

## OTHER FINANCIAL ITEMS

Foreign exchange gains/losses were mainly due to revaluation of the portion of the Group's debt portfolio that is denominated in foreign currencies.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOWS (RUB MN)

Indicator	2016	2017	Δ, %
Net cash provided by operating activities	321,297	421,700	31.2
Net cash used in investing activities	(323,854)	(312,889)	(3.4)
Net cash used in financing activities	(68,430)	(50,521)	(26.2)
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(70,987)</b>	<b>58,290</b>	<b>-</b>

### NET CASH PROVIDED BY OPERATING ACTIVITIES (RUB MN)

Indicator	2016	2017	Δ, %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	361,567	439,320	21.5
Net changes in working capital	15,216	52,808	>200
Income tax paid	(22,158)	(36,530)	64.9
Interest paid	(36,476)	(39,449)	8.2
Dividends received	3,148	5,551	76.3
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>321,297</b>	<b>421,700</b>	<b>31.2</b>

Net cash provided by operating activities increased by 31.2% YOY primarily due to higher operating profit and changes in working capital.

### NET CASH USED IN INVESTING ACTIVITIES (RUB MN)

Indicator	2016	2017	Δ, %
Capital expenditures	(384,817)	(357,090)	(7.2)
Acquisition of subsidiaries, shares in joint operations and equity affiliates	(2,028)	(8,345)	>200
Net changes in deposits	48,517	(5,933)	-
Net changes in loans issued and other investments	(2,104)	44,938	-
Other transactions	16,578	13,541	(18.3)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(323,854)</b>	<b>(312,889)</b>	<b>(3.4)</b>

Net cash used in investing activities decreased by 3.4% YOY due to lower capital expenditures and repayments of loans issued to Messoyakha.

**NET CASH USED IN FINANCING ACTIVITIES** (RUB MN)

Indicator	2016	2017	Δ, %
Net changes in debt	(63,929)	3,556	-
Payment of dividends to shareholders	(2,598)	(50,382)	>200
Other transactions	(1,903)	(3,695)	94.2
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(68,430)</b>	<b>(50,521)</b>	<b>(26.2)</b>

Net cash used in financing activities decreased by 26.2% YOY mainly due to a decline of net amount of new funds raised and repayments of loans and borrowings. The Group paid dividends for 2016 in 3Q 2017.

**CAPITAL EXPENDITURES** (RUB MN)

Indicator	2016	2017	Δ, %
Exploration and production	245,256	223,916	(8.7)
Consolidated subsidiaries	228,084	207,900	(8.8)
Joint operations	17,172	16,016	(6.7)
Refining	50,095	81,370	62.4
Marketing and distribution	9,728	12,466	28.1
Others	14,724	16,227	10.2
<b>SUBTOTAL CAPITAL EXPENDITURES</b>	<b>319,803</b>	<b>333,979</b>	<b>4.4</b>
Change in advances issued and material used in capital expenditures, including	65,014	23,111	(64.5)
<b>TOTAL CAPITAL EXPENDITURES</b>	<b>384,817</b>	<b>357,090</b>	<b>(7.2)</b>

Capital expenditures for exploration and production decreased by 8.7% YOY due to:

- Completion of first stage of infrastructure construction at Novoportovskoye field
- Completion of oil infrastructure construction at Badra
- Decreased drilling volumes at brownfields.

Capital expenditures for refining increased by 62.4% YOY due to the second stage of modernisation program at Omsk and Moscow refineries (catalytic cracking reconstruction and construction of plant "EURO+" at Moscow refinery).

**DEBT AND LIQUIDITY** (RUB MN)

Indicator	2016	2017
Short-term loans and borrowings	80,187	131,760
Long-term loans and borrowings	596,221	548,654
Cash and cash equivalents	(33,621)	(90,608)
Short-term deposits	(886)	(5,779)
<b>NET DEBT</b>	<b>641,901</b>	<b>584,027</b>
Short-term debt / total debt, %	11.9	19.4
Net debt / EBITDA for 12 months preceding	1.60	1.19

The Group's diversified debt structure includes syndicated and bilateral loans, bonds and other instruments.

As at December 31, 2017 average debt maturity remained unchanged from 3.6 years as at December 31, 2016.

The average interest rate increased insignificantly from 5.52% as at December 31, 2016 to 5.54% as at December 31, 2017.

 For more about debt, see the Debt Portfolio and Credit Ratings subsection on p. 177

## FINANCIAL APPENDIX

### EBITDA RECONCILIATION (RUB MN)

Indicator	2016	2017	Δ, %
<b>PROFIT FOR THE PERIOD</b>	<b>209,725</b>	<b>269,678</b>	<b>28.6</b>
Total income tax benefit / (expense)	49,814	55,522	11.5
Finance expense	34,282	25,127	(26.7)
Finance income	(11,071)	(10,098)	(8.8)
Depreciation, depletion and amortization	129,845	140,998	8.6
Net foreign exchange (loss) / gain	(28,300)	241	-
Other (loss) / gain, net	17,982	7,557	(58.0)
<b>EBITDA</b>	<b>402,277</b>	<b>489,025</b>	<b>21.6</b>
Less: Share of profit of associates and joint ventures	(34,116)	(45,504)	33.4
Add: Share of EBITDA of equity accounted investments	88,037	107,446	22.0
<b>ADJUSTED EBITDA</b>	<b>456,198</b>	<b>550,967</b>	<b>20.8</b>

### PROFITABILITY (%)

Indicator	December 31, 2016	December 31, 2017	Δ, p. p.
Adjusted EBITDA margin	29.52	29.65	0.1
Net profit margin	13.57	14.51	0.9
Return on assets (ROA)	8.33	9.84	1.5
Return on equity (ROE)	15.58	17.38	1.8
Adjusted Return on average capital employed (ROACE)	11.77	13.9	1.9

### ADJUSTED ROACE CALCULATION (%)

Indicator	December 31, 2016	December 31, 2017
Adjusted EBITDA	456,198	550,967
Depreciation, depletion and amortization	(158,919)	(178,449)
Effective income tax charge on EBIT	(62,429)	(71,605)
<b>ADJUSTED EBIT<sup>1</sup></b>	<b>234,850</b>	<b>300,913</b>
<b>AVERAGE CAPITAL EMPLOYED</b>	<b>1,994,626</b>	<b>2,164,614</b>
<b>ADJUSTED ROACE</b>	<b>11.77</b>	<b>13.9</b>

1 — Adjusted EBIT represents Group's EBIT and its share in associates and joint ventures' EBIT.