OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERIM CONDENSED FINANCIAL INFORMATION

(UNAUDITED)

30 SEPTEMBER 2015

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Report on Review of Interim Condensed Financial Information

To the Shareholders and Board of Directors of OJSC SEVERNEFTEGAZPROM

Introduction

We have reviewed the accompanying interim condensed balance sheet of OJSC Severneftegazprom as of 30 September 2015 and the related interim condensed statements of comprehensive income for the period ended 30 September 2015, interim condensed information on cash flows for the period ended 30 September 2015 and changes in equity for the period then ended. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

President of FBK, LLC

S.M. Shapiguzov
(on the ground of the Charter)

ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ ФИНАНСОВЫЕ И БУХГАЛТЕРСКИЕ КОНСУЛЬТАНТЫ
ФБК
Г.Р. № 484583
г. МОСКВА

6 November 2015
Moscow, Russian Federation

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2015 (UNAUDITED)
(In thousands of Russian Roubles)

	Notes	30 September 2015	31 December 2014
Assets			
Current assets			
Cash and cash equivalents	6	9,769,141	13,842,559
Trade and other receivables	8	9,357,045	4,886,516
Inventories	9	556,151	615,749
Current income tax prepayments		199,081	806,286
Other current assets	7	1,851,570	-
Total current assets		**21,732,988**	**20,151,110**
Non-current assets			
Property, plant and equipment	11	67,540,758	65,120,697
Long-term accounts receivables	10	11,205	19,318
Other non-current assets	12	9,017,060	9,852,806
Total non-current assets		**76,569,023**	**74,992,821**
Total assets		**98,302,011**	**95,143,931**
Liabilities and equity			
Current liabilities			
Trade and other payables	13	1,847,051	1,207,497
Other taxes payable	14	3,483,418	4,315,257
Short-term loans and current portion of long-term debt	15	3,293,449	5,197,996
Total current liabilities		**8,623,918**	**10,720,750**
Non-current liabilities			
Long-term debt	16	22,070,668	23,981,873
Provisions for liabilities and charges	17	2,076,395	1,906,918
Deferred income tax liabilities		7,229,144	7,090,094
Total non-current liabilities		**31,376,207**	**32,978,885**
Total liabilities		**40,000,125**	**43,699,635**
Equity			
Share capital	18	40,000	40,000
Share premium	18	25,099,045	25,099,045
Other reserves	18	873,253	873,253
Retained earnings		32,289,588	25,431,998
Total equity		**58,301,886**	**51,444,296**
Total liabilities and equity		**98,302,011**	**95,143,931**

Approved for issue and signed on 5 November 2015 by the following members of management:

S.E. Tsygankov
General Director

Y.V. Sukhanova
Deputy director on economics and finance

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Revenue	19	33,498,697	26,849,476
Cost of sales	20	(20,480,214)	(18,132,754)
Gross profit		**13,018,483**	**8,716,722**
General and administrative expenses	21	(670,151)	(684,658)
Research and development costs		(113,998)	(28,531)
Other operating income	22	265,461	196,316
Other operating expenses	23	(126,604)	(108,295)
Operating profit		**12,373,191**	**8,091,554**
Finance income	24	13,566,841	3,554,759
Finance costs	25	(14,829,122)	(5,835,501)
Profit before income tax		**11,110,910**	**5,810,812**
Income tax	14	(1,891,383)	(945,040)
Profit for the period		**9,219,527**	**4,865,772**
Other comprehensive income		**-**	**-**
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**9,219,527**	**4,865,772**

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Profit before income tax		**11,110,910**	**5,810,812**
Adjustments for:			
Finance income	24	(1,067,714)	(764,042)
Finance costs	25	637,714	699,726
Depreciation	20	2,817,485	2,026,962
Loss/(gain) on disposal of property, plant and equipment	22, 23	51,347	(2,445)
Net unrealised foreign exchange loss	24, 25	1,692,281	2,345,058
Impairment of inventory	23	(5,217)	(24,568)
Change in reversal of inventory impairment	22	18,721	-
Adjustments for non-cash investing activity		30,623	21,279
Operating cash flows before changes in working capital		**15,286,150**	**10,112,782**
Decrease in inventories	9	46,094	82,639
Increase in trade and other receivables, excluding dividends receivable, other non-current assets		(4,915,664)	(2,769,265)
(Decrease)/increase in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		150,282	552,243
Decrease in accounts payable for exploration and evaluation service		(104,381)	(19,608)
Income taxes paid		(1,145,129)	(1,227,874)
Net cash inflows from operating activities		**9,317,352**	**6,730,917**
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,319,349)	(3,586,512)
Proceeds from sales of property, plant and equipment		(167)	2,445
Interest received		1,063,022	746,091
Net cash outflow from investing activities		**(4,256,494)**	**(2,837,976)**
Cash flows from financing activities			
Repayment of borrowings		(7,113,067)	(6,996,096)
Interest paid		(662,494)	(638,187)
Dividends paid to the Company's shareholders		(2,361,937)	(2,962,844)
Net cash outflow from financing activities		**(10,137,498)**	**(10,597,127)**
Net decrease in cash and cash equivalents		**(5,076,640)**	**(6,704,186)**
Effect of exchange rate changes on cash and cash equivalents		1,003,222	239,985
Cash and cash equivalents at the beginning of the year		**13,842,559**	**14,412,576**
Cash and cash equivalents at the end of the period	6	**9,769,141**	**7,948,375**

(In thousands of Russian Roubles, unless otherwise stated)

	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2014	**533,330**	**40,000**	**25,099,045**	**873,253**	**26,473,060**	**52,485,358**
Profit for the period	-	-	-	-	4,865,772	**4,865,772**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	**4,865,772**	**4,865,772**
Dividends	-	-	-	-	(2,962,844)	**(2,962,844)**
Balance at 30 September 2014	**533,330**	**40,000**	**25,099,045**	**873,253**	**28,375,988**	**54,388,286**
Balance at 1 January 2015	**533,330**	**40,000**	**25,099,045**	**873,253**	**25,431,998**	**51,444,296**
Profit for the period	-	-	-	-	9,219,527	**9,219,527**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	**9,219,527**	**9,219,527**
Dividends	-	-	-	-	(2,361,937)	**(2,361,937)**
Balance at 30 September 2015	**533,330**	**40,000**	**25,099,045**	**873,253**	**32,289,588**	**58,301,886**

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, 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 30 September 2015 shareholders of the Company were represented by PJSC Gazprom which holds 50 per cent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 per cent 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 per cent 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 Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation 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 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 interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 "Interim financial reporting" (IAS 34). This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards ("IFRS").

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").

(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.

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

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

Borrowing costs 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 costs to sell 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. 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 relevant organizations.

(In thousands of Russian Roubles, unless otherwise stated)

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.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	**Other assets**
Buildings	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 4.793 per cent for the period ended 30 September 2015 (for the period ended 30 September 2014: 3.101 per cent).

The increase in depreciation rate is primarily attributable to the application of the unit of production method based on proved developed reserves rather than total proved reserves as in prior year.

(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 that have not been reflected in the best estimate of the expenditure.

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

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.

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

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 realizability 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; or
- 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”.

(n) 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.

(o) 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).

(p) Pension liabilities

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

During 2009 the Company has started implementation of the non-State pension program. All the employees of the Company, that meet the requirements of the Company regulations for private pension provisions, have the right to receive pension benefits from the non-State pension fund by achieving the pension age. The contributions to the non-State pension plan, which is a defined contribution plan, are expensed when incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the Russian Federation pension fund and non-State pension program.

(q) 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.

(r) 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.

(s) 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.

(t) Trade and other receivables

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

(u) Equity

Share capital

Share capital consists of the nominal value of the shares of the Company acquired by shareholders.

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.

(v) 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.

(w) Mineral extraction tax.

Mineral extraction tax (MET) on natural gas is defined monthly as the amount of volume produced per tax rate. During the first half of 2014 the tax rate for natural gas was fixed and equalled 700 RR per $1000m^3$.

Starting from 1 July 2014 the MET rate was changed from a fixed to a flexible amount which is calculated using a formula as prescribed in the Tax Code. In accordance with the formula the base tax rate of 35 RR per $1000m^3$ is adjusted for the base value of the unit of conventional fuel and coefficient, indicating the amount of transportation expenses.

Average MET rate for the second half of 2014 was approximately 834 RR per $1000m^3$ for the Cenomanian field and 175 RR per $1000m^3$ for the Turonian field. MET is recorded within Cost of sales in the "Statement of Profit and Loss and Other Comprehensive Income."

Average MET rate for the nine months of 2015 was approximately 814 RR per $1000m^3$ for the Cenomanian field and 171 RR per $1000m^3$ for the Turonian field.

(x) 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.

(y) 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.

(z) Foreign currency translation

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

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Bank of Russia ("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.

The official US dollar to RR exchange rates as determined by the CBRF were 66.24 and 56.26 as at 30 September 2015 and 31 December 2014, respectively.

The official Euro to RR exchange rates, as determined by the CBRF, were 74.58 and 68.34 as at 30 September 2015 and 31 December 2014, respectively.

(aa) New Accounting Developments

The principal accounting policies followed by the Company and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the financial statements for the year ended 31 December 2014.

Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Application of new IFRSs

A number of amendments to current IFRSs and new IFRICs became effective for the periods beginning on or after 1 January 2015:

Amendments to IAS 19 «Employee benefit». The amendments allow entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service;

Annual amendments to IFRSs 2012, 2013 and 2014.

The Company has reviewed amended standards while preparing this Interim Condensed Financial Information. The amended standards have no significant impact on the Company's Interim Condensed Financial Information.

Standards and Amendments to existing Standards that are not yet effective and have not been early adopted by the Company

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016. In particular, the Company has not early adopted the standards and amendments:

The amendments to IFRS 11 «Joint Arrangements» (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

The amendments to IAS 16 «Property, Plant and Equipment» and IAS 38 «Intangible Assets» (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the International Accounting Standards Board clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

IFRS 15 «Revenue from Contracts with Customers» (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed.

The amendments to IFRS 10 «Consolidated Financial Statement»s and IAS 28 «Investments in Associates and Joint Ventures» (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments eliminate an inconsistency between the requirements of IFRS 10 «Consolidated Financial Statements» and those of IAS 28 «Investments in Associates and Joint Ventures» in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

The amendments to IAS 1 «Presentation of Financial Statements» (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). 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. The standard also provides new guidance on subtotals in financial statements.

The amendments to IFRS 9 «Financial Instruments» (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The amendments are under adopting for application in the Russian Federation. 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 amortized 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 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.

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.

(In thousands of Russian Roubles, unless otherwise stated)

5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	30 September 2015	31 December 2014
Current assets			
Cash and cash equivalents	6	9,769,141	13,842,559
Receivables from related parties	8	8,966,214	4,447,751
Other short-term receivables	8	114,099	281,606
Other current assets	7	1,851,570	-
Non-current assets			
Long-term other receivables	10	11,205	19,318
Other non-current assets	12	9,017,060	9,852,806
		29,729,289	**28,444,040**

Liabilities at amortized cost	Notes	30 September 2015	31 December 2014
Current liabilities			
Short-term borrowings and current portion of long-term debt	15	3,293,449	5,197,996
Trade payables	13	1,487,957	768,802
Interest payable	13	63,284	76,597
Payables to related parties	13	50,280	12,216
Other payables	13	7,279	22,605
Long-term liabilities			
Long-term borrowings	16	22,070,668	23,981,873
		26,972,917	**30,060,089**

6. CASH AND CASH EQUIVALENTS

	30 September 2015	31 December 2014
Current accounts	9,769,141	12,282,549
Deposit accounts	-	1,560,010
Total cash and cash equivalents	**9,769,141**	**13,842,559**

As at 31 December 2014 cash in the amount of RR 1,560,010 thousand was placed on deposit accounts in Vneshprombank.

As at 31 December 2014 the weighted average interest rate on the deposit accounts of the Company was 22.00 per cent for RR.

The fair value of cash and cash equivalents as at 30 September 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:

				30 September 2015	31 December 2014
	Rating	**Rating agency**	**Credit limit for one bank***	**Balance**	**Balance**
Credit Agricole	Not set	Moody’s	Not set	9,756,407	12,279,800
Gazprombank	Ba2	Moody’s	Not set	12,673	2,670
Rosbank	Ba2	Moody’s	Not set	58	77
Vneshprombank	B2	Moody’s	Not set	3	1,560,012
				9,769,141	**13,842,559**

*Company doesn’t use overdraft in cash management.

(In thousands of Russian Roubles, unless otherwise stated)

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

	Rating	Rating agency	Credit limit for one bank	30 September 2015 Balance	31 December 2014 Balance
ING bank N.V.	A1	Moody's	Not set	5,512,409	6,308,031
Credit Agricole	Not set	Moody's	Not set	3,504,651	3,544,775
				9,017,060	**9,852,806**

7. OTHER CURRENT ASSETS

	30 September 2015	31 December 2014
Short-term deposits	1,851,570	-
	1,851,570	**-**

For the period ended 30 September 2015 cash in the amount of RR 1,851,570 thousand with maturity at the date of inception of more than three but less than twelve months was placed on deposit accounts in Vneshprombank.

For the period ended 30 September 2015 the weighted average interest rate on the deposit accounts of the Company was 10.8 per cent for RR

8. TRADE AND OTHER RECEIVABLES

	30 September 2015	31 December 2014
Financial assets		
Receivables from related parties (refer to Note 27)	8,966,214	4,447,751
Other receivables	119,139	286,646
Impairment provision for other receivables	(5,040)	(5,040)
Total financial assets	**9,080,313**	**4,729,357**
Non-financial assets		
Advances to suppliers	66,185	59,723
Impairment for advances to supplies	(427)	(454)
VAT recoverable	93,339	87,648
Prepaid taxes, other than income tax	117,635	10,242
Total non-financial assets	**276,732**	**157,159**
Total trade and other receivables	**9,357,045**	**4,886,516**

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

Aging from the due date

	30 September 2015	31 December 2014
From 1 to 3 years overdue	(4,786)	(5,106)
More than 3 years overdue	(681)	(388)
	(5,467)	**(5,494)**

Movements of the provision for impairment of other accounts receivable and advances to supplies are as follows:

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Provision for impairment at the beginning of the year	(5,494)	(5,190)
Provision for impairment (accrued)/reversed	27	-
Provision for impairment at the end of the year	**(5,467)**	**(5,190)**

(In thousands of Russian Roubles, unless otherwise stated)

All receivables that are past due are fully provided against as at 30 September 2015 and 31 December 2014.

As the principal debtors of the Company are related parties, the Company believes that the default risk is low and, therefore, does not establish provision for impairment of these receivables. No receivables from related parties were past due or impaired as at 30 September 2015 and at 31 December 2014.

The fair value of accounts receivable as at 30 September 2015 and 31 December 2014 approximates their carrying value.

9. INVENTORIES

	30 September 2015	31 December 2014
Materials and supplies	789,252	833,076
Other materials	12,780	15,049
Impairment of materials	(245,881)	(232,376)
Total inventories	**556,151**	**615,749**

As at 30 September 2015 – RR 5,085 thousand was transferred from property, plant and equipment to inventories.

As at 31 December 2014 – RR 2,894 thousand was transferred from property, plant and equipment to inventories.

10. LONG-TERM ACCOUNTS RECEIVABLES

	30 September 2015	31 December 2014
Financial assets		
Other receivables	11,205	19,318
Total long-term accounts receivables	**11,205**	**19,318**

The fair value of long-term accounts receivable as at 30 September 2015 and at 31 December 2014 approximates their carrying value.

(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 at 1 January 2014	**9,408,188**	**9,517,495**	**32,044,378**	**9,688,666**	**13,684,925**	**136,746**	**3,460,521**	**77,940,919**
Addition	-	-	822	26,997	-	1,912	3,556,781	**3,586,512**
Disposal	-	-	-	(6,269)	-	(170)	-	**(6,439)**
Transfer to inventories	-	-	-	-	-	-	(2,891)	**(2,891)**
Transfer	-	-	7,454	108,197	-	-	(115,651)	-
Cost at 30 September 2014	**9,408,188**	**9,517,495**	**32,052,654**	**9,817,591**	**13,684,925**	**138,488**	**6,898,760**	**81,518,101**
Addition	-	-	450	28,354	-	1,057	1,827,719	**1,857,580**
Change in component for decommissioning and site restoration obligation (Note 17)	(159,339)	(132,445)	(474,465)	(66,757)	-	-	-	**(833,006)**
Disposal	-	-	-	(7,687)	-	(2,225)	-	**(9,912)**
Transfer to inventories	-	-	-	-	-	-	(3)	**(3)**
Transfer	-	-	698,201	317,933	-	-	(1,016,134)	-
Cost at 31 December 2014	**9,248,849**	**9,385,050**	**32,276,840**	**10,089,434**	**13,684,925**	**137,320**	**7,710,342**	**82,532,760**
Addition	-	-	223,546	46,042	-	2,646	5,047,115	**5,319,349**
Disposal	-	-	-	(564)	-	(350)	(51,180)	**(52,094)**
Transfer to inventories	-	-	-	-	-	-	(5,085)	**(5,085)**
Transfer	-	-	1,033	1,352	-	1,814	(4,199)	-
Cost at 30 September 2015	**9,248,849**	**9,385,050**	**32,501,419**	**10,136,264**	**13,684,925**	**141,430**	**12,696,993**	**87,794,930**
Accumulated depreciation at 1 January 2014	**(1,734,686)**	**(1,698,696)**	**(5,461,729)**	**(2,360,577)**	**(2,247,179)**	**(74,495)**	**-**	**(13,577,362)**
Charged for the period	(237,990)	(242,496)	(824,323)	(367,924)	(354,736)	(17,882)	-	**(2,045,351)**
Disposal	-	-	-	6,269	-	170	-	**6,439**
Accumulated depreciation at 30 September 2014	**(1,972,676)**	**(1,941,192)**	**(6,286,052)**	**(2,722,232)**	**(2,601,915)**	**(92,207)**	**-**	**(15,616,274)**
Charged for the period	(234,765)	(239,211)	(842,092)	(260,607)	(349,930)	(5,026)	-	**(1,931,631)**
Change in component for decommissioning and site restoration obligation (Note 17)	24,758	19,916	70,905	10,351	-	-	-	**125,930**
Disposal	-	-	-	7,687	-	2,225	-	**9,912**
Accumulated depreciation at 31 December 2014	**(2,182,683)**	**(2,160,487)**	**(7,057,239)**	**(2,964,801)**	**(2,951,845)**	**(95,008)**	**-**	**(17,412,063)**
Charged for the period	(330,761)	(339,576)	(1,188,191)	(455,093)	(514,408)	(14,790)	,	**(2,842,819)**
Disposal	-	-	-	564	-	146	-	**710**
Accumulated depreciation at 30 September 2015	**(2,513,444)**	**(2,500,063)**	**(8,245,430)**	**(3,419,330)**	**(3,466,253)**	**(109,652)**	**-**	**(20,254,172)**
Net book value at 30 September 2014	**7,435,512**	**7,576,303**	**25,766,602**	**7,095,359**	**11,083,010**	**46,281**	**6,898,760**	**65,901,827**
Net book value at 31 December 2014	**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 at 30 September 2015	**6,735,405**	**6,884,987**	**24,255,989**	**6,716,934**	**10,218,672**	**31,778**	**12,696,993**	**67,540,758**

As at 30 September 2015 borrowing costs and foreign exchange costs totaling RR 784,006 thousand were capitalized in property, plant and equipment. For the period ended 30 September 2015 the capitalization rate applied to qualifying assets was 11.4 per cent.

As at 31 December 2014 borrowing costs and foreign exchange costs totaling RR 597,613 thousand were capitalized in property, plant and equipment. For the year ended 31 December 2014 the capitalization rate applied to qualifying assets was 11.4 per cent.

As at 30 September 2015 property, plant and equipment included RR 586,877 thousand of prepayments (RR 2,468,244 thousand as of 31 December 2014).

Construction in progress consists mainly of the construction of a booster compressor station, an administrative facility and producing and exploration wells.

(In thousands of Russian Roubles, unless otherwise stated)

As at 30 September 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 RR 22,041,973 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 30 September 2015	9,248,693	7,936,778	8,324,608	4,277,274	129,657	**29,917,010**
Accumulated depreciation at 30 September 2015	2,513,413	2,134,308	2,173,842	1,019,413	34,061	**7,875,037**
Net book value at 30 September 2015	**6,735,280**	**5,802,470**	**6,150,766**	**3,257,861**	**95,596**	**22,041,973**

As at 31 December 2014 the Company had properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 23,151,416 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2014	9,248,693	7,936,778	8,324,458	4,277,274	129,657	**29,916,860**
Accumulated depreciation at 31 December 2014	2,174,359	1,842,212	1,864,212	855,412	29,249	**6,765,444**
Net book value at 31 December 2014	**7,074,334**	**6,094,566**	**6,460,246**	**3,421,862**	**100,408**	**23,151,416**

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Estimates of proved developed reserves are also used in determination of impairment charges and reversals. 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, depletion and amortization charged and, consequently, the carrying amounts of mineral rights and gas properties.

12. OTHER NON-CURRENT ASSETS

Financial assets	30 September 2015	31 December 2014
Debt service reserve accounts	6,017,060	6,852,806
Expenditure reserve accounts	3,000,000	3,000,000
	9,017,060	**9,852,806**

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.

The fair value of other non-current assets as at 30 September 2015 and 31 December 2014 approximates their carrying value.

As at 30 September 2015 cash balances of the Company on debt service reserve accounts were RR 2,452,272 thousand (Euro 32,879.99 thousand), RR 3,060,137 thousand (US dollar 46,200.03 thousand) and RR 504,651 thousand. The cash in amount of RR 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.

(In thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2014 cash balances of the Company on debt service reserve accounts were RR 2,945,493 thousand (Euro 43,098.88 thousand), RR 3,362,538 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account.

13. TRADE AND OTHER PAYABLES

	30 September 2015	31 December 2014
Financial liabilities		
Trade payables	1,487,957	768,802
Interest payable	63,284	76,597
Payables to related parties (refer to Note 27)	50,280	12,216
Other payables	7,279	22,605
Total financial liabilities	**1,608,800**	**880,220**
Non-financial liabilities		
Accrued employee benefit costs	139,279	296,489
Provision for revegetation	30,000	30,000
Wages and salaries	68,972	788
Total non-financial liabilities	**238,251**	**327,277**
Total trade and other payables	**1,847,051**	**1,207,497**

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision was recognised in the financial statement in respect of revegetation works to be performed in 2015.

14. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	30 September 2015	31 December 2014
Extraction tax	1,452,214	2,159,168
Value added tax (VAT)	1,945,946	1,468,916
Insurance contributions for employees	63,507	105,263
Property tax	13,158	581,072
Personal income tax	8,241	68
Other taxes and accruals	352	770
Total income tax and other taxes payable	**3,483,418**	**4,315,257**

Income tax expense comprises the following:

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Current tax expense	1,752,334	686,401
Deferred tax expense	139,049	258,639
	1,891,383	**945,040**

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

	30 September 2015	31 December 2014
Long-term debt, current portion (refer to Note 16) including:		
US$ denominated floating rate	1,689,375	2,550,394
Euro denominated floating rate	1,371,477	2,234,230
RR denominated fixed rate	232,597	413,372
Total short-term loans and current portion of long-term debt	**3,293,449**	**5,197,996**

(In thousands of Russian Roubles, unless otherwise stated)

16. LONG-TERM DEBT

	30 September 2015	31 December 2014
Banks: UniCredit Bank AG		
US$ denominated floating rate	12,981,928	14,314,525
Euro denominated floating rate	10,510,666	12,542,709
RR denominated fixed rate	1,871,523	2,322,635
	25,364,117	**29,179,869**
Less: current portion of long-term debt (refer to Note 15)	(3,293,449)	(5,197,996)
Total long-term debt	**22,070,668**	**23,981,873**

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling Euro 474,088 thousand, US dollar 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 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.

The average effective interest rates at the end of reporting period were as follows:

	30 September 2015	31 December 2014
Banks:		
US$ denominated floating rate	2.77	2.69
Euro denominated floating rate	2.53	2.69
RR denominated fixed rate	11.4	11.4

As at 30 September 2015 and 31 December 2014 the carrying amounts of long-term loans approximate their fair values.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2015	31 December 2014
Provision for decommissioning and site restoration	2,076,395	1,906,918
Total provisions for liabilities and charges	**2,076,395**	**1,906,918**

Provision for decommissioning and site restoration

	Notes	30 September 2015	31 December 2014
At the beginning of the period		**1,906,918**	**2,395,084**
Change in estimate of provision		-	(707,077)
Unwinding of discount	25	169,477	218,911
At the end of the period		**2,076,395**	**1,906,918**

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development and accordingly a provision for decommissioning and site restoration was recognized in the financial statement for the period ended 30 September 2015 and for the year ended 31 December 2014 with a corresponding asset recognised within property, plant and equipment (refer to Note 11). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 September 2015 was 11.85 per cent (31 December 2014 – 11.85 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

18. 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 RR 2,462 thousand, 3 preference shares (type «B») with the nominal value of RR 667 thousand per share and 1 preference share (type «C») with the nominal value of RR 1,077 thousand. Total amount of share capital amounts to RR 40,000 thousand.

As at 30 September 2015 according to the project facility agreement all the shares (533,324 ordinary shares, 2 preference shares (type «A») , 3 preference shares (type «B») 1 preference share (type «C») are pledged to ING BANK N.V., London Branch until all the obligations, under the Project Facility Agreement are fulfilled.

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 RR 41 thousand, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand. Total amount of share capital was RR 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 RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RR 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 RR 41 thousand. Total amount of share capital was RR 616 thousand.

As at 30 September 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 per cent 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 per cent of the allocated profit for dividends; preference shares (type «C») as 2.692 per cent 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 RR 1,810,635 thousand, net of respective deferred tax effect of RR 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 RR 4,585,301 thousand, net of respective deferred tax effect of RR 1,447,990 thousand, was recorded in equity in Other reserves.

(In thousands of Russian Roubles, unless otherwise stated)

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 RR 1,323,746 thousand, net of respective deferred tax effect of RR 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 RR 4,198,937 thousand, net of respective deferred tax effect of RR 1,325,954 thousand, was recognized as a reduction in Other reserves.

Dividends

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

The Annual General Shareholders' Meeting of the Company held on June 30, 2014 decided to pay dividends RR 2,962,844 thousand for the year ended December 31, 2013.

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.

19. REVENUE

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Revenue from gas sales	33,498,697	26,849,476
Total revenue	**33,498,697**	**26,849,476**

All customers of the Company represent related parties. Please refer to Note 27.

20. COST OF SALES

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Extraction tax	14,933,105	13,228,685
Depreciation	2,817,485	2,026,962
Wages, salaries and other staff costs	936,316	978,925
Property tax	624,996	651,122
Services	444,092	553,557
Contributions to the State pension fund	205,851	184,158
Materials	180,975	198,619
Insurance	110,653	117,935
Transportation services	57,513	54,738
Contributions to the non-State pension fund	55,593	37,586
Fuel	25,742	29,808
Other	87,893	70,659
Total cost of sales	**20,480,214**	**18,132,754**

Depreciation in the amount of 25,334 RR thousand for the period ended 30 September 2015 was capitalized (for the period ended 30 September 2014 – RR 11,796 thousand).

(In thousands of Russian Roubles, unless otherwise stated)

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Wages, salaries and other staff costs	339,425	367,274
Contributions to the State and non-State pension funds	101,295	77,120
Services and other administrative expenses	229,431	240,264
Total general and administrative expenses	**670,151**	**684,658**

22. OTHER OPERATING INCOME

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Gain from sale of foreign currency	193,798	29,314
Insurance payout	22,085	-
Reimbursement of the road maintenance costs	5,849	116,903
Reversal of impairment of inventories	5,217	24,568
Gain on disposal of property, plant and equipment	-	2,445
Other	38,512	23,086
Total operating income	**265,461**	**196,316**

23. OTHER OPERATING EXPENSES

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Loss on disposal of property, plant and equipment	51,347	-
Social costs	23,176	54,734
Provision for impairment of materials	18,721	-
Non-refundable VAT	4,415	3,556
Loss on disposal of materials	545	13,777
Other	28,400	36,228
Total operating expenses	**126,604**	**108,295**

24. FINANCE INCOME

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Foreign currency exchange gains	12,499,127	2,790,717
Interest income	1,067,714	764,042
Total finance income	**13,566,841**	**3,554,759**

25. FINANCE COSTS

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Foreign currency exchange losses	14,191,408	5,135,775
Interest expense: Bank loans	468,237	535,543
Unwinding of discount of provisions (refer to Note 17)	169,477	164,183
Total finance costs	**14,829,122**	**5,835,501**

26. 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 incompliant 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 introduced from 1999 and 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 2014 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) 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.

d) Capital commitment

At 30 September 2015, the Company had contractual commitments for capital expenditures of RR 3,799,434 thousand (31 December 2014 – RR 4,789,536 thousand).

27. 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).

(In thousands of Russian Roubles, unless otherwise stated)

Transactions of the Company with its shareholders for the periods ended 30 September 2015 and 30 September 2014 are presented below:

	Notes	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
Sales of gas to PJSC Gazprom	19	13,399,479	10,739,790
Sales of gas to CJSC Gazprom YRGM Trading	19	11,724,544	9,397,316
Sales of gas to CJSC Gazprom YRGM Development	19	8,374,674	6,712,370
Purchases of goods and services from Gazprom Group		166,036	208,326

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

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	**Notes**	**30 September 2015**	**31 December 2014**
Trade and other receivables from PJSC Gazprom	8	4,111,968	1,938,920
Trade and other receivables from CJSC Gazprom YRGM Trading	8	3,478,274	1,461,951
Trade and other receivables from CJSC Gazprom YRGM Development	8	1,368,553	1,044,251
Other receivables from Gazprom Group	8	7,419	2,629
		8,966,214	**4,447,751**

As at 30 September 2015 and 31 December 2014 short-term and long-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

Accounts payable	**Notes**	**30 September 2015**	**31 December 2014**
Payables to the Gazprom Group	13	50,280	12,216
		50,280	**12,216**

Transactions with Key Management Personnel

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

Key management compensation is presented below:

Key management benefits	**For the nine months ended 30 September 2015**	**For the nine months ended 30 September 2014**
Short-term benefits	171,885	115,728
Other long-term benefits	-	21,089
	171,885	**136,817**

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

The Shareholder’s meeting, held on May, 2014 decided to pay compensation to the members of the Board of directors amounting to RR 4,803 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.

28. SUBSEQUENT EVENTS

There are no subsequent events to disclose.