.

In November 2016 the Group signed a long-term facility agreement with PJSC Sberbank with the final maturity date in November 2022. As of 31 December 2016 the outstanding balance is RUB 7.7 billion.

The loan agreements contain one financial covenant that limits the Group's ratio of “Consolidated financial indebtedness to Consolidated EBITDA”. The Group is in compliance with the covenant as of 31 December 2016.

Bonds

In February 2016 the Group redeemed Rouble bonds (series 8, 9 and 11) with the total par value of RUB 30 billion, including RUB 9.6 billion of series 11 repurchased by the Group in February 2015.

In March 2016 the Group placed thirty-year Rouble exchange traded bonds (series BO-02 and BO-07) with the total par value of RUB 25 billion. The bonds bear interest of 10.65% per annum. The issue has an embedded five-year put-option, providing the bondholders with the right to make the Group to repurchase them, and a two-year call option, allowing the early redemption of the bonds at the Group's decision.

In June 2016 the Group placed thirty-year Rouble exchange traded bonds (series BO-03) with the total par value of RUB 10 billion. The bonds bear interest of 9.8% per annum. The issue has an embedded three-year put-option, providing the bondholders with the right to make the Group to repurchase them.

In August 2016 the Group placed thirty-year Rouble exchange traded bonds (series BO-01 and BO-04) with the total par value of RUB 15 billion. The bonds bear interest of 9.4% per annum. The issue has an embedded five-year put-option, providing the bondholders with the right to make the Group to repurchase them.

As of 31 December 2016 the outstanding balance of Rouble Bonds placed in 2009, 2011, 2012 and 2016 is RUB 81.9 billion. The bonds bear interest of 8.2-10.65% per annum and are due for repayment in 2017-2021.

Loan Participation Notes

In years 2012 and 2013 the Group raised USD 3,000 million and EUR 750 million by issuing 10 years USD and 5 years EUR Loan Participation Notes. The outstanding balance as of 31 December 2016 is RUB 232.4 billion.

25. Other non-current financial liabilities

Other non-current financial liabilities as of 31 December 2016 and 31 December 2015 comprise the following:

	31 December 2016	31 December 2015
Deferred consideration	60,384	60,603
Forward contracts - cash flow hedge	28,015	52,714
Other liabilities	1,345	2,058
Total other non-current financial liabilities	**89,744**	**115,375**

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. In December 2016 the payment schedule was extended. The effect of the change in carrying value of liability due to the contract term revision in amount of RUB 6.8 billion was reflected in additional paid-in capital.

26. Share capital and treasury shares

Share capital as of 31 December 2016 and 2015 comprise the following:

	Ordinary shares		Treasury shares	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
On issue as of 31 December, fully paid (RUB million)	**8**	**8**	**(1,170)**	**(1,170)**

Currency – RUB millions (unless otherwise stated)

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 10 June 2016 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2015 in the amount of RUB 6.47 per share.

On 30 September 2015 the general shareholders' meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the six months ended 30 June 2015 in the amount of RUB 5.92 per share.

On 5 June 2015 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2014 in the amount of RUB 6.47 per share.

27. Employee costs

Employee costs for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries	66,987	71,288
Stock appreciation rights (SAR)	3,730	657
Other costs	6,751	5,103
Total employee costs	**77,468**	**77,048**
Social security contributions (social taxes)	18,530	15,593
Total employee costs (with social taxes)	**95,998**	**92,641**

28. Other loss / gain, net

Other loss / gain, net for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Impairment of advances and other receivables	(11,546)	1,041
Write-off of assets	(4,456)	(7,772)
Penalties	277	4
Write-off payables	243	16,107
Other losses, net	(2,500)	(7,886)
Total other (loss) / gain, net	**(17,982)**	**1,494**

Loss from impairement of advances and other receivables mainly relates to allowance for impairment in respect of advances given to a brokerage company.

29. Net foreign exchange gain / loss

Net foreign exchange gain / loss for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Net foreign exchange gain / (loss) on financing activities, including:	**69,159**	**(111,816)**
foreign exchange gain	101,320	53,989
foreign exchange loss	(32,161)	(165,805)
Net foreign exchange (loss) / gain on operating activities	**(40,859)**	**43,906**
Net foreign exchange gain / (loss)	**28,300**	**(67,910)**

30. Finance income

Finance income for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income on loans issued	7,630	7,383
Interest on bank deposits	1,885	5,076
Other financial income	1,556	2,273
Total finance income	**11,071**	**14,732**

31. Finance expense

Finance expense for the years ended 31 December 2016 and 2015 comprise the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest expense	45,814	40,411
Decommissioning provision: unwinding of discount	2,308	2,172
Less: capitalised interest	(13,840)	(8,640)
Finance expense	**34,282**	**33,943**

32. Income tax expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended 31 December 2016		Year ended 31 December 2015	
	RUB million	**%**	**RUB million**	**%**
Total income tax expense	**55,751**	**21.2**	**34,943**	**23.1**
Profit before income tax excluding share of profit before tax of associates and joint ventures	225,423		120,494	
Profit before income tax of associates and joint ventures	37,720		30,645	
Profit before income tax	**263,143**		**151,139**	-
Tax at applicable domestic tax rate (20%)	52,629	20.0	30,228	20.0
Effect of tax rates in foreign jurisdictions	2,363	0.9	3,892	2.6
Difference in statutory tax rate in domestic entities	(4,290)	(1.6)	(2,983)	(2.0)
Non-deductible income and expenses	3,220	1.2	3,517	2.3
Adjustment for prior years	(232)	(0.1)	2,803	1.9
Change in tax rate	714	0.3	-	-
Foreign exchange loss / (gain) of foreign non-operating units	1,347	0.5	(2,514)	(1.7)
Total income tax expense	**55,751**	**21.2**	**34,943**	**23.1**

Currency – RUB millions (unless otherwise stated)

Reconciliation of effective tax rate:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax expense		
Current year	19,318	34,057
Adjustment for prior years	1,972	3,969
	21,290	**38,026**
Deferred income tax expense / (benefit)		
Origination and reversal of temporary differences	27,810	(8,774)
Change in tax rate	714	-
	28,524	**(8,774)**
Total income tax expense	**49,814**	**29,252**
Share of tax of associates and joint ventures	5,937	5,691
Total income tax expense including share of tax of associates and joint ventures	**55,751**	**34,943**

33. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of 31 December 2016					
Forward exchange contracts and interest rate swaps					
Assets	91	91	-	-	-
Liabilities	(39,373)	(692)	(10,667)	(25,232)	(2,782)
Total	**(39,282)**	**(601)**	**(10,667)**	**(25,232)**	**(2,782)**
As of 31 December 2015					
Forward exchange contracts and interest rate swaps					
Liabilities	(76,258)	(22,609)	(935)	(49,280)	(3,434)
Total	**(76,258)**	**(22,609)**	**(935)**	**(49,280)**	**(3,434)**

As of 31 December 2016 and 2015 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of US Dollars 2,166 million and US Dollars 2,830 million respectively. During the year ended 31 December 2016 loss in the amount of RUB 26,281 million was reclassified from equity to net foreign exchange gain / (loss) in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (RUB 13,044 million for the year ended 31 December 2015).

Currency – RUB millions (unless otherwise stated)

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2016			2015		
	Before income tax	**Income tax**	**Net of tax**	**Before income tax**	**Income tax**	**Net of tax**
Total recognised in other comprehensive (loss) / income as of the beginning of the year	**(76,258)**	**10,498**	**(65,760)**	**(58,312)**	**1,885**	**(56,427)**
Foreign exchange effects recognised during the year	10,695	(2,025)	8,670	(30,990)	5,819	(25,171)
Recycled to Net foreign exchange (loss) / gain on operating activities	26,281	(3,450)	22,831	13,044	(1,382)	11,662
Tax adjustments related to prior years	-	-	-	-	4,176	4,176
Total recognised in other comprehensive (loss) / income for the year	**36,976**	**(5,475)**	**31,501**	**(17,946)**	**8,613**	**(9,333)**
Total recognised in other comprehensive (loss) / income as of the closing of the year	**(39,282)**	**5,023**	**(34,259)**	**(76,258)**	**10,498**	**(65,760)**

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss as of 31 December 2016 is presented below:

Year	**2017**	**2018**	**2022**	**Total**
Total, net of tax	(10,023)	(21,644)	(2,592)	**(34,259)**

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

34. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

Currency – RUB millions (unless otherwise stated)

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Market risk

Currency Risk

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currency in which these borrowings are denominated in is mainly US Dollar.

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency and hedges predominantly its borrowings.

The carrying amounts of the Group's financial instruments by currencies they are denominated in are as follows:

As of 31 December 2016

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Current					
Cash and cash equivalents	10,811	12,024	3,061	5,685	2,040
Bank deposits	56	341	215	-	274
Loans issued	41,007	16	113	-	-
Forward exchange contracts	-	91	-	-	-
Trade and other financial receivables	39,243	55,595	6,341	12,495	1,885
Non-current					
Trade and other financial receivables	797	-	4,332	-	-
Loans issued	33,895	-	120	-	-
Available for sale financial assets	6,083	-	-	69	-
Financial liabilities					
Current					
Short-term debt	(18,353)	(50,981)	(10,826)	-	(13)
Trade and other financial payables	(59,004)	(11,750)	(6,071)	(6,072)	(1,369)
Forward exchange contracts	-	(11,358)	-	-	-
Non-current					
Long-term debt	(191,103)	(329,248)	(75,418)	-	(287)
Forward exchange contracts	-	(28,015)	-	-	-
Other non-current financial liabilities	(61,728)	-	(1)	-	-
Net exposure	**(198,296)**	**(363,285)**	**(78,134)**	**12,177**	**2,530**

Currency – RUB millions (unless otherwise stated)

As of 31 December 2015	**Russian Rouble**	**USD**	**EURO**	**Serbian dinar**	**Other currencies**
Financial assets					
Current					
Cash and cash equivalents	22,142	81,112	2,514	6,271	2,159
Bank deposits	1,956	45,959	636	-	655
Loans issued	15,728	-	74	-	-
Trade and other financial receivables	37,553	35,464	6,063	14,716	1,445
Non-current					
Trade and other financial receivables	1,184	-	7,684	-	-
Loans issued	33,983	6,959	91	-	-
Held to maturity financial assets	-	3	-	-	-
Available for sale financial assets	9,748	-	-	99	-
Financial liabilities					
Current					
Short-term debt	(23,774)	(117,713)	(5,813)	-	(19)
Trade and other financial payables	(57,946)	(9,046)	(4,133)	(8,076)	(2,084)
Forward exchange contracts	-	(23,545)	-	-	-
Non-current					
Long-term debt	(107,072)	(479,958)	(83,255)	(1)	(493)
Forward exchange contracts	-	(52,713)	-	-	-
Other non-current financial liabilities	(62,654)	(7)	-	-	-
Net exposure	**(129,152)**	**(513,485)**	**(76,139)**	**13,009**	**1,663**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2016	**31 December 2015**
USD 1	60.66	72.88
EUR 1	63.81	79.70
RSD 1	0.52	0.66

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

	Weakening of RUB	
	Equity	**Profit or (loss)**
31 December 2016		
USD/RUB (30% increase)	988	(98,662)
EUR/RUB (30% increase)	(4)	(23,588)
RSD/RUB (30% increase)	(21,572)	-
31 December 2015		
USD/RUB (30% increase)	(19,357)	(135,791)
EUR/RUB (30% increase)	(3)	(22,923)
RSD/RUB (30% increase)	(19,891)	(2)

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit and loss of the Group.

Currency – RUB millions (unless otherwise stated)

Interest Rate Risk

Part of the Group's borrowings is at variable interest rates (linked to the Libor or Euribor rate). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group's treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favourable over the expected period until maturity.

The interest rate profiles of the Group are presented below:

	Carrying amount	
	31 December 2016	**31 December 2015**
Fixed rate instruments		
Financial assets	109,645	220,239
Financial liabilities	(501,086)	(474,639)
	(391,441)	**(254,400)**
Variable rate instruments		
Financial liabilities	(175,143)	(343,459)
	(175,143)	**(343,459)**

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit or (loss)
31 December 2016	
Increase by 100 bp	(1,751)
31 December 2015	
Increase by 100 bp	(3,435)

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit and loss of the Group.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Currency – RUB millions (unless otherwise stated)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- planned sales volume;
- duration of relationships with the Group, including ageing profile, maturity and existence of any financial difficulties.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge, third party guarantee or advance payment.

The Management of the Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of recevables and duration of relationships with the Group.

Management believes that not impaired trade receivables and other current assets are fully recoverable.

As of 31 December 2016 and 2015, the ageing analysis of financial receivables is as follows:

	Gross 31 December 2016	**Impairment 31 December 2016**	**Gross 31 December 2015**	**Impairment 31 December 2015**
Not past due	113,222	(8)	95,916	(134)
Past due 0 - 180 days	3,828	(272)	11,190	(4,796)
Past due 180 - 365 days	3,566	(89)	3,199	(3,012)
Past due 1 - 3 year	7,206	(6,898)	7,976	(6,371)
Past due more than three years	5,140	(5,007)	10,412	(10,272)
	132,962	**(12,274)**	**128,693**	**(24,585)**

Currency – RUB millions (unless otherwise stated)

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2016	2015
Balance at the beginning of the year	**24,585**	**12,976**
Increase during the year	528	6,284
Amounts written off against receivables	(5,520)	110
Decrease due to reversal	(2,614)	(4,426)
Reclassification to other lines	(1,212)	7,946
Other movements	(50)	(610)
Translation differences	(3,443)	2,305
Balance at the end of the year	**12,274**	**24,585**

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

	2016	2015
Balance at the beginning of the year	**8,993**	**16,951**
Increase during the year	10,770	1,410
Amounts written off against receivables	(5,851)	(4,047)
Decrease due to reversal	(1,239)	-
Reclassification to other lines	1,212	(7,946)
Other movements	2	903
Translation differences	(1,917)	1,722
Balance at the end of the year	**11,970**	**8,993**

In 2016 the Group recognised an allowance for impairment in respect of advances given to a brokerage company.

Release in provision in respect of trade and other receivables and other current assets during 2016 in the amount of RUB 3.9 billion mainly relates to the positive outcome of negotiations with the Serbian Government for collection of receivables from Serbian state owned companies. The negotiations ended in adoption of the Law on taking over the receivables by the Government. As a result the receivables were restructured and the Group will collect them in the following two years. In December 2016 the Group received the first instalment.

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any held-to-maturity investments that were past due but not impaired as of 31 December 2016 and 2015.

Currency – RUB millions (unless otherwise stated)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB	Less than BBB	Without rating	Total
As of 31 December 2016				
Cash and cash equivalents	2,402	20,333	7,196	**29,931**
Short-term loans issued	-	-	41,136	**41,136**
Deposits with original maturity more than 3 months less than 1 year	-	886	-	**886**
Long-terms loans issued	-	-	34,015	**34,015**
As of 31 December 2015				
Cash and cash equivalents	84,361	19,825	5,642	**109,828**
Short-term loans issued	-	-	15,802	**15,802**
Deposits with original maturity more than 3 months less than 1 year	42,652	6,554	-	**49,206**
Long-terms loans issued	-	-	41,047	**41,047**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group's stable financial situation helps it to mobilise funds.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
As of 31 December 2016							
Bank loans	354,463	423,818	38,717	57,491	117,135	191,904	18,571
Bonds	81,879	107,991	6,063	14,155	16,431	71,342	-
Loan Participation Notes	231,250	298,019	8,252	4,720	58,029	28,322	198,696
Other borrowings	8,637	11,182	398	988	5,269	1,942	2,585
Other non-current financial liabilities	61,729	61,729	-	-	5,853	55,876	-
Trade and other payables	84,266	84,266	81,736	2,362	20	148	-
	822,224	**987,005**	**135,166**	**79,716**	**202,737**	**349,534**	**219,852**
As of 31 December 2015							
Bank loans	476,080	540,886	67,680	68,683	108,054	282,073	14,396
Bonds	51,748	63,783	25,678	2,159	14,272	21,674	-
Loan Participation Notes	280,193	363,090	10,104	5,672	12,509	94,967	239,838
Other borrowings	10,077	11,928	5,024	690	2,807	1,413	1,994
Other non-current financial liabilities	62,662	62,662	-	-	60,601	2,061	-
Trade and other payables	81,285	81,285	78,774	2,511	-	-	-
	962,045	**1,123,634**	**187,260**	**79,715**	**198,243**	**402,188**	**256,228**

Currency – RUB millions (unless otherwise stated)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. 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 equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Long-term debt	596,221	670,779
Short-term debt and current portion of long-term debt	80,187	147,319
Less: cash, cash equivalents and deposits	(34,507)	(163,404)
Net debt	**641,901**	**654,694**
Total EBITDA	402,277	345,160
Net debt to EBITDA ratio at the end of the reporting period	**1.60**	**1.90**
Operating profit	220,334	207,615
Operating profit adjusted for income tax expenses	171,645	157,213
less share of profit of associates and joint ventures	34,116	24,956
Average capital employed	1,994,626	1,733,285
ROACE	**10.32%**	**10.51%**

There were no changes in the Group's approach to capital management during the period.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements:

- Derivative financial instruments (forward exchange contracts and interest-rate swaps used as hedging instruments),
- Stock Appreciation Rights plan (SAR),
- 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.

Currency – RUB millions (unless otherwise stated)

Derivative financial instruments and SAR 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 (as prices) or indirectly (derived from prices). There were no transfers between the levels of the fair value hierarchy during the year ended 31 December 2016 and 2015. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. 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.

As of 31 December 2016 the fair value of bonds and loan participation notes is RUB 315,488 million (RUB 307,493 million as of 31 December 2015). The fair value is derived from quotations in active market and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities approximate their fair value.

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

	Level 2
As of 31 December 2016	
Forward exchange contracts	91
Total assets	**91**
Forward exchange contracts	(39,373)
Other financial liabilities	(3,730)
Total liabilities	**(43,103)**
As of 31 December 2015	
Forward exchange contracts	-
Total assets	-
Forward exchange contracts	(76,258)
Other financial liabilities	(657)
Total liabilities	**(76,915)**

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the three years vesting period. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognised is based on the vesting period. In 2015 the new three years period of SAR plan commenced.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2016 and 2015:

	31 December 2016	31 December 2015
Volatility	3.6%	4.1%
Risk-free interest rate	8.7%	10.3%
Dividend yield	5.5%	6.1%

Currency – RUB millions (unless otherwise stated)

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2016 and 2015 the Group recognised compensation expense of RUB 3,730 million and RUB 657 million, respectively. This expense is included within selling, general and administrative expenses. A provision of RUB 4,387 million has been recorded in respect of the Group's estimated obligations for two years under the plan as of 31 December 2016. As of 31 December 2015 the amount of the one year provision was equal to RUB 657 million.

35. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2016	31 December 2015
Less than one year	14,267	8,179
Between one and five years	36,081	17,169
More than five years	95,944	65,404
	146,292	**90,752**

The Group rents mainly land plots under pipelines, office premises and vessels under time-charter agreements.

36. 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 field tax audit with regard to the years 2013 and 2014 is performing now, the years 2015 and 2016 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. Twelve pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2015.

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 for 2015. There were no significant changes in sanctions during the year ended 31 December 2016.

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 31 December 2016 the Group has entered into contracts to purchase property, plant and equipment for RUB 323,053 million (RUB 342,544 million as of 31 December 2015).

Currency – RUB millions (unless otherwise stated)

37. Group entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

Subsidiary	Country of incorporation	Ownership interest 31 December 2016	Ownership interest 31 December 2015
Exploration and Production			
JSC Gazprom Neft-Noyabrskneftegaz	Russian Federation	100%	100%
Gazprom Neft Orenburg LLC	Russian Federation	100%	100%
Zapolyarneft LLC	Russian Federation	100%	100%
Gazprom Neft Shelf LLC	Russian Federation	100%	100%
Gazprom Neft-Khantos LLC	Russian Federation	100%	100%
Gazprom Neft-Vostok LLC	Russian Federation	100%	100%
Gazprom neft Yamal LLC	Russian Federation	90%	90%
JSC Uzhuralneftegaz	Russian Federation	87.5%	87.5%
Refining			
JSC Gazprom Neft-Omsk Refinery	Russian Federation	100%	100%
JSC Gazprom Neft-Moscow Refinery	Russian Federation	100%	100%
Marketing			
PJSC Gazpromneft-Tumen	Russian Federation	99.5%	99.5%
JSC Gazpromneft-Omsk	Russian Federation	100%	100%
JSC Gazpromneft-Ural	Russian Federation	100%	100%
JSC Gazprom Neft-Novosibirsk	Russian Federation	100%	100%
OJSC Gazpromneft-Yaroslavl	Russian Federation	92.5%	92.5%
Gazpromneft-Centre LLC	Russian Federation	100%	100%
Gazpromneft Regional Sales LLC	Russian Federation	100%	100%
JSC Gazprom Neft-Severo-Zapad	Russian Federation	100%	100%
JSC Gazpromneft-Kuzbass	Russian Federation	100%	100%
JSC Gazprom Neft-Aero	Russian Federation	100%	100%
Gazprom Neft Marin Bunker LLC	Russian Federation	100%	100%
Other Operations			
Gazpromneft-Lubricants LLC	Russian Federation	100%	100%
Gazpromneft-Bitumen Materials LLC	Russian Federation	100%	100%
Gazpromneft-NTC LLC	Russian Federation	100%	100%
Gazpromneftfinance LLC	Russian Federation	100%	100%
Gazpromneft-Invest LLC	Russian Federation	100%	100%
Multibusiness companies			
Naftna industrija Srbije A.D.	Serbia	56.2%	56.2%

The following table summarises the information relating to the non-contrilling interest of Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries are not significant individually.

	Carrying amount of non-controlling interest		Profit for the period attributable to non-controlling interest	
	31 December 2016	31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Naftna industrija Srbije A.D. and its subsidiaries	58,792	71,528	3,273	26,616
Gazprom Resource Northgas LLC	19,502	15,460	3,304	3,319

Currency – RUB millions (unless otherwise stated)

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC as of 31 December 2016 and 2015 and for the years ended 31 December 2016 and 2015:

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current assets	48,388	56,620	12,346	2,009
Non-current assets	195,271	243,131	11,517	8,197
Current liabilities	(35,641)	(43,006)	(22)	(7)
Non-current liabilities	(57,136)	(76,400)	-	-

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	189,781	183,022	-	-
Profit	7,483	7,071	4,039	4,058

Dividends paid in 2016 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 1.0 billion (RUB 2.6 billion in 2015). Gazprom Resource Northgas LLC didn't pay dividends in 2016 and 2015.

38. Related party transactions

For the purpose of these 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 10, 22 and 32. 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. The tables below summarise transactions in the ordinary course of business with either the parent company or parent's subsidiaries and associates or associates and joint ventures of the Group.

Currency – RUB millions (unless otherwise stated)

As of 31 December 2016 and 2015 the outstanding balances with related parties were as follows:

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
Total assets	**4,307**	**17,033**	**85,090**
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	-
Total liabilities	**62,969**	**64,285**	**9,296**

31 December 2015	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	15,402	-
Short-term financial assets	-	3,135	14,901
Trade and other receivables	1,232	2,895	17,941
Other assets	-	4,527	1,253
Long-term financial assets	10	503	30,791
Total assets	**1,242**	**26,462**	**64,886**
Short-term debt and other current financial liability	-	-	1,672
Trade and other payables	3,203	2,737	1,567
Other current liabilities	2,107	1,107	241
Long-term debt and other non-current financial liability	62,650	72,883	-
Total liabilities	**67,960**	**76,727**	**3,480**

For the years ended 31 December 2016 and 2015 the following transactions occurred with related parties:

Year ended 31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	28,680	35,165	48,407
Other revenue	29	6,349	5,571
Purchases of crude oil, gas and oil products	-	41,457	98,508
Production related services	29	20,317	18,749
Transportation costs	7,557	1,753	7,106
Interest expense	6,616	3,627	142
Interest income	-	167	6,770

Currency – RUB millions (unless otherwise stated)

Year ended 31 December 2015	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	18,678	34,597	56,641
Other revenue	8	1,088	31,739
Purchases of crude oil, gas and oil products	-	41,799	98,785
Production related services	31	14,332	17,730
Transportation costs	6,000	1,811	8,130
Interest expense	5,993	94	160
Interest income	370	1,588	3,580

Transactions with key management personnel

For the years ended 31 December 2016 and 2015 remuneration of key management personnel (members of the Board of Directors and Management Committee) such as salary and other contributions amounted RUB 1,635 million and RUB 1,432 million, respectively. Besides the Group implements a long-term stock appreciation rights (SAR) compensation plan. The plan forms part of the long-term growth strategy of the Group and is designed to reward management for increasing shareholder value over a specified period. For the abovementioned periods the provision under the long-term motivation plan for key management amounted RUB 749 million and RUB 132 million.

39. Segment information

Presented below is information about the Group’s operating segments for the years ended 31 December 2016 and 2015. 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 and production 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 and refined petroleum products. Corporate centre expenses are presented within the Downstream segment.

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.

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

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.

Currency – RUB millions (unless otherwise stated)

Year ended 31 December 2016	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	131,242	1,414,366	-	1,545,608
Inter-segment	523,155	18,463	(541,618)	-
Total revenue from sales	**654,397**	**1,432,829**	**(541,618)**	**1,545,608**
Adjusted EBITDA	337,085	119,113	-	456,198
Depreciation, depletion and amortisation, including:	98,110	31,735	-	129,845
Impairment of assets	14,763	-	-	14,763
Capital expenditure	245,994	138,823	-	384,817

Year ended 31 December 2015

	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	74,802	1,393,141	-	1,467,943
Inter-segment	520,390	18,373	(538,763)	-
Total revenue from sales	**595,193**	**1,411,514**	**(538,763)**	**1,467,943**
Adjusted EBITDA	266,879	137,932	-	404,811
Depreciation, depletion and amortisation, including:	86,735	27,348	-	114,083
Impairment of assets	15,582	-	-	15,582
Capital expenditure	244,958	104,078	-	349,036

The geographical segmentation of the Group's revenue and capital expenditures for the years ended 31 December 2016 and 2015 is presented below:

	Russian Federation	CIS	Export and international operations	Total
Year ended 31 December 2016				
Sales of crude oil	94,809	23,657	279,344	397,810
Sales of petroleum products	743,721	72,969	391,084	1,207,774
Sales of gas	30,116	-	1,853	31,969
Other sales	45,050	2,050	11,111	58,211
Less custom duties and sales related excises	-	(1,260)	(148,896)	(150,156)
Revenues from external customers, net	**913,696**	**97,416**	**534,496**	**1,545,608**
Year ended 31 December 2015				
Sales of crude oil	81,187	28,416	189,386	298,989
Sales of petroleum products	740,520	78,134	432,480	1,251,134
Sales of gas	28,243	-	3,411	31,654
Other sales	66,235	2,085	5,678	73,998
Less custom duties and sales related excises	-	(899)	(186,933)	(187,832)
Revenues from external customers, net	**916,185**	**107,736**	**444,022**	**1,467,943**

Currency – RUB millions (unless otherwise stated)

	Russian Federation	CIS	Export and international operations	Total
Non-current assets as of 31 December 2016	1,822,912	11,396	310,132	2,144,440
Capital expenditures for the year ended 31 December 2016	354,392	898	29,527	384,817
Impairment of assets for the year ended 31 December 2016	-	-	14,763	14,763
Non-current assets as of 31 December 2015	1,548,036	13,861	390,726	1,952,623
Capital expenditures for the year ended 31 December 2015	301,070	1,277	46,689	349,036
Impairment of assets for the year ended 31 December 2015	4,023	-	11,559	15,582

Adjusted EBITDA for the years ended 31 December 2016 and 2015 is reconciled below:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the period	209,725	116,198
Total income tax expense	49,814	29,252
Finance expense	34,282	33,943
Finance income	(11,071)	(14,732)
Depreciation, depletion and amortisation	129,845	114,083
Net foreign exchange gain / (loss)	(28,300)	67,910
Other (loss) / gain, net	17,982	(1,494)
EBITDA	**402,277**	**345,160**
less share of profit of associates and joint ventures	(34,116)	(24,956)
add share of EBITDA of associates and joint ventures	88,037	84,607
Total adjusted EBITDA	**456,198**	**404,811**

Currency – RUB millions

Supplementary information on oil and gas activities (unaudited)

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

	31 December 2016	31 December 2015
Consolidated subsidiaries and share in joint operations		
Unproved oil and gas properties	68,046	78,442
Proved oil and gas properties	1,424,023	1,199,223
Less: Accumulated depreciation, depletion and amortisation	(537,277)	(474,857)
Net capitalised costs of oil and gas properties	**954,792**	**802,808**
Group's share of associates and joint ventures		
Proved oil and gas properties	538,829	472,931
Less: Accumulated depreciation, depletion and amortisation	(135,809)	(101,596)
Net capitalised costs of oil and gas properties	403,020	371,335
Total capitalised costs consolidated and equity interests	**1,357,812**	**1,174,143**

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

	Year ended 31 December 2016	Year ended 31 December 2015
Consolidated subsidiaries and share in joint operations		
Exploration costs	1,195	922
Development costs	234,925	242,400
Costs incurred	**236,120**	**243,322**
Group's share of associates and joint ventures		
Exploration costs	533	311
Development costs	65,898	55,792
Total costs incurred consolidated and equity interests	**302,551**	**299,425**

Currency – RUB millions

Results of operations from oil and gas producing activities for the years ended:

	Year ended 31 December 2016	Year ended 31 December 2015
Consolidated subsidiaries and share in joint operations		
Revenues:		
Sales	165,153	120,476
Transfers	432,301	426,604
Total revenues	**597,454**	**547,080**
Production costs	(96,835)	(99,138)
Exploration expenses	(1,195)	(922)
Depreciation, depletion and amortisation	(83,199)	(70,978)
Taxes other than income tax	(206,338)	(268,750)
Pretax income from producing activities	**209,887**	**107,292**
Income tax expenses	(27,606)	(19,211)
Results of oil and gas producing activities	**182,281**	**88,081**
Group's share of associates and joint ventures		
Total revenues	172,288	165,500
Production costs	(21,607)	(19,521)
Exploration expenses	(533)	(311)
Depreciation, depletion and amortisation	(27,636)	(24,046)
Taxes other than income tax	(65,619)	(64,248)
Pretax income from producing activities	**56,893**	**57,374**
Income tax expenses	(4,301)	(5,274)
Results of oil and gas producing activities	52,592	52,100
Total consolidated and equity interests in results of oil and gas producing activities	**234,873**	**140,181**

Proved oil and gas reserve quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities - in MMBbl	**31 December 2016**	**31 December 2015**
Consolidated subsidiaries and share in joint operations		
Beginning of year	*4,842*	*5,051*
Production	(343)	(315)
Purchases of minerals in place	-	-
Revision of previous estimates	354	106
End of year	*4,853*	*4,842*
Minority's share included in the above proved reserves	(30)	(27)
Proved reserves, adjusted for minority interest	4,823	4,815
Proved developed reserves	2,707	2,573
Proved undeveloped reserves	2,146	2,270
Group's share of associates and joint ventures		
Beginning of year	*1,414*	*1,362*
Production	(95)	(92)
Purchases of minerals in place	-	73
Revision of previous estimates	132	71
*End of year**	*1,451*	*1,414*
Proved developed reserves	707	681
Proved undeveloped reserves	744	734
Total consolidated and equity interests in reserves - end of year	**6,304**	**6,256**

Proved Gas Reserves Quantities - in Bcf	**31 December 2016**	**31 December 2015**
Consolidated subsidiaries and share in joint operations		
Beginning of year	*6,137*	*6,321*
Production	(516)	(479)
Purchases of minerals in place	-	-
Revision of previous estimates	766	295
End of year	*6,387*	*6,137*
Minority's share included in the above proved reserves	(41)	(51)
Proved reserves, adjusted for minority interest	6,346	6,086
Proved developed reserves	4,261	3,598
Proved undeveloped reserves	2,126	2,539
Group's share of associates and joint ventures		
Beginning of year	*13,357*	*10,188*
Production	(622)	(557)
Purchases of minerals in place	-	3,202
Revision of previous estimates	466	524
*End of year**	*13,201*	*13,357*
Proved developed reserves	7,254	6,846
Proved undeveloped reserves	5,947	6,511
Total consolidated and equity interests in reserves - end of year	**19,588**	**19,494**

*Including 82% NCI share in Gazprom Resource Northgas

Currency – RUB millions

Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	31 December 2016	31 December 2015
Consolidated subsidiaries and share in joint operations		
Future cash inflows	9,962,668	10,101,648
Future production costs	(5,236,343)	(6,506,491)
Future development costs	(771,656)	(804,747)
Future income tax expenses	(545,985)	(428,252)
Future net cash flow	3,408,684	2,362,158
10% annual discount for estimated timing of cash flow	(1,759,813)	(1,237,504)
Standardised measure of discounted future net cash flow	**1,648,871**	**1,124,654**
Group's share of associates and joint ventures		
Future cash inflows	3,305,653	3,560,911
Future production costs	(1,590,138)	(1,840,372)
Future development costs	(240,299)	(231,270)
Future income tax expenses	(241,235)	(243,400)
Future net cash flow	1,233,981	1,245,869
10% annual discount for estimated timing of cash flow	(734,334)	(752,451)
Standardised measure of discounted future net cash flow	499,647	493,418
Total consolidated and equity interests in the standardised measure of discounted future net cash flow	**2,148,518**	**1,618,072**

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