OJSC “SURGUTNEFTEGAS”

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

31 December 2017

Contents

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of Russian rubles, unless otherwise stated)

Notes		As of 31 December 2017	As of 31 December 2016
	ASSETS		
	Current assets		
9	Cash and cash equivalents	217,501	107,453
9	Restricted cash	2,049	943
10	Deposits placed	829,500	465,854
13	Loans granted	17,239	18,167
	Other financial assets	2,711	5,353
11	Receivables	91,268	86,811
14	Inventories	81,302	85,131
12	Advances issued	15,493	18,006
	VAT recoverable	8,059	7,269
	Income tax receivable	3,017	19,842
	Other taxes recoverable	134	110
	Total current assets	**1,268,273**	**814,939**
	Non-current assets		
15	Property, plant and equipment	1,430,760	1,331,593
16	Intangible assets	9,081	9,271
10	Deposits placed	1,488,934	1,714,883
	Other financial assets	9,440	10,325
26	Deferred tax assets	19	198
13	Loans granted	29,111	29,234
11	Receivables	1,205	899
	Other non-current assets	2,867	10,243
	Total non-current assets	**2,971,417**	**3,106,646**
	Total assets	**4,239,690**	**3,921,585**
	LIABILITIES AND EQUITY		
	Current liabilities		
17	Payables and accrued liabilities	47,696	48,890
18	Other financial liabilities	184,462	89,747
	Advances received	22,336	20,700
19	Other tax liabilities	65,937	50,153
	Income tax liabilities	16	50
20	Provisions	3,324	2,859
	Total current liabilities	**323,771**	**212,399**
	Non-current liabilities		
18	Other financial liabilities	3,850	16,512
26	Deferred tax liabilities	162,732	126,665
20	Provisions	134,763	119,110
	Other non-current liabilities	1,377	1,487
	Total non-current liabilities	**302,722**	**263,774**
	Equity		
21	Share capital	154,666	154,666
	Additional paid-in capital	4	4
21	Treasury shares	(30)	(30)
21	Share premium	57,809	57,809
	Retained earnings	3,400,441	3,232,704
	Other reserves	9	14
	Total equity attributable to shareholders	**3,612,899**	**3,445,167**
	Non-controlling interests	298	245
	Total equity	**3,613,197**	**3,445,412**
	Total liabilities and equity	**4,239,690**	**3,921,585**

A.N.Bulanov

Acting Director General
OJSC “Surgutneftegas”
26 April 2018

A.V.Druchinin

Chief Accountant
OJSC “Surgutneftegas”
26 April 2018

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(in millions of Russian rubles, unless otherwise stated)

Notes		2017	2016
7	**Sales**	1,364,432	1,222,181
22	less export duties	(189,413)	(201,348)
7	**Total sales revenue:**	**1,175,019**	**1,020,833**
	sales of oil	725,238	635,784
	sales of oil products	409,656	342,184
	sales of gas and gas products	24,140	22,327
	sales of other products and finished goods	8,562	9,299
	other sales	7,423	11,239
23	**Operating expenses**	**(902,632)**	**(760,304)**
	Operating profit	**272,387**	**260,529**
24	Finance income	112,856	116,837
24	Finance expenses	(16,027)	(8,835)
25	Exchange differences, net	(118,428)	(438,601)
	Gain / (loss) on sale and other disposal of financial assets	(2,159)	22
	Other expenses	(2,196)	(2,149)
	Profit / (loss) before tax	**246,433**	**(72,197)**
	Income tax		
	Current income tax	(15,251)	(619)
	Changes in deferred income tax	(36,464)	10,783
26	**Total income / (expense) on income tax**	**(51,715)**	**10,164**
	Net profit / (loss)	**194,718**	**(62,033)**
	Other comprehensive expense that may be reclassified subsequently to profit / (loss), net of income tax		
	Changes in fair value of financial assets available-for-sale	(7)	(29)
	Other comprehensive expense that may not be reclassified subsequently to profit / (loss), net of income tax		
	Remeasurements of post-employment benefit obligations	(864)	(411)
	Total other comprehensive expense, net of income tax	**(871)**	**(440)**
	Total comprehensive income / (expense)	**193,847**	**(62,473)**
	Net profit / (loss)		
	attributable to shareholders	194,658	(62,100)
	attributable to non-controlling interests	60	67
	Total comprehensive income / (expense)		
	attributable to shareholders	193,789	(62,538)
	attributable to non-controlling interests	58	65
27	Net earnings / (loss) attributable to shareholders per one ordinary share (in rubles)		
	basic and diluted	5.15	(1.87)

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(in millions of Russian rubles, unless otherwise stated)

Notes		2017	2016
	Operating activities		
	Profit / (loss) before tax	246,433	(72,197)
	Adjustments:		
23	Depreciation, depletion and amortisation expenses	66,296	77,120
23	Losses from disposal of exploration and production properties	1,097	1,726
	Provision accrual / (recovery)	1,637	(4,360)
	Loss arising from change in provision and derecognition of receivables	4,303	14
	Exchange differences	111,378	427,656
	(Gain) / loss on sale and other disposal of financial assets	2,159	(22)
24	Interest expenses from discounting, net	3,692	3,082
24	Interest receivable	(112,758)	(116,807)
24	Interest payable	12,237	5,723
	Loss on sale and disposal of property, plant and equipment, and intangible assets	2,746	6,413
15	Impairment / (reversal of impairment) of non-financial assets	(1,591)	1,024
	Others, net	(244)	78
	Cash flows from operating activities before changes in working capital and income tax	**337,385**	**329,450**
	Change in receivables	(6,218)	(27,885)
	Change in advances issued	2,513	4,275
	Change in inventories	4,782	(5,114)
	Change in other assets	1,222	(1,298)
	Change in trade and other payables	(455)	193
	Change in advances received	1,636	(394)
	Change in restricted cash	(1,106)	(189)
	Changes in other taxes (other than income tax)	14,970	18,664
	Change in other liabilities	(184)	723
	Cash from operating activities before income tax	**354,545**	**318,425**
	Income tax refund / (income tax paid)	1,539	(55,993)
	Net cash from operating activities	**356,084**	**262,432**
	Investing activities		
	Capital expenditures	(160,181)	(180,788)
	Deposits placed	(631,042)	(518,121)
	Deposits refunded	414,173	433,682
	Loans granted	(44,249)	(45,965)
	Loans collected	45,810	44,469
	Interest received	80,189	63,883
	Proceeds from sale of financial assets	10,287	4,341
	Acquisition of financial assets	(5,781)	(2,810)
	Proceeds from sale of property, plant and equipment	498	330
	Net cash used for investing activities	**(290,296)**	**(200,979)**
	Financing activities		
30	Net acquisition of other financial liabilities	82,030	24,917
	Dividends paid (incl. tax)	(26,094)	(74,221)
	Interest paid	(11,963)	(6,892)
	Net cash from / (used for) financing activities	**43,973**	**(56,196)**
	Net change in balances of cash and cash equivalents	**109,761**	**5,257**
	Effect of exchange rate changes against ruble on cash and cash equivalents	287	(3,500)
9	**Cash and cash equivalents at the beginning of the period**	**107,453**	**105,696**
9	**Cash and cash equivalents at the end of the period**	**217,501**	**107,453**

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of Russian rubles, unless otherwise stated)

	Notes	Share capital	Share premium	Additional paid-in capital	Treasury shares	Retained earnings	Other reserves	Total equity attributable to shareholders	Non-controlling interests	Total equity
Balance as of 31 December 2015	21	**154,666**	**57,809**	**4**	**(30)**	**3,369,949**	**41**	**3,582,439**	**186**	**3,582,625**
Net profit / (loss) for the year		-	-	-	-	(62,100)	-	(62,100)	67	(62,033)
Other comprehensive expense		-	-	-	-	(411)	(27)	(438)	(2)	(440)
Total comprehensive income / (expense)		**-**	**-**	**-**	**-**	**(62,511)**	**(27)**	**(62,538)**	**65**	**(62,473)**
Dividends declared		-	-	-	-	(74,734)	-	(74,734)	(6)	(74,740)
Balance as of 31 December 2016	21	**154,666**	**57,809**	**4**	**(30)**	**3,232,704**	**14**	**3,445,167**	**245**	**3,445,412**
Net profit for the year		-	-	-	-	194,658	-	194,658	60	194,718
Other comprehensive expense		-	-	-	-	(864)	(5)	(869)	(2)	(871)
Total comprehensive income / (expense)		**-**	**-**	**-**	**-**	**193,794**	**(5)**	**193,789**	**58**	**193,847**
Dividends declared		-	-	-	-	(26,057)	-	(26,057)	(5)	(26,062)
Balance as of 31 December 2017	21	**154,666**	**57,809**	**4**	**(30)**	**3,400,441**	**9**	**3,612,899**	**298**	**3,613,197**

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Open Joint Stock Company “Surgutneftegas” (the Company) is one of the leading Russian oil companies in terms of hydrocarbon production.

The Company began its oil and gas production history in 1964 when it was established as oil producing division “Surgutneft”. In 1977, the Company was recognised as a diversified production association. In 1993, pursuant to Decree of the President of the Russian Federation No. 1403 dated 17.11.1992, Production Association “Surgutneftegas” was transformed into Joint Stock Company of Open Type “Surgutneftegas”.

The Company’s shares are allocated to shareholders, neither of them being an ultimate controlling party or a party exercising a significant influence.

The core activities of the Company and its subsidiaries (together – “the Group”) are exploration, production, processing and sale of hydrocarbons produced as well as sale of oil and gas products.

Other financial and business activities include banking and insurance activities and provision of other goods, works and services.

The Company is exploring for oil and gas in three oil and gas provinces: Western Siberia, Eastern Siberia and Timan-Pechora. Oil and gas production is done in Western and Eastern Siberia.

In 2017, the Company produced 60.5 million tonnes of oil and 10.0 billion cubic meters of gas. The rate of associated petroleum gas utilisation was 99.32%.

The Company implements a complex of measures to replenish and develop its resource base: performs exploration at licence blocks, takes part in auctions for new blocks and further explores the existing fields. At the end of the reporting period, the Company had 164 licences for subsoil use. In 2017, meterage drilled for exploration purposes totalled 202.5 thousand metres. Two-dimensional seismic surveys covered 1.3 thousand linear kilometres, three-dimensional – 1.1 thousand square kilometres. In 2017, the Company discovered two new fields in Khanty-Mansiysky Autonomous Okrug – Yugra and 18 oil deposits at the fields discovered earlier.

The Company annually brings new hydrocarbon deposits into development and conducts a wide range of geotechnical jobs to keep up a steady level of oil production. In 2017, five fields in Western Siberia were put into development – the Logachev, the Sakhalinskoye, the Yuzhno-Konitlorskoye, the Filipenko and the Demyanskoye fields. Development drilling totalled 4,687.3 thousand metres; 1,250 new oil wells and 622 injection wells were brought online.

The Group incorporates a refinery in Leningradskaya Oblast – LLC “KINEF”– with a capacity of 20.1 million tonnes, a gas processing plant in Khanty-Mansiysky Autonomous Okrug – Yugra with a capacity of 7.3 billion cubic metres and five marketing subsidiaries located in the North-West of the Russian Federation. In 2017, the volume of hydrocarbon processing at LLC “KINEF” totalled 18.2 million tonnes, the volume of production of oil products – 17.7 million tonnes. The volume of gas processing at the Company’s gas processing plant amounted to 6.5 billion cubic metres, liquid hydrocarbons production – 536.4 thousand tonnes.

The Company’s location: ul.Grigoriya Kukuyevitskogo, 1, bld. 1, Surgut, Khanty-Mansiysky Autonomous Okrug – Yugra, Tyumenskaya Oblast, Russian Federation, 628415.

The average number of the Group’s employees in 2017 is 116 thousand people (in 2016 – 117 thousand people).

2 Basic principles of financial reporting

Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including all IFRS standards and interpretations adopted by the International Accounting Standards Board (IASB) and effective in the reporting period.

These consolidated financial statements have been prepared on the basis of the actual cost principle, except for financial instruments initially recognised at fair value, and revaluation of available-for-sale financial assets and financial instruments recognised at fair value through profit or loss.

These consolidated financial statements have been prepared on the basis of the accounting data as set out in the accounting and reporting regulations of the Russian Federation adjusted for the purpose of fair presentation under IFRS.

The preparation of financial statements in conformity with IFRS requires the use accounting estimates some of which are critical. In addition, the management shall be relied upon its judgements in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which means that the amount of assets shall be duly recovered and liabilities shall be duly settled in the ordinary course of business.

3 Summary of significant accounting policies

The summary of significant accounting policies used to prepare these consolidated financial statements is presented below. These accounting policies have been consistently applied to all periods defined in these consolidated financial statements.

Subsidiaries

The consolidated financial statements include data on the operations of the Company and its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity when it has power that gives it the ability to direct the relevant activities (the activities that significantly affect the subsidiary's returns), when it has rights to variable returns from its involvement with the entity and is exposed to risks arising from such returns. Acquisition date is a date on which control is transferred to the Group.

Subsidiaries are included in consolidated financial statements from the date on which the control over their operations is transferred to the Group (the acquisition date) and are excluded from the consolidated financial statements from the date the control ceases.

Investments in subsidiaries are recorded based on the acquisition method. The acquisition cost is evaluated as the aggregate of the consideration transferred, measured at its fair value at the acquisition date.

Non-controlling interest is part of net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly, by the Group. Non-controlling interest is a separate component of the Group's equity.

Non-controlling interest that represents actual ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation is measured either individually for each transaction: at fair value, or in proportion to the non-controlling interest in net assets of the acquired entity. Non-controlling interest that is not actual ownership interest is measured at fair value.

When acquiring (selling) non-controlling interests, the difference between the consideration transferred (received) and the carrying amount of the non-controlling interest acquired (sold) is recognised as an equity transaction.

Goodwill

Goodwill arises from the acquisition of subsidiaries.

The excess of the consideration transferred, value of the acquired non-controlling interest and fair value of any interest previously held by the Group at the acquisition date over the Group's interest in fair value of the acquired net identifiable assets is recognised as goodwill within intangible assets in the consolidated statement of financial position. If the actual acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is directly recognised in the consolidated statement of profit and loss and other comprehensive income. Goodwill is reviewed for potential impairment at each reporting date.

Cash-generating units (CGU) to which goodwill is allocated represent the lowest level within the Group at which goodwill is monitored by the management and within the operating segment only.

Transactions eliminated during consolidation

The following is eliminated from the consolidated financial statements:

carrying amount of the parent entity's investments in each subsidiary, the amount of share capital of each subsidiary as well as interests in other equity and retained earnings items;

intragroup cash flows;

balances, income and expenses resulting from intragroup transactions as well as unrealised gains and losses on such transactions, except losses from transactions between the Group's entities indicating an impairment and which are to be recognised as such.

Application of uniform accounting policies

The Group's entities use uniform accounting policies and reporting periods. If the Group's entities use different accounting policies, their financial statements are duly adjusted and included in the consolidated financial statements of the Group.

Cash and cash equivalents, restricted cash

Cash and cash equivalents include cash in hand, cash in settlement accounts, cash held with correspondent banks and other short-term highly liquid investments (with an original maturity of less than three months) that are readily convertible to previously known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Restricted cash is recognised separately in the consolidated statement of financial position.

Inventories

Inventories consisting primarily of materials and supplies, oil and oil products are presented in the consolidated statement of financial position at the lower of the acquisition cost and net realisable value. The cost of finished goods and work in progress comprises the cost of raw materials and supplies, direct costs as well as related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and disposal.

The cost of inventories that are recognised as operating expenses is measured at the weighted average cost.

Property, plant and equipment

Property, plant and equipment is stated at actual cost of acquisition or construction, less accumulated depreciation and impairment losses, where required. The cost of property, plant and equipment also includes the initial estimate of the costs of removal of an item of property, plant and equipment and the estimate of obligations for land remediation and restoration.

Minor renewals which do not contribute to any quality technical improvements are charged to expenses in the current period. The costs of replacing major parts or components of property, plant and equipment are capitalised, and the cost of the parts to be replaced is concurrently written off. Enhancement or renovation of an asset which has already been recognised as an item of property, plant and equipment increases its carrying amount, if future economic benefits to be most likely obtained by the Group exceed the initial asset standard estimates.

Oil and gas properties

Exploration and evaluation costs

Costs of oil and gas exploration and evaluation at fields not brought into commercial production are recognised using the successful efforts method. Accordingly, costs associated with acquisition of licences for oil and gas reserves exploration and evaluation, prospecting and exploratory drilling, costs of equipment for exploratory wells and prospecting and appraisal wells, and topographical, geological and geophysical surveys costs are designated as exploration and evaluation assets until development of a field is proved to be commercially feasible and are capitalised within respective licence areas.

These costs are recognised to be written off pending the results of the works performed. Capitalised costs which have been ineffective are recognised within operating expenses of the reporting period.

Annually, all costs are measured for impairment from technical, economic and management perspectives. If impairment is recognised, an impairment loss is expensed and the value of an asset is reduced.

If oil and gas reserves have been discovered and a decision on bringing a field into development has been made, the capitalised costs, less losses from impairment of the respective exploration and evaluation assets, are classified as corresponding assets.

Other costs associated with protection of lands, subsoil and other natural resources as well as costs of engineering and geological surveys are expensed as incurred.

Development and production costs

Costs incurred at fields brought into commercial production, which include expenses to access recoverable reserves, expenses for construction of exploratory wells and construction, installation and equipment of other facilities directly associated with development of a field, are capitalised as part of oil and gas assets.

Oil and gas exploration and production licences

Oil and gas exploration and production licences are recorded within oil and gas exploration and production assets at actual cost, less accumulated amortisation and impairment loss.

Depletion, depreciation and amortisation

Oil and gas properties and oil and gas exploration and production licences are depreciated and amortised using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production of oil and gas.

Items of other property, plant and equipment and their respective estimated useful lives are as follows:

Buildings and structures	10-40 years
Vehicles	5-20 years
Machinery and equipment	5-25 years
Other properties	2-25 years

Capitalised costs are amortised over the useful life of an asset or its parts determined by the Group.

Abandoned, idle items of other property, plant and equipment (except for those classified as assets held for sale) are depreciated subject to general rules applied to the respective classes of assets. Items of property, plant and equipment are depreciated on a straight-line basis by writing down their historical cost to residual value within the period of their useful life.

Depreciation of an asset ceases at the earlier of the two dates: the date when the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date when the asset is derecognised.

Land and construction in progress are not depreciated.

Gain or loss on disposal of property, plant and equipment is the difference between the consideration received and the carrying amount; it is recognised as incurred in other income (expenses).

Construction in progress

Construction in progress includes expenses directly related to the construction of items of property, plant and equipment, including respective overhead costs allocated to such construction. Depreciation of an asset begins when it is available for use, i.e. when it is brought to the condition usable as intended by the management.

Advances for acquisition of items of property, plant and equipment and construction projects are accounted for in construction in progress.

Recognition of asset retirement (decommissioning) obligations

The Group has obligations related to decommissioning of facilities engaged in its core activities.

The Group’s core activities are geological exploration, field development and oil and gas production associated with operation of wells, equipment and adjacent sites, oil gathering and initial treatment facilities, pipelines to oil trunk lines. Exploration rights include requirements for decommissioning of oil production facilities and other facilities related to the Group’s core activities. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other activities. The Group’s estimates of these obligations are subject to current decommissioning obligations in respect of such facilities fulfilled to the extent that the Group is obliged to perform restoration works and include discounted costs which are expected to be incurred to fulfil such obligations. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the obligations.

These obligations are reviewed at the end of each reporting period. Changes in the estimates of the obligations are subject to recognition as follows:

upon changes in the estimates of future cash flows (e.g., the costs of and time frame of abandoning one well) or a discounting rate, changes in the estimates of the obligations are included in the amount of an item of property, plant and equipment. However, if a decrease in the estimate of obligations exceeds the carrying amount of the relevant asset, the excess is recognised in profit or loss. In case of an increase in the obligations, the amount of the adjusted item of property, plant and equipment may not exceed the recoverable amount of this item;

changes in the amount of the obligations due to its nearing maturity (amortisation of discount) are included in finance expenses.

Future events that may affect the amount of obligations required to settle decommissioning and environmental protection obligations are reflected in the estimates of these obligations where there is sufficient objective evidence that they will occur. Due to changes in the law of the Russian Federation, there could be future changes to decommissioning obligations.

Intangible assets

To recognise intangible assets generated by the Group’s companies, the Group subdivides the generation of an asset into a research phase and a development phase.

Research expenditures are charged to operating expenses as incurred.

Costs incurred to develop an intangible asset are capitalised once technical and economic feasibility of a product or a process has been proved. Development expenditures that were initially recognised as expenses are not subsequently capitalised even if complying with conditions for the recognition of assets.

The historical cost of acquired intangible assets represents expenditures incurred to acquire and put them into service.

Advances issued for acquisition of intangible assets are classified as non-current assets irrespective of the date when such assets have been delivered.

After initial recognition, the Group applies the cost model where an intangible asset is carried at its actual cost, less accumulated amortisation and any accumulated impairment losses, where required.

Amortisation of intangible assets begins when they are available for use. Intangible assets are amortised on a straight-line basis over their expected useful lives. The amortisation methods and expected useful lives are reviewed at each reporting date, and all the changes in the estimates are accounted for in periods of changes in estimates and in future periods.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss as other income or expense when the asset is derecognised.

Impairment of non-current non-financial assets

The Group’s non-current non-financial assets, except for deferred tax assets, are reviewed for any indication of impairment at each reporting date. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped into the smallest group assets generating cash from their use that are independent of the cash acquisition from other cash-generating units (CGU).

The recoverable amount by the CGU is the higher of two values: the CGU value in use and its fair value, less costs of disposal.

The CGU value in use is determined using discounted cash flow models. Estimates of the CGU value in use are made using future cash flows projections.

The CGU future cash flows projections are based on external and internal factors forecasted in relation to the Group.

Forecasted external factors include: forecast of the market macroeconomic environment (oil, gas and oil products prices, inflation and interest rates) and tax environment (tax rates, export duties, fees and charges). These forecasts are based on the assessments of the Company's management and macroeconomic forecasts available at the reporting date.

The expected future cash flows are discounted to their present value using a pre-tax discount rate estimated on the basis of the weighted average cost of capital.

An impairment loss is recognised if the carrying amount of an asset or a group of assets (CGU) exceeds its recoverable amount. Impairment losses are recorded in other expenses. The CGU impairment losses are allocated first to reduce the carrying amount of goodwill allocated to such CGU and then to reduce the carrying amount of other assets of the CGU on a pro rata basis. An impairment loss for goodwill is not reversed.

Impairment losses relating to other assets recognised in prior reporting periods are assessed at each reporting date to confirm whether there is any indication that they may exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed in the manner that the value of an asset shall not exceed the carrying amount of an asset (net of amortisation or depreciation) if no impairment loss had been recognised.

Financial assets

The Group recognises a financial asset in the consolidated statement of financial position only when it becomes a party to the contract concerning this financial instrument.

All purchases and sales of financial assets that require delivery within the timeframe established by the regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, i.e. the date at which the Group commits to purchase or sell a financial asset. All other purchases and sales are recognised at the delivery date.

The Group divides financial assets into the following categories: financial assets at fair value through profit or loss, loans granted and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets at fair value through profit or loss are initially recognised at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value is the price that would be received upon the sale of 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 of a financial asset is price in an active market. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial assets at fair value through profit or loss include financial assets held for trading and other financial assets classified as carried at fair value through profit or loss at initial recognition.

A financial asset is recognised in financial assets at fair value through profit and loss if the Group has an intention to purchase or sell it in the near term, or if it is part of a single portfolio of identified financial instruments for which there is evidence of an actual pattern of short-term profit-taking.

Upon initial recognition the fair value of financial assets of this category is measured as a quoted price in an active market at the measurement date.

Financial assets at fair value through profit or loss are recorded within other financial assets in the consolidated statement of financial position; gains or losses arising from changes in the fair value are recognised within other income (expenses) in the consolidated statement of profit or loss and other comprehensive income.

Granted loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that arise when providing money, goods or services to a borrower with no intention of selling them. Granted loans and receivables are further measured at amortised cost using the effective interest method, less provision for impairment. Amortised cost of discounts or premiums for granted loans and receivables based on the effective interest method is stated within finance income in the consolidated statement of profit and loss and other comprehensive income. Impairment losses on granted loans and receivables are recognised in profit or loss.

Held-to-maturity investments include non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has an intention and ability to hold to maturity. Subsequently, financial assets of this category are measured at amortised cost using the effective interest method, less provision for impairment.

All other financial assets are recognised by the Group at fair value within the available-for-sale financial assets.

Gain or loss on available-for-sale financial assets is recognised in other comprehensive income, less impairment losses and profits or losses due to changes in the exchange rates.

Reclassification of financial assets

The Group assesses the validity of subdividing financial assets into categories at each reporting date.

Available-for-sale financial assets can be reclassified as held-to-maturity investments, if the Group changes its expectations and has the possibility of holding these securities to maturity.

Impairment of financial assets

At each reporting date the Group assesses whether there are any indications that financial assets of all categories are impaired except for those recognised at fair value through profit and loss.

Sings of impairment:

significant financial difficulty of the issuer or obligor;

a breach of contract (default or delinquency in payments);

it becoming probable that the borrower will enter bankruptcy or financial reorganisation;

the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower concessions that the lender would not otherwise consider;

the disappearance of an active market for the financial asset because of the financial difficulties of the issuer;

observable data indicating that there is a decrease in the expected future cash flows from a group of financial assets, although such a decrease cannot yet be identified with the individual financial assets (e.g., negative changes in industry conditions that affect borrowers in the group);

significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates indicating that the cost of the investment in the equity instrument may not be recovered;

a significant or prolonged decline in the fair value of financial assets below the actual acquisition cost.

A financial asset is impaired only if there is objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows from the financial asset (provided that the sum of cash flows can be reliably estimated).

Impairment losses are recognised in the amount determined by:

making provisions for financial assets measured at amortised cost (loans and receivables, held-to-maturity investments) as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the effective interest rate calculated at initial recognition;

financial assets measured at historical cost (available-for-sale financial assets) as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset;

available-for-sale financial assets (measured at fair value) if there is a decrease in fair value and objective evidence of impairment as the difference between the acquisition cost of the asset (net of principal repayment and amortisation) and the current fair value.

If there is objective evidence of impairment, accumulated loss, recognised in other comprehensive income, on available-for-sale financial assets is excluded from equity and recognised in profit or loss as a reclassification adjustment.

Derecognition of financial assets

The Group derecognises financial assets when these assets are redeemed or the rights to cash flows from these assets expired, or when the Group has transferred the rights to the cash flows from the financial assets or entered into a pass-through arrangement while also transferring all significant risks and rewards of ownership of the assets, or neither transferring nor retaining all significant risks and rewards of ownership but not retaining control in respect to these assets.

Financial liabilities

Financial liabilities of the Group are trade and other accounts payable, loans and credits received. Financial liabilities are recognised at amortised cost.

The Group derecognises a financial liability (or part of a financial liability) if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the redemption amount, including any non-cash assets transferred or liabilities assumed is recognised in profit and loss.

Value added tax

The amount of value added tax (VAT) payable to the budget at the end of each tax period is defined as output VAT, less input VAT, paid on the purchase of goods (works, services). The tax base is determined on delivery where delivery is recognised at the earliest of the dates: date of dispatch (transfer) of goods (works, services), property rights or date of payment or partial payment against future deliveries of goods (works, services), transfer of property rights.

The VAT rate is 18%.

Zero rate is applicable to export of goods. This application is substantiated by the documents which are submitted to the tax authorities as required under the law of the Russian Federation. Input VAT related to zero-rated transactions is deductible.

VAT payable and VAT recoverable are recognised in the statement of financial position on a gross basis in assets and liabilities. Where a provision has been made for receivables, the impairment loss is recognised for the full amount receivable, including VAT.

Mineral extraction tax

Mineral extraction tax (MET) related to oil production is levied based on the quantities of mineral resources extracted and calculated on a monthly basis as the product of a quantity of mineral resources produced and a fixed tax rate (in 2017 – RUB 919 per tonne, in 2016 – RUB 857 per tonne) adjusted depending on the monthly average global market prices of the Urals oil and USD/RUB exchange rate for the preceding month.

The Company qualifies for MET relief, i.e. fixed rate discounts subject to production areas, the degree of depletion and reserves availability at the subsoil area and the complexity of extraction. MET is recorded within operating expenses.

Customs duties

Hydrocarbons exported outside the territory of the Customs Union are subject to customs export duties, the amount of which is adopted on a monthly basis by the Government of the Russian Federation and reviewed depending on the average global market prices of the Urals oil for the preceding period.

Income tax

The income tax expenses for the reporting period comprise current tax and deferred tax. Income tax is fully recognised in profit or loss, except if it arises from transactions which are directly recorded in equity or other comprehensive income.

Currently, the Group continues to apply the concept of the consolidated group of taxpayers which was introduced in the Russian law in 2012. Income tax in relation to companies which do not belong to the consolidated group of taxpayers is calculated based on the income stated in their individual tax returns. These consolidated financial statements include deferred income tax assets and liabilities estimated by the Group under IAS 12 “Income taxes”.

Current income tax is the amount expected to be paid to the budget in respect of taxable profit (tax loss) for the current and prior periods.

Deferred income tax is recorded in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recorded for:

temporary differences on initial recognition of assets or liabilities in transactions other than business combinations and which do not affect neither accounting nor taxable profit (tax loss) at initial recognition;

temporary differences associated with investments in subsidiaries, joint ventures and associates if the Group controls the reversal of such temporary differences and it is highly probable that they will not reverse in the foreseeable future;

temporary differences arising from the initial recognition of goodwill.

Deferred tax is measured at tax rates which are expected to apply to the period when the temporary differences will reverse based on the legal provisions effective or substantively brought into effect at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities to the extent when they intend either to settle current tax assets and liabilities on a net basis, or to realise the tax assets and settle the tax liabilities simultaneously.

In accordance with the tax law of the Russian Federation, tax effect of loss incurred in prior reporting periods can be recognised as a deferred tax asset.

Deferred tax assets are recorded only to the extent that it is highly probable that future taxable profit will be available against which the occurred temporary difference could be utilised. The amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that the respective benefit will be derived from its utilisation.

Deferred tax assets and liabilities are recognised in non-current assets and non-current liabilities respectively.

Uncertain tax positions

The Group’s uncertain tax positions are assessed by the Group’s management at the end of each reporting period. Obligations are recorded for income tax positions that are determined by the Group’s management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Such assessment is based on the interpretation of tax laws that have been effective or substantively brought to effect at the end of the reporting period, and any known court or other rulings on such issues. Obligations for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits

Post-employment benefit obligations

Costs related to post-employment benefits are accrued and recognised in payroll expenses. Post-employment benefit obligations are measured at current cost of the estimated cash outflows using the interest rates applicable to government securities which maturity is nearly the same as that of the obligations. Costs related to post-employment benefit obligations are measured using the projected unit credit method. Actuarial gains and losses are recorded in other comprehensive income in remeasurements of post-employment benefit obligations in the period in which they occur.

In accordance with its collective agreements, the Group pays additional post-employment benefits and other post-employment benefits to its employees. Pursuant to its corporate plan, the Group makes employee contributions to JSC “NPF “Surgutneftegas”. Once contributions to JSC “NPF “Surgutneftegas” have been made and benefits due to employees have been paid, post-employment benefit obligations to the employees are regarded as fulfilled, hence the Group does not incur actuarial and investment risks. Besides, the Group does not have assets attributed to post-employment benefit plans.

In the course of its ordinary business, the Group contributes to the Pension Fund of the Russian Federation on behalf of its employees. Obligations in respect to such contributions are recognised as employee benefits expenses incurred during the period when the respective services have been rendered by employees under employment agreements.

Operating leases

Where the Group is a lessee in a lease which does not transfer all significant risks and rewards connected with ownership of an asset from the lessor to the Group, the total lease payments inclusive of payments due to expected lease termination are charged to operating expenses in the consolidated statement of profit and loss and other comprehensive income on a straight-line basis over the period of the lease. Property, plant and equipment leased on an operating leasehold basis are not accounted for in the consolidated statement of financial position.

Revenue recognition

Revenue from the sales of goods is measured at the fair value of consideration received or receivable, net of reimbursements, discounts and volume rebates. Revenue is recognised when all significant risks and rewards of ownership have been transferred to the buyer, consideration can be received, costs incurred can be reliably measured and return of goods can be assured, the seller retains no effective control over the goods sold and the amount of revenue can be reliably measured. The transfer of risks and rewards occurs at a different time subject to the relevant terms of each sale and purchase agreement.

Domestic sales of oil and gas as well as oil products and materials are recognised when the title passes.

Export sales of crude oil (transfer of title and risks of accidental loss) are FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail in the designated port), DAF (delivered at frontier) or DAP based (delivered at place). The title passes at the time when goods pass the tanker’s permanent hose connection in the port of loading, the border of the Russian Federation, or when the seller places the goods at the disposal of the buyer on the means of transport ready for unloading, at the named place, subject to delivery conditions. Oil products are sold on FCA basis (delivery to a named place for transfer to a carrier nominated by the buyer), and the respective sales proceeds are recognised once the goods have been cleared through customs and delivered to the buyer and FOB basis (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail in the designated port). Some oil products are exported on CPT basis (transportation is paid up to a point specified in the contract and the risk is transfered during the transfer of goods to the first carrier). The Group covers transportation expenses on such sales. Revenue from sales is represented in the consolidated statement of profit and loss and other comprehensive income, less relevant duties and taxes on such sales.

Revenue from services is recognised when such services are rendered provided that the cost of services is determinable and no significant uncertainty in respect of potential proceeds exists.

Functional and presentation currency

The currency of the Russian Federation is Russian ruble (RUB) which is the functional currency of the Group’s companies and is used as the presentation currency of these consolidated financial statements.

All values presented in rubles are rounded to the nearest million except when otherwise indicated.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the Group’s entities at the exchange rate effective at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate effective at this date. Non-monetary assets and liabilities in foreign currencies measured at fair value are translated into the functional currency at the exchange rate effective at the date when their fair value has been determined. Exchange differences resulting from the translation of currencies are recognised in other income and expense.

Net earnings per share

Earnings per share are calculated by dividing net income attributable to the holders of the Company’s ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period, net of average number of treasury ordinary shares bought back by the Group’s entities.

Equity

Ordinary and preference shares

Ordinary and preference shares are classified as equity. Preference shares are entitled to vote on matters in respect of reorganisation and liquidation of the Company, and matters related to: releasing the Company from an obligation to disclose or provide information required under the law of the Russian

Federation on securities; introducing amendments and addenda to the Company’s charter which restrict the rights of holders of the preference shares of this type; filing an application for listing or delisting of preference shares of this type.

If dividends on preference shares per year have not been declared or paid, preference shares are entitled to vote on a par with ordinary shares unless dividends on preference shares are declared and paid.

Additional paid-in capital

Additional paid-in capital represents profit (loss) on operations, financial results of which shall be recognised directly in equity, including gains and losses on the sale of treasury shares and gains and losses on the purchase (sale) of a non-controlling interest (whole or its part) provided that the control is retained.

Treasury shares

If the Group purchases the Company’s shares, these shares are deducted from equity. Treasury shares are recorded at the acquisition cost. Gains and losses associated with purchase, sale, issue or cancellation of treasury shares shall be recorded directly in equity.

Share premium

Share premium represents the excess of contributions received over the nominal value of the Company’s ordinary shares issued, less flotation costs.

Non-controlling interests

Non-controlling interests are part of profit or loss and net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly through subsidiaries, by the Company.

Non-controlling interests are presented within equity, separately from the Group’s equity, in the consolidated statement of financial position.

Dividends

Dividends are recorded as liabilities and are deducted from equity in the period in which they are declared.

Adoption of new or revised standards and interpretations

The following new standards and interpretations became mandatory for annual periods beginning on 1 January 2017.

The amendments to IAS 7 “Disclosure initiative” – these amendments did not have a material impact on the Group’s consolidated financial statements. Information is disclosed in Note 30.

The amendments to IAS 12 “Recognition of deferred tax assets for unrealised losses” – these amendments did not have a material impact on the Group’s consolidated financial statements.

The amendments to IFRS 12, included in Annual Improvements to International Financial Reporting Standards 2014 – 2016 (issued in December 2016 and effective for annual periods beginning on or after 1 January 2017). These amendments did not have any material impact on the Group’s consolidated financial statements.

4 Critical accounting judgements, estimates and assumptions

The Group makes estimates and assumptions that affect assets and liabilities recognised in the financial statements within the reporting and the next financial year. Estimates and judgments are continuously evaluated and are based on the management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements that significantly affect the indicators recognised in the consolidated financial statements and estimates that may require significant adjustments of the carrying amount of assets and liabilities within the next financial year include:

Estimation of oil and gas reserves

Estimates of oil and gas recoverable reserves are imprecise as they are founded on personal judgement and are subject to regular revision, either upward or downward, based on new data acquired in the result of drilling additional wells, observation of long-term reservoir performance under producing conditions and changes of other factors. The management makes certain assumptions while estimating actual volumes of available recoverable oil and gas reserves. Oil and gas reserves are estimated for the purpose of the present statements in accordance with the provisions of Federal Budgetary Institution "State Reserves Committee" (FBU "GKZ").

Oil and gas estimation is used for depreciation of oil and gas assets and for impairment determination. Oil and gas estimation is made based on possible assumptions and is reviewed on an annual basis.

Assumptions and estimates may vary as additional information about oil and gas reserves, changes in forecast and assumptions become available.

Reserve estimations have an impact on certain amounts of consolidated financial statements – oil and gas assets depreciation value, and impairment losses. Depreciation of oil and gas assets is calculated using the unit-of-production method for each field based on initial recoverable reserves under the Russian classification. Oil and gas estimation under the Russian classification is used for calculations of future cash flows to be the main evidence of asset impairment.

Useful life of other property, plant and equipment and intangible assets

The Group estimates the remaining useful life of other property, plant and equipment at least once a year at the end of the financial year. If expected values differ from previous estimations, changes are recognised as changes in accounting estimates in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The Group's Management determines useful life periods for property, plant and equipment and intangible assets subject to physical properties and terms during which they bring benefit to the Group.

Impairment of goodwill and other assets

When assessed for possible impairment, forecast of cash flows requires a number of significant assumptions and estimates of such indicators as oil and gas production output, natural gas, oil and refined products prices, operating expenses, capital expenditures, hydrocarbon reserves, including such macroeconomic indicators as the inflation rate and discount rate. Besides, assumptions are applied for determining generating groups of assets subject to assessment for impairment. Value of assets or generating groups of assets related to oil and gas production is determined based on production output projections.

Asset retirement (decommissioning) and environmental protection obligation

Production and exploration operations of the Group are governed by a number of environmental safety regulations and statutory acts. The Group assesses environmental protection obligations based on the Group's Management awareness of the current legislation, licence agreements and in-house engineering judgements. Decommissioning obligations are recognised on a net discounted basis at the moment at which the relevant obligations arose. Actual deferred expenses may significantly differ from the amount of obligations formed. Additionally, such provision may be influenced by future changes in environmental safety statutory acts, discount rates and expected terms of field development.

Post-employment benefit obligations

Post-employment benefit obligations are assessed based on assumptions. Actual amounts may differ from the estimated values of the Group and may be adjusted in the future based on modified expectations of the Group.

Expected survival assumptions are based on published statistics and demographic tables of mortality. At present, the retirement age in the Russian Federation is 60 and 55 years for men and women respectively.

5 New interpretations and standards

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2018 and which the Group has not early adopted.

IFRS 9 "Financial instruments" (with amendments introduced in July 2014 and effective for annual periods beginning on or after 1 January 2018).

The main differences of the new standard from IAS 39 "Financial instruments: recognition and measurement" are as follows.

Financial assets are required to be subdivided into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured at fair value through profit or loss.

Classification for debt instruments depends on the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is intended to collect, it may be carried at amortised cost if it also meets the solely payments of principal and interest requirement. Debt instruments that require to pay only principal and interest and are held in the portfolio can be classified as subsequently measured at fair value in the other comprehensive income, if the entity both holds them for collecting cash flows of assets and sells assets. Financial assets that do not contain cash flows, that are solely payments of principal and interest, shall be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be taken into consideration when assessing compliance with the payment of only principal and interest.

Investments in equity instruments shall always be measured at fair value. At the same time, the Management can make an irreversible decision to present changes in fair value in other comprehensive income in case the instrument is not intended for trading purposes. If the equity instrument is held for trading, the changes in fair value are presented in profit or loss.

Most requirements for classification and measurement of financial liabilities were transferred from IAS 39 to IFRS 9 unchanged. The key change is that an entity will be required to present the effects of changes in its own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses: an expected credit loss model. There is a three-stage approach based on the change in the credit quality of financial assets since the initial recognition. In practice, the new rules mean that entities will have to record losses equal to the 12-month expected credit losses immediately on initial recognition of financial assets that are not credit impairment losses (or lifetime expected credit losses for trade receivables). In case of a significant increase in credit risk, impairment is measured using expected credit losses for the lifetime of a financial instrument rather than using 12-month expected credit losses. The model provides a simplified operational approach for trade and lease receivables.

Requirements for hedge accounting were amended to ensure a better compliance of accounting with risk management. The standard gives entities the opportunity to choose between accounting policy with the application of the hedge accounting requirements of IFRS 9 and further application of IAS 39 to all hedge financial instruments because the standard does not consider macro hedge accounting now.

According to the results of the Group’s analysis of financial assets and financial liabilities as of 31 December 2017 and based on facts and circumstances existing as of this date, the Group’s management is expecting that the adoption of the new standard starting from 1 January 2018 will not have a material impact on its consolidated financial statements.

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

The Group’s Management expects that this amendment will not have a material impact on the consolidated financial statements of the Group.

“Revenue from contracts with customers” – **Amendments to IFRS 15** (issued in April 2016 and effective for periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard. The amendments clarify how to identify a performance obligation (the promise to transfer goods or services to a customer) in a contract; how to determine whether a company is a principal (the provider of the goods or service) or an agent (a party responsible for arranging for the goods or service to be provided); how to determine whether the revenue from granting a licence should be recognised at a certain point in time or over the period. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for an entity when it first applies the new standard.

The Group's Management expects that these amendments will not have a material impact on the consolidated financial statements of the Group.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard establishes principles for recognition, measurement, presentation and disclosure of information on leases in the financial statements. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit and loss. IFRS 16 substantially carries forward the lessor accounting requirements stipulated in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to reflect those two types of leases differently in the financial statements.

The Group's Management is currently analysing the implications of the standard and its impact on the Group's consolidated financial statements.

IFRS 17 "Insurance contracts" (issued in May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 which allowed the entities to continue accounting for existing insurance practices which are otherwise similar. IFRS 17 is a comprehensive standard for presentation of all types of insurance contracts, including contracts of reinsurance of the insurer.

The Group's Management expects that this standard will not have a material impact on its consolidated financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation will address how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the relevant asset, expense or income (or part of it) on derecognition of a non-monetary asset or a non-monetary liability arising from the advance consideration in a foreign currency. In accordance with IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration in a foreign currency. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. IFRIC 22 applies only when an entity recognises a non-monetary asset or a non-monetary liability arisen from advance consideration in a foreign currency. IFRIC 22 does not have any practical guidance to determine the object of accounting as monetary or non-monetary. Generally, the payment or receipt of an advance consideration result in recognition of a non-monetary asset or non-monetary liability, but such a payment or receipt can also result in a monetary asset or liability. An entity may require a professional judgement for determination whether a specific object of accounting is a monetary or a non-monetary one.

The Group's Management expects that this interpretation will not have a material impact on its consolidated financial statements.

IFRIC 23 "Uncertainty over income tax treatments" (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies guidance for current and deferred tax treatments, but there is no guidance for uncertainty treatment. The interpretation clarifies application of the recognition and measurement requirements in IAS 12 when there is an uncertainty over income tax treatments. An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity shall assume that taxation authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit or tax loss, tax bases, unused tax losses, unused tax credits or tax rates by using either of the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity shall reflect the effect of a change in facts and circumstances or of new information that affects the judgements and estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by taxation authorities, changes in rules established by taxation authorities or the expiry of taxation authorities’ right to examine or re-examine an income tax treatment. The absence of agreement or disagreement by taxation authorities with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the interpretation.

The Group’s Management is currently analysing the implications of the interpretation and its impact on the Group’s consolidated financial statements.

Plan amendment, curtailment or settlement – Amendments to IAS 19 (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how to determine post-employment benefits when changes in the defined benefit plan occur. When the plan is amended – revision, curtailment or settlement – IAS 19 requires to remeasure the net defined benefit liabilities or assets. The amendments require to use updated assumptions of such a remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the plan amendment. Prior to these amendments, IAS 19 did not clarify how to determine such expenses for the period after the plan amendment. The amendments requiring use of renewed assumptions are expected to provide useful information to financial statements users.

The Group’s Management is currently analysing the implications of the standard and its impact on the Group’s consolidated financial statements.

It is expected that the following standards and interpretations, on their entry into force, will not have a material impact on the Group’s consolidated financial statements:

“Sale or contribution of assets between an investor and its associate or joint venture” – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning after the date defined by International Accounting Standards Board).

Amendments to IFRS 2 “Share-based payments” (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018).

Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance Contracts” – Amendments to IFRS 4 (issued in September 2016 and effective depending on the chosen approach: for annual periods beginning on or after 1 January 2018 – for entities which have chosen a deferral approach and for annual periods beginning from the date the entity started to apply IFRS 9 – for entities which have chosen an overlay approach).

“Transfers of investment property” – Amendments to IAS 40 (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).

Annual improvements to IFRS 2014–2016. Amendments to IFRS 1 and IAS 28 (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).

Prepayment features with negative compensation – Amendments to IFRS 9 (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019).

Long-term interests in associates and joint ventures – Amendments to IAS 28 (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual improvements to IFRS 2015–2017 – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019).

(in millions of Russian rubles, unless otherwise stated)

6 Subsidiaries

The Company has the following subsidiaries registered and doing business in the Russian Federation:

Description	**Area of activity**	**As of 31 December 2017, Ownership interest (%)**	**As of 31 December 2016, Ownership interest (%)**
Oil and gas exploration and production			
OJSC "Surgutneftegas"	Oil and gas exploration and production	Parent company	Parent company
Oil refining			
LLC "KINEF"	Oil refining	100%	100%
Oil products sales			
LLC "Novgorodnefteproduct"	Oil products sales	100%	100%
LLC "Pskovnefteproduct"	Oil products sales	100%	100%
LLC "Kaliningradnefteproduct"	Oil products sales	100%	100%
LLC "MA "Tvernefteproduct"	Oil products sales	100%	100%
LLC "KIRISHIAVTOSERVIS"	Oil products sales	100%	100%
Other companies			
LLC "Insurance Company "Surgutneftegas"	Insurance	100%	100%
Joint Stock Company "Surgutneftegasbank"	Banking operations	97.7591%	97.7591%
LLC "Surgutmebel"	Manufacture of wood construction items	100%	100%
OJSC "Sovkhoz "Chervishevsky"	Agriculture	94.9996%	94.9996%
LLC "Media-Invest"	Regional and corporate television and radio broadcasting	100%	100%
LLC "Lengiproneftekhim"	Engineering	100%	100%
LLC "DmitrovMontazhGrupp"	Construction of buildings and structures	97.7591%	97.7591 %

This list of subsidiaries is complete; the Group has no subsidiaries outside the Russian Federation.

As of 31 December 2017, non-controlling interests in the amount of RUB 298 million (as of 31 December 2016 – RUB 245 million) are not material for the Group.

7 Segment information

Individual executive body represented by director general of the Company and deputies of director general covering different operations (the Management) act as a manager making operational decisions and consider the information about the Group to comprise the following operating segments:

“Exploration and production” is part of the Company’s activity related to exploration, evaluation, production of oil and gas, and oil and gas sale;

“Refining and sale” is part of the Company’s activity related to oil and gas processing, and sale of refined products, and the activity of the Group’s subsidiaries involved in refining and refined products sales;

“Other activities” represents other non-significant activities and segments having no similar economic performance and includes banking operations, insurance and production of other goods, jobs and services.

On a monthly basis the Management estimates performance results of the segments based on the revenue, profit and operating expenses to resolve on resource distribution and operating efficiency.

Results of separate significant operations and a number of adjustments required to bring accounting (financial) statements of the Company prepared in accordance with Russian Accounting Statements (RAS) in line with the relevant IFRS amounts are considered by the Management across the whole Group without breakdown by operational segments.

Sales operations among operational segments recorded as intersegment sales are performed based on market prices.

(in millions of Russian rubles, unless otherwise stated)

Performance results of operating segments for 2017:

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue					
Export, including:	**564,522**	**278,624**	**2**	**-**	**843,148**
revenues from oil sales	564,522	-	-	-	564,522
revenues from oil products sales	-	278,624	-	-	278,624
sales of other products and finished goods	-	-	2	-	2
Domestic market, including:	**205,391**	**207,721**	**3,392**	**(84,633)**	**331,871**
revenues from oil sales	179,046	-	-	(18,330)	160,716
revenues from oil products sales	-	195,843	-	(64,811)	131,032
revenues from gas and gas products sales	16,901	7,246	-	(7)	24,140
sales of other products and finished goods	4,146	3,539	1,581	(706)	8,560
other sales	5,298	1,093	1,811	(779)	7,423
Total sales revenue	**769,913**	**486,345**	**3,394**	**(84,633)**	**1,175,019**
Operating expenses	(564,275)	(416,141)	(6,067)	83,851	(902,632)
Operating profit / (loss)	**205,638**	**70,204**	**(2,673)**	**(782)**	**272,387**
Finance income					112,856
Finance expenses					(16,027)
Exchange differences					(118,428)
Loss on sale and other disposal of financial assets					(2,159)
Other expenses					(2,196)
Profit before tax					**246,433**
Income tax					(51,715)
Net profit					**194,718**

(in millions of Russian rubles, unless otherwise stated)

Performance results of operating segments for 2016:

	Exploration and production	Refining and sale	Other activities	Intersegment sales	Total
Sales revenue					
Export, including:	**529,026**	**236,885**	**38**	**-**	**765,949**
revenues from oil sales	529,026	-	-	-	529,026
revenues from oil products sales	-	236,867	-	-	236,867
revenues from gas products sales	-	18	-	-	18
sales of other products and finished goods	-	-	38	-	38
Domestic market, including:	**149,778**	**182,498**	**3,014**	**(80,406)**	**254,884**
revenues from oil sales	122,226	-	-	(15,468)	106,758
revenues from oil products sales	-	168,938	-	(63,621)	105,317
revenues from gas and gas products sales	16,340	5,976	-	(7)	22,309
sales of other products and finished goods	3,311	5,393	1,215	(658)	9,261
other sales	7,901	2,191	1,799	(652)	11,239
Total sales revenue	**678,804**	**419,383**	**3,052**	**(80,406)**	**1,020,833**
Operating expenses	(467,506)	(367,630)	(5,973)	80,805	(760,304)
Operating profit / (loss)	**211,298**	**51,753**	**(2,921)**	**399**	**260,529**
Finance income					116,837
Finance expenses					(8,835)
Exchange differences					(438,601)
Gain on sale and other disposal of financial assets					22
Other expenses					(2,149)
Loss before tax					**(72,197)**
Income tax					10,164
Net loss					**(62,033)**

(in millions of Russian rubles, unless otherwise stated)

Sales comprise the following (based on the buyer’s registration country):

Sales	**2017**	**2016**
export of crude oil – Europe	440,156	410,769
export of crude oil – Asia	225,358	237,290
export of crude oil – CIS, other than Russia	44,391	37,733
domestic sales of crude oil	160,716	106,758
domestic sales of gas	16,894	16,333
Total oil and gas sales	**887,515**	**808,883**
export of oil products – Europe	243,388	281,400
export of oil products – Asia	65,494	38
export of oil products – North America	23	11
export of oil products – South America	13,475	-
export of oil products – CIS, other than Russia	274	-
domestic sales of oil products	131,032	105,317
export of gas products – CIS, other than Russia	-	16
export of gas products – Asia	-	2
domestic sales of gas products	7,246	5,976
Total oil and gas products sales	**460,932**	**392,760**
Other international sales	2	38
Other domestic sales	15,983	20,500
Total sales	**1,364,432**	**1,222,181**
less export duties	(189,413)	(201,348)
Total sales revenue	**1,175,019**	**1,020,833**

Information about sales to the main buyers

The Group has one buyer accounting for over 10% of total revenues of the Group. The aggregate amount of revenues from oil and oil products sales to the main buyer for 2017 is RUB 148,422 million. This revenue is included in Exploration and production segment and Refining and sale segment. For 2016, the aggregate amount of revenue from sales of oil to the main buyer is RUB 130,893 million. This revenue is included in Exploration and production segment.

The Management does not believe that the Group depends on any individual buyer.

8 Related party transactions

Parties are generally considered to be related if one party has the ability to control the other party or can exercise a significant influence over the other party in its financial and business activities as well as in making operational and financial decisions. While considering each possible related party’s relationship, the economic essence of such relationship, not merely the legal form, is taken into account.

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

Within 2017 and 2016, the Group entered into transactions with JSC “NPF “Surgutneftegas” to provide post-employment benefits to employees retired within the year, and other related parties.

Within 2017 and 2016, the Group contributed to JSC “NPF “Surgutneftegas” RUB 1,191 million and RUB 1,049 million respectively.

As of 31 December 2017, the Group had RUB 3,206 million (as of 31 December 2016 – RUB 2,751 million) of loans received from the related parties (funds of the customers of the Group’s bank).

The amount of compensation subject to the regional coefficient and Northern allowance (the salary for the reporting period with taxes and other obligatory budget and non-budget payments accrued, annual paid leave for the work performed in the reporting period and similar payments) to the key management personnel (9,999 people in 2017 and 9,906 people in 2016), including business units and subsidiaries of the Company, authorised to plan, manage and control the Group’s operations in 2017 equalled

(in millions of Russian rubles, unless otherwise stated)

RUB 34,767 million (for 2016 – RUB 33,769 million). Post-employment benefits are provided to the management personnel on a non-preferential basis.

9 Cash and cash equivalents, restricted cash

Cash and cash equivalents represent the following:

	As of 31 December 2017	As of 31 December 2016
Cash in hand and at settlement accounts	20,505	8,697
Deposits with original maturity under contract less than 3 months	196,996	98,756
Total cash and cash equivalents	**217,501**	**107,453**

Restricted cash represents obligatory reserves of the Group’s bank at the accounts of the Central Bank of the Russian Federation.

The additional information on cash and cash equivalents is presented in Note 30.

10 Deposits placed

Placed deposits comprise the following:

	As of 31 December 2017	As of 31 December 2016
Bank deposits:		
- short-term	829,500	465,854
- long-term	1,488,934	1,714,883
Total deposits placed	**2,318,434**	**2,180,737**

Placed deposits represent short-term bank deposits with original maturity under contract more than three months and long-term bank deposits. Interest is paid mainly together with return of the principal amount to the settlement account. In accordance with deposit agreements, the Group loses its right to a part of the accrued interest in case of early return of the principal amount.

The amount of deposits interest received at settlement accounts of the Group for 2017 is RUB 57,925 million (for 2016 – RUB 50,409 million).

The Group’s Management believes that in the foreseeable future the Group will not need to withdraw funds from financial instruments.

The Group does not have any overdue and impaired deposits.

The additional information on deposits placed is presented in Note 30.

Information on the fair value of deposits is presented in Note 31.

11 Receivables

Accounts receivable include:

	As of 31 December 2017	As of 31 December 2016
Trade receivables	86,345	84,887
impairment provision	(178)	(172)
Other receivables	6,507	3,130
impairment provision	(201)	(135)
Total receivables, including:	**92,473**	**87,710**
short-term	91,268	86,811
long-term	1,205	899

A provision for impairment of trade receivables and other receivables has been estimated based on the individual customers, payment history, debts repaid after the reporting date (on an individual basis).

(in millions of Russian rubles, unless otherwise stated)

Analysis of changes in impairment provision of receivables is presented below:

	Trade receivables	**Other receivables**
Impairment provision of accounts receivable as of 1 January 2016	**(172)**	**(391)**
Impairment provision of accounts receivable accrued	(1)	(23)
Impairment provision of accounts receivable used	1	269
Impairment provision of accounts receivable recovered	-	10
Impairment provision of accounts receivable as of 31 December 2016	**(172)**	**(135)**
Impairment provision of accounts receivable accrued	(7)	(123)
Impairment provision of accounts receivable used	-	7
Impairment provision of accounts receivable recovered	1	50
Impairment provision of accounts receivable as of 31 December 2017	**(178)**	**(201)**

As of 31 December 2017, the Group had three (as of 31 December 2016 – five) main debtors, each with at least 10% of total accounts receivable. These debtors provide about 21% of the Group’s revenue in 2017 (in 2016 – 38%).

The additional information on accounts receivable is presented in Note 30.

12 Advances issued

Advances issued include:

	As of 31 December 2017	**As of 31 December 2016**
Export custom duties	8,797	8,710
Oil transport	4,860	4,537
Other advances issued	1,836	4,759
Total advances issued	**15,493**	**18,006**

(in millions of Russian rubles, unless otherwise stated)

13 Loans granted

Short-term and long-term loans granted are represented by credits of the Group’s bank and other loans:

	As of 31 December 2017	**As of 31 December 2016**
Due and unimpaired credits and loans	29,205	43,066
Overdue and/or impaired credits and loans	23,256	10,881
Impairment provision	(6,111)	(6,546)
Total loans granted, including:	**46,350**	**47,401**
short-term	17,239	18,167
long-term	29,111	29,234

Analysis of changes in provision for impairment of loans granted is presented below:

	2017	**2016**
Impairment provision as of 1 January	**(6,546)**	**(7,642)**
provision recovery	435	1,096
Impairment provision as of 31 December	**(6,111)**	**(6,546)**

The additional information on loans granted as well as information on the fair value of the collateral are presented in Note 30.

14 Inventories

Inventories include:

	As of 31 December 2017	**As of 31 December 2016**
Oil and oil products	17,592	15,948
impairment provision	(3)	(2)
Materials and supplies	55,253	58,945
impairment provision	(4,008)	(2,895)
Other reserves	7,829	7,691
impairment provision	(116)	(78)
Goods for resale	1,740	2,479
impairment provision	(6)	(19)
Work in progress	2,984	3,024
Gas and gas products	37	38
Total inventories	**81,302**	**85,131**

(in millions of Russian rubles, unless otherwise stated)

15 Property, plant and equipment

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Historical cost as of 31 December 2015	**1,169,402**	**237,846**	**134,324**	**46,065**	**1,587,637**
Construction and acquisition	155,581	6,269	11,016	19,897	192,763
Reclassifications	-	7,973	16,441	(24,414)	-
Internal movements	(12,280)	(648)	12,928	-	-
Changes in asset retirement (decommissioning) obligations	13,598	-	-	-	13,598
Disposals, retirements and other movements	(13,530)	(414)	(1,222)	(1,197)	(16,363)
Historical cost as of 31 December 2016	**1,312,771**	**251,026**	**173,487**	**40,351**	**1,777,635**
Construction and acquisition	150,040	5,059	15,501	12,045	182,645
Reclassifications	-	34,047	3,294	(37,341)	-
Internal movements	(223)	(34)	257	-	-
Changes in asset retirement (decommissioning) obligations	20,820	-	-	-	20,820
Disposals, retirements and other movements	(20,050)	(617)	(1,554)	(759)	(22,980)
Historical cost as of 31 December 2017	**1,463,358**	**289,481**	**190,985**	**14,296**	**1,958,120**
Accumulated depletion, depreciation and amortisation as of 31 December 2015	**(238,105)**	**(78,770)**	**(39,973)**	**-**	**(356,848)**
Accrual for the period	(65,868)	(21,107)	(10,578)	-	(97,553)
Internal movements	1,733	148	(1,881)	-	-
(Impairment) / reversal of impairment	(865)	(104)	(55)	-	(1,024)
Disposals, retirements and other movements	7,951	485	947	-	9,383
Accumulated depletion, depreciation and amortisation as of 31 December 2016	**(295,154)**	**(99,348)**	**(51,540)**	**-**	**(446,042)**
Accrual for the period	(63,825)	(15,689)	(11,878)	-	(91,392)
Internal movements	63	45	(108)	-	-
(Impairment) / reversal of impairment	178	1,322	91	-	1,591
Disposals, retirements and other movements	6,633	390	1,460	-	8,483
Accumulated depletion, depreciation and amortisation as of 31 December 2017	**(352,105)**	**(113,280)**	**(61,975)**	**-**	**(527,360)**
Carrying amount as of 31 December 2015	**931,297**	**159,076**	**94,351**	**46,065**	**1,230,789**
Carrying amount as of 31 December 2016	**1,017,617**	**151,678**	**121,947**	**40,351**	**1,331,593**
Carrying amount as of 31 December 2017	**1,111,253**	**176,201**	**129,010**	**14,296**	**1,430,760**

As of 31 December 2017, property, plant and equipment included advances for purchase and construction of property, plant and equipment in the amount of RUB 1,673 million (as of 31 December 2016 – RUB 2,537 million).

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. In 2017, the Group reversed the loss from impairment of the exploration and production assets in the amount of RUB 642 million and recognised the loss from impairment of the exploration and production assets in the amount of RUB 464 million. As of 31 December 2017, the amount of the loss from impairment of the exploration and production assets is RUB 4,983 million (as of 31 December 2016 – RUB 6,665 million).

(in millions of Russian rubles, unless otherwise stated)

In 2017, the Group reversed the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 1,322 million. As of 31 December 2017, the amount of the loss from impairment of property, plant and equipment of sales companies is RUB 749 million (as of 31 December 2016 – RUB 2,109 million).

In 2017, the Group reversed the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 91 million. As of 31 December 2017, there is no loss from impairment of property, plant and equipment of other companies (as of 31 December 2016 – RUB 91 million).

Depreciation on property, plant, and equipment includes the amount capitalised in construction in progress for 2017 in the amount of RUB 26,101 million (for 2016 – RUB 21,175 million).

Exploration and evaluation assets included in the cost of property, plant and equipment of oil and gas production and exploration changed over the period as follows:

	2017	**2016**
As of 1 January	**56,732**	**52,532**
Capitalised costs	5,279	10,834
Reclassification to property, plant and equipment	(4,129)	(3,723)
Disposal of expenses associated with ineffective exploration and evaluation	(5,822)	(2,244)
Impairment	(201)	(667)
As of 31 December	**51,859**	**56,732**

The cost of oil and gas exploration and production licences included in exploration and production properties changed as follows:

	2017	**2016**
Historical cost as of 1 January	67,119	66,764
Impairment	(379)	(181)
Accrued amortisation	(2,674)	(2,139)
Carrying amount as of 1 January	**64,066**	**64,444**
Acquisition	252	355
Disposals and retirements	(222)	-
(Impairment) / reversal of impairment	379	(198)
Depreciation accrual	(797)	(535)
Carrying amount as of 31 December	**63,678**	**64,066**

(in millions of Russian rubles, unless otherwise stated)

16 Intangible assets

	Software	Goodwill	Other	Total
Historical cost				
As of 31 December 2015	5,532	5,788	690	12,010
Acquisition	1,273	-	131	1,404
Disposal	(280)	-	(24)	(304)
As of 31 December 2016	6,525	5,788	797	13,110
Acquisition	571	-	276	847
Disposal	(219)	-	(10)	(229)
As of 31 December 2017	6,877	5,788	1,063	13,728
Amortisation and impairment loss				
As of 31 December 2015	(3,052)	(148)	(143)	(3,343)
Accrued amortisation	(665)	-	(83)	(748)
Disposal	229	-	23	252
As of 31 December 2016	(3,488)	(148)	(203)	(3,839)
Accrued amortisation	(897)	-	(110)	(1,007)
Disposal	193	-	6	199
As of 31 December 2017	(4,192)	(148)	(307)	(4,647)
Net carrying amount as of 31 December 2015	**2,480**	**5,640**	**547**	**8,667**
Net carrying amount as of 31 December 2016	**3,037**	**5,640**	**594**	**9,271**
Net carrying amount as of 31 December 2017	**2,685**	**5,640**	**756**	**9,081**

In 2017, the amount of capitalised amortisation of intangible assets in property, plant and equipment is RUB 2 million. In 2016, the amount of capitalised amortisation of intangible assets in property, plant and equipment was RUB 6 million.

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. As of 31 December 2017 and 2016, no impairment of intangible assets has been identified.

As of 31 December 2017 and 2016, the Group had no intangible assets with indefinite useful lives (excluding goodwill).

Goodwill

As of 31 December 2017 and 2016, the goodwill amount was allocated to Refining and Sale segment. This goodwill is recognised as the Company and its subsidiaries represent a business combination.

As of 31 December 2017 and 2016, no impairment of goodwill has been identified.

(in millions of Russian rubles, unless otherwise stated)

17 Payables and liabilities accrued

Accounts payable and accrued liabilities include:

	As of 31 December 2017	As of 31 December 2016
Accounts payable to employees of the Company	28,405	28,862
Trade payables	10,375	9,415
Accounts payable for acquired property, plant and equipment	6,430	7,370
Dividends payable	1,263	1,491
Other accounts payable	1,223	1,752
Total payables and liabilities accrued	**47,696**	**48,890**
Including the financial part of the accounts payable	19,265	20,002

The additional information on the financial part of the accounts payable is presented in Note 30.

18 Other financial liabilities

Other short-term and long-term financial liabilities are settlement accounts and customer deposits of the Group’s bank.

	As of 31 December 2017	As of 31 December 2016
Current / settlement accounts and demand accounts	10,010	10,137
Fixed-term deposits	178,302	96,122
Total other financial liabilities, including:	**188,312**	**106,259**
short-term	184,462	89,747
long-term	3,850	16,512

Interests on deposits are accrued at effective rates ranging from 0.01% to 10.8% in rubles (in 2016 – from 0.01% to 12%) and from 0.01% to 2.7% in a foreign currency (in 2016 – from 0.01% to 5%). Interests on settlement and current accounts range from 0.01% to 14.5% in rubles (in 2016 – from 0.01% to 8.8%) and from 0% to 0.53% in a foreign currency (in 2016 – from 0% to 0.17%).

The additional information on other financial liabilities is presented in Note 30.

19 Other tax liabilities

	As of 31 December 2017	As of 31 December 2016
Mineral extraction tax	47,172	34,897
Value added tax	7,193	3,817
Property tax	3,530	3,387
Other	8,042	8,052
Total other tax liabilities	**65,937**	**50,153**

(in millions of Russian rubles, unless otherwise stated)

20 Provisions

	As of 31 December 2017	As of 31 December 2016
Asset retirement (decommissioning) obligations	117,360	102,656
Post-employment benefit obligations	18,669	17,637
Other liabilities	2,058	1,676
Total provisions, including:	**138,087**	**121,969**
short-term	3,324	2,859
long-term	134,763	119,110

Asset retirement (decommissioning) obligations

Asset retirement (decommissioning) obligations represent cost estimation of land recultivation, wells decommissioning and dismantling of field facilities.

	2017	2016
Obligations as of 1 January	**102,656**	**88,456**
Acquisition	5,804	13,795
Changes in estimates and discounting rates	14,634	3,131
Discount cost amortised	3,803	2,692
Provision used	(9,537)	(5,418)
Obligations as of 31 December	**117,360**	**102,656**

Obligations recognised as of 31 December 2017 and 2016 are long-term.

The expected costs are assessed on the basis of information available at the reporting date. Upon changes of data the calculations made are adjusted.

Post-employment benefit obligations

Post-employment benefit obligations are performed by the Group at the time the employee retires. The right to post-employment benefits is given to employees who have been continuously employed by the Group for not less than five complete years and retired having reached the retirement age. The contribution to JSC “NPF “Surgutneftegas” and lump-sum payments depend on the length of service, the salary level and is defined in the collective agreement.

Expenses recognised in the consolidated statement of profit and loss and other comprehensive income and liabilities recognised in the consolidated statement of financial position are as follows:

	2017	2016
Obligations as of 1 January	**17,637**	**16,966**
Interest liability expenses	817	841
Current service cost	478	471
Benefits paid	(1,343)	(1,205)
Actuarial (gain) / loss	1,080	564
Obligations as of 31 December	**18,669**	**17,637**

Obligations by maturity are as follows:

	As of 31 December 2017	As of 31 December 2016
Short-term	1,266	1,183
Long-term	17,403	16,454
Total post-employment benefit obligations	**18,669**	**17,637**

(in millions of Russian rubles, unless otherwise stated)

Expenses allocated to payrolls:

	2017	**2016**
Current service cost	478	471
Interest liability expenses	817	841
Net expenses on post-employment benefit obligations	**1,295**	**1,312**

The main actuarial assumptions in the reporting period have the following weighted averages:

	As of 31 December 2017	**As of 31 December 2016**
Discount rate	8.16%	8.51%
Average long-term employee compensation increase rate	3.41%	3.51%
Rate of inflation and growth of post-employment benefits	3.41%	3.51%

21 Equity

Share capital and share premium

As of 31 December 2017 and 2016:

Share capital	
Ordinary shares:	
Number of shares issued, thousand	35,725,995
Par value (1 ruble per share), million rubles	35,726
Amount adjusted for inflation, million rubles	**121,203**
Preference shares:	
Number of shares issued, thousand	7,701,998
Par value (1 ruble per share), million rubles	7,702
Amount adjusted for inflation, million rubles	**33,463**

Share premium	
Amount by which the fair value of funds received exceeded the par value, million rubles	35,245
Amount adjusted for inflation, million rubles	**57,809**

The share capital is fully paid. In 2017 and 2016, changes in the structure of the share capital did not occur. The Company did not place any shares.

Treasury shares

As of 31 December 2017 and 2016, the Group owned 650 thousand of ordinary shares, i.e. less than 1% of the total number of shares.

Dividends

The Company’s accounting (financial) statements prepared in accordance with RAS which significantly differ from IFRS consolidated financial statements serve as the basis for the distribution of profits to shareholders.

As of 29 June 2017, the annual general shareholders’ meeting of the Company declared dividends for the year ended 31 December 2016 in the amount of RUB 0.6 per one ordinary share and RUB 0.6 per one preference share.

As of 29 June 2016, the annual general shareholders’ meeting of the Company declared dividends for the year ended 31 December 2015 in the amount of RUB 0.6 per one ordinary share and RUB 6.92 per one preference share.

(in millions of Russian rubles, unless otherwise stated)

As of the date of these consolidated financial statements, the Company did not declare dividends for the year ended 31 December 2017.

22 Export duties

	2017	2016
Export duties on oil sales	145,383	156,766
Export duties on oil products sales	44,030	44,582
Total export duties	**189,413**	**201,348**

23 Operating expenses

	2017	2016
Taxes, excluding income tax	470,670	340,993
Sales and storage expenses	94,760	94,333
Employee benefits	98,025	86,861
Production services	69,139	78,002
Depreciation, depletion and amortisation	66,296	77,120
Supplies	53,053	38,450
Utility and electricity expenses	25,564	28,483
Goods for resale	15,901	10,596
Losses from disposal of exploration and production properties	1,097	1,726
Changes in inventory and work in progress	(2,982)	(4,193)
Other expenses	11,109	7,933
Total operating expenses	**902,632**	**760,304**

Taxes, excluding income tax, include:

	2017	2016
Mineral extraction tax	436,452	311,980
Excise	18,742	14,910
Property tax	14,482	13,467
Other taxes	994	636
Total taxes, excluding income tax	**470,670**	**340,993**

Employee benefits include:

	2017	2016
Salary and charges	97,078	85,978
Contributions to post-employment benefit funds	947	883
Total employee benefits	**98,025**	**86,861**

24 Finance income and expenses

	2017	2016
Interest receivable	112,758	116,807
Interest income from discounting	98	30
Total finance income	**112,856**	**116,837**

	2017	2016
Interest payable	(12,237)	(5,723)
Interest expense from discounting	(3,790)	(3,112)
Total finance expenses	**(16,027)**	**(8,835)**

25 Exchange differences

Exchange differences arise mainly in the result of accounting for trade receivables from buyers of oil and oil products and financial assets in a foreign currency.

(in millions of Russian rubles, unless otherwise stated)

The official exchange rates of the Central Bank of the Russian Federation for foreign currencies against ruble are presented in rubles below:

	As of 31 December 2017	**As of 31 December 2016**
Australian Dollar	44.96	43.81
Hungarian Forint	0.22	0.21
US Dollar	57.60	60.66
Euro	68.87	63.81
Indian Rupee	0.90	0.89
Chinese Yuan	8.85	8.73
Korean Won	0.05	0.05
Norwegian Krone	7.00	7.03
British Pound	77.67	74.56
Czech Koruna	2.69	2.36
Swiss Franc	58.97	59.42
Japanese Yen	0.51	0.52

Average exchange rates in 2017 and 2016 equalled:

	2017	**2016**
Australian Dollar	44.72	49.84
Hungarian Forint	0.21	0.24
US Dollar	58.35	67.03
Euro	65.90	74.23
Indian Rupee	0.90	0.99
Chinese Yuan	8.64	10.11
Korean Won	0.05	0.06
Norwegian Krone	7.06	7.98
British Pound	75.16	91.26
Czech Koruna	2.51	2.75
Swiss Franc	59.27	68.08
Japanese Yen	0.52	0.62

Exchange differences include:

	2017	**2016**
Income from exchange differences	196,896	382,508
Expense from exchange differences	(315,324)	(821,109)
Total exchange differences	**(118,428)**	**(438,601)**

26 Income tax

	2017	**2016**
Current income tax	(15,251)	(619)
Changes in deferred tax assets / liabilities	(36,464)	10,783
Income / (expense) on income tax	**(51,715)**	**10,164**

In 2017 and 2016, the rate of income tax currently applied in the Russian Federation was 20%.

Profit / (loss) before tax recognised in the consolidated financial statements correlates with income/ (expense) on income tax as follows:

	2017	**2016**
Profit / (loss) before tax	246,433	(72,197)
Provisional income / (expense) on income tax	(49,287)	14,439
Tax effect of the preferential tax rate	3,118	-
Tax effect of items which are not accounted for tax purposes	(5,546)	(4,275)
Total income / (expense) on income tax	**(51,715)**	**10,164**

(in millions of Russian rubles, unless otherwise stated)

Differences between the data of these consolidated financial statements and the data of tax accounting result in temporary differences between the carrying amount of assets and liabilities and their basis for calculation of income tax. Tax effect from movement of temporary differences for the year ended 31 December 2017 is given below:

	As of 31 December 2017	**Changes for the period recognised in profit (loss) for the period**	**Changes for the period in other comprehensive income**	**As of 31 December 2016**
Tax effect of deductible temporary differences				
Inventories	2,048	292	-	1,756
Property, plant and equipment	26,420	674	-	25,746
Intangible assets	3,326	(259)	-	3,585
Financial assets	2,395	(594)	2	2,987
Receivables	314	55	-	259
Payables	189	(140)	-	329
Other accruals and additional accruals	3,873	(130)	216	3,787
Tax losses carried forward	10,696	(18,037)	-	28,733
Deferred tax assets	**49,261**	**(18,139)**	**218**	**67,182**
Set off deferred tax assets / (liabilities)	(49,242)			(66,984)
Total deferred tax assets	**19**			**198**
Tax effect of taxable temporary differences				
Inventories	(3,722)	(1,178)	-	(2,544)
Property, plant and equipment	(192,085)	(17,119)	-	(174,966)
Intangible assets	(12,721)	911	-	(13,632)
Financial assets	(37)	102	-	(139)
Receivables	(2,893)	(763)	-	(2,130)
Payables	(41)	12	-	(53)
Other accruals and additional accruals	(475)	(290)	-	(185)
Deferred tax liabilities	**(211,974)**	**(18,325)**	**-**	**(193,649)**
Set off deferred tax assets / (liabilities)	49,242			66,984
Total deferred tax liabilities	**(162,732)**			**(126,665)**

(in millions of Russian rubles, unless otherwise stated)

Differences between the data of these consolidated financial statements and the data of tax accounting result in temporary differences between the carrying amount of assets and liabilities and their basis for calculation of income tax. Tax effect from movement of temporary differences for the year ended 31 December 2016 is given below:

	As of 31 December 2016	Changes for the period recognised in profit (loss) for the period	Changes for the period in other comprehensive income	As of 31 December 2015
Tax effect of deductible temporary differences				
Inventories	1,756	(422)	-	2,178
Property, plant and equipment	25,746	3,172	-	22,574
Intangible assets	3,585	(805)	-	4,390
Financial assets	2,987	(1,028)	7	4,008
Receivables	259	(204)	-	463
Payables	329	46	-	283
Other accruals and additional accruals	3,787	(846)	153	4,480
Tax losses carried forward	28,733	28,733	-	-
Deferred tax assets	**67,182**	**28,646**	**160**	**38,376**
Set off deferred tax assets / (liabilities)	(66,984)			(37,207)
Total deferred tax assets	**198**			**1,169**
Tax effect of taxable temporary differences				
Inventories	(2,544)	(202)	-	(2,342)
Property, plant and equipment	(174,966)	(18,910)	-	(156,056)
Intangible assets	(13,632)	681	-	(14,313)
Financial assets	(139)	20		(159)
Receivables	(2,130)	185	-	(2,315)
Payables	(53)	2	-	(55)
Other accruals and additional accruals	(185)	361	-	(546)
Deferred tax liabilities	**(193,649)**	**(17,863)**	**-**	**(175,786)**
Set off deferred tax assets / (liabilities)	66,984			37,207
Total deferred tax liabilities	**(126,665)**			**(138,579)**

As of 31 December 2017 and 2016, the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the Group's Management believes that the zero rate of tax levied at source of income in respect of the distribution of dividends will be applied for the distribution of these dividends.

(in millions of Russian rubles, unless otherwise stated)

27 Net earnings / (loss) per share

Basic earnings / (loss) per share were calculated based on profit / (loss), attributable to holders of the Company's ordinary shares and the weighted average number of outstanding ordinary shares. The Company has no potential ordinary shares that have a dilutive effect.

	2017	**2016 (revised data)**
Shares outstanding as of 31 December, thousand	35,725,995	35,725,995
Effect of treasury shares, thousand	(650)	(650)
Weighted average number of shares for the year ended 31 December, thousand	**35,725,345**	**35,725,345**
Net profit / (loss) for the reporting year attributable to shareholders	194,658	(62,100)
Dividends on preference shares, million rubles	(10,629)	(4,621)
Basic and diluted earnings / (loss) per share, rubles	5.15	(1.87)

Basic loss per share for 2016 was recalculated because the general shareholders' meeting passed a resolution to pay dividends on preference shares after the consolidated financial statements for 2016 have been published (Note 21).

28 Contingencies and commitments

Court proceedings

At the reporting date, the Group is a party to legal proceedings related to the Group's operations. The Group's Management believes that the results of these proceedings will not significantly affect the business operations and financial position of the Group.

Tax exposure

Due to the constant changes in the tax system of the Russian Federation relating to the improvement of tax control mechanisms and regulation, the Group is exposed to tax risks associated with the occurrence of uncertain tax positions as a result of uncertainty in the interpretation of tax legislation.

The Management believes that the Group fully complies with the applicable tax legislation, so the results of tax audits have not affected and cannot significantly affect the business operations and financial position of the Group.

Capital expenditure commitments

As of 31 December 2016, the Group had capital expenditure commitments related to the upgrading and construction of new capacities of LLC "KINEF" in the amount of RUB 7,552 million. The obligations were completely fulfilled in 2017.

Third-party commitments

As of 31 December 2017, the Group has commitments in the form of surety in the amount of RUB 21,688 million (as of 31 December 2016 – RUB 21,947 million).

Credit related commitments

Credit related commitments of the Group's bank equal:

	As of 31 December 2017	**As of 31 December 2016**
Commitments to extend credit	1,996	3,521
Import letters of credit	395	418
Guarantees issued	2,005	2,625
Total credit related commitments	**4,396**	**6,564**

(in millions of Russian rubles, unless otherwise stated)

Operating lease commitments

Operating leases have various terms and conditions and primarily are agreements to lease land plots.

The total amount of operating lease expenses for 2017 is RUB 1,180 million (for 2016 – RUB 1,163 million), and is included in the Group's operating expenses. Future minimum lease payments under non-cancellable operating leases as of 31 December 2017 and 2016 are as follows:

	2017	**2016**
Less than 1 year	1,295	1,263
Between 1 and 5 years	4,964	4,794
More than 5 years	37,272	39,673
Total future minimum lease payments	**43,531**	**45,730**

Environmental issues

The Group complies with all the legal environmental standards and requirements. The Management believes that the Group effectively minimises environmental risks by following industry standards and requirements, continuously monitoring its production facilities, employing modern machinery, technology and equipment and improving employees' HSE expertise.

29 Operational risks

Production operations of the Group are exposed to risks related to the peculiarities of the oil and gas industry the most significant of which are the change in oil and oil products prices and prices for raw materials and services leading to the changes in operational and capital expenditures.

Global oil and oil products prices depend on various factors. The main of them are the following: the state of the global economy, supply and demand balance in the global and regional markets, change in energy resources consumption patterns and others.

In the domestic market, oil and oil products prices depend on the trends of the global market, oil and gas industry regulation by the state, supply and demand balance and transportation costs.

Factors that determine the pricing process in the hydrocarbons market are beyond the Group's control. The Company takes into account the risk of changes in oil and oil products prices when planning its operating and financial activities, evaluating economic efficiency of new investment projects and measures to enhance oil production at the existing fields.

The Group is subject to the risk of increasing operating expenses and capital expenditures resulting from the growth of prices for raw materials, supplies, equipment, fuel, electric power as well as pipeline and railroad oil and oil products transportation services. To mitigate this risk, the Company regularly implements measures to reduce costs and improve efficiency of existing facilities. The Company purchases machinery, materials and equipment on a tender basis, monitors the quality of procurements, introduces cost-effective technologies, carries out close examination of profitability of ongoing and planned investment projects as well as diversifies the ways finished products are transported.

30 Capital and financial risk management

The Group's activity is exposed to different financial risks, among which are market risk, credit risk and liquidity risk.

The Group has a risk management system and a number of procedures for quantitative evaluation of impact of risks and control over them and selection of proper methods to manage risks. To optimise risks, the Group takes constant measures for improvement of the general methodology of risk management on identification, analysis, assessment of risks and control over them, as well as develops and implements measures which can provide the Group's continuous activity.

The Group does not apply derivative financial instruments to hedge financial risks, but takes into consideration their possible application in the operating and financial activities when developing investment projects, making plans and budgets. Besides, the Group insures its assets and operations to mitigate financial risks as part of the Group's property interests protection in the course of its financial and business activities.

(in millions of Russian rubles, unless otherwise stated)

Credit risk

Credit risk is the probability of occurrence of financial losses of the Group in case a counterparty defaults on its contractual obligations on the financial asset under the terms of the contract.

The Group is exposed to credit risk mainly in relation to accounts receivable and other financial assets. In addition, the Group’s bank extends credits to legal entities and natural persons where this risk occurs in case of credit default and/or failure to comply with the credit payment schedule.

To mitigate credit risk, the Group uses the system of integrated assessment of counterparties in accordance with its own formalised method on the basis of qualitative and quantitative criteria to check their stable financial position and positive credit history. Assessment of the financial position of counterparties makes allowance for the structure and dynamics of assets, liquidity level, efficiency of activity and other key indicators confirming the sound financial position of a counterparty. The comprehensive analysis of non-financial characteristics of counterparties’ activities is based on the assessment of the capital structure, scale of business, credit ratings, position of the company in the industry, news flow and others. The Group constantly monitors the operating results of counterparties.

The Group has a well-reasoned approach to financial resources management and avoids excessive concentration of credit risk. When concluding contracts with counterparties for the sale of products, the Group actively uses advance payment and payment by a letter of credit. Making advance payments to counterparties, the Group uses mechanisms of securing the payback: bank guarantees and sureties.

Cash and cash equivalents. Cash and cash equivalents are placed with major banks having credit ratings given by the international agencies. The balances at all settlement accounts and short-term bank deposits with original maturity under contract less than three months are not overdue and not impaired.

As of 31 December 2017, RUB 16,919 million or 89% (as of 31 December 2016, RUB 3,497 million or 51%) of cash was placed at settlement (correspondent) accounts with the Central Bank of the Russian Federation.

As of 31 December 2017, RUB 124,628 million or 63% of deposits with original maturity under contract less than three months are placed with the Central Bank of the Russian Federation. As of 31 December 2016, RUB 40,028 million or 41% of deposits with original maturity under contract less than three months were placed with one bank with BB+ international rating.

Analysis of credit quality of the banks used by the Group to allocate cash and cash equivalents based on external credit ratings assigned to the banks at the reporting date is presented in the table below. The relevant ratings are published by Standard & Poor’s and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor’s:

	As of 31 December 2017	**As of 31 December 2016**
Cash in hand	1,541	1,894
Central bank of the Russian Federation	141,547	27,467
Commercial banks:		
Rating from A- to A+ (S&P)	260	1,017
Rating from BBB- to BBB+ (S&P, Fitch)	8,068	14,127
Rating from BB- to BB+ (S&P, Moody’s, Fitch)	59,894	56,988
Rating from B- to B+ (S&P, Moody’s)	595	269
No rating	5,596	5,691
Total cash and cash equivalents	**217,501**	**107,453**

Deposits placed. The Group avoids excessive concentration of credit risk while placing the temporarily free cash in deposits with the banks. The Group has developed the methodology for assessment of the financial position of the banks that includes the analysis of the following criteria: the financial performance, the credit portfolio quality, the compliance of the norms with the accepted standards, the structure of the capital, other financial and non-financial, qualitative and quantitative indicators describing the position of a credit institution. The Group monitors the financial position of counterparties’ banks during the whole maturity period for its cash placement.

On the basis of this assessment the Group determines the reliability of the banks, where the deposits are placed, as high, and, therefore, the Group’s Management believes that there are no impairment indicators of investments in deposits at the reporting date.

(in millions of Russian rubles, unless otherwise stated)

Receivables. While concluding a contract, the Group assesses the creditworthiness of buyers, their financial position and credit history. Afterwards, the Group is constantly controlling completeness and accuracy of settlements with counterparties.

Analysis of receivables as of 31 December 2017 by the period of delay from the due date is given below:

	Amount receivable	Amount of provision	Amount receivable, less provision
Trade receivables			
not past due	86,171	(168)	86,003
up to 6 months	136	-	136
from 6 months to 1 year	14	(4)	10
more than 1 year	24	(6)	18
Total trade receivables	**86,345**	**(178)**	**86,167**
Other receivables			
not past due	6,283	(2)	6,281
up to 6 months	71	(63)	8
from 6 months to 1 year	14	(12)	2
more than 1 year	139	(124)	15
Total other receivables	**6,507**	**(201)**	**6,306**

Analysis of receivables as of 31 December 2016 by the period of delay from the due date is given below:

	Amount receivable	Amount of provision	Amount receivable, less provision
Trade receivables			
not past due	80,226	(167)	80,059
up to 6 months	225	-	225
more than 1 year	4,436	(5)	4,431
Total trade receivables	**84,887**	**(172)**	**84,715**
Other receivables			
not past due	2,977	(21)	2,956
up to 6 months	12	-	12
from 6 months to 1 year	9	-	9
more than 1 year	132	(114)	18
Total other receivables	**3,130**	**(135)**	**2,995**

As of 31 December 2017, trade receivables in the amount of RUB 86,003 million (as of 31 December 2016 – RUB 80,059 million) are not overdue or impaired. The greater part of trade receivables is mainly formed by receivables due from large Russian and foreign buyers of oil and oil products.

The redemption of the receivables can be influenced by economic factors, but the Management believes that there is no significant risk of loss to the Group exceeding the formed provision for the impairment of receivables.

Loans granted. Short-term and long-term loans granted are represented by credits of the Group's bank and other loans. Credit risk management of the loan portfolio, granted by the Group's bank, is carried out by way of the volume limitation of credit operations as well as portfolio diversification according to the sectors and regions, the change of the amount and kind of the collateral, reservation as provided by the internal regulatory documents and the development of the optimal conditions for restructuring loans.

(in millions of Russian rubles, unless otherwise stated)

The analysis of loans granted by the Group’s bank by credit quality is presented below:

	As of 31 December 2017	As of 31 December 2016
Due and unimpaired credits and loans:		
Borrowers with a credit history less than 1 year	12,364	14,764
Borrowers with a credit history between 1 and 3 years	12,022	15,623
Borrowers with a credit history more than 3 years	4,819	12,679
Overdue and/or impaired credits and loans:		
Payment without delay	19,302	6,626
Overdue for less than 30 days	198	184
Overdue between 30 and 360 days	554	535
Overdue more than 360 days	3,202	3,536
Total credits and loans gross of impairment provision	**52,461**	**53,947**

Overdue credits are supported by the collateral the fair value of which, as of 31 December 2017, equalled RUB 2,198 million (as of 31 December 2016 – RUB 4,660 million).

Weighted average interest rates used for credits and loans in 2017 are from 3.62% to 12% (in 2016 – from 3.66% to 13.14%).

Liquidity risk

Liquidity risk is not significant to the Group, as the Group does not raise borrowed funds in money and credit markets to finance its current activities and implement new investment projects because it has sufficient liquid financial assets. The Company’s system of financial planning allows us to make detailed schedules of future payments and establish a structure of the Company’s cash flows that maintains sufficient liquidity for timely settlement of its liabilities.

Information about the maturity of the financial liabilities of the Group in accordance with the contract dates remained to maturity dates is presented below. The sums show contractual undiscounted cash flows with future interest payments taken into consideration:

As of 31 December 2017	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Financial part of the accounts payable	19,265	-	-	-	**19,265**
Other financial liabilities	189,380	3,737	306	1	**193,424**
Other liabilities	-	512	175	-	**687**
Total financial liabilities	**208,645**	**4,249**	**481**	**1**	**213,376**

As of 31 December 2016	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Financial part of the accounts payable	20,002	-	-	-	**20,002**
Other financial liabilities	92,029	18,876	263	-	**111,168**
Other liabilities	-	894	89	-	**983**
Total financial liabilities	**112,031**	**19,770**	**352**	**-**	**132,153**

(in millions of Russian rubles, unless otherwise stated)

Reconciliation of changes in liabilities arising from financing activities

Analysis of changes in liabilities arising from financial activities of the Group is presented below. Items of these liabilities are reflected in the consolidated statement of cash flows in financing activities:

	2017	**2016**
As of 1 January	**106,259**	**83,426**
Cash flow, including:		
Net acquisition of other financial liabilities	82,030	24,917
Interest paid	(11,963)	(6,892)
Interest accrued	12,085	5,654
Exchange gain	(99)	(846)
As of 31 December	**188,312**	**106,259**

Market risk

Market risk is the risk that changes of currency rates, interest rates or commodity and service prices will have a negative effect on assessment of financial assets, financial liabilities and future cash flows of the Group. The Group’s Management has developed the policies and guides used for market risk management.

(a) Currency risk

The Group controls currency risk related to exchange rate fluctuations.

The Group regularly evaluates the possible impact of currency risk on efficiency of its current activities and investments in new projects. In order to mitigate this risk, the Company monitors the key parameters and the structure of financial assets and carries out operational planning of cash flows.

(b) Interest rate risk

Risk of fluctuations in the market interest rates has a limited impact on the Group’s activities, as the Group finances operating expenses and capital investments from its own funds. At the same time, the Group carries out indicative analysis of interest rates, profitability and level of risk in the money and capital markets in order to determine the best options for placement of financial assets.

(c) Commodity price risk

Inflation has a negative impact on the Group’s activities which can influence the level of the current and future production costs and sales of finished goods and lead to lower profitability and revisions to its plans of investments in new projects. The Group takes into account the impact of actual and expected inflation rates when analysing the results of its current activities and economic feasibility of new projects in the field of production, refining and marketing of finished goods. To mitigate this risk, the Company holds procurement tenders to find the most reliable counterparties and the most favourable ways of goods and services delivery.

Capital management

The Group’s capital management seeks to continue as a going concern and to maximise the profit in the foreseeable future.

The Management believes equity (capital attributable to shareholders) and borrowed funds (other financial liabilities) to be the principal elements of capital management. The Group’s objective when managing capital risks is the ability to continue as a going concern in order to provide returns and benefits for shareholders.

As of 31 December 2017, the total capital under the management of the Group is RUB 3,801,211 million (as of 31 December 2016 – RUB 3,551,426 million).

The Group finances its operations mainly from its own funds.

31 Fair value of assets and liabilities

Fair value measurements are analysed and distributed by levels in the fair value hierarchy as follows: (a) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (b) Level 2 measurements are valuation techniques with all significant inputs observable for the asset or liability, either directly (e.g. price) or indirectly (e.g. calculated on the basis of the price); and (c) Level 3 measurements are valuations not based only on observable market data (i.e. a significant amount of unobservable data is required for assessment).

(in millions of Russian rubles, unless otherwise stated)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the financial reporting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the hierarchy of the fair value measurement for financial instruments recorded at fair value are given below:

As of 31 December 2017	**Quoted prices in active markets (Level 1)**	**Valuation technique based on observable data (Level 2)**	**Valuation technique based on a significant amount of non-observable data (Level 3)**
Financial assets at fair value through profit or loss	47	-	1
Financial assets available-for-sale	5,955	-	5,857
Total financial assets measured at fair value on a recurring basis	**6,002**	**-**	**5,858**

As of 31 December 2016	**Quoted prices in active markets (Level 1)**	**Valuation technique based on observable data (Level 2)**	**Valuation technique based on a significant amount of non-observable data (Level 3)**
Financial assets at fair value through profit or loss	65	-	1
Financial assets available-for-sale	8,893	-	5,505
Total financial assets measured at fair value on a recurring basis	**8,958**	**-**	**5,506**

As of 31 December 2017 and 2016, the Group has no liabilities measured at fair value on a recurring basis.

The estimated fair value of a financial instrument is determined by the Group with reference to available market information (if any) and other valuation techniques as considered appropriate. The Management has used all available market information in measurement of the fair value of financial instruments.

Valuation techniques such as discounted cash flow models and also models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure the fair value of financial instruments for which external market pricing information is not available.

Equity instruments which have no market quotation and possess significant discrepancy between possible estimated fair values, and it is difficult to determine for certain the probability of applying this or that type of fair value measurement are recorded at their historical cost.

Within 2017 and 2016, there were no changes in valuation technique for Level 3 recurring fair value measurements.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

The comparison of the fair value and carrying amount of deposits and held-to-maturity investments is presented below. The carrying amount of the remaining financial assets is approximately equal to their fair value.

(in millions of Russian rubles, unless otherwise stated)

	As of 31 December 2017		As of 31 December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Deposits placed	2,318,434	2,322,898	2,180,737	2,245,388
Investments held-to-maturity	291	290	1,214	1,228

Financial assets measured at amortised cost. The estimated fair value of instruments with the fixed interest rate is based on discounting of expected cash flows coupled with applying interest rates to new instruments with the similar credit risk and similar maturity period. The discount rate used depends on the credit risk of the counterparty. The fair value of held-to-maturity investments has been determined by quotations of the demand.

Financial assets by assessment categories are shown below:

As of 31 December 2017	**Loans and receivables**	**Assets available-for-sale**	**Assets at fair value through profit or loss**	**Investments held-to-maturity**	**Total**
Cash and cash equivalents	217,501	-	-	-	217,501
Restricted cash	2,049	-	-	-	2,049
Deposits placed	2,318,434	-	-	-	2,318,434
Loans granted	46,350	-	-	-	46,350
Other financial assets	-	11,812	48	291	12,151
Receivables	92,473	-	-	-	92,473
Total financial assets	**2,676,807**	**11,812**	**48**	**291**	**2,688,958**

As of 31 December 2016	**Loans and receivables**	**Assets available-for-sale**	**Assets at fair value through profit or loss**	**Investments held-to-maturity**	**Total**
Cash and cash equivalents	107,453	-	-	-	107,453
Restricted cash	943	-	-	-	943
Deposits placed	2,180,737	-	-	-	2,180,737
Loans granted	47,401	-	-	-	47,401
Other financial assets	-	14,398	66	1,214	15,678
Receivables	87,710	-	-	-	87,710
Total financial assets	**2,424,244**	**14,398**	**66**	**1,214**	**2,439,922**

Liabilities measured at amortised cost

All financial liabilities of the Group are measured at amortised cost. Financial liabilities are mainly funds of the Group’s bank customers, accounts payable to suppliers and contractors and other accounts payable.

The fair value of liabilities is determined by using appropriate valuation techniques. The estimated fair value of instruments with the fixed interest rate and fixed maturity period is based on expected discounted cash flows coupled with applying interest rates to new instruments with the similar credit risk and similar maturity period.

The carrying amount of liabilities measured at amortised cost is approximately equal to their fair value.

32 Subsequent events

Significant events, which have influenced or may influence the financial performance, the cash flow or operating results of the Group, did not take place in the period between the reporting date and the date these consolidated financial statements of the Group were signed.