

APPENDIX 2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(RUB MN)

	Notes	31 December 2017	31 December 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	90,608	33,621
Short-term financial assets	7	10,449	42,113
Trade and other receivables	8	102,262	115,559
Inventories	9	118,322	100,701
Current income tax prepayments		2,540	10,353
Other taxes receivable	10	58,359	53,482
Other current assets	11	40,047	40,503
TOTAL CURRENT ASSETS		422,587	396,332
NON-CURRENT ASSETS			
Property, plant and equipment	12	2,052,275	1,726,345
Goodwill and other intangible assets	13	74,187	70,151
Investments in associates and joint ventures	14	256,758	201,548
Long-term trade and other receivables		901	5,129
Long-term financial assets	16	31,293	40,167
Deferred income tax assets	17	17,867	8,039
Other non-current assets	18	74,140	101,100
TOTAL NON-CURRENT ASSETS		2,507,421	2,152,479
TOTAL ASSETS		2,930,008	2,548,811
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term debt and current portion of long-term debt	19	131,760	80,187
Current finance lease liabilities	25	1,397	-
Trade and other payables	20	194,438	95,624
Other current liabilities	21	32,500	28,680
Current income tax payable		4,534	2,296
Other taxes payable	22	84,833	67,259
Provisions and other accrued liabilities	23	29,873	15,406
TOTAL CURRENT LIABILITIES		479,335	289,452

	Notes	31 December 2017	31 December 2016
NON-CURRENT LIABILITIES			
Long-term debt	24	548,654	596,221
Non-current finance lease liabilities	25	20,826	–
Other non-current financial liabilities	26	48,569	89,744
Deferred income tax liabilities	17	102,583	81,347
Provisions and other accrued liabilities	23	62,574	45,942
Other non-current liabilities		8,334	1,938
TOTAL NON-CURRENT LIABILITIES		791,540	815,192
EQUITY			
Share capital	27	98	98
Treasury shares	27	(1,170)	(1,170)
Additional paid-in capital		62,256	51,047
Retained earnings		1,431,931	1,276,210
Other reserves		60,142	33,955
EQUITY ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS		1,553,257	1,360,140
Non-controlling interest	38	105,876	84,027
TOTAL EQUITY		1,659,133	1,444,167
TOTAL LIABILITIES AND EQUITY		2,930,008	2,548,811



A. V. Dyukov

Chief Executive Officer
PJSC Gazprom Neft



A. V. Yankevich

Chief Financial Officer
PJSC Gazprom Neft

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

RUB MILLIONS

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
SALES		2,003,575	1,695,764
Less export duties and sales related excise tax		(145,644)	(150,156)
TOTAL REVENUE FROM SALES	40	1,857,931	1,545,608
COSTS AND OTHER DEDUCTIONS			
Purchases of oil, gas and petroleum products		(456,037)	(351,294)
Production and manufacturing expenses		(216,530)	(201,862)
Selling, general and administrative expenses		(106,629)	(108,981)
Transportation expenses		(141,982)	(132,984)
Depreciation, depletion and amortisation		(140,998)	(129,845)
Taxes other than income tax	22	(492,269)	(381,131)
Exploration expenses		(963)	(1,195)
TOTAL OPERATING EXPENSES		(1,555,408)	(1,307,292)
OPERATING PROFIT		302,523	238,316
Share of profit of associates and joint ventures	14	45,504	34,116
Net foreign exchange (loss) / gain	30	(241)	28,300
Finance income	31	10,098	11,071
Finance expense	32	(25,127)	(34,282)
Other loss, net	29	(7,557)	(17,982)
TOTAL OTHER INCOME		22,677	21,223
PROFIT BEFORE INCOME TAX		325,200	259,539
Current income tax expense		(43,695)	(21,290)
Deferred income tax expense		(11,827)	(28,524)
TOTAL INCOME TAX EXPENSE	33	(55,522)	(49,814)
PROFIT FOR THE PERIOD		269,678	209,725

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
OTHER COMPREHENSIVE INCOME / (LOSS)			
Currency translation differences		15,603	(48,319)
Cash flow hedge, net of tax	34	18,434	31,501
Other comprehensive income / (loss)		28	(166)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		34,065	(16,984)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		303,743	192,741
PROFIT ATTRIBUTABLE TO:			
Gazprom Neft shareholders		253,274	200,179
Non-controlling interest		16,404	9,546
PROFIT FOR THE PERIOD		269,678	209,725
TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO:			
Gazprom Neft shareholders		279,461	198,945
Non-controlling interest		24,282	(6,204)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		303,743	192,741
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		53.68	42.43
Diluted earnings (RUB per share)		53.68	42.43
Weighted-average number of common shares outstanding (millions)		4,718	4,718

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

RUB MILLIONS

	Share capital	Treasury shares
BALANCE AS OF 1 JANUARY 2017	98	(1,170)
Profit for the period	-	-
OTHER COMPREHENSIVE INCOME		
Currency translation differences	-	-
Cash flow hedge, net of tax	-	-
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-
TRANSACTIONS WITH SHAREHOLDERS, RECORDED IN EQUITY		
Dividends declared to equity holders	-	-
Transaction under common control (Note 26)	-	-
TOTAL TRANSACTIONS WITH SHAREHOLDERS	-	-
BALANCE AS OF 31 DECEMBER 2017	98	(1,170)

	Share capital	Treasury shares
BALANCE AS OF 1 JANUARY 2016	98	(1,170)
Profit for the period	-	-
OTHER COMPREHENSIVE (LOSS) / INCOME		
Currency translation differences	-	-
Cash flow hedge, net of tax	-	-
Other comprehensive loss	-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	-	-
TRANSACTIONS WITH SHAREHOLDERS, RECORDED IN EQUITY		
Dividends declared to equity holders	-	-
Transaction under common control	-	-
Acquisition through business combination	-	-
TOTAL TRANSACTIONS WITH SHAREHOLDERS	-	-
BALANCE AS OF 31 DECEMBER 2016	98	(1,170)

Attributable to Gazprom Neft shareholders

Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
51,047	1,276,210	33,955	1,360,140	84,027	1,444,167
-	253,274	-	253,274	16,404	269,678
-	-	7,725	7,725	7,878	15,603
-	-	18,434	18,434	-	18,434
-	-	28	28	-	28
-	253,274	26,187	279,461	24,282	303,743
-	(97,553)	-	(97,553)	(2,433)	(99,986)
11,209	-	-	11,209	-	11,209
11,209	(97,553)	-	(86,344)	(2,433)	(88,777)
62,256	1,431,931	60,142	1,553,257	105,876	1,659,133

Attributable to Gazprom Neft shareholders

Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
44,326	1,078,626	35,189	1,157,069	91,420	1,248,489
-	200,179	-	200,179	9,546	209,725
-	-	(32,569)	(32,569)	(15,750)	(48,319)
-	-	31,501	31,501	-	31,501
-	-	(166)	(166)	-	(166)
-	200,179	(1,234)	198,945	(6,204)	192,741
-	(2,595)	-	(2,595)	(1,273)	(3,868)
6,835	-	-	6,835	-	6,835
(114)	-	-	(114)	84	(30)
6,721	(2,595)	-	4,126	(1,189)	2,937
51,047	1,276,210	33,955	1,360,140	84,027	1,444,167

CONSOLIDATED STATEMENT OF CASH FLOWS

RUB MILLIONS

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		325,200	259,539
ADJUSTMENTS FOR:			
Share of profit of associates and joint ventures	14	(45,504)	(34,116)
Loss / (gain) on foreign exchange differences	30	241	(28,300)
Finance income	31	(10,098)	(11,071)
Finance expense	32	25,127	34,282
Depreciation, depletion and amortisation	12,13	140,998	129,845
Net impairment of receivables and other assets		-	7,587
Other non-cash items		3,355	3,801
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL		439,319	361,567
CHANGES IN WORKING CAPITAL:			
Accounts receivable		13,655	(30,397)
Inventories		(20,672)	(3,462)
Taxes receivable		(2,502)	4,218
Other assets		(1,752)	8,999
Accounts payable		33,002	12,288
Taxes payable		15,600	19,729
Other liabilities		15,478	3,841
TOTAL EFFECT OF WORKING CAPITAL CHANGES		52,809	15,216
Income taxes paid		(36,530)	(22,158)
Interest paid		(39,449)	(36,476)
Dividends received		5,551	3,148
NET CASH PROVIDED BY OPERATING ACTIVITIES		421,700	321,297

Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash acquired	–	(1,040)
Acquisition of investments in joint ventures	(8,345)	(505)
Disposal of investments in joint ventures	476	(483)
Bank deposits placement	(8,462)	(1,425)
Repayment of bank deposits	2,529	49,942
Proceeds from sales of other investments	670	3,241
Short-term loans issued	(200)	(6,940)
Repayment of short-term loans issued	33,295	10,815
Long-term loans issued	(1,875)	(21,904)
Repayment of long-term loans issued	13,048	12,684
Purchases of property, plant and equipment and intangible assets	(357,090)	(384,817)
Proceeds from sale of property, plant and equipment, intangible assets	2,210	1,008
Proceeds from sale of other non-current assets	1,706	11,186
Interest received	9,149	4,384
NET CASH USED IN INVESTING ACTIVITIES	(312,889)	(323,854)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	2,210	81,319
Repayment of short-term borrowings	(9,207)	(95,656)
Proceeds from long-term borrowings	354,160	142,947
Repayment of long-term borrowings	(343,607)	(192,539)
Transaction costs directly attributable to the borrowings received	(260)	(649)
Dividends paid to Gazprom Neft shareholders	(50,382)	(2,598)
Dividends paid to non-controlling interest	(2,542)	(1,254)
Repayment of finance lease liabilities	(893)	–
NET CASH USED IN FINANCING ACTIVITIES	(50,521)	(68,430)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	58,290	(70,987)
Effect of foreign exchange on cash and cash equivalents	(1,303)	(9,590)
CASH AND CASH EQUIVALENTS AS OF THE BEGINNING OF THE PERIOD	33,621	114,198
CASH AND CASH EQUIVALENTS AS OF THE END OF THE PERIOD	90,608	33,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017

RUB MILLIONS (UNLESS OTHERWISE STATED)

1. GENERAL

DESCRIPTION OF BUSINESS

PJSC Gazprom Neft (the 'Company') and its subsidiaries (together referred to as the 'Group') is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group's principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. PJSC Gazprom ('Gazprom', a state controlled entity), the Group's ultimate parent company, owns 95.7% of the shares in the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ('IFRS').

Subsequent events occurring after 31 December 2017 were evaluated through 26 February 2018, the date these Consolidated Financial Statements were authorised for issue.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

FOREIGN CURRENCY TRANSLATION

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

BUSINESS COMBINATIONS

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

GOODWILL

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

NON-CONTROLLING INTEREST

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

DISPOSALS OF SUBSIDIARIES

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

ACQUISITIONS FROM ENTITIES UNDER COMMON CONTROL

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity. When these transactions represent transactions with owners in their capacity as owners, the effect on such transactions is included in Additional paid-in capital in Equity.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

JOINT OPERATIONS AND JOINT VENTURES

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

CASH AND CASH EQUIVALENTS

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

NON-DERIVATIVE FINANCIAL ASSETS

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

HELD-TO-MATURITY FINANCIAL ASSETS

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

LOANS AND RECEIVABLES

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss.

NON-DERIVATIVE FINANCIAL LIABILITIES

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, trade and other payables and finance lease liabilities.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

HEDGE ACCOUNTING

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss. The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

INVENTORIES

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

INTANGIBLE ASSETS

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

Intangible asset group	Average useful life
Licenses and software	1–5 years
Land rights	25 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

OIL AND GAS PROPERTIES

EXPLORATION AND EVALUATION ASSETS

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies, that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution;
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

DEVELOPMENT COSTS

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

DEPRECIATION, DEPLETION AND AMORTISATION

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset group	Average useful life
Buildings and constructions	8–35 years
Machinery and equipment	8–20 years
Vehicles and other equipment	3–10 years

Catalysts and reagents mainly used in the refining operations are treated as other assets.

CAPITALISATION OF BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

IMPAIRMENT OF NON-CURRENT ASSETS

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generated units – CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit and loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

IMPAIRMENT OF NON-DERIVATIVE FINANCIAL ASSETS

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

DECOMMISSIONING OBLIGATIONS

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

EXPLORATION AND PRODUCTION

The Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

REFINING, MARKETING AND DISTRIBUTION

The Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

INCOME TAXES

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

MINERAL EXTRACTION TAX AND EXCISE DUTIES

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

SHARE CAPITAL

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders' meeting.

TREASURY STOCK

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

DIVIDENDS

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.

EARNINGS PER SHARE

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

STOCK-BASED COMPENSATION

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ('SAR') granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

RETIREMENT AND OTHER BENEFIT OBLIGATIONS

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant employee-benefit programs requiring accrual.

LEASES

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's consolidated statement of financial position. The total lease payments are charged to profit and loss for the year on a straight-line basis over the lease term.

RECOGNITION OF REVENUES

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

BUY / SELL TRANSACTIONS

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

TRANSPORTATION COSTS

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the PJSC 'AK 'Transneft' pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

OTHER COMPREHENSIVE INCOME / LOSS

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related income tax.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

IMPAIRMENT OF NON-CURRENT ASSETS

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

ESTIMATION OF OIL AND GAS RESERVES

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

CONTINGENCIES

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

JOINT ARRANGEMENTS

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

LEASES

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Risks include the possibilities of losses from idle capacities or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the assets's economic life and of gain from appreciation in value or realization of a residual value.

Other leases are classified as operating leases. In most cases leasing of vessels under time-charter agreements are accounted for as operating leases under IAS 17 Leases.

4. APPLICATION OF NEW IFRS

The following standards or amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 35.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

5. NEW ACCOUNTING STANDARDS

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

IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The decision is to be made at initial recognition.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent solely payments of principal and interest only. All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances those exist at that date, the main changes expected from adoption of IFRS 9 since 1 January 2018 are the following:

- Current classification of the Group's financial assets will be changed into three measurement categories: those to be measured subsequently at fair value (either through profit and loss or other comprehensive income), and at amortised cost. For the debt instruments the decision is to be made depending on (i) the objective of the entity's business model and (ii) either the asset's contractual cash flows represent solely payments of principal and interest.
- Current model for recognition of impairment losses will be changed into the expected credit losses (ECL) model. However, the Group does not expect any significant changes in impairment amount as current model is based on expert opinion which covers all possible data.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
- Changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income rather than profit or loss.

The Group continues to apply IAS 39 for hedge accounting. The management of the Group is not expecting a significant impact on its Consolidated Financial Statements from the adoption of the new standard on 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers (issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

The Group plans to apply the practical expedient available for simplified transition method: IFRS 15 is retrospectively applied only to the contracts that are not completed at the date of initial application (1 January 2018).

Based on the analysis of the Group's revenue streams for the year ended 31 December 2017 and individual contracts' terms and on the basis of the facts and circumstances that exist at that date, an impact on the Consolidated Financial Statements from the adoption of the new standard on 1 January 2018 is not significant.

IFRIC 22 'Foreign currency transactions and advance consideration' (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. This interpretation will not have any material impact on the Group.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. 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. Lessees will be 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 and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IFRS 17 'Insurance Contracts' (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. New standard will not have any material impact on the Group.

IFRIC 23 ‘Uncertainty over Income Tax Treatments’ (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should 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 should assume that a taxation authority will examine amounts it has 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 effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either 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 will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. The Group is currently assessing the impact of the interpretation on its Consolidated Financial Statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 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 on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 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 on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Cash on hand	946	882
Cash in bank	46,107	21,284
Deposits with original maturity of less than three months	28,816	8,647
Other cash equivalents	14,739	2,808
TOTAL CASH AND CASH EQUIVALENTS	90,608	33,621

7. SHORT-TERM FINANCIAL ASSETS

Short-term financial assets as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Deposits with original maturity more than 3 months less than 1 year	5,779	886
Short-term loans issued	4,670	41,136
Forward contracts – cash flow hedge	–	91
TOTAL SHORT-TERM FINANCIAL ASSETS	10,449	42,113

The loans issued as of 31 December 2017 and 2016 mainly comprise loans issued to a joint venture.

8. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of 31 December 2017 and 2016 comprise the following:

	Notes	31 December 2017	31 December 2016
Trade receivables		107,758	121,229
Other financial receivables		2,071	6,604
Less impairment provision	35	(7,567)	(12,274)
TOTAL TRADE AND OTHER RECEIVABLES		102,262	115,559

Trade receivables represent amounts due from customers in the ordinary course of business and are short-term by nature.

9. INVENTORIES

Inventories as of 31 December 2017 and 2016 consist of the following:

	31 December 2017	31 December 2016
Petroleum products and petrochemicals	55,828	47,467
Crude oil and gas	28,200	20,059
Materials and supplies	23,143	26,277
Other	12,239	8,378
Less provision	(1,088)	(1,480)
TOTAL INVENTORY	118,322	100,701

10. OTHER TAXES RECEIVABLE

Other taxes receivable as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Value added tax receivable	50,163	44,936
Prepaid custom duties	5,076	6,419
Other taxes prepaid	3,120	2,127
TOTAL OTHER TAXES RECEIVABLE	58,359	53,482

11. OTHER CURRENT ASSETS

Other current assets as of 31 December 2017 and 2016 comprise the following:

	Notes	31 December 2017	31 December 2016
Advances paid		24,503	27,671
Prepaid expenses		1,955	1,104
Other assets	35	13,589	11,728
TOTAL OTHER CURRENT ASSETS, NET		40,047	40,503

The movement in impairment provision in respect of other current assets is presented in Note 35.

12. PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment for the years ended 31 December 2017 and 2016 is presented below:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
COST						
AS OF 1 JANUARY 2017	1,569,525	308,192	152,871	23,531	369,304	2,423,423
Additions	2,921	1,572	–	–	403,860	408,353
Changes in decommissioning obligations	20,152	–	–	–	–	20,152
Capitalised borrowing costs	–	–	–	–	29,562	29,562
Transfers	191,205	32,548	34,120	3,562	(261,435)	–
Internal movement	(1,230)	(724)	(72)	591	1,435	–
Disposals	(7,101)	(699)	(1,913)	(1,329)	(2,212)	(13,254)
Translation differences	(3,369)	6,849	4,597	283	(1,549)	6,811
AS OF 31 DECEMBER 2017	1,772,103	347,738	189,603	26,638	538,965	2,875,047

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
DEPRECIATION AND IMPAIRMENT						
AS OF 1 JANUARY 2017	(553,140)	(89,106)	(49,052)	(5,780)	-	(697,078)
Depreciation charge	(107,119)	(14,787)	(11,140)	(2,336)	-	(135,382)
Impairment	256	-	-	-	-	256
Internal movement	444	157	(44)	(557)	-	-
Disposals	4,611	601	1,110	1,313	-	7,635
Translation differences	5,011	(1,955)	(1,164)	(95)	-	1,797
AS OF 31 DECEMBER 2017	(649,937)	(105,090)	(60,290)	(7,455)	-	(822,772)
NET BOOK VALUE						
AS OF 1 JANUARY 2017	1,016,385	219,086	103,819	17,751	369,304	1,726,345
AS OF 31 DECEMBER 2017	1,122,166	242,648	129,313	19,183	538,965	2,052,275

Capitalised borrowing costs for the year ended 31 December 2017 include interest expense in the amount of RUB 25.0 billion and exchange losses arising from foreign currency borrowings in the amount of RUB 4.6 billion.

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
COST						
AS OF 1 JANUARY 2016	1,355,282	308,037	152,795	17,933	369,274	2,203,321
Additions	2,280	1,365	-	-	319,426	323,071
Acquisitions through business combinations	-	38	-	452	16	506
Changes in decommissioning obligations	9,626	-	-	-	-	9,626
Capitalised borrowing costs	-	-	-	-	13,840	13,840
Transfers	248,107	21,528	10,280	4,473	(284,388)	-
Internal movement	25,813	(6,474)	6,192	1,711	(27,242)	-
Disposals	(5,588)	(1,250)	(1,753)	(604)	(4,530)	(13,725)
Translation differences	(65,995)	(15,052)	(14,643)	(434)	(17,092)	(113,216)
AS OF 31 DECEMBER 2016	1,569,525	308,192	152,871	23,531	369,304	2,423,423
DEPRECIATION AND IMPAIRMENT						
AS OF 1 JANUARY 2016	(489,288)	(81,461)	(41,440)	(3,479)	-	(615,668)
Depreciation charge	(83,199)	(13,083)	(11,305)	(1,918)	-	(109,505)
Impairment	(14,763)	-	-	-	-	(14,763)
Internal movement	828	1,558	(1,240)	(1,146)	-	-
Disposals	5,222	221	1,050	561	-	7,054
Translation differences	28,060	3,659	3,883	202	-	35,804
AS OF 31 DECEMBER 2016	(553,140)	(89,106)	(49,052)	(5,780)	-	(697,078)
NET BOOK VALUE						
AS OF 1 JANUARY 2016	865,994	226,576	111,355	14,454	369,274	1,587,653
AS OF 31 DECEMBER 2016	1,016,385	219,086	103,819	17,751	369,304	1,726,345

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 7% for the year ended 31 December 2017 (6% for the year ended 31 December 2016).

The information regarding Group's exploration and evaluation assets (part of O&G properties) is presented below:

	2017	2016
NET BOOK VALUE AS OF 1 JANUARY	75,343	83,005
Additions	22,283	13,670
Impairment	–	(9,362)
Unsuccessful exploration expenditures derecognised	(337)	(628)
Transfer to proved property	(2,522)	(2,214)
Disposals	(143)	(268)
Translation differences	(597)	(8,860)
NET BOOK VALUE AS OF 31 DECEMBER	94,027	75,343

During 2017 the Group performed impairment testing and recognised net reversal of impairment in relation to upstream oil and gas assets located in Iraq region in the amount of RUB 0.3 billion (an impairment in relation to upstream oil and gas assets and exploration and evaluation assets in the amount of RUB 14.4 billion was recognised for the year ended 31 December 2016). Net reversal of impairment consists of an impairment loss in the amount of RUB 2.0 billion and reversal of impairment in the amount of RUB 2.3 billion. The impairment reversal is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The accumulated impairment as at 31 December 2017 in the amount of RUB 13.9 billion is presented within net book value of property, plant and equipment (RUB 14.8 billion as at 31 December 2016).

The Group recognized the net reversal of impairment for the amount by which recoverable amount of these assets of RUB 81.7 billion (translated into Roubles at the exchange rate as of date of impairment testing) exceeded its book value. Revision of the expected economic and technical performance of the assets in result of changes in exploration information, development programs, investment plans and international oil prices affected estimated value in use of Iraq assets.

The recoverable amount was determined as the present value of estimated future cash flows using available forecasts of oil prices from globally recognised research institutions and production quantities based on reserve reports and long-term strategic plans. The pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset and amounts to 11% per annum in real terms (similar to prior year).

13. GOODWILL AND OTHER INTANGIBLE ASSETS

The information regarding movements in Group's intangible assets is presented below:

	Goodwill	Software	Land rights	Other IA	Total
COST					
AS OF 1 JANUARY 2017	32,106	26,979	17,521	16,006	92,612
Additions	–	4,659	9	3,038	7,706
Internal movement	–	1,202	27	(1,229)	–
Disposals	–	(68)	(2)	(900)	(970)
Translation differences	1,994	604	56	97	2,751
AS OF 31 DECEMBER 2017	34,100	33,376	17,611	17,012	102,099

	Goodwill	Software	Land rights	Other IA	Total
AMORTISATION AND IMPAIRMENT					
AS OF 1 JANUARY 2017	(180)	(13,060)	(5,214)	(4,007)	(22,461)
Amortisation charge	–	(3,770)	(702)	(1,400)	(5,872)
Internal movement	–	519	–	(519)	–
Disposals	–	–	–	767	767
Translation differences	(21)	(397)	–	72	(346)
AS OF 31 DECEMBER 2017	(201)	(16,708)	(5,916)	(5,087)	(27,912)
NET BOOK VALUE					
AS OF 1 JANUARY 2017	31,926	13,919	12,307	11,999	70,151
AS OF 31 DECEMBER 2017	33,899	16,668	11,695	11,925	74,187
COST					
AS OF 1 JANUARY 2016	36,537	24,243	17,582	15,451	93,813
Additions	–	3,556	9	2,238	5,803
Acquisitions through business combinations	–	7	–	865	872
Internal movement	–	1,250	31	(1,281)	–
Disposals	–	(520)	–	(1,007)	(1,527)
Translation differences	(4,431)	(1,557)	(101)	(260)	(6,349)
AS OF 31 DECEMBER 2016	32,106	26,979	17,521	16,006	92,612
AMORTISATION AND IMPAIRMENT					
AS OF 1 JANUARY 2016	(228)	(11,030)	(4,457)	(3,008)	(18,723)
Amortisation charge	–	(3,528)	(759)	(1,290)	(5,577)
Internal movement	–	35	–	(35)	–
Disposals	–	318	–	149	467
Translation differences	48	1,145	2	177	1,372
AS OF 31 DECEMBER 2016	(180)	(13,060)	(5,214)	(4,007)	(22,461)
NET BOOK VALUE					
AS OF 1 JANUARY 2016	36,309	13,213	13,125	12,443	75,090
AS OF 31 DECEMBER 2016	31,926	13,919	12,307	11,999	70,151

Goodwill acquired through business combination has been allocated to Upstream and Downstream in the amounts of RUB 27.0 billion and RUB 6.9 billion as of 31 December 2017 (RUB 25.1 billion and RUB 6.8 billion as of 31 December 2016). Goodwill was tested for impairment and no impairment was identified.

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The carrying values of the investments in associates and joint ventures as of 31 December 2017 and 2016 are summarised below:

		Ownership percentage	31 December 2017	31 December 2016
Slavneft	Joint venture	49.9	111,679	97,084
SeverEnergy	Joint venture	46.7	105,157	86,599
Northgas	Joint venture	50.0	12,568	11,517
Messoyakha	Joint venture	50.0	17,965	353
Others			9,389	5,995
TOTAL INVESTMENTS			256,758	201,548

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

The total amount of dividends received from joint ventures in 2017 amounts to RUB 5,531 million (RUB 3,144 million in 2016).

SLAVNEFT

OA0 NGK Slavneft and its subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

SEVERENERGY

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie, an entity jointly controlled by the Group and PJSC NOVATEK). SeverEnergy, through its subsidiary JSC Arctic Gas Company (Arcticgas), is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The carrying amount of the Group's investment exceeds the Group's share in the underlying net assets of SeverEnergy by RUB 17.0 billion as of 31 December 2017 due to complex holding structure, current financing scheme and goodwill arising on acquisition (RUB 18.2 billion as of 31 December 2016).

NORTHGAS

The Group's investment in CJSC Northgas (Northgas) is held through Gazprom Resource Northgas LLC which is controlled by the Group based on signed Management agreement and charter documents. Gazprom Resource Northgas LLC owns a 50% share in Northgas. Northgas is engaged in development of natural gas and oil field.

MESSOYAKHA

JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft. During the year ended 31 December 2017 the Group performed additional contribution to share capital in the amount of RUB 7.6 billion.

The summarised financial information for the significant associates and joint ventures as of 31 December 2017 and 2016 and for the years ended 31 December 2017 and 2016 is presented in the table below.

31 December 2017	Slavneft	SeverEnergy	Northgas	Messoyakha
Cash and cash equivalents	4,153	8,658	1,409	1
Other current assets	54,479	133,617	3,256	18,654
Non-current assets	344,997	259,175	54,065	152,469
Current financial liabilities	(34,054)	(49,851)	(6,379)	(4,913)
Other current liabilities	(30,229)	(18,495)	(77)	(4,812)
Non-current financial liabilities	(88,198)	(91,811)	(21,109)	(116,815)
Other non-current liabilities	(41,229)	(52,465)	(4,656)	(9,072)
NET ASSETS	209,919	188,828	26,509	35,512

31 December 2016	Slavneft	SeverEnergy	Northgas	Messoyakha
Cash and cash equivalents	4,333	13,530	277	98
Other current assets	22,505	16,506	3,280	15,684
Non-current assets	312,935	357,480	52,986	114,347
Current financial liabilities	(46,727)	(53,439)	(2,677)	(82,745)
Other current liabilities	(25,368)	(12,368)	(54)	(3,512)
Non-current financial liabilities	(42,876)	(123,252)	(24,990)	(37,920)
Other non-current liabilities	(36,587)	(51,995)	(4,415)	(5,665)
NET ASSETS	188,215	146,462	24,407	287

Year ended 31 December 2017	Slavneft	SeverEnergy	Northgas	Messoyakha
Revenue	241,253	147,204	23,079	61,030
Depreciation and amortisation	(37,984)	(23,357)	(2,561)	(12,489)
Finance income	989	966	1,153	3
Finance expense	(6,781)	(17,759)	(2,784)	(6,559)
Total income tax expense	(4,429)	(7,210)	(1,726)	(4,615)
Profit for the period	21,648	42,365	6,868	19,952
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	21,707	42,365	6,868	19,952

Year ended 31 December 2016	Slavneft	SeverEnergy	Northgas	Messoyakha
Revenue	214,509	133,229	25,692	12,097
Depreciation and amortisation	(33,732)	(23,445)	(2,600)	(1,905)
Finance income	1,652	1,080	1,332	50
Finance expense	(6,593)	(26,100)	(3,697)	(6,493)
Total income tax (expense) / benefit	(6,224)	(3,447)	(1,608)	4,027
Profit for the period	29,101	30,877	6,019	1,889
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	28,698	30,877	6,019	1,889

OTHERS

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group's share of those joint ventures' and associates' profit or loss and other comprehensive income is not significant.

15. JOINT OPERATIONS

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development as Joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

16. LONG-TERM FINANCIAL ASSETS

Long-term financial assets as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Long-term loans issued	27,895	34,015
Available for sale financial assets	2,911	7,549
Deposits with original maturity more than 1 year	1,181	–
Less impairment provision	(694)	(1,397)
TOTAL LONG-TERM FINANCIAL ASSETS	31,293	40,167

17. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
AS OF 31 DECEMBER 2017			
Property, plant and equipment	4,965	(126,842)	(121,877)
Intangible assets	1	(3,536)	(3,535)
Investments	358	(340)	18
Inventories	828	(1,369)	(541)
Trade and other receivables	2,838	(28)	2,810
Loans and borrowings	–	(276)	(276)
Provisions	6,598	(24)	6,574
Tax loss carry-forwards	23,255	–	23,255
Finance lease	4,866	–	4,866
Other	4,938	(948)	3,990
Net-off	(30,780)	30,780	–
TAX ASSETS / (LIABILITIES)	17,867	(102,583)	(84,716)

	Assets	Liabilities	Net
AS OF 31 DECEMBER 2016			
Property, plant and equipment	5,424	(96,586)	(91,162)
Intangible assets	1	(3,662)	(3,661)
Investments	719	(988)	(269)
Inventories	894	(962)	(68)
Trade and other receivables	2,321	(30)	2,291
Loans and borrowings	-	(2,152)	(2,152)
Provisions	7,258	(8)	7,250
Tax loss carry-forwards	14,152	-	14,152
Other	2,857	(2,546)	311
Net-off	(25,587)	25,587	-
TAX ASSETS / (LIABILITIES)	8,039	(81,347)	(73,308)

Movement in temporary differences during the period:

	As of 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2017
Property, plant and equipment	(91,162)	(31,087)	372	-	(121,877)
Intangible assets	(3,661)	126	-	-	(3,535)
Investments	(269)	267	20	-	18
Inventories	(68)	(473)	-	-	(541)
Trade and other receivables	2,291	460	59	-	2,810
Loans and borrowings	(2,152)	1,876	-	-	(276)
Provisions	7,250	(736)	60	-	6,574
Tax loss carry-forwards	14,152	9,146	(43)	-	23,255
Finance lease	-	4,866	-	-	4,866
Other	311	3,728	(49)	-	3,990
	(73,308)	(11,827)	419	-	(84,716)

	As of 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2016
Property, plant and equipment	(81,818)	(12,029)	2,684	1	(91,162)
Intangible assets	(3,881)	290	-	(70)	(3,661)
Investments	102	(108)	(263)	-	(269)
Inventories	(250)	182	-	-	(68)
Trade and other receivables	584	1,827	(120)	-	2,291
Loans and borrowings	(1,066)	(1,086)	-	-	(2,152)
Provisions	5,469	1,911	(130)	-	7,250
Tax loss carry-forwards	32,896	(18,587)	(164)	7	14,152
Other	1,311	(924)	(78)	2	311
	(46,653)	(28,524)	1,929	(60)	(73,308)

18. OTHER NON-CURRENT ASSETS

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 69.3 billion and RUB 97.2 billion as of 31 December 2017 and 2016, respectively).

19. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

As of 31 December 2017 and 2016 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	31 December 2017	31 December 2016
Current portion of long-term debt	131,360	72,805
Bank loans	–	6,321
Other borrowings	400	1,061
TOTAL SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT	131,760	80,187

Short-term bank loans and other borrowings include interest payable on short-term debt. Current portion of long-term debt includes interest payable on long-term borrowings.

20. TRADE AND OTHER PAYABLES

Accounts payable as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Trade accounts payable	118,151	78,161
Dividends payable	49,520	2,115
Forward contracts – cash flow hedge	16,758	11,358
Other accounts payable	10,009	3,990
TOTAL TRADE AND OTHER PAYABLES	194,438	95,624

Other accounts payable are mainly represented by short-term part of liability to PJSC Gazprom for assets relating to Prirazlomnoye project.

21. OTHER CURRENT LIABILITIES

Other current liabilities as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Advances received	21,972	21,293
Payables to employees	3,182	2,627
Other non-financial payables	7,346	4,760
TOTAL OTHER CURRENT LIABILITIES	32,500	28,680

22. OTHER TAXES PAYABLE

Other taxes payable as of 31 December 2017 and 2016 comprise the following:

	31 December 2017	31 December 2016
Mineral extraction tax	31,807	25,261
VAT	27,515	20,140
Excise tax	13,201	11,389
Social security contributions	6,974	4,721
Other taxes	5,336	5,748
TOTAL OTHER TAXES PAYABLE	84,833	67,259

Tax expense other than income tax expense for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Mineral extraction tax	329,579	237,300
Excise tax	128,229	112,102
Social security contributions	20,433	18,530
Other taxes	14,028	13,199
TOTAL TAXES OTHER THAN INCOME TAX	492,269	381,131

23. PROVISIONS AND OTHER ACCRUED LIABILITIES

Movement in provisions and other accrued liabilities for the years ended 31 December 2017 and 2016 is below:

	Decommissioning provision	Other	Total
CARRYING AMOUNT AS OF 1 JANUARY 2016	26,097	18,906	45,003
SHORT-TERM PART	121	13,817	13,938
LONG-TERM PART	25,976	5,089	31,065
New obligation incurred	5,783	13,134	18,917
Utilisation of provision / accrual	(182)	(5,665)	(5,847)
Change in estimates	3,987	-	3,987
Unwind of discount	2,308	-	2,308
Translation differences	(1,632)	(1,388)	(3,020)
CARRYING AMOUNT AS OF 31 DECEMBER 2016	36,361	24,987	61,348

	Decommissioning provision	Other	Total
SHORT-TERM PART	151	15,255	15,406
LONG-TERM PART	36,210	9,732	45,942
New obligation incurred	5,790	11,711	17,501
Utilisation of provision / accrual	(684)	(3,301)	(3,985)
Change in estimates	14,326	–	14,326
Unwind of discount	2,785	–	2,785
Translation differences	23	449	472
CARRYING AMOUNT AS OF 31 DECEMBER 2017	58,601	33,846	92,447
SHORT-TERM PART	151	29,722	29,873
LONG-TERM PART	58,450	4,124	62,574

Change in estimates was mainly caused by revision of discount and inflation rates.

24. LONG-TERM DEBT

As of 31 December 2017 and 2016 the Group has long-term outstanding loans and borrowings as follows:

	31 December 2017	31 December 2016
Bank loans	303,173	348,142
Loan participation notes	226,110	231,250
Bonds	143,007	81,879
Other borrowings	7,724	7,755
Less current portion of long-term debt	(131,360)	(72,805)
TOTAL LONG-TERM DEBT	548,654	596,221

BANK LOANS

In July 2012 the Group signed EUR 258 million ECA-covered term loan facility with the group of international banks (facility agent – HSBC) at an interest rate of Euribor+1.45% per annum and final maturity date in December 2022. During 2017 the Group performed principal repayment in the total amount of EUR 25.8 million (RUB 1.8 billion) according to the payment schedule. The outstanding balance as of 31 December 2017 is EUR 129.0 million (RUB 8.9 billion).

In April 2013 the Group signed USD 700 million club term loan facility with the group of international banks (facility agent – Commerzbank) at an interest rate of Libor+1.75% per annum and final maturity date in October 2018. In March and September 2017 the Group performed partial principal repayment in the total amount of USD 200 million (RUB 11.5 billion) according to the payment schedule. The outstanding balance as of 31 December 2017 is USD 200 million (RUB 11.5 billion).

In November 2013 the Group signed USD 2,150 million club term loan facility with the group of international banks (facility agent – Mizuho) at an interest rate of Libor+1.50% per annum and final maturity date in March 2019. In March and September 2017 the Group performed partial principal repayment in the total amount of USD 614 million (RUB 35.8 billion) according to the payment schedule. The outstanding balance as of 31 December 2017 is USD 921 million (RUB 53.1 billion).

In September 2014 the Group signed RUB 35.0 billion term loan facilities with Sberbank of Russia with final maturity date in September 2019. In May 2017 the Group performed pre-scheduled principal repayment in the total amount of RUB 35.0 billion. The loan is fully repaid.

In first half 2015 the Group signed several long-term facility agreements with final settlement in August 2019.

As of 31 December 2017 the amount outstanding is RUB 57.6 billion.

In August 2015 the Group signed a long-term facility agreement in the amount of RUB 13.9 billion with Sberbank of Russia. The final maturity date is August 2025. The outstanding balance as of 31 December 2017 is RUB 7.2 billion.

In February, October and November 2016 the Group signed several long-term facility agreements with Bank VTB (PJCS) with the due dates in June 2021 – June 2022. In 2017 the Group performed pre-scheduled principal repayment in the total amount of RUB 92.0 billion. The loans are fully repaid.

In November 2016 the Group signed long-term loan facilities with Sberbank of Russia with final maturity date in November 2021. In June 2017 the Group performed pre-scheduled principal repayment in the total amount of RUB 30.0 billion. The loans are fully repaid.

In November 2016 the Group signed a long-term facility agreement with Sberbank of Russia with the final maturity date in November 2022. As of 31 December 2017 the outstanding balance is RUB 15.7 billion.

In April 2017 the Group signed long-term loan facilities with 'Bank 'ROSSIYA' in the amount of RUB 15.0 billion with final maturity date in April 2022. The outstanding balance as of 31 December 2017 is RUB 15.0 billion.

In December 2017 the Group signed several long-term facility agreements with final maturity date in December 2022 – June 2023. As of 31 December 2017 the outstanding balance is RUB 98.8 billion.

The loan agreements contain one financial covenant that limits the Group's ratio of 'Consolidated financial indebtedness to Consolidated EBITDA'. The Group is in compliance with the covenant as of 31 December 2017 and 2016 and during the year ended 31 December 2017 and 31 December 2016.

BONDS

In April 2017 the Group placed five-year Rouble exchange traded Bonds (001P-01R series) with the total par value of RUB 15 billion. The bonds bear interest of 8.7% per annum.

In August 2017 the Group placed seven-year Rouble Bonds (001P-02R series) with the total par value of RUB 15 billion. The bonds bear interest of 8.25% per annum.

In October 2017 the Group placed five-year Rouble Bonds (001P-03R series) with the total par value of RUB 25 billion. The bonds bear interest of 7.85% per annum.

In December 2017 the Group placed two seven-year Rouble Bonds (001P-04R and 001P-05R series) with the total par value of RUB 10 billion and RUB 5 billion respectively. The bonds bear interest of 7.7% per annum.

As of 31 December 2017 the outstanding balance of Rouble Bonds placed in 2009, 2011, 2016 and 2017 is RUB 140.0 billion. The bonds bear interest of 7.7-10.65% per annum and are due for repayment in 2018-2024.

LOAN PARTICIPATION NOTES

In years 2012 and 2013 the Group raised USD 3,000 million and EUR 750 million by issuing 10 years USD and 5 years EUR Loan Participation Notes. The outstanding balance as of 31 December 2017 is RUB 224.0 billion.

25. FINANCE LEASE

In 2016 the Group entered into agreements to lease vessels and the contracts were classified as a finance lease. During the year ended 31 December 2017 the Group became entitled to exercise the right to use the assets. The net book value of the leased assets as of 31 December 2017 is RUB 24.8 billion (none as of 31 December 2016). At the end of lease term ownership title to the vessels transfers to the Group. The lease contract also contains an option for early purchase of the assets by the Group.

Net book value of other items of PPE under finance lease contracts is non significant.

The reconciliation between future minimum lease payments and their present value as of 31 December 2017 is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
31 DECEMBER 2017		
Due within one year	2,784	2,693
Between one and five years	11,204	9,273
More than five years	17,355	10,257
TOTAL MINIMUM LEASE PAYMENTS	31,343	22,223

The difference between the minimum lease payments and their present value represents future finance charges on finance lease liabilities.

26. OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities as of 31 December 2017 and 31 December 2016 comprise the following:

	31 December 2017	31 December 2016
Deferred consideration	47,245	60,384
Forward contracts – cash flow hedge	1,295	28,015
Other liabilities	29	1,345
TOTAL OTHER NON-CURRENT FINANCIAL LIABILITIES	48,569	89,744

Deferred consideration represents liability to PJSC Gazprom for assets relating to Pirazlomnoye project. In 2017 the payment schedule was revised and the effect of the change in carrying value of liability due to the contract term revision in amount of RUB 11.2 billion was reflected in additional paid-in capital as of 31 December 2017.

27. SHARE CAPITAL AND TREASURY SHARES

Share capital as of 31 December 2017 and 2016 comprise the following:

	Ordinary shares		Treasury shares	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
ON ISSUE AS OF 31 DECEMBER, FULLY PAID (RUB MILLION)	8	8	(1,170)	(1,170)

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 15 December 2017 the general shareholders' meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the nine months ended 30 September 2017 in the amount of RUB 10.00 per share.

On 9 June 2017 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2016 in the amount of RUB 10.68 per share.

On 10 June 2016 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2015 in the amount of RUB 6.47 per share including an interim dividend on the ordinary shares in the amount of RUB 5.92 per share.

28. EMPLOYEE COSTS

Employee costs for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	75,153	66,987
Other costs and compensations	11,357	10,481
TOTAL EMPLOYEE COSTS	86,510	77,468
Social security contributions (social taxes)	20,433	18,530
TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES)	106,943	95,998

29. OTHER LOSS / GAIN, NET

Other loss / gain, net for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Write-off of assets	(3,727)	(4,456)
Impairment of advances and other receivables	(345)	(11,546)
Penalties	595	277
Write-off payables	234	243
Other losses, net	(4,314)	(2,500)
TOTAL OTHER LOSS, NET	(7,557)	(17,982)

30. NET FOREIGN EXCHANGE LOSS / GAIN

Net foreign exchange loss / gain for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
NET FOREIGN EXCHANGE GAIN ON FINANCING ACTIVITIES, INCLUDING:	8,686	69,159
foreign exchange gain	20,419	101,320
foreign exchange loss	(11,733)	(32,161)
NET FOREIGN EXCHANGE LOSS ON OPERATING ACTIVITIES	(8,927)	(40,859)
NET FOREIGN EXCHANGE (LOSS) / GAIN	(241)	28,300

31. FINANCE INCOME

Finance income for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income on loans issued	7,185	7,630
Interest on bank deposits	1,860	1,885
Other financial income	1,053	1,556
TOTAL FINANCE INCOME	10,098	11,071

32. FINANCE EXPENSE

Finance expense for the years ended 31 December 2017 and 2016 comprise the following:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense	47,373	45,814
Decommissioning provision: unwinding of discount	2,785	2,308
Less: capitalised interest	(25,031)	(13,840)
FINANCE EXPENSE	25,127	34,282

33. INCOME TAX EXPENSE

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended 31 December 2017		Year ended 31 December 2016	
	RUB million	%	RUB million	%
TOTAL INCOME TAX EXPENSE	64,558	20	55,751	21
Profit before income tax excluding share of profit before tax of associates and joint ventures	279,696		225,423	
Profit before income tax of associates and joint ventures	51,988		37,720	
PROFIT BEFORE INCOME TAX	331,684		263,143	
Tax at applicable domestic tax rate (20%)	66,337	20	52,629	20
Effect of tax rates in foreign jurisdictions	(388)	–	2,363	1
Difference in statutory tax rate in domestic entities	(2,918)	(1)	(4,290)	(2)
Non-deductible and deductible items (including Intragroup)	(2,813)	(1)	3,220	1
Adjustment for prior years	3,934	2	(232)	–
Change in tax rate	428	–	714	–
Foreign exchange (gain) / loss of foreign non-operating units	(22)	–	1,347	1
TOTAL INCOME TAX EXPENSE	64,558	20	55,751	21

Reconciliation of effective tax rate:

	Year ended 31 December 2017	Year ended 31 December 2016
CURRENT INCOME TAX EXPENSE		
Current year	40,053	19,318
Adjustment for prior years	3,642	1,972
	43,695	21,290
DEFERRED INCOME TAX EXPENSE		
Origination and reversal of temporary differences	11,399	27,810
Change in tax rate	428	714
	11,827	28,524
TOTAL INCOME TAX EXPENSE	55,522	49,814
Share of tax of associates and joint ventures	9,036	5,937
TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES	64,558	55,751

34. CASH FLOW HEDGES

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
AS OF 31 DECEMBER 2017					
Forward exchange contracts and interest rate swaps					
Liabilities	(17,928)	(16,758)	-	-	(1,170)
TOTAL	(17,928)	(16,758)	-	-	(1,170)
AS OF 31 DECEMBER 2016					
Forward exchange contracts and interest rate swaps					
Assets	91	91	-	-	-
Liabilities	(39,373)	(692)	(10,667)	(25,232)	(2,782)
TOTAL	(39,282)	(601)	(10,667)	(25,232)	(2,782)

As of 31 December 2017 and 2016 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of USD 1,742 million and USD 2,166 million respectively. During the year ended 31 December 2017 loss in the amount of RUB 9,984 million was reclassified from equity to net foreign exchange (loss) / gain in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (RUB 26,281 million for the year ended 31 December 2016).

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2017			2016		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME AS OF THE BEGINNING OF THE YEAR	(39,282)	5,023	(34,259)	(76,258)	10,498	(65,760)
Foreign exchange effects recognised during the year	11,370	(1,914)	9,456	10,695	(2,025)	8,670
Recycled to Net foreign exchange loss on operating activities	9,984	(1,006)	8,978	26,281	(3,450)	22,831
TOTAL RECOGNISED IN OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	21,354	(2,920)	18,434	36,976	(5,475)	31,501
TOTAL RECOGNISED IN OTHER COMPREHENSIVE (LOSS) / INCOME AS OF THE CLOSING OF THE YEAR	(17,928)	2,103	(15,825)	(39,282)	5,023	(34,259)

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income / (loss) to profit and loss as of 31 December 2017 is presented below:

Year	2018	2022	Total
TOTAL, NET OF TAX	(14,638)	(1,187)	(15,825)

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

35. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

FINANCIAL RISK MANAGEMENT

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

MARKET RISK

CURRENCY RISK

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated in are mainly USD and EUR.

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit and loss with its cash flows in foreign currency and hedges predominantly its borrowings.

The carrying amounts of the Group's financial instruments by currencies they are denominated in are as follows:

As of 31 December 2017	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	38,700	34,902	6,540	6,679	3,787
Bank deposits	1,323	-	13	4,443	-
Loans issued	4,669	-	-	1	-
Trade and other financial receivables	41,240	43,484	3,117	12,433	1,988
NON-CURRENT					
Trade and other financial receivables	901	-	-	-	-
Bank deposits	-	-	-	1,181	-
Loans issued	27,695	-	200	-	-
Available for sale financial assets	2,157	-	-	60	-
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(28,630)	(48,360)	(54,751)	-	(19)
Trade and other financial payables	(145,576)	(16,008)	(5,478)	(9,191)	(1,427)
Forward exchange contracts	-	(16,758)	-	-	-
Finance lease liability	-	(1,367)	(30)	-	-
NON-CURRENT					
Long-term debt	(240,920)	(257,377)	(50,196)	-	(161)
Forward exchange contracts	(126)	(1,169)	-	-	-
Finance lease liability	(23)	(20,582)	(114)	-	(107)
Other non-current financial liabilities	(47,271)	-	-	-	(3)
NET EXPOSURE	(345,861)	(283,235)	(100,699)	15,606	4,058

As of 31 December 2016	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	10,811	12,024	3,061	5,685	2,040
Bank deposits	56	341	215	-	274
Loans issued	41,007	16	113	-	-
Forward exchange contracts	-	91	-	-	-
Trade and other financial receivables	39,243	55,595	6,341	12,495	1,885
NON-CURRENT					
Trade and other financial receivables	797	-	4,332	-	-
Loans issued	33,895	-	120	-	-
Available for sale financial assets	6,083	-	-	69	-
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(18,353)	(50,981)	(10,826)	-	(13)
Trade and other financial payables	(59,004)	(11,750)	(6,071)	(6,072)	(1,369)
Forward exchange contracts	-	(11,358)	-	-	-
NON-CURRENT					
Long-term debt	(191,103)	(329,248)	(75,418)	-	(287)
Forward exchange contracts	-	(28,015)	-	-	-
Other non-current financial liabilities	(61,728)	-	(1)	-	-
NET EXPOSURE	(198,296)	(363,285)	(78,134)	12,177	2,530

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2017	31 December 2016
USD 1	57.60	60.66
EUR 1	68.87	63.81
RSD 1	0.58	0.52

SENSITIVITY ANALYSIS

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

31 DECEMBER 2017	Weakening of RUB	
	Equity	Profit or (loss)
USD/RUB (20% increase)	1,883	(55,520)
EUR/RUB (20% increase)	9	(20,158)
RSD/RUB (20% increase)	(16,650)	-

	Weakening of RUB	
	Equity	Profit or (loss)
31 DECEMBER 2016		
USD/RUB (30% increase)	988	(98,662)
EUR/RUB (30% increase)	(4)	(23,588)
RSD/RUB (30% increase)	(21,572)	-

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit and loss of the Group.

INTEREST RATE RISK

Part of the Group's borrowings is at variable interest rates (linked to the Libor, Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group's treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

	Carrying amount	
	31 December 2017	31 December 2016
FIXED RATE INSTRUMENTS		
Financial assets	130,133	109,645
Financial liabilities	(564,730)	(501,086)
	(434,597)	(391,441)
VARIABLE RATE INSTRUMENTS		
Financial liabilities	(137,907)	(175,143)
	(137,907)	(175,143)

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit or (loss)
31 DECEMBER 2017	
Increase by 100 bp	(1,379)
31 DECEMBER 2016	
Increase by 100 bp	(1,751)

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit and loss of the Group.

COMMODITY PRICE RISK

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- history of relationships with the Group;
- credit profile of the customer;
- duration of relationships with the Group, including ageing profile.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge, third party guarantee or authorisation by appropriate body of the Group.

The Management of the Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group.

The Management believes that not impaired trade receivables and other current assets are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables and investments.

As of 31 December 2017 and 2016, the ageing analysis of financial receivables is as follows:

	Gross	Impairment	Gross	Impairment
	31 December 2017	31 December 2017	31 December 2016	31 December 2016
Not past due	99,834	(109)	113,222	(8)
Past due 0–180 days	2,338	(100)	3,828	(272)
Past due 180–365 days	619	(167)	3,566	(89)
Past due 1–3 year	6,649	(6,024)	7,206	(6,898)
Past due more than three years	1,290	(1,167)	5,140	(5,007)
	110,730	(7,567)	132,962	(12,274)

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2017	2016
BALANCE AT THE BEGINNING OF THE YEAR	12,274	24,585
Increase during the year	796	528
Amounts written off against receivables	(46)	(5,520)
Decrease due to reversal	(366)	(2,614)
Reclassification to other lines	(5,677)	(1,212)
Other movements	(2)	(50)
Translation differences	588	(3,443)
BALANCE AT THE END OF THE YEAR	7,567	12,274

The movement in the allowance for impairment in respect of other current assets during the period was as follows:

	2017	2016
BALANCE AT THE BEGINNING OF THE YEAR	11,970	8,993
Increase during the year	345	10,770
Amounts written off against receivables	(192)	(5,851)
Decrease due to reversal	(142)	(1,239)
Reclassification to other lines	296	1,212
Other movements	(2)	2
Translation differences	13	(1,917)
Balance at the end of the year	12,288	11,970

INVESTMENTS

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any held-to-maturity investments that were past due but not impaired as of 31 December 2017 and 2016.

CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB	Less than BBB	Without rating	Total
AS OF 31 DECEMBER 2017				
Cash and cash equivalents	7,571	74,402	8,635	90,608
Short-term loans issued	-	-	4,670	4,670
Deposits with original maturity more than 3 months less than 1 year	3,293	2,485	1	5,779
Deposits with original maturity more than 1 year	1,179	-	2	1,181
Long-terms loans issued	-	-	27,895	27,895
AS OF 31 DECEMBER 2016				
Cash and cash equivalents	2,402	20,333	10,886	33,621
Short-term loans issued	-	-	41,136	41,136
Deposits with original maturity more than 3 months less than 1 year	-	886	-	886
Long-terms loans issued	-	-	34,015	34,015

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

As of December 31, 2017, the Group's current liabilities exceeded its current assets which is to a large extent explained by the change in the credit policy of the Group and rescheduling of payments terms with suppliers. Management believes that the Group's current cash position, expected cash flows from operations and available credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its short-term debts and obligations when they become due.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
AS OF 31 DECEMBER 2017							
Bank loans	303,173	363,557	31,966	32,262	104,621	191,009	3,699
Bonds	143,007	192,023	26,665	5,681	20,856	104,049	34,772
Loan Participation Notes	226,110	277,970	57,052	4,482	8,965	113,295	94,176
Other borrowings	8,124	9,929	369	590	285	6,403	2,282
Other non-current financial liabilities	47,274	74,384	–	–	11,580	14,173	48,631
Finance lease liabilities	22,223	31,307	1,385	1,386	5,511	5,564	17,461
Trade and other payables	177,680	177,680	173,660	4,020	–	–	–
	927,591	1,126,850	291,097	48,421	151,818	434,493	201,021
AS OF 31 DECEMBER 2016							
Bank loans	354,463	423,818	38,717	57,491	117,135	191,904	18,571
Bonds	81,879	107,991	6,063	14,155	16,431	71,342	–
Loan Participation Notes	231,250	298,019	8,252	4,720	58,029	28,322	198,696
Other borrowings	8,637	11,182	398	988	5,269	1,942	2,585
Other non-current financial liabilities	61,729	83,110	–	–	5,853	77,257	–
Trade and other payables	84,266	84,266	81,736	2,362	20	148	–
	822,224	1,008,386	135,166	79,716	202,737	370,915	219,852

NET DEBT RECONCILIATION

The table below sets out an analysis of net debt and the movements in the Group's liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Short-term and long-term debt	Finance lease	Other liabilities from financing activities	Total
AS OF 1 JANUARY 2017	676,408	-	41,397	717,805
Cash flows, including:	(24,957)	(1,955)	(63,058)	(89,970)
Proceeds from borrowings	356,370	-	-	356,370
Repayment of borrowings	(342,680)	-	(10,134)	(352,814)
Repayment of finance lease liabilities	-	(893)	-	(893)
Interest paid	(38,387)	(1,062)	-	(39,449)
Transaction costs directly attributable to the borrowings received	(260)	-	-	(260)
Dividends paid	-	-	(52,924)	(52,924)
Finance expense	40,713	1,062	-	41,775
Dividends declared	-	-	99,986	99,986
Changes in fair values, cash flow hedge	-	-	(10,097)	(10,097)
Gain on foreign exchange differences	(16,062)	419	-	(15,643)
Currency translation differences	4,312	-	342	4,654
Assets received under finance lease	-	22,410	-	22,410
Other non-cash movements	-	287	(997)	(710)
AS OF 31 DECEMBER 2017	680,414	22,223	67,573	770,210

	Short-term and long-term debt	Finance lease	Other liabilities from financing activities	Total
AS OF 1 JANUARY 2016	818,098	-	81,059	899,157
Cash flows, including:	(72,632)	-	(32,274)	(104,906)
Proceeds from borrowings	224,266	-	-	224,266
Repayment of borrowings	(259,773)	-	(28,422)	(288,195)
Interest paid	(36,476)	-	-	(36,476)
Transaction costs directly attributable to the borrowings received	(649)	-	-	(649)
Dividends paid	-	-	(3,852)	(3,852)
Finance expense	38,843	-	-	38,843
Dividends declared	-	-	3,868	3,868
Changes in fair values, cash flow hedge	-	-	(10,695)	(10,695)
Gain on foreign exchange differences	(97,767)	-	-	(97,767)
Currency translation differences	(10,259)	-	(561)	(10,820)
Business combinations	125	-	-	125
AS OF 31 DECEMBER 2016	676,408	-	41,397	717,805

CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Long-term debt	548,654	596,221
Short-term debt and current portion of long-term debt	131,760	80,187
Less: cash, cash equivalents and deposits	(96,387)	(34,507)
NET DEBT	584,027	641,901
Total EBITDA	489,025	402,277
NET DEBT TO EBITDA RATIO AT THE END OF THE REPORTING PERIOD	1.2	1.6
Operating profit	302,523	238,316
Operating profit adjusted for income tax expenses	242,470	185,653
less share of profit of associates and joint ventures	45,504	34,116
Average capital employed	2,164,614	1,994,626
ROACE	13.3%	11.0%

There were no changes in the Group's approach to capital management during the period.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements:

- Derivative financial instruments (forward exchange contracts and interest-rate swaps used as hedging instruments),
- Stock Appreciation Rights plan (SAR),
- Financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses.

Derivative financial instruments and SAR refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). There were no transfers between the levels of the fair value hierarchy during the year ended 31 December 2017 and 2016. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2017 the fair value of bonds and loan participation notes is RUB 378,085 million (RUB 315,488 million as of 31 December 2016). The fair value is derived from quotations in active market and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities approximates their fair value.

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

	Level 2
AS OF 31 DECEMBER 2017	
Forward exchange contracts	(17,928)
Other financial liabilities	(5,726)
TOTAL LIABILITIES	(23,654)
AS OF 31 DECEMBER 2016	
Forward exchange contracts	91
TOTAL ASSETS	91
Forward exchange contracts	(39,373)
Other financial liabilities	(3,730)
TOTAL LIABILITIES	(43,103)

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period. During the reporting period there were no changes in conditions for SAR compensation plan.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Volatility	3.7%	3.6%
Risk-free interest rate	8.0%	8.7%
Dividend yield	5.4%	5.5%

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the years ended 31 December 2017 and 2016 the Group accrued expenses related to SAR provision due to the growth in the value of Company's shares in the amount of RUB 5,727 million and RUB 3,730 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2017 and 31 December 2016 the Group recognised provision in amount of RUB 10,114 million and RUB 4,387 million, respectively.

36. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	31 December 2017	31 December 2016
Less than one year	12,939	12,588
Between one and five years	37,474	31,806
More than five years	91,278	90,010
	141,691	134,404

The Group rents mainly land plots under pipelines, office premises and vessels under time-charter agreements.

37. COMMITMENTS AND CONTINGENCIES

TAXES

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. The field tax audit with regard to the years 2013 and 2014 is performing now, the years 2015–2017 are currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

The compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Fifteen pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012–2017.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While Management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the consolidated financial statements as of and for the year ended 31 December 2014. In August 2017 the U.S. signed an act to impose further sanctions against the Russian Federation, North Korea and Iran. The Group assessed that the new sanctions don't have significant impact on its activities.

ENVIRONMENTAL MATTERS

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

CAPITAL COMMITMENTS

As of 31 December 2017 the Group has entered into contracts to purchase property, plant and equipment for RUB 328,697 million (RUB 300,978 million as of 31 December 2016).

38. GROUP ENTITIES

The most significant subsidiaries of the Group and the ownership interest are presented below:

Subsidiary	Country of incorporation	Ownership interest	
		31 December 2017	31 December 2016
EXPLORATION AND PRODUCTION			
JSC Gazpromneft-NNG	Russian Federation	100%	100%
Gazpromneft-Orenburg LLC	Russian Federation	100%	100%
Zapolyarneft LLC	Russian Federation	100%	100%
Gazprom Neft Shelf LLC	Russian Federation	100%	100%
Gazpromneft-Khantos LLC	Russian Federation	100%	100%
Gazpromneft-Vostok LLC	Russian Federation	100%	100%
Gazpromneft-Yamal LLC	Russian Federation	90%	90%
JSC Uzhuralneftegaz	Russian Federation	87.5%	87.5%
REFINING			
JSC Gazpromneft Omsk Refinery	Russian Federation	100%	100%
JSC Gazpromneft Moscow Refinery	Russian Federation	100%	100%

Subsidiary	Country of incorporation	Ownership interest	
		31 December 2017	31 December 2016
MARKETING			
Gazpromneft-Centre LLC	Russian Federation	100%	100%
Gazpromneft Regional Sales LLC	Russian Federation	100%	100%
JSC Gazpromneft-Aero	Russian Federation	100%	100%
Gazpromneft Marin Bunker LLC	Russian Federation	100%	100%
Gazpromneft Corporate Sales LLC	Russian Federation	100%	100%
OTHER OPERATIONS			
Gazpromneft-Lubricants LLC	Russian Federation	100%	100%
Gazpromneft-Bitumen Materials LLC	Russian Federation	100%	100%
Gazpromneft-NTC LLC	Russian Federation	100%	100%
GPN-Finance LLC	Russian Federation	100%	100%
GPN-Invest LLC	Russian Federation	100%	100%
Gazpromneft Shipping LLC	Russian Federation	100%	100%
MULTIBUSINESS COMPANIES			
Naftna industrija Srbije A.D.	Serbia	56.2%	56.2%

The following table summarises the information relating to the non-controlling interest of Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.

	Carrying amount of non-controlling interest		Profit for the period attributable to non-controlling interest	
	31 December 2017	31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Naftna industrija Srbije A.D. and its subsidiaries	71,599	58,792	6,132	3,273
Gazprom Resource Northgas LLC	22,672	19,502	5,614	3,304

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries and Gazprom Resource Northgas LLC as of 31 December 2017 and 2016 and for the years ended 31 December 2017 and 2016:

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Current assets	61,658	48,388	15,171	12,346
Non-current assets	218,321	195,271	12,568	11,517
Current liabilities	(36,160)	(35,641)	(23)	(22)
Non-current liabilities	(61,812)	(57,136)	-	-

	Naftna industrija Srbije A.D. and its subsidiaries		Gazprom Resource Northgas LLC	
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	195,130	189,781	–	–
Profit	13,997	7,483	6,863	4,039

Dividends paid in 2017 by Naftna industrija Srbije A.D. to the non-controlling share comprised RUB 0.9 billion (RUB 1.0 billion in 2016).

Dividends paid in 2017 by Gazprom Resource Northgas LLC to the non-controlling share comprised RUB 0.5 billion (none in 2016).

39. RELATED PARTY TRANSACTIONS

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 10, 22 and 33. The Group also leases vessels under time-charter agreements with a government related entity (lease expenses amounted RUB 5.3 billion for the year ended 31 December 2017). The tables below summarise transactions in the ordinary course of business with either the parent company or associates and joint ventures.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities. The tables below summarise transactions in the ordinary course of business with either the parent company or parent's subsidiaries and associates or associates and joint ventures of the Group.

As of 31 December 2017 and 2016 the outstanding balances with related parties were as follows:

31 December 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	37,203	–
Short-term financial assets	–	1,322	–
Trade and other receivables	4,567	4,172	9,813
Other current assets	23	2,708	783
Long-term financial assets	–	–	27,673
Other non-current assets	–	309	–
TOTAL ASSETS	4,590	45,714	38,269
Short-term debt and other current financial liability	–	–	367
Trade and other payables	52,970	2,257	38,173
Other current liabilities	130	318	137
Long-term debt and other non-current financial liability	47,480	57,600	–
Other non-current liabilities	6,394	–	–
TOTAL LIABILITIES	106,974	60,175	38,677

31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	7,723	-
Short-term financial assets	-	860	40,381
Trade and other receivables	3,693	4,160	13,212
Other current assets	614	3,406	1,224
Long-term financial assets	-	-	30,273
Other non-current assets	-	884	-
TOTAL ASSETS	4,307	17,033	85,090
Short-term debt and other current financial liability	-	-	1,029
Trade and other payables	1,921	3,236	8,066
Other current liabilities	772	392	201
Long-term debt and other non-current financial liability	60,276	60,657	-
TOTAL LIABILITIES	62,969	64,285	9,296

For the years ended 31 December 2017 and 2016 the following transactions occurred with related parties

Year ended 31 December 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	36,721	39,507	53,398
Other revenue	103	6,613	9,226
Purchases of crude oil, gas and oil products	-	40,895	137,919
Production related services	33	23,371	21,185
Transportation costs	9,776	1,692	10,115
Interest expense	5,585	2,871	39
Interest income	-	302	6,484

Year ended 31 December 2016	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	28,680	35,165	48,407
Other revenue	29	6,349	5,571
Purchases of crude oil, gas and oil products	-	41,457	98,508
Production related services	29	20,317	18,749
Transportation costs	7,557	1,753	7,106
Interest expense	6,616	3,627	142
Interest income	-	167	6,770

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

For the years ended 31 December 2017 and 2016 remuneration of key management personnel (members of the Board of Directors and Management Committee) such as salary and other contributions amounted RUB 2,934 million and RUB 2,384 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

40. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2017 and 2016. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products. Corporate centre expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Adjusted EBITDA represents the Group's EBITDA and its share in associates and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

Year ended 31 December 2017	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	214,811	1,643,120	-	1,857,931
Inter-segment	617,838	27,531	(645,369)	-
TOTAL REVENUE FROM SALES	832,649	1,670,651	(645,369)	1,857,931
Adjusted EBITDA	433,036	117,931	-	550,967
Depreciation, depletion and amortisation, including:	108,087	32,911	-	140,998
Impairment of assets	(256)	-	-	(256)
Capital expenditure	208,133	148,957	-	357,090
Year ended 31 December 2016	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	131,242	1,414,366	-	1,545,608
Inter-segment	523,155	18,463	(541,618)	-
TOTAL REVENUE FROM SALES	654,397	1,432,829	(541,618)	1,545,608
Adjusted EBITDA	337,085	119,113	-	456,198
Depreciation, depletion and amortisation, including:	98,110	31,735	-	129,845
Impairment of assets	14,763	-	-	14,763
Capital expenditure	245,994	138,823	-	384,817

The geographical segmentation of the Group's revenue and capital expenditures for the years ended 31 December 2017 and 2016 is presented below:

Year ended 31 December 2017	Russian Federation	CIS	Export and international operations	Total
Sales of crude oil	83,393	30,117	436,142	549,652
Sales of petroleum products	868,225	77,154	409,149	1,354,528
Sales of gas	36,351	–	1,237	37,588
Other sales	47,698	2,130	11,979	61,807
Less custom duties and sales related excises	–	(1,641)	(144,003)	(145,644)
REVENUES FROM EXTERNAL CUSTOMERS, NET	1,035,667	107,760	714,504	1,857,931

Year ended 31 December 2016	Russian Federation	CIS	Export and international operations	Total
Sales of crude oil	94,809	23,657	279,344	397,810
Sales of petroleum products	743,721	72,969	391,084	1,207,774
Sales of gas	30,116	–	1,853	31,969
Other sales	45,050	2,050	11,111	58,211
Less custom duties and sales related excises	–	(1,260)	(148,896)	(150,156)
REVENUES FROM EXTERNAL CUSTOMERS, NET	913,696	97,416	534,496	1,545,608

	Russian Federation	CIS	Export and international operations	Total
Non-current assets as of 31 December 2017	2,159,510	11,097	318,947	2,489,554
Capital expenditures for the year ended 31 December 2017	330,916	1,464	24,710	357,090
Impairment of assets for the year ended 31 December 2017	–	–	(256)	(256)
Non-current assets as of 31 December 2016	1,822,912	11,396	310,132	2,144,440
Capital expenditures for the year ended 31 December 2016	354,392	898	29,527	384,817
Impairment of assets for the year ended 31 December 2016	–	–	14,763	14,763

Adjusted EBITDA for the years ended 31 December 2017 and 2016 is reconciled below:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the period	269,678	209,725
Total income tax expense	55,522	49,814
Finance expense	25,127	34,282
Finance income	(10,098)	(11,071)
Depreciation, depletion and amortisation	140,998	129,845
Net foreign exchange (loss) / gain	241	(28,300)
Other loss, net	7,557	17,982
EBITDA	489,025	402,277
less share of profit of associates and joint ventures	(45,504)	(34,116)
add share of EBITDA of associates and joint ventures	107,446	88,037
TOTAL ADJUSTED EBITDA	550,967	456,198

41. SUBSEQUENT EVENTS

In January 2018 the Group borrowed RUB 51.3 billion under long-term facility agreements due payable in January 2023.

SUPPLEMENTARY INFORMATION ON OIL AND GAS ACTIVITIES

(UNAUDITED)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

	31 December 2017	31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Unproved oil and gas properties	89,558	68,046
Proved oil and gas properties	1,584,543	1,423,745
Less: Accumulated depreciation, depletion and amortisation	(628,226)	(537,277)
NET CAPITALISED COSTS OF OIL AND GAS PROPERTIES	1,045,875	954,514
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Proved oil and gas properties	553,553	538,829
Less: Accumulated depreciation, depletion and amortisation	(168,373)	(135,809)
Net capitalised costs of oil and gas properties	385,180	403,020
TOTAL CAPITALISED COSTS CONSOLIDATED AND EQUITY INTERESTS	1,431,055	1,357,534

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

	Year ended 31 December 2017	Year ended 31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Exploration costs	20,281	11,711
Development costs	193,540	223,214
COSTS INCURRED	213,821	234,925
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Exploration costs	608	16
Development costs	59,877	65,882
TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS	274,306	300,823

Results of operations from oil and gas producing activities for the years ended:

	Year ended 31 December 2017	Year ended 31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Revenues:		
Sales	235,645	165,153
Transfers	438,921	432,301
TOTAL REVENUES	674,566	597,454
Production costs	(103,739)	(96,835)
Exploration expenses	(963)	(1,195)
Depreciation, depletion and amortisation	(107,119)	(83,199)
Taxes other than income tax	(345,160)	(251,711)
PRETAX INCOME FROM PRODUCING ACTIVITIES	117,585	164,514
Income tax expenses	(39,708)	(32,430)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	77,877	132,084
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Total revenues	214,960	172,288
Production costs	(23,133)	(21,607)
Exploration expenses	(495)	(533)
Depreciation, depletion and amortisation	(34,446)	(27,636)
Taxes other than income tax	(87,038)	(65,619)
PRETAX INCOME FROM PRODUCING ACTIVITIES	69,848	56,893
Income tax expenses	(6,188)	(4,301)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	63,660	52,592
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	141,537	184,676

PROVED OIL AND GAS RESERVE QUANTITIES

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities – in MMBbl	31 December 2017	31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	4,853	4,842
Production	(357)	(343)
Purchases of minerals in place	–	–
Revision of previous estimates	353	354
END OF YEAR	4,849	4,853
Minority's share included in the above proved reserves	(35)	(30)
Proved reserves, adjusted for minority interest	4,814	4,823
Proved developed reserves	2,660	2,707
Proved undeveloped reserves	2,189	2,146
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	1,451	1,414
Production	(99)	(95)
Purchases of minerals in place	–	–
Revision of previous estimates	93	132
END OF YEAR¹	1,445	1,451
Proved developed reserves	680	707
Proved undeveloped reserves	765	744
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR	6,294	6,304

¹ — Including 82% NCI share in Gazprom Resource Northgas.

Proved Gas Reserves Quantities – in Bcf	31 December 2017	31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	6,387	6,137
Production	(579)	(516)
Purchases of minerals in place	–	–
Revision of previous estimates	2,977	766
END OF YEAR	8,785	6,387
Minority's share included in the above proved reserves	(314)	(41)
Proved reserves, adjusted for minority interest	8,471	6,346
Proved developed reserves	4,150	4,261
Proved undeveloped reserves	4,635	2,126
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	13,201	13,357
Production	(602)	(622)
Purchases of minerals in place	–	–
Revision of previous estimates	373	466
END OF YEAR¹	12,972	13,201
Proved developed reserves	7,612	7,254
Proved undeveloped reserves	5,360	5,947
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR	21,757	19,588

¹ — Including 82% NCI share in Gazprom Resource Northgas.

STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	31 December 2017	31 December 2016
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Future cash inflows	10,303,365	9,962,668
Future production costs	(5,945,717)	(5,236,343)
Future development costs	(832,377)	(771,656)
Future income tax expenses	(479,352)	(545,985)
Future net cash flow	3,045,919	3,408,684
10% annual discount for estimated timing of cash flow	(1,584,751)	(1,759,813)
STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	1,461,168	1,648,871
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Future cash inflows	2,662,993	2,550,475
Future production costs	(1,468,966)	(1,346,581)
Future development costs	(217,726)	(217,170)
Future income tax expenses	(157,227)	(156,342)
Future net cash flow	819,074	830,382
10% annual discount for estimated timing of cash flow	(308,142)	(330,733)
STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	510,932	499,649
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN THE STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	1,972,100	2,148,520