Gazprom Neft Group

Interim Condensed Consolidated Financial Statements (unaudited)

As of and for the three months ended 31 March 2017

Report on Review of Interim Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC Gazprom Neft and its subsidiaries (the "Group") as of 31 March 2017 and the related interim condensed consolidated statements of profit and loss and other comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PwC Audit

23 May 2017

Moscow, Russian Federation

I.V. Shanina, Director, 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

Interim Condensed Consolidated Financial Statements (unaudited)
As of and for the three months ended 31 March 2017

Contents

Currency – RUB millions

	Notes	31 March 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	*5*	41,556	33,621
Short-term financial assets	*6*	41,608	42,113
Trade and other receivables	*7*	116,230	115,559
Inventories	*8*	100,549	100,701
Current income tax prepayments		5,116	10,353
Other taxes receivable	*9*	59,236	53,482
Other current assets	*10*	32,978	40,503
Total current assets		**397,273**	**396,332**
Non-current assets			
Property, plant and equipment	*11*	1,771,367	1,726,345
Goodwill and other intangible assets		67,850	70,151
Investments in associates and joint ventures	*12*	211,848	201,548
Long-term trade and other receivables		4,717	5,129
Long-term financial assets	*13*	39,265	40,167
Deferred income tax assets		8,194	8,039
Other non-current assets	*14*	79,923	101,100
Total non-current assets		**2,183,164**	**2,152,479**
Total assets		**2,580,437**	**2,548,811**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*15*	99,637	80,187
Trade and other payables	*16*	95,078	95,624
Other current liabilities	*17*	23,533	28,680
Current income tax payable		1,642	2,296
Other taxes payable	*18*	69,685	67,259
Provisions and other accrued liabilities		12,823	15,406
Total current liabilities		**302,398**	**289,452**
Non-current liabilities			
Long-term debt	*19*	553,315	596,221
Other non-current financial liabilities	*20*	80,870	89,744
Deferred income tax liabilities		85,475	81,347
Provisions and other accrued liabilities		46,667	45,942
Other non-current liabilities		2,527	1,938
Total non-current liabilities		**768,854**	**815,192**
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		58,664	51,047
Retained earnings		1,338,163	1,276,210
Other reserves		30,485	33,955
Equity attributable to Gazprom Neft shareholders		**1,426,240**	**1,360,140**
Non-controlling interest		82,945	84,027
Total equity		**1,509,185**	**1,444,167**
Total liabilities and equity		**2,580,437**	**2,548,811**

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 Interim Condensed Consolidated Financial Statements

	Notes	3 months ended 31 March 2017	3 months ended 31 March 2016
Sales		468,606	366,002
Less export duties and sales related excise tax		(37,441)	(36,050)
Total revenue from sales	***28***	**431,165**	**329,952**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(116,963)	(73,570)
Production and manufacturing expenses		(46,313)	(48,650)
Selling, general and administrative expenses		(23,711)	(24,422)
Transportation expenses		(36,650)	(34,915)
Depreciation, depletion and amortisation		(32,310)	(27,886)
Taxes other than income tax	***18***	(114,387)	(70,610)
Exploration expenses		(104)	(108)
Total operating expenses		**(370,438)**	**(280,161)**
Operating profit		**60,727**	**49,791**
Share of profit of associates and joint ventures	***12***	10,818	5,724
Net foreign exchange gain	***22***	13,182	2,295
Finance income	***23***	2,512	2,547
Finance expense	***24***	(6,719)	(9,724)
Other loss, net		(864)	(760)
Total other income		**18,929**	**82**
Profit before income tax		**79,656**	**49,873**
Current income tax expense		(10,164)	(1,637)
Deferred income tax expense		(4,758)	(6,644)
Total income tax expense		**(14,922)**	**(8,281)**
Profit for the period		**64,734**	**41,592**
Other comprehensive (loss) / income			
Currency translation differences		(12,399)	(14,370)
Cash flow hedge, net of tax		5,049	27,120
Other comprehensive income / (loss)		17	(54)
Other comprehensive (loss) / income for the period		**(7,333)**	**12,696**
Total comprehensive income for the period		**57,401**	**54,288**
Profit attributable to:			
- Gazprom Neft shareholders		61,953	41,541
- Non-controlling interest		2,781	51
Profit for the period		**64,734**	**41,592**
Total comprehensive income / (loss) attributable to:			
- Gazprom Neft shareholders		58,483	57,936
- Non-controlling interest		(1,082)	(3,648)
Total comprehensive income for the period		**57,401**	**54,288**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		13.13	8.80
Diluted earnings (RUB per share)		13.13	8.80
Weighted-average number of common shares outstanding (millions)		4,718	4,718

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 2017	**98**	**(1,170)**	**51,047**	**1,276,210**	**33,955**	**1,360,140**	**84,027**	**1,444,167**
Profit for the period	-	-	-	61,953	-	61,953	2,781	64,734
Other comprehensive (loss) / income								
Currency translation differences	-	-	-	-	(8,531)	(8,531)	(3,868)	(12,399)
Cash flow hedge, net of tax	-	-	-	-	5,049	5,049	-	5,049
Other comprehensive income	-	-	-	-	12	12	5	17
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**61,953**	**(3,470)**	**58,483**	**(1,082)**	**57,401**
Transactions with owners, recorded in equity								
Transaction under common control (Note 20)	-	-	7,617	-	-	7,617	-	7,617
Total transactions with owners	**-**	**-**	**7,617**	**-**	**-**	**7,617**	**-**	**7,617**
Balance as of 31 March 2017	**98**	**(1,170)**	**58,664**	**1,338,163**	**30,485**	**1,426,240**	**82,945**	**1,509,185**

	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	-	-	-	41,541	-	41,541	51	41,592
Other comprehensive (loss) / income								
Currency translation differences	-	-	-	-	(10,671)	(10,671)	(3,699)	(14,370)
Cash flow hedge, net of tax	-	-	-	-	27,120	27,120	-	27,120
Other comprehensive loss	-	-	-	-	(54)	(54)	-	(54)
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**41,541**	**16,395**	**57,936**	**(3,648)**	**54,288**
Transactions with owners, recorded in equity								
Acquisition through business combination	-	-	(114)	-	-	(114)	112	(2)
Total transactions with owners	**-**	**-**	**(114)**	**-**	**-**	**(114)**	**112**	**(2)**
Balance as of 31 March 2016	**98**	**(1,170)**	**44,212**	**1,120,167**	**51,584**	**1,214,891**	**87,884**	**1,302,775**

Currency – RUB millions

	Notes	3 months ended 31 March 2017	3 months ended 31 March 2016
Cash flows from operating activities			
Profit before income tax		79,656	49,873
Adjustments for:			
Share of profit of associates and joint ventures	***12***	(10,818)	(5,724)
Gain on foreign exchange differences	***22***	(13,182)	(2,295)
Finance income	***23***	(2,512)	(2,547)
Finance expense	***24***	6,719	9,724
Depreciation, depletion and amortisation		32,310	27,886
Other non-cash items		910	(158)
Operating cash flow before changes in working capital		**93,083**	**76,759**
Changes in working capital:			
Accounts receivable		(3,996)	(14,557)
Inventories		(908)	7,431
Taxes receivable		(6,051)	3,376
Other assets		7,149	7,588
Accounts payable		(3,012)	15,115
Taxes payable		2,727	4,233
Other liabilities		(7,638)	(5,277)
Total effect of working capital changes		**(11,729)**	**17,909**
Income taxes paid		(6,800)	(3,902)
Interest paid		(9,399)	(8,958)
Dividends received		-	1,688
Net cash provided by operating activities		**65,155**	**83,496**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(324)	(417)
Disposal of investments in joint ventures		476	-
Bank deposits placement		(338)	(8,171)
Repayment of bank deposits		864	48,355
Proceeds from sales of other investments		-	163
Short-term loans issued		-	(1)
Repayment of short-term loans issued		876	6,395
Long-term loans issued		-	(11,291)
Repayment of long-term loans issued		2,065	7,000
Purchases of property, plant and equipment and intangible assets		(65,665)	(83,900)
Proceeds from sale of property, plant and equipment and intangible assets		151	125
Interest received		723	1,806
Net cash used in investing activities		**(61,172)**	**(39,936)**
Cash flows from financing activities			
Proceeds from short-term borrowings		34,875	1,916
Repayment of short-term borrowings		(21,036)	(1,715)
Proceeds from long-term borrowings		17,098	25,000
Repayment of long-term borrowings		(24,559)	(92,370)
Repayment of finance lease liabilities		(55)	-
Net cash provided by / (used in) financing activities		**6,323**	**(67,169)**
Increase / (decrease) in cash and cash equivalents		**10,306**	**(23,609)**
Effect of foreign exchange on cash and cash equivalents		(2,371)	(2,764)
Cash and cash equivalents as of the beginning of the period		**33,621**	**114,198**
Cash and cash equivalents as of the end of the period		**41,556**	**87,825**

1. General

Description of business

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

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

2. Summary of significant accounting policies

Basis of presentation

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

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

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

Subsequent events occurring after 31 March 2017 were evaluated through 23 May 2017, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the three months ended 31 March 2017 are not necessarily indicative of the results expected for the full year.

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

Changes in significant accounting policies

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

Currency – RUB millions (unless otherwise stated)

Foreign currency translation

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

	Reporting date spot rate	
	31 March 2017	**31 December 2016**
USD 1	56.38	60.66
EUR 1	60.60	63.81
RSD 1	0.49	0.52

3. Application of new IFRS

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

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

The following standards or amended standards that became effective for the Group from 1 January 2017 did not have any material impact on the Group:

- 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).

4. 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.

Currency – RUB millions (unless otherwise stated)

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

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

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

- IFRS 16 changes the lessees accounting requirements given in IAS 17 and eliminates the classification of leases as either operating leases or finance leases. Instead, introduces a single lessee accounting model where a lessee is required to recognise:

  (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

  (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

- IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

- IFRS 16 does not change the accounting for services.

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

5. Cash and cash equivalents

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

	31 March 2017	31 December 2016
Cash on hand	625	882
Cash in bank	25,134	21,284
Deposits with original maturity of less than three months	12,449	8,647
Other cash equivalents	3,348	2,808
Total cash and cash equivalents	**41,556**	**33,621**

6. Short-term financial assets

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

	31 March 2017	31 December 2016
Short-term loans issued	41,202	41,136
Deposits with original maturity more than 3 months less than 1 year	354	886
Forward contracts - cash flow hedge	52	91
Total short-term financial assets	**41,608**	**42,113**

Currency – RUB millions (unless otherwise stated)

7. Trade and other receivables

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

	31 March 2017	31 December 2016
Trade receivables	121,167	121,229
Other financial receivables	7,111	6,604
Less impairment provision	(12,048)	(12,274)
Total trade and other receivables	**116,230**	**115,559**

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

8. Inventories

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

	31 March 2017	31 December 2016
Petroleum products and petrochemicals	41,808	47,467
Materials and supplies	27,733	26,277
Crude oil and gas	22,619	20,059
Other	9,663	8,378
Less provision	(1,274)	(1,480)
Total inventory	**100,549**	**100,701**

9. Other taxes receivable

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

	31 March 2017	31 December 2016
Value added tax receivable	51,757	44,936
Prepaid custom duties	5,526	6,419
Other taxes prepaid	1,953	2,127
Total other taxes receivable	**59,236**	**53,482**

10. Other current assets

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

	31 March 2017	31 December 2016
Advances paid	17,249	27,671
Prepaid expenses	2,801	1,104
Other assets	12,928	11,728
Total other current assets, net	**32,978**	**40,503**

Currency – RUB millions (unless otherwise stated)

11. Property, plant and equipment

Movements in property, plant and equipment for the three months ended 31 March 2017 and 2016 are as follows:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
Cost						
As of 1 January 2017	**1,569,525**	**308,192**	**152,871**	**23,531**	**369,304**	**2,423,423**
Additions	269	352	-	-	92,389	93,010
Changes in decommissioning obligations	624	-	-	-	-	624
Capitalised borrowing costs	-	-	-	-	5,480	5,480
Transfers	31,417	2,934	10,296	279	(44,926)	-
Internal movement	(92)	(86)	(278)	66	390	-
Disposals	(897)	(397)	(10)	(125)	(62)	(1,491)
Translation differences	(22,123)	(3,490)	(3,818)	(106)	(5,833)	(35,370)
As of 31 March 2017	**1,578,723**	**307,505**	**159,061**	**23,645**	**416,742**	**2,485,676**
Depreciation and impairment						
As of 1 January 2017	**(553,140)**	**(89,106)**	**(49,052)**	**(5,780)**	**-**	**(697,078)**
Depreciation charge	(24,428)	(3,237)	(2,637)	(541)	-	(30,843)
Internal movement	4	45	(56)	7	-	-
Disposals	459	26	4	122	-	611
Translation differences	10,909	922	1,119	51	-	13,001
As of 31 March 2017	**(566,196)**	**(91,350)**	**(50,622)**	**(6,141)**	**-**	**(714,309)**
Net book value						
As of 1 January 2017	**1,016,385**	**219,086**	**103,819**	**17,751**	**369,304**	**1,726,345**
As of 31 March 2017	**1,012,527**	**216,155**	**108,439**	**17,504**	**416,742**	**1,771,367**

	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	843	40	-	-	69,456	70,339
Acquisitions through business combinations	-	-	-	61	-	61
Changes in decommissioning obligations	1,115	-	-	-	-	1,115
Capitalised borrowing costs	-	-	-	-	3,056	3,056
Transfers	38,844	7,430	2,080	296	(48,650)	-
Internal movement	27,587	96	(124)	(88)	(27,471)	-
Disposals	(1,265)	(345)	(229)	(12)	(359)	(2,210)
Translation differences	(22,776)	(3,803)	(3,434)	(71)	(7,955)	(38,039)
As of 31 March 2016	**1,399,630**	**311,455**	**151,088**	**18,119**	**357,351**	**2,237,643**
Depreciation and impairment						
As of 1 January 2016	**(489,288)**	**(81,461)**	**(41,440)**	**(3,479)**	**-**	**(615,668)**
Depreciation charge	(19,194)	(2,951)	(2,818)	(683)	-	(25,646)
Disposals	970	55	123	(2)	-	1,146
Translation differences	10,701	870	971	27	-	12,569
As of 31 March 2016	**(496,811)**	**(83,487)**	**(43,164)**	**(4,137)**	**-**	**(627,599)**
Net book value						
As of 1 January 2016	**865,994**	**226,576**	**111,355**	**14,454**	**369,274**	**1,587,653**
As of 31 March 2016	**902,819**	**227,968**	**107,924**	**13,982**	**357,351**	**1,610,044**

Currency – RUB millions (unless otherwise stated)

12. Investments in associates and joint ventures

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

		Ownership percentage	31 March 2017	31 December 2016
Slavneft	Joint venture	49.9	100,038	97,084
SeverEnergy	Joint venture	46.7	90,974	86,599
Northgas	Joint venture	50.0	12,463	11,517
Others			8,373	6,348
Total investments			**211,848**	**201,548**

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

Slavneft

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

SeverEnergy

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

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

Northgas

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

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

	Slavneft		SeverEnergy		Northgas	
	31 Mar. 2017	31 Dec. 2016	31 Mar. 2017	31 Dec. 2016	31 Mar. 2017	31 Dec. 2016
Cash and cash equivalents	7,097	4,333	16,330	13,530	1,459	277
Other current assets	20,371	22,505	14,689	16,506	3,217	3,280
Non-current assets	320,327	312,935	373,820	357,480	53,462	52,986
Current financial liabilities	(40,785)	(46,727)	(46,619)	(53,439)	(3,166)	(2,677)
Other current liabilities	(26,603)	(25,368)	(11,902)	(12,368)	(97)	(54)
Non-current financial liabilities	(49,064)	(42,876)	(137,710)	(123,252)	(24,019)	(24,990)
Other non-current liabilities	(37,002)	(36,587)	(52,802)	(51,995)	(4,568)	(4,415)
Net assets	**194,341**	**188,215**	**155,806**	**146,462**	**26,288**	**24,407**

Currency – RUB millions (unless otherwise stated)

	Slavneft		SeverEnergy		Northgas	
	3 months ended 31 Mar. 2017	3 months ended 31 Mar. 2016	3 months ended 31 Mar. 2017	3 months ended 31 Mar. 2016	3 months ended 31 Mar. 2017	3 months ended 31 Mar. 2016
Revenue	58,039	46,236	36,172	30,133	5,867	6,297
Depreciation and amortisation	(8,538)	(7,761)	(5,574)	(5,787)	(604)	(662)
Finance income	322	454	326	327	279	343
Finance expense	(1,222)	(1,706)	(5,311)	(6,620)	(736)	(996)
Total income tax expense	(1,315)	(2,149)	(1,862)	(406)	(473)	(506)
Profit for the period	6,075	6,736	9,343	3,930	1,891	(229)
Total comprehensive income	6,156	6,885	9,343	3,930	1,891	(229)

Others

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

13. Long-term financial assets

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

	31 March 2017	31 December 2016
Long-term loans issued	32,704	34,015
Available for sale financial assets	7,991	7,549
Less impairment provision	(1,430)	(1,397)
Total long-term financial assets	**39,265**	**40,167**

14. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 76.1 billion and RUB 97.2 billion as of 31 March 2017 and 31 December 2016, respectively).

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

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

	31 March 2017	31 December 2016
Bank loans	19,771	6,321
Other borrowings	954	1,061
Current portion of long-term debt	78,912	72,805
Total short-term debt and current portion of long-term debt	**99,637**	**80,187**

In March 2017 the Group executed credit facility drawdown under facility agreement with a Russian bank. The outstanding balance as of 31 March 2017 is RUB 4 billion payable in April 2017.

In March 2017 the Group executed credit facility drawdown under facility agreement with PJSC Sberbank. The outstanding balance as of 31 March 2017 is RUB 10.8 billion payable in April 2017.

Short-term debt and current portion of long-term debt include interest payable as of 31 March 2017.

Currency – RUB millions (unless otherwise stated)

16. Trade and other payables

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

	31 March 2017	31 December 2016
Trade accounts payable	72,913	78,161
Forward contracts - cash flow hedge	15,125	11,358
Dividends payable	1,984	2,115
Other accounts payable	5,056	3,990
Total trade and other payables	**95,078**	**95,624**

17. Other current liabilities

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

	Notes	31 March 2017	31 December 2016
Advances received		11,602	21,293
Payables to employees		3,724	2,627
Current finance lease liabilities	*21*	461	-
Other non-financial payables		7,746	4,760
Total other current liabilities, net		**23,533**	**28,680**

18. Other taxes payable

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

	31 March 2017	31 December 2016
Mineral extraction tax	24,357	25,261
VAT	24,566	20,140
Excise tax	10,109	11,389
Social security contributions	4,946	4,721
Other taxes	5,707	5,748
Total other taxes payable	**69,685**	**67,259**

Tax expense other than income tax expense for the three months ended 31 March 2017 and 2016 comprise the following:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Mineral extraction tax	80,783	40,599
Excise tax	25,437	20,745
Social security contributions	5,099	4,752
Other taxes	3,068	4,514
Total taxes other than income tax	**114,387**	**70,610**

Currency – RUB millions (unless otherwise stated)

19. Long-term debt

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

	31 March 2017	31 December 2016
Bank loans	326,608	348,142
Loan participation notes	216,618	231,250
Bonds	81,283	81,879
Other borrowings	7,718	7,755
Less current portion of long-term debt	(78,912)	(72,805)
Total long-term debt	**553,315**	**596,221**

Bank loans

In March 2017 the Group borrowed RUB 15 billion under long-term facility agreement with JSC Gazprombank due payable in October 2021.

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

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

The loan agreements contain financial covenant that limits the Group's ratio of "Consolidated financial indebtedness to Consolidated EBITDA". The Group is in compliance with all covenants as of 31 March 2017.

20. Other non-current financial liabilities

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

	Notes	31 March 2017	31 December 2016
Deferred consideration		54,150	60,384
Forward contracts - cash flow hedge		18,214	28,015
Non-current finance lease liabilities	*21*	7,102	-
Other liabilities		1,404	1,345
Total other non-current financial liabilities		**80,870**	**89,744**

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

21. Finance lease

In 2016 the Group entered into an agreement to lease a vessel and the contract was classified as a finance lease. In February 2017 the Group became entitled to exercise the right to use the asset. The net book value of the leased asset as of 31 March 2017 is RUB 8.5 billion. Upon termination of lease term ownership title to the vessel transfers to the Group. The lease contract also contains an option for early purchase of the asset by the Group.

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

Currency – RUB millions (unless otherwise stated)

The reconciliation between future minimum lease payments and their present value is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
31 March 2017		
Less than one year	914	885
Between one and five years	3,736	3,107
More than five years	6,152	3,571
Total minimum lease payments	**10,802**	**7,563**

The difference between the minimum lease payments and their present value represents the unwinding of discount of finance lease liabilities.

22. Net foreign exchange gain

Net foreign exchange gain for the three months ended 31 March 2017 and 2016 comprise the following:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Net foreign exchange gain on financing activities, including:	**27,104**	**18,021**
foreign exchange gain	28,278	44,581
foreign exchange loss	(1,174)	(26,560)
Net foreign exchange loss on operating activities	**(13,922)**	**(15,726)**
Net foreign exchange gain	**13,182**	**2,295**

23. Finance income

Finance income for the three ended 31 March 2017 and 2016 comprise the following:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Interest income on loans issued	2,058	1,600
Interest on bank deposits	237	582
Other financial income	217	365
Total finance income	**2,512**	**2,547**

24. Finance expense

Finance expense for the three months ended 31 March 2017 and 2016 comprise the following:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Interest expense	11,474	12,204
Decommissioning provision: unwinding of discount	725	576
Less: capitalised interest	(5,480)	(3,056)
Finance expense	**6,719**	**9,724**

25. Fair value measurement

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

As of 31 March 2017 the fair value of bonds and loan participation notes is RUB 303,206 million (RUB 315,488 million as of 31 December 2016). Carrying value of other financial assets and liabilities approximate their fair value.

26. Commitments and contingencies

Taxes

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

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

The compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Twelve pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2016.

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

Economic environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Tax, monopoly, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, uncertainty and volatility of the financial markets and other risks may have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2016. There were no significant changes in sanctions during the three months ended 31 March 2017.

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 March 2017 the Group has entered into contracts to purchase property, plant and equipment for RUB 304,791 million (RUB 300,978 million as of 31 December 2016).

27. Related party transactions

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other companies controlled by the Russian Government. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 9 and 18. The Group also leases vessels under time-charter agreements with a government related entity (RUB 1.3 billion for the three months ended 31 March 2017). The tables below summarise transactions in the ordinary course of business with either the parent company or associates and joint ventures.

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

Currency – RUB millions (unless otherwise stated)

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

31 March 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	10,512	-
Short-term financial assets	-	200	40,425
Trade and other receivables	3,372	3,835	13,856
Other assets	671	5,096	1,427
Long-term financial assets	-	-	29,010
Total assets	**4,043**	**19,643**	**84,718**
Short-term debt and other current financial liability	-	4,001	922
Trade and other payables	1,817	3,291	5,309
Other current liabilities	253	494	194
Long-term debt and other non-current financial liability	55,362	71,378	-
Total liabilities	**57,432**	**79,164**	**6,425**

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**

For the three months ended 31 March 2017 and 2016 the following transactions occurred with related parties:

3 months ended 31 March 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	9,098	9,291	15,207
Other revenue	1	856	1,697
Purchases of crude oil, gas and oil products	-	11,011	31,432
Production related services	3	2,473	4,504
Transportation costs	2,345	385	2,765
Interest expense	1,384	638	17
Interest income	-	44	1,895

Currency – RUB millions (unless otherwise stated)

3 months ended 31 March 2016	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and oil products sales	4,668	9,851	11,379
Other revenue	2	905	1,932
Purchases of crude oil, gas and oil products	-	9,692	19,026
Production related services	8	4,432	4,853
Transportation costs	1,469	433	1,331
Interest expense	1,594	1,083	56
Interest income	-	41	1,302

Transactions with Key Management Personnel

For the three months ended 31 March 2017 and 2016 the Group recognised RUB 375 million and RUB 374 million, respectively, as compensation for key management personnel (members of the Board of Directors and Management Committee). Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

28. Segment information

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

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

Upstream segment (exploration and production) includes the following Group operations: exploration, development 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 oil and refined petroleum products.

The information about the Group’s operating segments for the three months ended 31 March 2017 and 2016 is presented below:

3 months ended 31 March 2017	**Upstream**	**Downstream**	**Eliminations**	**Total**
Revenue from sales:				
External customers	43,586	387,579	-	431,165
Inter-segment	136,900	5,253	(142,153)	-
Total revenue from sales	**180,486**	**392,832**	**(142,153)**	**431,165**
Adjusted EBITDA	98,561	19,233	-	117,794
Depreciation, depletion and amortisation	24,488	7,822	-	32,310
Capital expenditure	46,754	18,911	-	65,665

3 months ended 31 March 2016	**Upstream**	**Downstream**	**Eliminations**	**Total**
Revenue from sales:				
External customers	18,481	311,471	-	329,952
Inter-segment	102,202	5,268	(107,470)	-
Total revenue from sales	**120,683**	**316,739**	**(107,470)**	**329,952**
Adjusted EBITDA	62,262	34,103	-	96,365
Depreciation, depletion and amortisation	19,360	8,526	-	27,886
Capital expenditure	59,819	24,080	-	83,900

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

Currency – RUB millions (unless otherwise stated)

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

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

The geographical segmentation of the Group's revenue and capital expenditures for the three months ended 31 March 2017 and 2016 is presented below:

	Russian Federation	**CIS**	**Export and international operations**	**Total**
3 months ended 31 March 2017				
Sales of crude oil	28,055	7,156	108,693	143,904
Sales of petroleum products	180,043	16,352	104,687	301,082
Sales of gas	8,993	-	309	9,302
Other sales	11,926	447	1,945	14,318
Less custom duties and sales related excises	-	(362)	(37,079)	(37,441)
Revenues from external customers, net	**229,017**	**23,593**	**178,555**	**431,165**
3 months ended 31 March 2016				
Sales of crude oil	20,724	5,229	46,975	72,928
Sales of petroleum products	160,231	16,145	94,217	270,593
Sales of gas	6,876	-	622	7,498
Other sales	12,221	456	2,306	14,983
Less custom duties and sales related excises	-	(201)	(35,849)	(36,050)
Revenues from external customers, net	**200,052**	**21,629**	**108,271**	**329,952**

	Russian Federation	**CIS**	**Export and international operations**	**Total**
Non-current assets as of 31 March 2017	1,876,840	10,873	287,257	2,174,970
Capital expenditures for the 3 months ended 31 March 2017	61,737	49	3,879	65,665
Non-current assets as of 31 December 2016	1,822,912	11,396	310,132	2,144,440
Capital expenditures for the 3 months ended 31 March 2016	78,041	78	5,781	83,900

Currency – RUB millions (unless otherwise stated)

Adjusted EBITDA for the three months ended 31 March 2017 and 2016 is reconciled below:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Profit for the period	64,734	41,592
Total income tax expense	14,922	8,281
Finance expense	6,719	9,724
Finance income	(2,512)	(2,547)
Depreciation, depletion and amortisation	32,310	27,886
Net foreign exchange gain	(13,182)	(2,295)
Other loss, net	864	760
EBITDA	**103,855**	**83,401**
less share of profit of associates and joint ventures	(10,818)	(5,724)
add share of EBITDA of associates and joint ventures	24,757	18,688
Total adjusted EBITDA	**117,794**	**96,365**

29. Subsequent events

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

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