

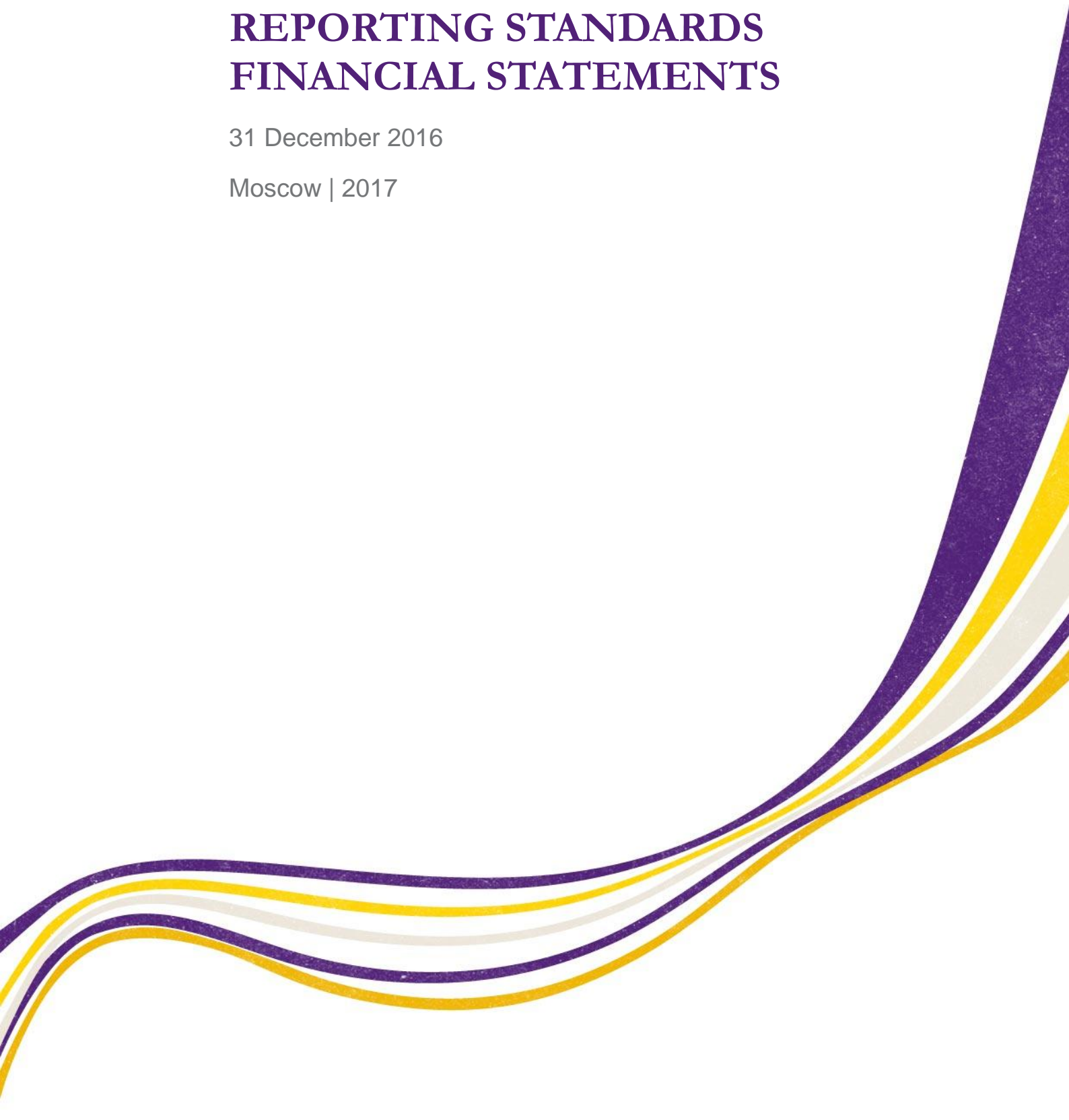
ФБК

OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS FINANCIAL STATEMENTS

31 December 2016

Moscow | 2017



Contents

INDEPENDENT AUDITOR'S REPORT	3
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	7
STATEMENT OF CASH FLOWS.....	8
STATEMENT OF CHANGES IN EQUITY	9
Notes to the financial statements:	
1. Activities	10
2. Operating environment of the company	10
3. Summary of significant accounting policies.....	10
4. Critical accounting estimates and judgements in applying accounting policies	18
5. Financial risk management.....	20
6. Financial instruments by category	24
7. Cash and cash equivalents	24
8. Trade and other receivables	25
9. Inventories	26
10. Other current assets	26
11. Property, plant and equipment.....	27
12. Long-term accounts receivables	28
13. Other non-current assets	29
14. Trade and other payables.....	29
15. Other taxes payable	30
16. Short-term loans and current portion of long-term debt	30
17. Long-term debt	30
18. Provisions for liabilities and charges	31
19. Income tax	33
20. Equity	34
21. Revenue	36
22. Cost of sales	36
23. General and administrative expenses	36
24. Other operating income	36
25. Other operating expenses	37
26. Finance income	37
27. Finance costs	37
28. Contingencies, commitments and other risks	37
29. Related party transactions	38
30. Subsequent events	39



FBK, LLC

44/1 Myasnitskaya st., Moscow, Russia 101990

T +7 (495) 737 5353 | F +7 (495) 737 5347

fbk@fbk.ru | www.fbk.ru

Independent Auditor's Report

To the Shareholders of Open Joint Stock Company Severneftegazprom

Opinion

We have audited the accompanying annual financial statements of Open Joint Stock Company Severneftegazprom (OJSC Severneftegazprom), which comprise the statement of financial position as of December 31, 2016, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended December 31, 2016, and Notes to the annual financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of OJSC Severneftegazprom as of December 31, 2016, and its financial performance and its cash flows for the year 2016 in accordance with International Financial Reporting Standards (IFRSs).

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 annual financial statements* section of our report. We are independent of the audited entity in accordance with Independence Rules for Auditors and Audit Firms and Code of Professional Ethics of Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual report of OJSC Severneftegazprom, but does not include the annual financial statements and our auditor's report thereon. Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other

information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report of OJSC Severneftegazprom, 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 for the financial statements

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

In preparing the annual financial statements, management is responsible for the audited entity ability to continue as a going concern, disclosure, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the audited entity or to cease operations, or has no realistic alternative but to do.

Auditor's Responsibilities for the Audit of the annual financial statements

Our objective are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

- a) identify and assess the risks of material misstatement of the annual 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;
- b) 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 audited entity's internal control.
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the audited entity.
- d) 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 audited entity'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 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 audited entity to cease to continue as a going concern.

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent underlying transactions and events in a manner that achieves fair presentation.

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.

Engagement partner

P.V. Sungurova

(audit qualification certificate
No. 01-001300 dated March 11, 2013,
registration number 20501041588)

The date of the Auditor's Report
April 17, 2017

Audited entity

Company name:

Open Joint Stock Company
Severneftegazprom

Address:

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

State registration certificate:

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

Auditor

Company name:

Limited Liability Company "Accountants
and business advisors" (FBK, LLC)

Address:

101990, Moscow, Myasnitskaya St., 44/1,
bld. 2AB.

State registration certificate:

Registered by the Moscow Registration
Chamber on November 15, 1993, the
certificate: series YZ 3 No. 484.583 RP.
Entered in the Uniform State Register of
Legal Entities on July 24, 2002 under the
main state number 1027700058286.

**Membership in Self-Regulatory Organization of
Auditors:**

Nonprofit Partnership "Auditor Association
Sodruzhestvo".

**Number in the register of Self-Regulatory
Organization of Auditors:**

Certificate of membership in Nonprofit
Partnership "Auditor Association
Sodruzhestvo" No. 7198, number in the
register – 11506030481.

OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015 (restated)	1 January 2015 (restated)
Assets				
Current assets				
Cash and cash equivalents	7	9,860,006	21,105,214	13,842,559
Trade and other receivables	8	6,019,340	6,807,097	4,886,516
Inventories	9	562,422	734,020	615,749
Current income tax prepayment		-	-	806,286
Other current assets	10	179 857	-	-
Total current assets		16,621,625	28,646,331	20,151,110
Non-current assets				
Property, plant and equipment	11	66,304,733	68,815,736	65,120,697
Long-term accounts receivables	12	14,976	23,816	19,318
Other non-current assets	13	-	9,492,276	9,852,806
Total non-current assets		66,319,709	78,331,828	74,992,821
Total assets		82,941,334	106,978,159	95,143,931
Liabilities and equity				
Current liabilities				
Trade and other payables	14	1,527,538	2,272,338	1,207,497
Other taxes payable	15	4,511,810	4,231,924	4,315,257
Current income tax payable		153,554	478,121	-
Short-term loans and current portion of long-term debt	16	-	9,530,553	5,197,996
Total current liabilities		6,192,902	16,512,936	10,720,750
Non-current liabilities				
Long-term debt	17	-	17,872,789	23,981,873
Provisions for liabilities and charges	18	6,212,309	4,901,258	2,718,913
Deferred income tax liabilities	19	7,041,776	6,678,820	7,001,864
Total non-current liabilities		13,254,085	29,452,867	33,702,650
Total liabilities		19,446,987	45,965,803	44,423,400
Equity				
Share capital	20	40,000	40,000	40,000
Share premium	20	25,099,045	25,099,045	25,099,045
Other reserves	20	649,754	648,253	873,253
Retained earnings		37,705,548	35,225,058	24,708,233
Total equity		63,494,347	61,012,356	50,720,531
Total liabilities and equity		82,941,334	106,978,159	95,143,931

Approved for issue and signed on __ April 2017 by the following members of management:

V.V. Dmitruk
General Director

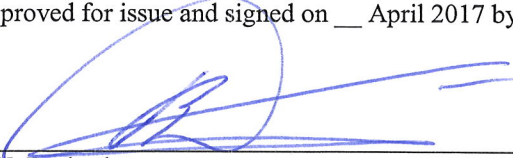
A.A. Chernyshev
Deputy director on economics and finance

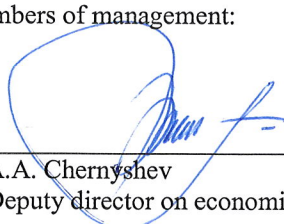
OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015 (restated)
Revenue	21	50,365,483	49,463,090
Cost of sales	22	(29,594,460)	(28,245,116)
Gross profit		20,771,023	21,217,974
General and administrative expenses	23	(1,054,027)	(1,061,957)
Research and development costs		(57,761)	(191,686)
Other operating income	24	328,639	374,157
Other operating expenses	25	(498,264)	(2,652,946)
Operating profit		19,489,610	17,685,542
Finance income	26	5,879,978	16,795,472
Finance costs	27	(4,954,866)	(18,810,888)
Profit before income tax		20,414,722	15,670,126
Income tax	19	(4,080,673)	(2,791,364)
Profit for the year		16,334,049	12,878,762
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		(806)	(235,411)
Related income tax		2,307	10,411
Total items that will not be reclassified to profit or loss		1,501	(225,000)
Other comprehensive income / (loss) for the year		1,501	(225,000)
Total comprehensive income for the year		16,335,550	12,653,762

Approved for issue and signed on __ April 2017 by the following members of management:


V.V. Dmitruk
General Director

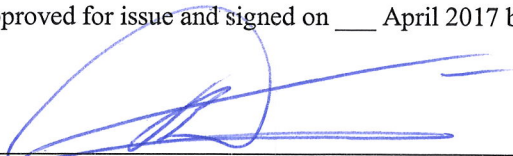

A.A. Chernyshev
Deputy director on economics and finance

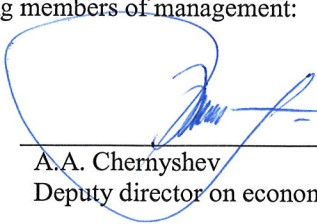
OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015 (restated)
Profit before income tax		20,414,722	15,670,126
Adjustments for:			
Interest income	26	(1,239,223)	(1,367,175)
Finance costs	27	839,661	996,960
Depreciation	22	4,760,817	4,510,429
(Gain) / loss on disposal of property, plant and equipment	24, 25	(2,782)	167
Provision for revegetation	25	18,177	1,077
Net foreign exchange (gain) / loss	26, 27	(525,550)	2,385,632
Provision for impairment loss of inventory	25	79,681	26,336
Reversal of provision for impairment loss of inventory	24	-	(77,809)
Loss on revaluation of fair value of assets held for sale	25	259,167	-
Provision for impairment of deposit	25	-	1,897,042
Provision for impairment of assets under construction	24, 25	(139,951)	139,951
Other non-cash transactions		51,689	192,229
Operating cash flows before changes in working capital		24,516,408	24,374,965
Change in inventories	9	91,917	(66,797)
Change in trade and other receivables, excluding interest receivables		794,154	(2,785,087)
Change in provisions, accounts payable, taxes payable, excluding interest payable and payables for acquired property, plant and equipment and exploration and evaluation service		(236,403)	1,347,537
Change in accounts payable for exploration and evaluation service		(85,862)	(104,380)
Income taxes paid		(4,050,063)	(1,819,590)
Net cash from operating activities		21,030,151	20,946,648
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,746,043)	(6,918,349)
Interest received		1,240,615	1,322,093
Cash inflow on disposal of non-current assets		9,492,276	-
Net cash used in investing activities		8,986,848	(5,596,256)
Cash flows from financing activities			
Repayment of borrowings		(26,389,451)	(7,113,067)
Interest paid		(438,199)	(869,289)
Dividends paid	20	(13,853,559)	(2,361,937)
Net cash used in financing activities		(40,681,209)	(10,344,293)
Net (decrease)/increase in cash and cash equivalents		(10,664,210)	5,006,099
Effect of exchange rate changes on cash and cash equivalents		(580,998)	2,256,556
Cash and cash equivalents at the beginning of the year		21,105,214	13,842,559
Cash and cash equivalents at the end of the year	7	9,860,006	21,105,214

Approved for issue and signed on ___ April 2017 by the following members of management:


V.V. Dmitruk
General Director



A.A. Chernyshev
Deputy director on economics and finance

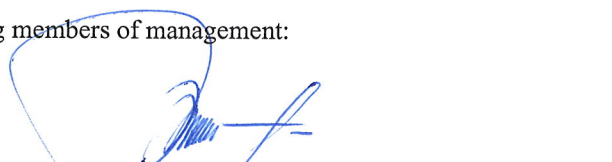
OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2015 (previously reported)		533,330	40,000	25,099,045	873,253	25 431 998	51 444 296
<i>Changes (net of income tax)</i>	4	-	-	-	-	(723,765)	(723,765)
Balance at 1 January 2015 (restated)		533,330	40,000	25,099,045	873,253	24,708,233	50,720,531
Profit for the year		-	-	-	-	12,878,762	12,878,762
Other comprehensive income for the year		-	-	-	(225,000)	-	(225,000)
Total comprehensive income for the year		-	-	-	(225,000)	12,878,762	12,653,762
Dividends	20	-	-	-	-	(2,361,937)	(2,361,937)
Balance at 31 December 2015		533,330	40,000	25,099,045	648,253	35,225,058	61,012,356
Profit for the year		-	-	-	-	16,334,049	16,334,049
Other comprehensive income for the year		-	-	-	1,501	-	1,501-
Total comprehensive income for the year		-	-	-	1,501-	16,334,049	16,335,550
Dividends	20	-	-	-	-	(13,853,559)	(13 853 559)
Balance at 31 December 2016		533,330	40,000	25,099,045	649,754	37,705,548	63,494,347

Approved for issue and signed on ____ April 2017 by the following members of management:


V.V. Dmitruk
General Director


A.A. Chernyshev
Deputy director on economics and finance

1. ACTIVITIES

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

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

As at 31 December 2016 shareholders of the Company were represented by PJSC Gazprom which holds 50 % of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 2 class A and 1 class C preference shares and E.ON E&P GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 3 class B preference shares. E.ON E&P GmbH received ownership of shares of the Company as a result of swap transaction with the Gazprom group in 2009.

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

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

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

2. OPERATING ENVIRONMENT OF THE COMPANY

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”); it’s functional and presentation currency is the Russian Rouble (“RUB”).

The official Russian Ruble to US Dollar (“USD”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 60.66 and 72.88 as at 31 December 2016 and 31 December 2015, respectively. The official Russian Ruble to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 63.81 and 79.70 as at 31 December 2016 and 31 December 2015, respectively.

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company

and the cost of the item can be measured reliably. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Costs of minor repairs and maintenance are expensed when incurred.

Property, plant and equipment include the cost of dismantling and removing the item and restoring the site on which it is located.

Interest for borrowing are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less expenses for sale and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss in current year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount (refer to Note 11).

Oil and gas exploration assets

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry wells, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation 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 indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved developed reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	Other assets
Buildings and facilities	Units of production	5- 30 years
Pipeline	Units of production	-
Machinery and equipment	Units of production	1-15 years
Wells	Units of production	-
Roads	Units of production	-
Other	-	1-20 years

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 7.049% in the year ended 31 December 2016 (year ended 31 December 2015:6.564%).

(c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting period and are included in the financial statements at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment". This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company's uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are valued at the lower of the cost and net realisable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Assets held for sale.

Assets held for sale include property, plant and equipment for sale. Assets held for sale are carried at the lower of the carrying amounts and their fair value net of expenses for sale. Impairment loss is accounted as other operating expenses. Assets held for sale are not depreciated. Assets held for sale are disclosed in Statement of financial position.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(h) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(i) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(j) Financial assets and liabilities

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables, cash and cash equivalents, restricted cash and other non-current assets. These assets are carried at amortized costs and are classified as loans and receivables.

Financial liabilities consist of trade payables, other payables, loans and borrowings and are carried at amortised costs.

All financial assets and liabilities are initially recognised at fair value.

(k) Fair values

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 estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Company, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Company, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Cash and cash equivalents are included into Level 1 of fair value hierarchy, all other financial instruments - Level 3 of fair value hierarchy.

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(l) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(m) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Company has the following financial instruments that are incurred at amortised cost: trade and other accounts receivables, long-term accounts receivables, trade and other accounts payables, borrowings.

The carrying amounts of these items are a reasonable approximation of their fair value.

(n) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial statements that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The accounts receivable impairment provision is created on the base of the management assessment of collectability of customers' accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

(o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets 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, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(p) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves" (refer to Note 18).

(q) Pension liabilities

In the normal course of business the Company contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included in wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

The Company also operates non-State post-employment benefits, which are recorded in the financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Company. The cost of providing pensions is accrued and charged to staff costs in the statement of profit and loss and other comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices.

(r) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.

Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred and shown in Statement of profit and loss and other comprehensive income.

(s) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(t) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

(u) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

(v) Equity

Share capital

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(w) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(x) Mineral extraction tax

Mineral extraction tax (MET) on natural gas is defined monthly as the amount of volume produced per tax rate. Average MET rate for the 2016 was approximately RUB 807 per 1000 cubic meters for the Cenomanian gas and RUB 169 per 1000m³ for the Turonian gas. MET is recorded within Cost of sales in the "Statement of Profit and Loss and Other Comprehensive Income."

Average MET rate for the first half of 2015 was approximately 861 RUB per 1000 cubic meters for the Cenomanian gas and 181 RUB per 1000 cubic meters for the Turonian gas. Average MET rate for the second half of 2015 was approximately RUB 718 per 1000 cubic meters for the Cenomanian gas, and RUB 151 per 1000 cubic meters for the Turonian gas. MET is recorded within Cost of sales in the "Profit and Loss Statement and Other Comprehensive Income."

(y) Employee Benefits

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. In the normal course of business the Company contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

(z) Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary

differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. The Company considers that the initial recognition exemption should be applied for decommissioning liabilities and therefore deferred taxes are not recorded for differences related to decommission liabilities.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. 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.

(aa) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles ("RUB").

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(bb) New Accounting Developments***Application of new IFRSs***

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2016:

- The amendments to IFRS 11 Joint Arrangements (issued in May 2014) on accounting for acquisitions of interests in joint operations that constitutes a business.
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014) on clarification of acceptable methods of depreciation and amortization.
- The amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (issued in September 2014) eliminate inconsistencies between the requirements dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (issued in December 2014) clarify the rules concerning the accounting of investments in investment entities.
- The amendments to IAS 1 Presentation of Financial Statements (issued in December 2014). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements.
- Annual Improvements to IFRS, the period 2012-2014.

The Company has reviewed amended standards while preparing this financial statements. The amended standards have no significant impact on the Company's financial statements.

Standards, clarifications and changes to existing standards that have not entered into power and are not applied by the Company ahead of schedule

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2017. In particular, the Company did not apply ahead of schedule the following standards, clarifications and changes to standards:

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 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. Revenue from sales of 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 recognised as an asset and amortised over the period when the benefits of the contract are consumed.

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements to exchange rates that should be used on initial recognition of payment made or received in advance.
- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (refer to Note 26).

Useful lives of property, plant and equipment

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

Classification of production licenses

Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statement.

Site restoration and environmental costs

Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss on units of production basis. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

For details of discounting rates used refer to Note 17. Sensitivity analysis for changes in rates and other estimates:

	Change in	31 December 2016	31 December 2015
Discount rate	+1%	(1,079,131)	(844,046)
	-1%	1,396,728	1,100,551

Reserves estimation

Unit-of-production depreciation charges are principally measured based on Company's estimates of proved developed reserves. Proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related exploration drilling costs. Information about the carrying amounts of production assets and the amounts of depreciation charged to the profit or loss as well as sensitivity analysis for estimation of gas reserves is presented in Note 11.

Changes in comparative information for the previous reporting periods

As at 31 December 2016 the Company changed the amounts as of 1 January 2015 and 31 December 2015 in statement of financial position as at 31 December 2016 and the amounts for the year ended 31 December 2015 in statement of profit and loss and other comprehensive income for the year ended 31 December 2016 due to recognize the provision for post-employment benefits.

The table below shows the quantitative information about the impact of the above changes on the Company's statement of financial position as at 1 January 2015 and 31 December 2015 and its statement of profit and loss and other comprehensive income for the year ended 31 December 2015.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

The impact on the statement of financial position as at 31 December 2015:

	31 December 2015 (previously reported)	Recalculation effect	31 December 2015 (restated)
Liabilities and equity			
Non-current liabilities			
Provisions for liabilities and charges	3,750,086	1,151,172	4,901,258
Deferred income tax liabilities	6,799,200	(120,380)	6,678,820
Total non-current liabilities	28,422,075	1,030,792	29,452,867
Equity			
Other reserves	873 253	(225 000)	648 253
Retained earnings	36,030,850	(805,792)	35,225,058
Total equity	62,043,148	(1,030,792)	61,012,356
Total liabilities and equity	106,978,159	-	106,978,159

The impact on the statement of financial position as at 1 January 2015:

	1 January 2015 (previously reported)	Recalculation effect	1 January 2015 (restated)
Liabilities and equity			
Non-current liabilities			
Provisions for liabilities and charges	1,906,918	811,995	2,718,913
Deferred income tax liabilities	7,090,094	(88,230)	7,001,864
Total non-current liabilities	32,978,885	723,765	33,702,650
Equity			
Retained earnings	25,431,998	(723,765)	24,708,233
Total equity	51,444,296	(723,765)	50,720,531
Total liabilities and equity	95,143,931	-	95,143,931

The impact on the statement of profit and loss and other comprehensive income for the year ended 31 December 2015:

	For year ended 31 December 2015 (previously reported)	Recalculation effect	For year ended 31 December 2015 (restated)
Cost of sales	(28,242,850)	(2,266)	(28,245,116)
Gross profit	21,220,240	(2,266)	21,217,974
Operating profit	17,687,809	(2,266)	17,685,543
Finance costs	(18,709,389)	(101,499)	(18,810,888)
Profit before income tax	15,773,892	(103,765)	15,670,127
Income tax	(2,813,103)	21,739	(2,791,364)
Profit for the year	12,960,789	(82,026)	12,878,763
Items that will not be reclassified to profit or loss	-	(225,000)	(225,000)
Other comprehensive income for the year	-	(225,000)	(225,000)
Total comprehensive income for the year	12,960,789	(307,026)	12,653,763

5. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on minimising potential adverse effects on the financial performance of the Company.

(a) Market risk

(i) Currency risk

The Company has a substantial amount of foreign currency denominated borrowings and thus, is exposed to foreign exchange risk arising from various exposures with respect to the US dollar and to the Euro. Foreign currency denominated assets and liabilities give rise to foreign exchange risk exposure.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly.

The table below summarized the Company's exposure to foreign currency exchange rate risk at the end of the reporting period. Financial assets and liabilities in foreign currencies, denominated in thousands of RUB:

	USD	EUR
31 December 2016		
Assets		
Cash and cash equivalents	152,213	124,353
Advances to suppliers	87	27,269
Liabilities		
Trade payables	(1,261)	(1,826)
Net financial assets and liabilities in foreign currencies	151,040	149,796

	USD	EUR
31 December 2015		
Assets		
Cash and cash equivalents	5,262,461	4,536,441
Advances to suppliers	283	20,841
Other receivables	2,799	-
Other non-current assets	3,367,184	2,620,444
Liabilities		
Long-term debt	(14,293,152)	(11,237,903)
Interest payable	(32,601)	(20,908)
Trade payables	(7,007)	(5,366)
Other payables	-	(1,815)
Net financial assets and liabilities in foreign currencies	(5,700,033)	(4,088,266)

As at 31 December 2016, if the Russian Rouble had weakened by 30 % against the US dollar with all other variables held constant, profit before tax would have been lower by RUB 45,312 thousand (as at 31 December 2015 profit before tax would be lower by RUB 1,710,010 thousand), mainly as a result of foreign exchange losses on translation of US dollar denominated borrowings and foreign exchange gains on translation of US dollar denominated cash and cash equivalents. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As at 31 December 2015, if the Russian Rouble had weakened by 30 % against the Euro with all other variables held constant, profit before tax would have been lower by RUB 44,939 thousand (as at 31 December 2015 profit before tax would be lower by RUB 1,226,480 thousand), mainly as a result of foreign exchange losses on translation of Euro denominated borrowings and foreign exchange gains on translation of Euro denominated cash and cash equivalents. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

(ii) Cash flow and fair value interest rate risk

The Company's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

To mitigate this risk, the Company performs periodic analysis of the current interest rate environment. Financial decisions of management may include re-financing and prolongation of loan agreements.

The Company does not hedge its cash flow and fair value against interest rate risk.

As at 31 December 2015, if interest rates on US dollar denominated borrowings at these dates had been by 5 % higher (for example: 5 % would become 5.25 %) with all other variables held constant, profit before tax would have been lower by RUB 20,884 thousand, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2015, if interest rates on Euro denominated borrowings at these dates had increased by 5 % (for example: 5 % would become 5.25 %) with all other variables held constant, profit before tax would have been lower by RUB 13,396 thousand, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2015, interest rate on RUB-denominated borrowings was fixed. As at 31 December 2014, interest rate on RUB-denominated borrowings was fixed.

b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposures to customers, including outstanding trade receivables. The banks with which the Company places funds have insignificant risk of default since the Company places its funds in highly rated leading foreign banks and Russian banks with state participation which minimizes the risk of default. As the main debtors of the Company are the Gazprom Group entities, management believes that the credit risk is low. Receivables from related parties relate to sales performed in 2016 and the Company has no past due nor impaired receivables as at 31 December 2016 and defaults are historically rare.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position (refer to notes 7, 8, 11, 12).

c) Credit risks concentration

The Company is exposed to concentrations of credit risk. As at 31 December 2016 the Company had three counterparties (2015 – three counterparties) with the total aggregate amount of these balances RUB 5,891,975 thousand (2015: RUB 6,345,551 thousand) or 98% of the gross amount of trade and other receivables (2015 – 93 %).

In 2016 and 2015 the Company's bank deposits were held in several bank accounts with different banks (refer to Note 7 cash and cash equivalents for credit ratings).

d) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for gas, and their impact on the Company's future performance and results of the Company's operations. A decline in the prices could result in a decrease in net income and cash flows. The Company's overall strategy in production and sales of gas is centrally managed.

The Company assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Company's financial position. Actual results, and the impact on the Company's operations and financial position, may differ from management's estimates of potential scenarios.

e) Liquidity risk

The Company's liquidity management objective involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and maintaining debt financing plans.

The table below analyses the Company's liabilities into relevant maturity grouping based on the remaining period in the statement of financial position date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include future interest payments. These amounts will not reconcile to the amounts disclosed on statement of financial position for borrowings, as these amounts are measured at amortised cost.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	within 1 year	from 1 to 5 years	over 5 years
31 December 2016				
Borrowings	16	-	-	-
Interest payments	13	-	-	-
Trade payables	13	1,032,817	-	-
Payables to related parties	13	85,098	-	-
Other payables	13	10,545	-	-
Total financial liabilities		1,128,459	-	-

	Notes	within 1 year	from 1 to 5 years	over 5 years
31 December 2015				
Borrowings	16	9,551,298	17,945,834	-
Interest payments	13	803,471	629,569	-
Trade payables	13	1,270,975	-	-
Payables to related parties	13	108,476	-	-
Other payables	13	8,130	-	-
Total financial liabilities		11,742,350	18,575,403	-

f) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

As at 31 December 2016 financial leverage is not calculated because there are no borrowings and loans in the Company (Note 16, 17).

That ratio as at 31 December 2015 were as follows:

	Notes	31 December 2015
Total borrowings	16	27,403,341
Less: cash and cash equivalents	7	21,105,214
Less: other non-current assets	13	9,492,276
Net debt		3,194,149
Total equity		62,043,148
Total capital		65,237,297
Gearing ratio		5%

6. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	31 December 2016	31 December 2015
Current assets			
Cash and cash equivalents	7	9,860,006	21,105,214
Receivables from related parties	8	5,893,918	6,347,433
Other short-term receivables	8	79,616	75,223
Non-current assets			
Long-term other receivables	12	14,976	23,816
Other non-current assets	13		9,492,276
Total financial assets at amortized cost		15,848,517	37,043,962
Liabilities at amortized cost	Notes	31 December 2016	31 December 2015
Current liabilities			
Short-term borrowings and current portion of long-term debt	16	-	9,530,553
Trade payables	14	1,032,817	1,270,975
Interest payable	14	-	70,155
Payables to related parties	14	85,098	108,476
Other payables	14	10,545	8,130
Long-term liabilities			
Long-term borrowings	17	-	17,872,789
Total financial liabilities at amortized cost		1,128,459	28,861,078

7. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Deposit accounts	9,570,000	-
Current accounts	290,006	21,105,214
Total cash and cash equivalents	9,860,006	21,105,214

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

As at 31 December 2016 cash in the amount of RUB 9,570,000 thousand was placed on deposit accounts in Gazprombank by less for 3 month.

As at 31 December 2016 the weighted average interest rate on the deposit accounts of the Company was 8.64 % for RUB.

The fair value of cash and cash equivalents as at 31 December 2015 and 31 December 2014 approximates their carrying value.

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

				31 December 2016	31 December 2015
	Rating (as of 31 December 2016)	Rating agency	Credit limit for the one bank	Balance	Balance
Gazprombank (Joint-stock Company)	Ba2	Moody's	Not set	9,860,006	7,846
Credit Agricole CIB	Not set	Moody's	Not set	-	21,097,314
PJSC Rosbank	Ba2	Moody's	Not set	-	54
Total cash and cash equivalents				9,860,006	21,105,214

At 25 January 2016 International rating agency Moody's downgraded the long-term ratings of Vnesheprombank on deposits in local and foreign currency from "C" to "Caa3" and later withdrew them due to the revocation of the license by the Bank of Russia.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

The table below shows analysis of restricted cash (Note 12):

				31 December 2016	31 December 2015
	Rating (as of 31 December 2015)	Rating agency	Credit limit for the one bank	Balance	Balance
ING Bank N.V.	A2	Moody's	Not set	-	5,987,626
Credit Agricole CIB	Not set	Moody's	Not set	-	3,504,650
Total cash and cash equivalents				-	9,492,276

8. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Financial assets		
Receivables from related parties (refer to Note 29)	5,893,918	6,347,433
Other receivables	1,981,176	1,977,332
Impairment provision for other receivables	(1,901,560)	(1,902,109)
Total financial assets	5,973,534	6,422,656
Non-financial assets		
Advances to suppliers	27,413	58,893
Impairment for advances to supplies	-	(427)
VAT recoverable	14,966	79,981
Prepaid taxes, other than income tax	3,427	245,995
Total non-financial assets	45,805	384,441
Total trade and other receivables	6,019,340	6,807,097

As at 31 December 2016 so as at 31 December 2015 account receivable consists of payments for gas sales in Russian Federation.

The aging analysis of past due and impaired trade and other receivables are as follows:

Aging from the due date	Total overdue receivables as at 31 December		Total impairment provision as at 31 December		Total overdue receivables net of impairment provision as at 31 December	
	2016	2015	2016	2015	2016	2015
Within 1 year overdue	1,896,520	1,897,069	(1,896,520)	(1,897,069)	-	-
From 1 to 3 years overdue	-	4,342	-	(4,342)	-	-
More than 3 years overdue	5,040	1,125	(5,040)	(1,125)	-	-
Total	1,901,560	1,902,536	(1,901,560)	(1,902,536)	-	-

Movements of the Impairment provision for other receivables are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Provision for impairment at the beginning of the year	(1,902,536)	(5,494)
Provision for impairment reversed / (accrued)	976	(1,897,042)
Provision for impairment at the end of the year	(1,901,560)	(1,902,536)

Impairment provision for other receivables in 2015 was increased due to the revocation of the license of Vneshprombank.

Provision created for all doubtful accounts receivable that are past due or impaired was reflected as at 31 December 2016 and 31 December 2015.

As the principal debtors of the Company are related parties, the Company believes that the default risk is low. No receivables from related parties were past due or impaired as at 31 December 2016 and at 31 December 2015.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

The fair value of accounts receivable as at 31 December 2016 and 31 December 2015 approximates their carrying value.

9. INVENTORIES

	31 December 2016	31 December 2015
Materials and supplies	808,649	902,022
Other materials	14,357	12,900
Impairment of materials	(260,583)	(180,903)
Total inventories	562,422	734,020

10. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Assets held for sale	179,857	-
Total other current assets	179,857	-

As of December 31, 2016, fixed assets held for sale are presented by an administrative and residential complex with a block of garages and flats situated in the Urengoy settlement.

Assets held for sale are recognized at their fair value. Loss from depreciation is presented at Note 25.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of Russian Roubles, unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost as at 1 January 2015	9,248,849	9,385,050	32,276,840	10,089,434	13,684,925	137,320	7,710,342	82,532,760
Addition	-	-	222,721	63,075	-	15,275	6,617,112	6,918,183
Change in component for decommissioning and site restoration obligation (Note 18)	340,613	245,588	1,299,757	131,903	-	-	-	2,017,861
Disposal	-	-	(607)	(564)	-	(350)	(51,180)	(52,701)
Transfer to inventories	-	-	-	-	-	-	(96,392)	(96,392)
Impairment of assets under construction	-	-	-	-	-	-	(139,951)	(139,951)
Capitalized borrowing costs	-	-	448,723	570,441	-	-	(1,019,164)	-
Transfer	-	-	3,279,461	5,612,155	-	1,814	(8,893,430)	-
Cost as at 31 December 2015	9,589,462	9,630,638	37,526,895	16,466,443	13,684,925	154,059	4,127,336	91,179,758
Addition	-	-	-	70,090	-	36,945	1,641,790	1,748,825
Change in component for decommissioning and site restoration obligation (Note 18)	164,605	119,282	816,588	63,771	-	-	-	1,164,246
Disposal	-	(162)	-	(12,658)	-	(440)	-	(13,260)
Transfer to assets held for sale	-	-	(618,214)	(13,446)	-	-	-	(631,660)
Transfer to inventories	-	-	-	-	-	-	(1,077)	(1,077)
Recovery of impairment of assets under construction	-	-	-	-	-	-	139,951	139,951
Capitalized borrowing costs	-	-	525	2,806	-	-	(3,331)	-
Transfer	-	1,880,560	1,336,805	963,880	-	2,692	(4,183,937)	-
Cost as at 31 December 2016	9,754,066	11,630,319	39,062,599	17,540,887	13,684,925	193,256	1,720,732	93,586,784
Accumulated depreciation as at 1 January 2015	(2,182,683)	(2,160,487)	(7,057,239)	(2,964,801)	(2,951,845)	(95,008)	-	(17,412,063)
Depreciation for the year	(456,076)	(467,673)	(1,879,953)	(1,024,492)	(704,530)	(19,761)	-	(4,552,485)
Change in component for decommissioning and site restoration obligation (Note 18)	(71,583)	(19,339)	(290,651)	(19,089)	-	-	-	(400,662)
Disposal	-	-	477	564	-	145	-	1,186
Accumulated depreciation as at 31 December 2015	(2,710,342)	(2,647,499)	(9,227,366)	(4,007,818)	(3,656,375)	(114,624)	-	(22,364,024)
Depreciation for the year	(484,942)	(492,275)	(2,018,794)	(1,059,370)	(706,961)	(18,751)	-	(4,781,093)
Change in component for decommissioning and site restoration obligation (Note 18)	(43,759)	(17,140)	(268,829)	(13,074)	-	-	-	(342,801)
Transfer to assets held for sale	-	-	188,359	4,276	-	-	-	192,635
Disposal	-	132	-	12,658	-	440	-	13,231
Accumulated depreciation as at 31 December 2016	(3,239,043)	(3,156,782)	(11,326,629)	(5,063,327)	(4,363,337)	(132,935)	-	(27,282,052)
Net book value as at 1 January 2015	7,066,166	7,224,563	25,219,601	7,124,633	10,733,080	42,312	7,710,342	65,120,697
Net book value as at 31 December 2015	6,879,120	6,983,139	28,299,529	12,458,626	10,028,550	39,436	4,127,336	68,815,734
Net book value as at 31 December 2016	6,515,023	8,473,537	27,735,970	12,477,560	9,321,588	60,321	1,720,733	66,304,733

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016****(In thousands of Russian Roubles, unless otherwise stated)**

Borrowing costs amounted to RUB 77,648 thousand were capitalized in assets under construction in 2016. For the year ended 31 December 2016 the capitalization rate applied to qualifying assets was 3.39%.

Borrowing costs amounted to RUB 887,232 thousand were capitalized in assets under construction in 2015. For the year ended 31 December 2015 the capitalization rate applied to qualifying assets was 11.4%.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as of 31 December 2016 and as of 31 December 2015 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at those dates.

As of 31 December 2016 property, plant and equipment included RUB 82,419 thousand of prepayments (RUB 451,693 thousand as of 31 December 2015).

Construction in progress consists mainly of the construction of an administrative facility and exploration wells.

As of 31 December 2015 the Company has properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RUB 21,654,237 thousand (Note 17). ING Bank N.V., London Branch acts as the mortgagee.

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2015	9,248,693	7,936,778	8,348,542	4,277,274	129,657	29,940,944
Accumulated depreciation at 31 December 2015	(2,638,725)	(2,242,265)	(2,289,850)	(1,080,027)	(35,840)	(8,286,707)
Net book value as at 31 December 2015	6,609,968	5,694,513	6,058,692	3,197,247	93,818	21,654,237

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

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

Were the estimated proved developed reserves to differ by 10% from management's estimates, the impact on depreciation would be as follows:

Increase/decrease in reserves estimation	Effect on profit before tax for the year ended	
	31 December 2016	31 December 2015
+ 10%	419,512	396,217
- 10%	(512,736)	(484,266)

12. LONG-TERM ACCOUNTS RECEIVABLES

	31 December 2016	31 December 2015
Other receivables	14,967	23,816
Total long-term accounts receivables	14,976	23,816

The fair value of long-term accounts receivable as at 31 December 2016 and 31 December 2015 approximates their carrying value.

13. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Debt service reserve accounts	-	6,492,276
Expenditure reserve accounts	-	3,000,000
Total other non-current assets	-	9,492,276

In accordance with the long-term project financing agreement finalized in 2011, certain cash is required to be set aside and can only be used in restricted circumstances until 2018.

In connection with the early repayment of obligations under the project financing agreement in August 2016, the Company has no further obligations to store cash on special reserve accounts. As of 31 December 2016, the Company has no cash balances for debt servicing.

As at 31 December 2015 cash balances of the Company on debt service reserve accounts were RUB 2,620,443 thousand (Euro 32,879.99 thousand), RUB 3,367,183 thousand (US dollar 46,200.03 thousand) and RUB 504,650 thousand. The cash in amount of RUB 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

The fair value of other non-current assets as at 31 December 2015 approximates their carrying value.

14. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Financial liabilities		
Trade payables	1,032,817	1,270,975
Payables to related parties (refer to Note 29)	85,098	108,476
Other payables	10,545	8,130
Interest payable	-	70,155
Total financial liabilities	1,128,459	1,457,736
Non-financial liabilities		
Accrued employee benefit costs	303,828	375,209
Wages and salaries	69,218	274
Provision for revegetation	26,033	30,000
Provision for repayment of property tax	-	399,033
Provision for payment of income tax	-	10,086
Total non-financial liabilities	399,079	814,602
Total trade and other payables	1,527,538	2,272,338

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision for revegetation was recognised in the financial statement in respect of revegetation works to be performed in 2017.

15. OTHER TAXES PAYABLE

Other taxes payable than income tax comprise the following:

	31 December 2016	31 December 2015
Extraction tax	1,795,530	1,596,867
Value added tax (VAT)	2,403,484	2,505,686
Property tax	166,718	14,011
Insurance contributions for employees	134,858	114,478
Personal income tax	10,497	77
Other taxes and accruals	724	805
Total income tax and other taxes payable	4,511,810	4,231,924

Extraction tax has increased due to the increase of tax rate in 2016.

16. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2016	31 December 2015
Long-term debt, current portion (refer to Note 17) including:	-	-
US\$ denominated floating rate:	-	4,980,131
Euro denominated floating rate:	-	3,927,262
RUB denominated fixed rate:	-	623,160
Total short-term loans and current portion of long-term debt	-	9,530,553

In connection with the early repayment of obligations under the project financing agreement as of 31 December 2016 there is no short-term portion of long-term debt. For more information, see Note 17.

The average effective and market interest rates for each class of short-term debt at the end of the reporting period were as follows:

	31 December 2015	
	Average effective interest rates	Market interest rates
USD denominated floating rate	2.79	2.79
EUR denominated floating rate	2.51	2.51
RUB denominated fixed rate	11.40	13.66

The average effective interest rates for US denominated and Euro denominated short-term debt at the end of the reporting periods were equal to the market interest rates.

The fair value of short-term loans and current portion of short-term debt as at 31 December 2015 approximated its carrying value.

Management believes that for the year ended 31 December 2016 and 31 December 2015 the Company was in compliance with all covenants required by the loan agreements.

17. LONG-TERM DEBT

	31 December 2016	31 December 2015
Banks: UniCredit Bank AG	-	-
USD denominated floating rate:	-	14,293,152
EUR denominated floating rate:	-	11,237,903
RUB denominated fixed rate:	-	1,872,286
Total long term debt	-	27,403,341
Less: current portion of long-term debt (refer to Note 16)	-	(9,530,553)
Total long-term debt (excluding current portion)	-	17,872,789

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling EUR 474,088 thousand, USD 657,465 thousand and RUB 5,992,523 thousand. Unicredit Bank AG is acting as Facility Agent for a group of international financial institutions. Final repayment of this project financing is due in December 2018. In May 2011 the project financing was

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***(In thousands of Russian Roubles, unless otherwise stated)*

received. This loan is collateralized by a mortgage in respect of the gas pipeline, certain immovable assets and certain gas wells, land lease rights and a pledge of rights under the gas sale agreements (Note 11).

Interest rates for the Euro- and US dollar-denominated parts of the loan are EURIBOR/LIBOR +235 basis points per annum from the date of the agreement to 31 March 2014, EURIBOR/LIBOR +250 basis points per annum from 1 April 2014 to 31 March 2017, EURIBOR/LIBOR +275 basis points per annum from 1 April 2017 to the final repayment date.

A fixed interest rate for the RUB-denominated part of the loan is 11.4 % per annum.

In August 2016, the Company fulfilled its obligations ahead of schedule and repaid the remaining debt under a project financing agreement with a group of international financial institutions, whose agent was UniCredit Bank AG.

As at 31 December 2015 long-term loans had the following maturity profile (based on the undiscounted contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3years	3 to 4years	Total
Banks: UniCredit Bank AG					
US\$ denominated floating rate:	4,991,366	5,953,927	3,398,714	-	14,344,007
Euro denominated floating rate:	3,935,720	4,694,705	2,645,305	-	11,275,730
RUB denominated fixed rate:	624,212	744,588	508,594	-	1,877,394
Total	9,551,298	11,393,220	6,552,613	-	27,497,131

The fair value of long-term debt is estimated by discounting the future contractual cash outflows at the market interest rate available to the Company at the end of the reporting period. The carrying amounts and fair values of long-term debt are as follows:

	31 December 2015	
	Carrying value	Fair value
US\$ denominated floating rate	9,313,022	9,356,809
Euro denominated floating rate	7,310,640	7,382,145
RUB denominated fixed rate	1,249,127	1,232,217

18. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2016	31 December 2015
Provision for decommissioning and site restoration	4,920,664	3,750,086
Provisions for post-employment benefit obligations	1,291,645	1,151,172
Total provisions for liabilities and charges	6,212,309	4,901,258

Provision for decommissioning and site restoration

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
At the beginning of the year		3,750,086	1,906,918
Change in estimate of provision		821,445	1,617,198
Increase of discount	27	349,133	225,970
At the end of the year		4,920,664	3,750,086

After the completion of the operation of the Yuzhno-Russkoye oil and gas field, the Company is obliged to incur expenses for the liquidation of fixed assets and restoration of the environment. In the financial statements for the period ended 31 December 2016 and 31 December 2015, a provision was recognized for future expenses in correspondence with property, plant and equipment (Note 11). The discount rate used in calculating the net present value of future liquidation costs as of 31 December 2016 was 8.56% (31 December 2015 – 9.31%). This rate is a pre-tax rate that reflects the market valuation of the time value of money at the balance sheet date.

Provisions for post-employment benefit obligations

The company operates post-employment benefits system, which is recorded as defined benefit plan in the financial statements under IAS 19 Employee benefits. Defined benefit plan covers the majority employees of the Company. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and post-retirement benefits from the Company provided upon retirement. In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitation.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

Main principals of actuarial admissions:

	31 December		
	2016	2015	2014
Nominal discount rate	8.50%	9.50%	12.50%
Future salary and pension increases (nominal)	6.00%	7.00%	8.00%
Mortality rate	NPF Gazfund	NPF Gazfund	NPF Gazfund
Turnover ratio p.a.	3,8% in average, age-related curve		

Weighted-average duration of obligations is 10 years.

Provision for post-employment benefit obligations recognized in the balance sheet is provided below:

	31 December 2016	31 December 2015
	Provision for post-employment benefit	Provision for post-employment benefit
Present value of benefit obligations	(1,801,461)	(1,591,976)
Fair value of plan assets	509,816	440,804
Total	(1,291,645)	(1,151,172)

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2016 and 31 December 2015 is provided below.

	Provision for post-employment benefits	Fair value of plan asset	Total net asset liability
As at 31 December 2015	1,591,976	(440,804)	1,151,172
Current service cost	206,612		206,612
Net interest income	151,238	(41,876)	109,361
Total expenses included in staff cost	357,850	(41,876)	315,974
(Gain) loss from revaluation of liabilities	15,923		15,923
Expenditure on plan assets excluding interest costs		(15,117)	(15,117)
Total recognised in the comprehensive loss	15,923	(15,117)	806
Benefits paid	(164,288)	128,475	(35,813)
Contributions by employer		(140,493)	(140,493)
Closing balance as of 31 December 2016	1,801,461	(509,816)	1,291,645

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2015 and 31 December 2014 is provided below.

	Provision for post-employment benefits	Fair value of plan asset	Total net asset liability
As of 31 December 2014	1,107,659	(295,664)	811,995
Current service cost	143,530	-	143,530
Net interest income	138,457	(36,958)	101,499
Total expenses included in staff cost	281,987	(36,958)	245,029
(Gain) loss from revaluation of liabilities	286,119		286,119
Expenditure on plan assets excluding interest costs	-	(50,708)	(50,708)
Total recognised in the comprehensive loss	286,119	(50,708)	235,411
Benefits paid	(83,790)	62,511	(21,279)
Contributions by employer	-	(119,985)	(119,985)
Closing balance as at 31 December 2015	1,591,976	(440,804)	1,151,172

Information about risks. All post-employment benefits which have been noticed upper are indexing in accordance with

inflation or salary growth. Except inflation all sum of post-employment benefit obligations exposed to mortality risk. The sensitivity analysis of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	Increase (decrease) of defined benefit obligation, %	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20%	34,039	1.89%
Mortality rates higher by 20%	(18,949)	(1.05%)
Discount rate lower by 1 p.p.	156,984	8.71%
Discount rate higher by 1 p.p.	(132,686)	(7.37%)
Growth rate of pensions and allowances lower by 1 p.p.	(136,750)	(7.59%)
Growth rate of pensions and allowances higher by 1 p.p.	159,385	8.85%
Staff turnover lower by 1 p.p. for all ages	118,888	6.60%
Staff turnover higher by 1 p.p. for all ages	(105,134)	(5.84%)

19. INCOME TAX

Income tax expense comprises the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Current tax expense	3,715,410	3,103,997
Deferred tax expense	365,263	(312,633)
Total tax expense	4,080,673	2,791,364

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	20,414,722	15,670,127
Theoretical tax expense at statutory rate 18,5 % (2015 – 15,5%)	(3,777,886)	(2,454,342)
Effects related to the change in provision for decommissioning and site restoration	(234,116)	(368,633)
Effects related to the reduced income tax rate per the profit tax relief	-	80,402
Tax effect of expenses and losses not deductible for income tax purposes	(68,671)	(48,791)
Income tax expense for the year	(4,080,673)	(2,791,364)

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

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016***(In thousands of Russian Roubles, unless otherwise stated)*

	31 December 2016	Tax effect of movement in temporary differences	31 December 2015	Tax effect of movement in temporary differences	31 December 2014
Tax effect of taxable temporary differences:					
Property, plant and equipment	(7,650,026)	(311,574)	(7,338,452)	(199,181)	(7,139,271)
Discounting of borrowings	-	18,758	(18,758)	10,950	(29,708)
Total	(7,650,026)	(292,816)	(7,357,210)	(188,231)	(7,168,979)
Tax effect of deductible temporary differences:					
Inventories	51,547	20,997	30,550	(12,247)	42,797
Trade receivables	368,977	(1,431)	370,408	376,839	(6,431)
Other deductible temporary differences	187,726	(89,706)	277,432	146,683	130,749
Total	608,250	(70,140)	678,390	511,275	167,115
Total net deferred tax liability	(7,041,776)	(362,956)	(6,678,820)	324,044	(7,001,864)

According to the Law of the Yamal-Nenets Autonomous District dated 24 December 2012 No. 146-ZAO "On amending the Law of the Yamal-Nenets Autonomous District "On the list of organizations implementing priority investment projects in the Yamal-Nenets Autonomous District", the Company is entitled to profit tax relief for the period of 2013-2017. In the territory of Yamalo-Nenets Autonomous District the reduced income tax rate is applied at the level of 13.5% in accordance with certain criteria. The right for applying the rate of 13.5% into the regional budget will remain till 2017.

As at 31 December 2016, all deferred tax assets and deferred tax liabilities formed during the period activity of the Company recalculated on the basis of the income tax rate of 20% (including 2% to the federal budget). Management believes that criteria to use reduced income tax rate in 2017 will not be met.

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

20. EQUITY***Share capital***

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type «A») with the nominal value of RUB 2,462 thousand, 3 preference shares (type «B») with the nominal value of RUB 667 thousand per share and 1 preference share (type «C») with the nominal value of RUB 1,077 thousand. Total amount of share capital amounts to RUB 40,000 thousand. As of 31 December, 2015, according to the project financing agreement, all shares (533,324 ordinary shares, 2 preference shares (type "A"), 3 preferred shares (type "B"), 1 preferred share (type "C") were pledged to ING Bank N.V. (London branch) until all obligations under the agreement are fulfilled. Due to early repayment of obligations under the project financing contract in August 2016, the Company has taken all shares out of pledge in October 2016. As of 31 December, 2016, the Company has no shares which are pledged.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RUB 41 thousand per share, 3 preference shares (type «B») with the nominal value of RUB 11 thousand per share and 1 preference share (type «C») with the nominal value of RUB 18 thousand. Total amount of share capital was RUB 667 thousand.

In fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type «B») with the nominal value of RUB 11 thousand per share and 1 preference share (type «C») with the nominal value of RUB 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RUB 1,639,449 thousand was recorded in equity as share premium.

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RUB 41 thousand per share. Total

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

amount of share capital was RUB 616 thousand.

As at 31 December 2015 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type «A») are calculated as 12.308 % of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type «B») as 5 % of the allocated profit for dividends; preference shares (type «C») as 2.692 % of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

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

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount of received funds totalling RUB 1,810,635 thousand, net of respective deferred tax effect of RUB 571,799 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loan and the amount of received funds totalling RUB 4,585,301 thousand, net of respective deferred tax effect of RUB 1,447,990 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company early repaid part of the loans to its shareholder. The fair value effect from early redemption of these loans totalling RUB 1,323,746 thousand, net of respective deferred tax effect of RUB 418,025 thousand, was recognized as a reduction in Other reserves.

In the year ended 31 December 2008 the Company redeemed all the loans for which Other reserves were recognized. The fair value effect from early redemption in the amount of RUB 4,198,937 thousand, net of respective deferred tax effect of RUB 1,325,954 thousand, was recognized as a reduction in Other reserves.

Since the year 2015 other reserves include other comprehensive income related to remeasurements of post-employment benefit obligations.

Dividends

The Extraordinary General Meeting of Shareholders of OAO Severneftegazprom, held on October 5, 2016, decided to pay dividends in the amount of RUB 8,500,000 thousand for the first half of 2016.

The Annual General Shareholders' Meeting of the Company held on June 30, 2016 decided to pay dividends RUB 5,353,559 thousand for the year ended 31 December, 2015.

The Annual General Shareholders' Meeting of the Company held on June 30, 2015 decided to pay dividends RUB 2,361,937 thousand for the year ended 31 December, 2014.

Dividends declared and paid during the year were as follows:

In thousands of Russian Roubles	2016		2015	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	11,082,847	2,770,712	1,889,550	472,387
Dividends paid during the year	(11,082,847)	(2,770,712)	(1,889,550)	(472,387)
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year	20.8	461,785	3.54	78,731.23

In 2016 Company accrued dividends in the amount of RUB 13,853,559 thousand. Amount of dividends paid was RUB 12,717,557 thousand net of withholding tax.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016****(In thousands of Russian Roubles, unless otherwise stated)**

In 2015 Company accrued dividends in the amount of RUB 2,361,937 thousand. Amount of dividends paid was RUB 2,168,256 thousand net of withholding tax.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

21. REVENUE

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from gas sales	50,365,483	49,463,090
Total revenue	50,365,483	49,463,090

All customers of the Company represent related parties. Please refer to Note 29.

22. COST OF SALES

	Year ended 31 December 2016	Year ended 31 December 2015
Extraction tax	20,277,346	19,761,776
Depreciation	4,760,817	4,510,429
Wages, salaries and other staff costs	2,142,718	1,819,297
Services	908,047	724,143
Property tax	824,140	813,634
Materials	297,000	237,996
Insurance	162,280	147,548
Transportation services	84,581	77,242
Fuel and energy	36,593	34,965
Other	100,938	118,086
Total cost of sales	29,594,460	28,245,116

Depreciation in the amount of RUB 20,275 thousand for the year ended 31 December 2016 was capitalized (for the year ended 31 December 2015 – RUB 42,056 thousand).

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Wages, salaries and other staff costs	722,332	717,387
Services and other administrative expenses	331,695	344,570
Total general and administrative expenses	1,054,027	1,061,957

24. OTHER OPERATING INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Gain on sale of foreign currency	157,260	223,761
Provision for impairment of assets under construction	139,951	-
Fees and penalties due to violation of contract covenants	15,342	10,794
Reimbursement of the road maintenance costs	3,478	6,257
Gain on disposal of property, plant and equipment	2,782	-
Reversal of impairment loss of inventories	-	77,809
Insurance payout	-	22,085
Other	9,825	33,451
Total operating income	328,639	374,157

25. OTHER OPERATING EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Loss on revaluation of fair value of assets held for sale	259,167	-
Social costs	95,145	70,803
Provision for impairment loss of inventory	79,681	26,336
Provision for revegetation	18,177	1,077
Non-refundable VAT	11,357	15,590
Additional charge of property tax, profit tax, penalties and interest	14	410,601
Provision for impairment of deposit (in Vnesheprombank)	-	1,897,042
Provision for impairment of assets under construction	-	139,951
Loss on disposal of materials	-	1,012
Loss on disposal of property, plant and equipment	-	167
Other	34,723	90,367
Total operating expenses	498,264	2,652,946

26. FINANCE INCOME

	Year ended 31 December 2016	Year ended 31 December 2015
Foreign exchange gain	4,640,755	15,428,297
Interest income	1,239,223	1,367,175
Total finance income	5,879,978	16,795,472

27. FINANCE COSTS

	Year ended 31 December 2016	Year ended 31 December 2015
Foreign exchange loss	4,115,205	17,813,929
Interest expenses	381,167	669,490
Unwinding of discount of provisions (refer to Note 18)	349,133	225,970
Interest expenses (provisions for post-employment benefit)	109,361	101,499
Total finance costs	4,954,866	18,810,888

28. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

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

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

Management believes that its pricing policy used in 2016 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

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

(b) Legal proceedings

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

(c) Capital commitments

At 31 December 2016, the Company had contractual commitments for capital expenditures of approximately RUB 6,460,618 thousand (31 December 2015 – RUB 2,126,483 thousand).

(d) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

(e) Operating lease commitments

As of 31 December 2016 and 31 December 2015 the Company does not have significant liabilities related to operating leases.

29. RELATED PARTY TRANSACTIONS

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

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

Transactions with shareholders

The Company is under the control of PJSC Gazprom and is included in the Gazprom Group. PJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and E.ON E&P GmbH, which is part of the E.ON Group have significant influence on the Company (refer to Note 1).

Transactions of the Company with its shareholders for the years ended 31 December 2016 and 31 December 2015 are presented below:

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Sales of gas to PJSC Gazprom	21	35,311,240	19,785,236
Sales of gas to CJSC Gazprom YRGM Trading	21	7,917,454	17,312,081
Sales of gas to CJSC Gazprom YRGM Development	21	7,136,789	12,365,773
Purchases of goods and services from Gazprom Group		338,355	423,413

All operations with Gazprom Group, BASF SE Group and E.ON Group were performed in accordance with signed agreements and on general market conditions.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

Significant balances with shareholders are summarised as follows:

	Notes	31 December 2016	31 December 2015
Trade and other receivables			
Trade and other receivables from PJSC Gazprom	8	4,130,864	2,538,220
Trade and other receivables from CJSC Gazprom YRGM Trading	8	926,218	2,220,943
Trade and other receivables from CJSC Gazprom Development	8	834,893	1,586,388
Other receivables from Gazprom Group	8	1,942	1,882
Total trade and other receivables		5,893,917	6,347,433

As at 31 December 2016 and 31 December 2015 short-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

	Notes	31 December 2016	31 December 2015
Payables			
Payables to the Gazprom Group	14	85,098	108,476
Total payables		85,098	108,476

Transactions with Key Management Personnel

Management of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Short-term benefits	210,910	186,534
Other long-term benefits	49,030	71,265
Total compensation	259,940	257,799

The Shareholder's meeting, held on June, 2016 decided to pay compensation to the members of the Board of directors amounting to RUB 5,306 thousand.

The Shareholder's meeting, held on May, 2015 decided to pay compensation to the members of the Board of directors amounting to RUB 5,126 thousand.

Transactions with parties under control of the Government

The Company does not have transactions with parties under the control of the Government except for the Gazprom Group.

30. SUBSEQUENT EVENTS

There were no significant events to be disclosed.