OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERIM CONDENSED FINANCIAL INFORMATION

(UNAUDITED)

31 MARCH 2017

Contents

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS OF 31 MARCH 2017
(In thousands of Russian Roubles, unless otherwise stated)

	Notes	31 March 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	9,370,754	9,860,006
Trade and other receivables	7	10,496,508	6,019,340
Inventories	8	583,676	562,422
Current income tax prepayments		579,573	-
Other current assets	9	179,857	179,857
Total current assets		**21,210,368**	**16,621,625**
Non-current assets			
Property, plant and equipment	10	65,127,228	66,304,733
Long-term accounts receivables	11	14,940	14,976
Total non-current assets		**65,142,168**	**66,319,709**
Total assets		**86,352,536**	**82,941,334**
Liabilities and equity			
Current liabilities			
Trade and other payables	12	1,173,610	1,527,538
Other taxes payable	13	5,231,809	4,511,810
Current income tax payable	15	-	153,554
Total current liabilities		**6,405,419**	**6,192,902**
Non-current liabilities			
Provisions for liabilities and charges	14	6,359,325	6,212,309
Deferred income tax liabilities		7,083,408	7,041,776
Total non-current liabilities		**13,442,733**	**13,254,085**
Total liabilities		**19,848,152**	**19,446,987**
Equity			
Share capital	16	40,000	40,000
Share premium	16	25,099,045	25,099,045
Other reserves	16	649,754	649,754
Retained earnings		40,715,585	37,705,548
Total equity		**66,504,384**	**63,494,347**
Total liabilities and equity		**86,352,536**	**82,941,334**

Approved for issue and signed on May 15, 2017 by the following members of management:

V.V. Dmitruk
General Director

A.A. Chernyshev
Deputy director on economics and finance

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Revenue	17	13,374,138	12,150,268
Cost of sales	18	(9,445,869)	(8,579,086)
Gross profit		**3,928,269**	**3,571,182**
General and administrative expenses	19	(229,182)	(255,885)
Research and development costs		(5,973)	(8,682)
Other operating income	20	11,317	16,768
Other operating expenses	21	(66,858)	(35,810)
Operating profit		**3,637,573**	**3,287,573**
Finance income	22	229,126	3,279,955
Finance costs	23	(150,896)	(2,750,672)
Profit before income tax		**3,715,803**	**3,816,856**
Income tax	15	(705,766)	(756,243)
Profit for the period		**3,010,037**	**3,060,613**
Total comprehensive income for the period		**3,010,037**	**3,060,613**

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(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Profit before income tax		**3,715,803**	**3,816,856**
Adjustments for:			
Interest income	22	(227,815)	(437,830)
Finance costs	23	132,643	313,561
Depreciation	18	1,315,494	1,245,190
Net foreign exchange (gain)/loss	22,23	16,942	(405,014)
Provision for impairment loss of inventory	21	9,476	4,587
Reversal of provision for impairment loss of inventory		(3,376)	(307)
Provision for impairment of assets under construction		-	3,114
Other non-cash transactions		20,273	14,418
Operating cash flows before changes in working capital		**4,979,440**	**4,554,575**
Change in inventories	8	(27,353)	24,461
Change in trade and other receivables, excluding interest receivables		(4,442,396)	1,104,634
Change in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		366,442	173,960
Change in accounts payable for exploration and evaluation service		(354)	(12,390)
Income taxes paid		(1,397,171)	(1,350,760)
Net cash from operating activities		**(521,392)**	**4,494,480**
Cash flows from investing activities			
Purchase of property, plant and equipment		(143,890)	(443,046)
Interest received		192,989	430,881
Net cash used in investing activities		**49,099**	**(12,165)**
Cash flows from financing activities			
Repayment of borrowings		-	(12,074,549)
Interest paid		-	(230,420)
Net cash used in financing activities		**-**	**(12,304,969)**
Net (decrease)/increase in cash and cash equivalents		**(472,293)**	**(7,822,654)**
Effect of exchange rate changes on cash and cash equivalents		(16,959)	(300,281)
Cash and cash equivalents at the beginning of the period		**9,860,006**	**21,105,214**
Cash and cash equivalents at the end of the period	6	**9,370,754**	**12,982,279**

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(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 2016	**533,330**	**40,000**	**25,099,045**	**648,253**	**35,225,058**	**61,012,355**
Profit for the period	-	-	-	-	3,060,613	**3,060,613**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**3,060,613**	**3,060,613**
Balance at 31 March 2016	**533,330**	**40,000**	**25,099,045**	**648,253**	**38,285,671**	**64,072,969**
Balance at 1 January 2017	**533,330**	**40,000**	**25,099,045**	**649,754**	**37,705,548**	**63,494,347**
Profit for the period	-	-	-	-	3,010,037	**3,010,037**
Total comprehensive income for the period	-	-	-	-	3,010,037	**3,010,037**
Balance at 31 March 2017	**533,330**	**40,000**	**25,099,045**	**649,754**	**40,715,585**	**66,504,384**

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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 31 March 2017 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 economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is a 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 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 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 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Certain amounts in comparative period were reclassified to provide their comparability with the information in the reported period.

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 56.38 and 60.66 as at 31 March 2017 and 31 December 2016, respectively. The official Russian Ruble to Euro ("EUR") foreign exchange rates as determined by the Central Bank of the Russian Federation were 60.60 and 63.81 as at 31 March 2017 and 31 December 2016, 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.

Oil and gas exploration expenses

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. Summary of useful lives and alternative basis for depreciation:

(In thousands of Russian Roubles, unless otherwise stated)

	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 1.98% in the period ended 31 March 2017 (year ended 31 December 2016: 1.875%).

(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. 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 amortized costs.

All financial assets and liabilities are initially recognized 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 recognized 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 amortized 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".

(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.

The tax on mineral extraction (MET) for natural gas is determined monthly as a product of the volume of production and the tax rate.

Average MET rate for the first three months of 2017 was approximately RR 1,082 per 1000m^3 for the Cenomanian gas and RR 227 per 1000m^3 for the Turonian gas. The increase is due to a change in the tax rates per 1,000 m3 in the formula for calculating the MET.

Average MET rate for the first three months of 2016 was approximately RR 960 per 1000m^3 for the Cenomanian gas and RR 201 per 1000m^3 for the Turonian gas. MET is recorded within Cost of sales in the "Statement of Profit and Loss 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 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 24).

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.

(In thousands of Russian Roubles, unless otherwise stated)

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. 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 10.

5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	31 March 2017	31 December 2016
Current assets			
Cash and cash equivalents	6	9,370,754	9,860,006
Receivables from related parties	7	10,346,742	5,893,918
Other short-term receivables	7	129,449	79,616
Non-current assets			
Long-term other receivables	9	14,940	14,976
Total financial assets at amortized cost		**19,861,885**	**15,848,517**

Liabilities at amortized cost	Notes	31 March 2017	31 December 2016
Current liabilities			
Trade payables	12	693,427	1,032,817
Payables to related parties	12	33,818	85,098
Other payables	12	5,887	10,545
Total financial liabilities at amortized cost		**733,132**	**1,128,459**

6. CASH AND CASH EQUIVALENTS

	31 March 2017	31 December 2016
Deposit accounts	9,111,000	9,570,000
Current accounts	259,754	290,006
Total cash and cash equivalents	**9,370,754**	**9,860,006**

The fair value of cash and cash equivalents as at 31 March 2017 and 31 December 2016 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

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

	Rating	Rating agency	Credit limit for one bank	31 March 2017 Balance	31 December 2016 Balance
Gazprombank	Ba2	Moody's	Not set	9,370,754	9,860,006
				9,370,754	**9,860,006**

7. TRADE AND OTHER RECEIVABLES

	31 March 2017	31 December 2016
Financial assets		
Receivables from related parties (refer to Note 25)	10,346,742	5,893,918
Other receivables	2,031,009	1,981,176
Impairment provision for other receivables	(1,901,560)	(1,901,560)
Total financial assets	**10,476,191**	**5,973,534**
Non-financial assets		
Advances to suppliers	8,698	27,413
VAT recoverable	10,266	14,966
Prepaid taxes, other than income tax	1,353	3,427
Total non-financial assets	**20,317**	**45,805**
Total trade and other receivables	**10,496,508**	**6,019,340**

As of March 31, 2017 and December 31, 2016, receivables from customers are related to gas sales in the 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		Total impairment provision as at		Total overdue receivables net of impairment provision as at	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016	31 March 2017	31 December 2016
Within 1 year overdue	1,896,520	1,896,520	(1,896,520)	(1,896,520)	-	-
From 1 to 3 years overdue	-	-	-	-	-	-
More than 3 years overdue	5,040	5,040	(5,040)	(5,040)	-	-
Total	**1,901,560**	**1,901,560**	**(1,901,560)**	**(1,901,560)**	**-**	**-**

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

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Provision for impairment at the beginning of the year	**(1,901,560)**	**(1,902,536)**
Provision for impairment (accrued) / reversed	-	-
Provision for impairment at the end of the period	**(1,901,560)**	**(1,902,536)**

All receivables that are past due are fully provided against as at 31 March 2017 and 31 December 2016.

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 March 2017 and at 31 December 2016.

The fair value of accounts receivable as at 31 March 2017 and 31 December 2016 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

8. INVENTORIES

	31 March 2017	31 December 2016
Materials and supplies	833,436	808,649
Other materials	16,923	14,357
Impairment of materials	(266,683)	(260,583)
Total inventories	**583,676**	**562,422**

9. OTHER CURRENT ASSETS

	31 March 2017	31 December 2016
Assets held for sale	179,857	179,857
Total other current assets	**179,857**	**179,857**

As of March 31, 2017, 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. As at 31 March 2017 and 31 December 2016, assets held for sale were recognized at fair value.

(In thousands of Russian Roubles, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost at 1 January 2016	9 589 462	9 630 638	37 526 895	16 466 443	13 684 925	154 059	4 127 336	**91 179 758**
Addition	-	-		5 330	-	797	436 920	**443 047**
Disposal	-	-	-	(289)	-	(93)	-	**(382)**
Transfer to cost of sales	-	-	-	-	-	-	(900)	**(900)**
Impairment of construction in progress	-	-	-	-	-	-	(3 114)	**(3 114)**
Transfer	-	-	20 493	-	-	-	(20 493)	-
Cost at 31 March 2016	**9 589 462**	**9 630 638**	**37 547 388**	**16 471 484**	**13 684 925**	**154 763**	**4 539 749**	**91 618 409**
Addition	-	-	-	64 760	-	36 148	1 204 871	**1 305 779**
Change in component for decommissioning and site restoration obligation (Note 14)	164 604	119 283	816 588	63 771	-	-	-	**1 164 246**
Disposal	-	(162)		(12 369)	-	(347)	-	**(12 878)**
Transfer to assets held for sale	-	-	(618 214)	(13 446)	-	-	-	**(631 660)**
Transfer to cost of sales	-	-	-	-	-	-	(177)	**(177)**
Recovery of provision for impairment of construction in progress	-	-	-	-	-	-	143 065	**143 065**
Capitalized borrowing costs	-	-	525	2 807	-	-	(3 332)	-
Transfer	-	1 880 560	1 316 312	963 880	-	2 692	(4 163 444)	-
Cost 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**
Addition	-	-	3 016	21 027	-	-	119 846	**143 890**
Cost at 31 March 2017	**9 754 066**	**11 630 319**	**39 065 615**	**17 561 914**	**13 684 925**	**193 256**	**1 840 579**	**93 730 674**
Accumulated depreciation at 1 January 2016	**(2 710 342)**	**(2 647 499)**	**(9 227 366)**	**(4 007 818)**	**(3 656 375)**	**(114 624)**	**-**	**(22 364 024)**
Charged for the period	(128 812)	(130 786)	(527 482)	(270 790)	(188 012)	(5 248)	-	**(1 251 130)**
Disposal	-	-	-	289	-	93	-	**382**
Accumulated depreciation at 31 March 2016	**(2 839 154)**	**(2 778 285)**	**(9 754 848)**	**(4 278 319)**	**(3 844 387)**	**(119 779)**	**-**	**(23 614 772)**
Charged for the year	(356 130)	(361 489)	(1 491 310)	(788 580)	(518 950)	(13 503)	-	**(3 529 962)**
Change in component for decommissioning and site restoration obligation	(43 759)	(17 140)	(268 829)	(13 074)	-	-	-	**(342 802)**
Transfer to cost of sales			188 359	4 276				**192 635**
Disposal	-	132	-	12 371	-	347	-	**12 850**
Accumulated depreciation at 31 December 2016	**(3 239 043)**	**(3 156 782)**	**(11 326 628)**	**(5 063 327)**	**(4 363 337)**	**(132 935)**	**-**	**(27 282 051)**
Charged for the period	(129 246)	(168 099)	(550 297)	(284 366)	(184 923)	(4 464)	-	**(1 321 395)**
Accumulated depreciation at 31 March 2017	**(3 368 289)**	**(3 324 881)**	**(11 876 925)**	**(5 347 692)**	**(4 548 260)**	**(137 399)**	**-**	**(28 603 446)**
Net book value at 1 January 2016	**6 879 120**	**6 983 139**	**28 299 529**	**12 458 625**	**10 028 550**	**39 435**	**4 127 336**	**68 815 734**
Net book value at 31 March 2016	**6 750 308**	**6 852 353**	**27 792 540**	**12 193 165**	**9 840 538**	**34 984**	**4 539 749**	**68 003 637**
Net book value at 31 January 2016	**6 515 023**	**8 473 537**	**27 735 971**	**12 477 561**	**9 321 588**	**60 321**	**1 720 732**	**66 304 733**
Net book value at 31 March 2017.	**6 385 777**	**8 305 438**	**27 188 690**	**12 214 222**	**9 136 665**	**55 857**	**1 840 579**	**65 127 228**

As at 31 December 2016 borrowing costs and foreign exchange costs totaling RR 77,648 thousand were capitalized in property, plant and equipment. For the year ended 31 December 2016 the capitalization rate applied to qualifying assets was 3.39% per cent.

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 at 31 March 2017 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at those dates.

(In thousands of Russian Roubles, unless otherwise stated)

Management's assessment of plant and equipment of Yuzhno-Russkoye oil and gas field value in use materially exceeds its carrying value, therefore any significant changes to assumptions used in management's assessment will not result in impairment. There was no impairment recognized for the period ended 31 March 2017.

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

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.

11. LONG-TERM ACCOUNTS RECEIVABLES

	31 March 2017	31 December 2016
Other receivables	14,940	14,967
Total long-term accounts receivables	**14,940**	**14,967**

The fair value of long-term accounts receivable as at 31 March 2017 and 31 December 2016 approximates their carrying value.

12. TRADE AND OTHER PAYABLES

	31 March 2017	31 December 2016
Financial liabilities		
Trade payables	693,427	1,032,817
Payables to related parties (refer to Note 25)	33,818	85,098
Other payables	5,887	10,545
Total financial liabilities	**733,132**	**1,128,459**
Non-financial liabilities		
Accrued employee benefit costs	327,148	303,828
Provision for revegetation	26,033	26,033
Wages and salaries	87,298	69,218
Total non-financial liabilities	**440,479**	**399,079**
Total trade and other payables	**1,173,610**	**1,527,538**

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 2017.

(In thousands of Russian Roubles, unless otherwise stated)

13. OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	31 March 2017	31 December 2016
Extraction tax	2,570,830	1,795,530
Value added tax (VAT)	2,325,577	2,403,484
Insurance contributions for employees	138,095	134,858
Personal income tax	16,892	10,497
Property tax	179,998	166,718
Other taxes and accruals	417	724
Total income tax and other taxes payable	**5,231,809**	**4,511,810**

14. PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2017	31 December 2016
Provision for decommissioning and site restoration	5,025,966	4,920,664
Provisions for post-employment benefit obligations	1,333,359	1,291,645
Total provisions for liabilities and charges	**6,359,325**	**6,212,309**

Provision for decommissioning and site restoration

	Notes	For the three months ended 31 March 2017	Year ended 31 March 2016
At the beginning of the period		**4,920,664**	**3,750,086**
Change in estimate of provision		-	-
Change of discount	24	105,302	87,283
At the end of the period		**5,025,966**	**3,837,369**

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 31 March 2017 and for the year ended 31 December 2016 with a corresponding asset recognised within property, plant and equipment (refer to Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 31 March 2017 was 8,56 per cent (31 December 2016 – 8,56 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

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.

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

	31 March 2017	31 March 2016
	Provision for post-employment benefit	Provision for post-employment benefit
Present value of benefit obligations	(1,856,649)	(1,642,257)
Fair value of plan assets	523,290	454,801
Total	**(1,333,359)**	**(1,187,456)**

(In thousands of Russian Roubles, unless otherwise stated)

15. INCOME TAX

Income tax expense comprises the following:

	Year ended 31 March 2017	Year ended 31 March 2016
Current tax expense	664,134	364,769
Deferred tax expense	41,632	391,474
Total tax expense	**705,766**	**756,243**

16. 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 amount of share capital was RUB 616 thousand.

As at 31 March 2017 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 RR 1,810,635 thousand, net of respective deferred tax effect of RR 571,799 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 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 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.

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.

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.

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.

17. REVENUE

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Revenue from gas sales	13,374,138	12,150,268
Total revenue	**13,374,138**	**12,150,268**

All customers of the Company represent related parties. Please refer to Note 25.

18. COST OF SALES

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Extraction tax	7,113,795	6,377,066
Depreciation	1,315,494	1,245,190
Wages, salaries and other staff costs	549,084	487,602
Property tax	205,771	213,512
Services	133,979	102,564
Materials	36,931	60,059
Insurance	40,882	40,128
Transportation services	15,847	15,830
Fuel and energy	11,886	11,199
Other	22,200	25,936
Total cost of sales	**9,445,869**	**8,579,086**

(In thousands of Russian Roubles, unless otherwise stated)

Depreciation in the amount of RR 5,899 thousand for the year ended 31 March 2017 was capitalized (for the year ended 31 March 2016 – RR 5,941 thousand).

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Wages, salaries and other staff costs	157,740	173,464
Services and other administrative expenses	71,442	82,421
Total general and administrative expenses	**225,182**	**255,885**

20. OTHER OPERATING INCOME

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Gain on sale of foreign currency	-	7,238
Reversal of impairment loss of inventories	3,376	307
Fees and penalties due to violation of contract covenants	3,400	4,660
Reimbursement of the road maintenance costs	360	2,583
Other	4,181	1,981
Total operating income	**11,317**	**16,769**

21. OTHER OPERATING EXPENSES

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Social costs	37,583	16,703
Provision for impairment loss of inventory	9,476	4,578
Non-refundable VAT	602	4,212
Other	18,218	10,308
Loss on disposal of materials	980	-
Total operating expenses	**66,858**	**35,810**

22. FINANCE INCOME

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Interest income	227,815	437,830
Foreign currency exchange gains	1,311	2,842,124
Total finance income	**229,126**	**3,279,955**

23. FINANCE COSTS

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Interest expenses (pension liabilities)	27,340	28,707
Interest expenses	-	197,571
Foreign currency exchange losses	18,254	2,437,111
Unwinding of discount of provisions (refer to Note 14)	105,302	87,283
Total finance costs	**150,896**	**2,750,672**

24. 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 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) 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.

25. 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 years ended 31 March 2017 and 31 December 2016 are presented below:

	Notes	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Sales of gas to PJSC Gazprom	18	5,349,655	8,518,553
Sales of gas to CJSC Gazprom YRGM Trading	18	4,680,948	1,910,022
Sales of gas to CJSC Gazprom YRGM Development	18	3,343,534	1,721,693
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.

Significant balances with shareholders are summarised as follows:

	Notes	31 March 2017	31 December 2016
Trade and other receivables from PJSC Gazprom	7	3,137,911	4,130,864
Trade and other receivables from CJSC Gazprom YRGM Trading	7	3,620,672	926,218
Trade and other receivables from CJSC Gazprom Development	7	2,586,194	834,893
Other receivables from Gazprom Group	7	1,964	1,942
		10,346,741	**5,893,917**

As at 31 March 2017 and 31 December 2016 short-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

	Notes	31 March 2017	31 December 2016
Payables to the Gazprom Group	12	33,818	85,098
		33,818	**85,098**

Transactions with Key Management Personnel

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

Key management compensation is presented below:

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
Short-term benefits	51,379	65,059
Other long-term benefits	-	-
	51,379	**65,059**

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

26. SUBSEQUENT EVENTS

There are no subsequent events to disclosure.