

**OJSC “SURGUTNEFTEGAS”**

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

**31 December 2015**

## Contents

|  |    |
|--|----|
| Consolidated statement of financial position .....                             | 3  |
| Consolidated statement of profit and loss and other comprehensive income ..... | 4  |
| Consolidated statement of cash flows.....                                      | 5  |
| Consolidated statement of changes in equity .....                              | 6  |
| Notes to the consolidated financial statements .....                           | 7  |
| 1 General information .....  | 7  |
| 2 Basic principles of financial reporting.....                                 | 8  |
| 3 Summary of significant accounting policies .....                             | 8  |
| 4 Critical accounting judgements, estimates and assumptions.....               | 18 |
| 5 New interpretations and standards .....                                      | 19 |
| 6 Subsidiaries .....   | 22 |
| 7 Segment information.....   | 23 |
| 8 Related party transactions .....   | 26 |
| 9 Cash and cash equivalents, restricted cash .....                             | 26 |
| 10 Deposits placed .....   | 26 |
| 11 Receivables .....   | 27 |
| 12 Advances issued.....  | 28 |
| 13 Loans granted.....  | 28 |
| 14 Inventories .....   | 28 |
| 15 Property, plant and equipment.....  | 29 |
| 16 Intangible assets.....  | 31 |
| 17 Investments in associates.....  | 31 |
| 18 Other financial assets .....  | 32 |
| 19 Payables and accrued liabilities.....                                       | 34 |
| 20 Other financial liabilities .....   | 34 |
| 21 Other tax liabilities .....   | 34 |
| 22 Provisions for liabilities and charges.....                                 | 34 |
| 23 Equity.....   | 36 |
| 24 Export duties.....  | 36 |
| 25 Operating expenses.....   | 37 |
| 26 Finance income and expenses .....   | 37 |
| 27 Exchange differences .....  | 37 |
| 28 Income tax .....  | 38 |
| 29 Earnings per share .....  | 40 |
| 30 Contingencies and commitments.....  | 41 |
| 31 Operational risks.....  | 42 |
| 32 Capital and financial risk management .....                                 | 42 |
| 33 Fair value of assets and liabilities .....                                  | 49 |
| 34 Subsequent events .....   | 51 |

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

**OJSC “Surgutneftegas”**  
**Consolidated statement of financial position**  
*(in millions of Russian rubles, unless otherwise stated)*

| Notes                          | As of<br>31 December 2015 | As of<br>31 December 2014 |
|--------------------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                  |                           |                           |
| <b>Current assets</b>          |                           |                           |
| 9                              | 105,696                   | 27,919                    |
| 9                              | 754                       | 730                       |
| 10                             | 527,189                   | 727,419                   |
| 13                             | 19,894                    | 21,541                    |
| 18                             | 3,184                     | 4,823                     |
| 11                             | 59,522                    | 60,419                    |
| 14                             | 75,844                    | 65,446                    |
| 12                             | 22,281                    | 41,673                    |
|                                | 6,720                     | 7,309                     |
|                                | 42                        | 125                       |
|                                | 147                       | 96                        |
|                                | <b>821,273</b>            | <b>957,500</b>            |
| <b>Non-current assets</b>      |                           |                           |
| 15                             | 1,230,789                 | 1,112,476                 |
| 16                             | 8,667                     | 8,567                     |
| 10                             | 1,940,169                 | 1,186,001                 |
| 18                             | 15,109                    | 9,137                     |
| 17                             | 6,210                     | 5,758                     |
| 28                             | 1,169                     | 1,096                     |
| 13                             | 25,000                    | 21,821                    |
| 11                             | 549                       | 711                       |
|                                | 2,824                     | 3,026                     |
|                                | <b>3,230,486</b>          | <b>2,348,593</b>          |
|                                | <b>4,051,759</b>          | <b>3,306,093</b>          |
| <b>LIABILITIES AND EQUITY</b>  |                           |                           |
| <b>Current liabilities</b>     |                           |                           |
| 19                             | 51,721                    | 43,121                    |
| 20                             | 79,077                    | 37,671                    |
|                                | 21,094                    | 20,388                    |
| 21                             | 31,002                    | 35,020                    |
|                                | 35,598                    | 38,024                    |
|                                | -                         | 140                       |
| 22                             | 2,628                     | 3,489                     |
|                                | <b>221,120</b>            | <b>177,853</b>            |
| <b>Non-current liabilities</b> |                           |                           |
| 20                             | 4,349                     | 13,198                    |
| 28                             | 138,579                   | 127,302                   |
| 22                             | 104,330                   | 78,328                    |
|                                | 756                       | 364                       |
|                                | <b>248,014</b>            | <b>219,192</b>            |
| <b>Equity</b>                  |                           |                           |
| 23                             | 154,666                   | 154,666                   |
|                                | 4                         | 4                         |
| 23                             | (30)                      | (30)                      |
| 23                             | 57,809                    | 57,809                    |
|                                | 3,369,949                 | 2,696,826                 |
|                                | 41                        | (396)                     |
|                                | <b>3,582,439</b>          | <b>2,908,879</b>          |
|                                | 186                       | 169                       |
|                                | <b>3,582,625</b>          | <b>2,909,048</b>          |
|                                | <b>4,051,759</b>          | <b>3,306,093</b>          |

V.L.Bogdanov

Director General  
OJSC “Surgutneftegas”  
29 April 2016

A.V.Druchinin

Chief Accountant  
OJSC “Surgutneftegas”  
29 April 2016

**OJSC “Surgutneftegas”**  
**Consolidated statement of profit and loss and other comprehensive income**  
*(in millions of Russian rubles, unless otherwise stated)*

| Notes   | 2015             | 2014             |
|---|------------------|------------------|
| 7 <b>Sales</b>  | 1,274,262        | 1,360,533        |
| 24     less export duties   | (271,657)        | (469,959)        |
| 7 <b>Total sales revenue:</b>   | <b>1,002,605</b> | <b>890,574</b>   |
| sale of crude oil   | 630,629          | 525,313          |
| sale of oil products  | 335,396          | 327,714          |
| sale of gas and gas products  | 21,239           | 22,138           |
| sale of other products and finished goods   | 7,634            | 7,580            |
| other sales   | 7,707            | 7,829            |
| 25 <b>Operating expenses</b>  | <b>(758,614)</b> | <b>(727,774)</b> |
| <b>Operating income</b>   | <b>243,991</b>   | <b>162,800</b>   |
| 26 Finance income   | 108,285          | 69,297           |
| 26 Finance expenses   | (15,852)         | (7,135)          |
| 27 Exchange differences   | 583,006          | 845,940          |
| Gain / (loss) on sale and other disposal of financial assets  | 22               | (9)              |
| Share of profit / (loss) of associates  | 299              | (353)            |
| Other income / (expenses)   | (229)            | (1,001)          |
| <b>Profit before tax</b>  | <b>919,522</b>   | <b>1,069,539</b> |
| <b>Income tax</b>   |                  |                  |
| Current income tax  | (146,349)        | (166,515)        |
| Changes in deferred income tax  | (11,600)         | (18,191)         |
| 28 <b>Total income tax expense</b>  | <b>(157,949)</b> | <b>(184,706)</b> |
| <b>Net income</b>   | <b>761,573</b>   | <b>884,833</b>   |
| <b>Other comprehensive income / (expense) that may be reclassified subsequently to profit / (loss), net of income tax</b>     |                  |                  |
| Changes in fair value of financial assets available-for-sale  | 289              | (215)            |
| Share of other comprehensive income / (expense) of associates   | 153              | (153)            |
| <b>Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax</b> |                  |                  |
| Remeasurements of post-employment benefit obligations   | (1,979)          | 1,447            |
| <b>Total other comprehensive income / (expense), net of income tax</b>  | <b>(1,537)</b>   | <b>1,079</b>     |
| <b>Total comprehensive income</b>   | <b>760,036</b>   | <b>885,912</b>   |
| <b>Net income</b>   |                  |                  |
| attributable to shareholders  | 761,558          | 884,824          |
| attributable to non-controlling interests   | 15               | 9                |
| <b>Total comprehensive income</b>   |                  |                  |
| attributable to shareholders  | 760,016          | 885,906          |
| attributable to non-controlling interests   | 20               | 6                |
| Net earnings attributable to shareholders per ordinary share (rubles)   |                  |                  |
| 29 basic and diluted  | 19.83            | 23.00            |

**OJSC “Surgutneftegas”**  
**Consolidated statement of cash flows**  
*(in millions of Russian rubles, unless otherwise stated)*

| Notes  | 2015   | 2014             |
|--|--|------------------|
| <b>Operating activities</b>  |  |                  |
|  | 919,522  | 1,069,539        |
|  | Profit before tax  |                  |
|  | Adjustments:   |                  |
| 25   | 70,623   | 74,611           |
|  | Depreciation, depletion and amortisation expenses                                    |                  |
| 25   | 2,772  | 7,745            |
|  | Expenses on disposal of prospecting and exploration properties                       |                  |
|  | 2,021  | 9,014            |
|  | Provisions   |                  |
|  | (568,118)  | (803,097)        |
|  | Exchange differences   |                  |
|  | (20)   | 148              |
|  | (Gain) / loss on revaluation of financial assets                                     |                  |
|  | (22)   | 9                |
|  | (Gain) / loss on sale and other disposal of financial assets                         |                  |
|  | (299)  | 353              |
|  | Share of (profit) / loss of associates   |                  |
| 26   | 9,305  | 4,413            |
|  | Interest expenses from discounting   |                  |
| 26   | (108,170)  | (69,233)         |
|  | Interest receivable  |                  |
| 26   | 6,432  | 2,658            |
|  | Interest payable   |                  |
|  | 3,730  | 2,572            |
|  | Loss on sale and disposal of property, plant and equipment,<br>and intangible assets |                  |
| 15, 16   | 1,393  | 6,962            |
|  | Impairment / (reversal of impairment) of non-financial assets                        |                  |
| <b>Cash flows from operating activities before changes in working capital and income tax</b> |  |                  |
|  | <b>339,169</b>   | <b>305,694</b>   |
|  | Change in receivables  |                  |
|  | 4,596  | 23,305           |
|  | Change in advances issued  |                  |
|  | 19,392   | (13,186)         |
|  | Change in inventories  |                  |
|  | (14,618)   | (10,710)         |
|  | Change in other assets   |                  |
|  | 199  | (162)            |
|  | Change in trade and other payables   |                  |
|  | 1,377  | 2,916            |
|  | Change in advances received  |                  |
|  | 706  | 3,899            |
|  | Change in restricted cash  |                  |
|  | (24)   | 64               |
|  | Changes in other taxes (other than income tax)                                       |                  |
|  | (3,014)  | (4,166)          |
|  | Change in other liabilities  |                  |
|  | 469  | (640)            |
| <b>Cash from operating activities before income tax</b>                                      |  |                  |
|  | <b>348,252</b>   | <b>307,014</b>   |
|  | Income tax paid  |                  |
|  | (149,248)  | (125,833)        |
| <b>Net cash from operating activities</b>  |  |                  |
|  | <b>199,004</b>   | <b>181,181</b>   |
| <b>Investing activities</b>  |  |                  |
|  | (170,849)  | (159,152)        |
|  | Capital expenditures   |                  |
|  | (827,634)  | (557,396)        |
|  | Deposits placed  |                  |
|  | 827,311  | 491,517          |
|  | Deposits refunded  |                  |
|  | (44,918)   | (52,453)         |
|  | Loans granted  |                  |
|  | 41,592   | 41,165           |
|  | Loans collected  |                  |
|  | 115,265  | 68,379           |
|  | Interest received  |                  |
|  | 9,083  | 7,191            |
|  | Proceeds from sale of financial assets   |                  |
|  | (12,167)   | (8,092)          |
|  | Acquisition of financial assets  |                  |
|  | 231  | 352              |
|  | Proceeds from sale of property, plant and equipment                                  |                  |
| <b>Net cash used for investing activities</b>  |  |                  |
|  | <b>(62,086)</b>  | <b>(168,489)</b> |
| <b>Financing activities</b>  |  |                  |
|  | 30,457   | 13,642           |
|  | Net proceeds from borrowings   |                  |
|  | (85,741)   | (39,415)         |
|  | Dividends paid (incl. dividend tax)  |                  |
|  | (5,696)  | (2,640)          |
|  | Interest paid  |                  |
|  | -  | 85               |
|  | Proceeds from sale of treasury shares  |                  |
| <b>Net cash used for financing activities</b>  |  |                  |
|  | <b>(60,980)</b>  | <b>(28,328)</b>  |
| <b>Net change in balances of cash and cash equivalents</b>                                   |  |                  |
|  | <b>75,938</b>  | <b>(15,636)</b>  |
|  | Effect of exchange rate changes against ruble on cash<br>and cash equivalents        |                  |
|  | 1,839  | 10,565           |
| 9  | <b>Cash and cash equivalents as of the beginning of the period</b>                   |                  |
|  | <b>27,919</b>  | <b>32,990</b>    |
| 9  | <b>Cash and cash equivalents as of the end of the period</b>                         |                  |
|  | <b>105,696</b>   | <b>27,919</b>    |

**OJSC “Surgutneftegas”**

**Consolidated statement of changes in equity**

(in millions of Russian rubles, unless otherwise stated)

|  | Notes     | Share capital  | Share premium | Additional paid-in capital | Treasury shares | Retained earnings | Other reserves | Total shareholders' equity | Non-controlling interest | Total equity     |
|--|-----------|----------------|---------------|----------------------------|-----------------|-------------------|----------------|----------------------------|--------------------------|------------------|
| <b>Balance as of 31 December 2013</b>  |           | <b>154,666</b> | <b>57,809</b> | -                          | <b>(111)</b>    | <b>1,850,165</b>  | <b>(35)</b>    | <b>2,062,494</b>           | <b>172</b>               | <b>2,062,666</b> |
| Net income for the year                |           | -              | -             | -                          | -               | 884,824           | -              | 884,824                    | 9                        | 884,833          |
| Sale of treasury shares                |           | -              | -             | 4                          | 81              | -                 | -              | 85                         | -                        | 85               |
| Other comprehensive income / (expense) |           | -              | -             | -                          | -               | 1,443             | (361)          | 1,082                      | (3)                      | 1,079            |
| Dividends declared                     |           | -              | -             | -                          | -               | (39,606)          | -              | (39,606)                   | (9)                      | (39,615)         |
| <b>Balance as of 31 December 2014</b>  | <b>23</b> | <b>154,666</b> | <b>57,809</b> | <b>4</b>                   | <b>(30)</b>     | <b>2,696,826</b>  | <b>(396)</b>   | <b>2,908,879</b>           | <b>169</b>               | <b>2,909,048</b> |
| Net income for the year                |           | -              | -             | -                          | -               | 761,558           | -              | 761,558                    | 15                       | 761,573          |
| Other comprehensive income / (expense) |           | -              | -             | -                          | -               | (1,979)           | 437            | (1,542)                    | 5                        | (1,537)          |
| Dividends declared                     |           | -              | -             | -                          | -               | (86,456)          | -              | (86,456)                   | (3)                      | (86,459)         |
| <b>Balance as of 31 December 2015</b>  | <b>23</b> | <b>154,666</b> | <b>57,809</b> | <b>4</b>                   | <b>(30)</b>     | <b>3,369,949</b>  | <b>41</b>      | <b>3,582,439</b>           | <b>186</b>               | <b>3,582,625</b> |

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

## **1 General information**

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

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

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

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

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

The Company is exploring for oil and gas in Western Siberia, Eastern Siberia and Timano-Pechora oil and gas provinces and producing oil and gas in Western and Eastern Siberia.

In 2015, the Company produced 61.6 million tonnes of oil and 9.6 billion cubic metres of gas. The rate of associated petroleum gas utilisation was 99.38%.

The Company implements measures to expand and develop its resource base: performs exploration at licence blocks, acquires new prospects and further explores the existing fields. At the end of the reporting period, the Company had 155 licences for subsoil use. In 2015, meterage drilled for exploration purposes totalled 202.2 thousand metres. 2D seismic surveys covered 4 thousand linear kilometres, 3D – 2.2 thousand square kilometres. As a result of exploration, the Company discovered two oil fields in Khanty-Mansiysky Autonomous Okrug – Yugra and in the south of Tyumenskaya Oblast as well as 30 new oil accumulations at the fields discovered earlier. The additions of recoverable C1 oil reserves were 74.8 million tonnes. The replacement ratio was 121%.

The Company’s sound resource base and investments in field development allow to maintain a stable level of oil production in recent years. The Company annually brings new fields on stream, actively employs EOR techniques and optimises well performance. In 2015, two new fields in Western Siberia – Yuzhno-Vatlorskoye and Shpilman (Severo-Rogozhnikovskoye) – were put into development. Development drilling totalled 4,307 thousand metres; 1,212 oil wells and 658 injection wells were brought online.

The Group incorporates a refinery in Leningradskaya Oblast – LLC “KINEF”– with a capacity of 20.1 million tonnes, a gas processing plant in Khanty-Mansiysky Autonomous Okrug – Yugra with a capacity of 7.3 billion cubic metres and five marketing subsidiaries located in the North-West of the Russian Federation. In 2015, the refinery processed 18.8 million tonnes of feedstock and produced 18.0 million tonnes of oil products. The output of light oil products totalled 51.2%.

The Company determines selling destinations on the basis of the largest commercial feasibility taking into account the market demand. In 2015, the Company supplied crude oil mostly to non-CIS countries and KINEF refinery; these supplies accounted for 48.5% and 30.4% of crude oil produced by the Company respectively. Crude oil supplied to CIS countries accounted for 5.1%. The rest was sold domestically to refineries.

In 2015, the Company exported 21.8 million tonnes of crude oil through the ports of Kozmino, Ust-Luga, Primorsk and Novorossiysk, which was 73% of all crude oil supplied to non-CIS countries. The rest of exported crude oil was supplied to the European markets via the pipeline operated by OJSC “AK “Transneft”.

The Company exports oil products, mostly fuel oil and diesel fuel. In 2015, the share of fuel oil in total export decreased compared to 2014 from 59.5% to 51.9% respectively. In 2015, oil products were exported mainly through the ports of Ust-Luga and Primorsk.

The Group domestically sells a wide range of oil products, including gasoline, diesel fuel, jet kero and other refined products. The Group sells oil products wholesale and retail. In 2015, the Group operated 293 gas stations; the retail turnover amounted to 850.4 thousand tonnes.

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

The average number of the Group's employees in 2015 and 2014 was 118 thousand people.

## **2 Basic principles of financial reporting**

### **Basis of preparation**

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

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

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

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

## **3 Summary of significant accounting policies**

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

### **Subsidiaries**

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

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

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

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

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

### **Transactions eliminated during consolidation**

The following is eliminated from the consolidated financial statements:



carrying amount of the parent entity's investments in each subsidiary, the amount of share capital of each subsidiary as well as interests in other equity and retained earnings items as of the date on which the control over a subsidiary becomes effective;

intragroup cash flows;

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

### **Associates**

Associates are entities over which the Group has significant influence, but not control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control of those policies.

Investments in associates are accounted for using the equity method.

Investments are recognised at the acquisition cost. The excess of the consideration transferred over the fair value of the Group's interest in the associate's acquired net identifiable assets is recorded as goodwill within investments in associates in the consolidated statement of financial position. Then the cost of the investment in an associate changes as the Group's share in changes in net assets of an associate is recognised after the acquisition date. Dividends received from associates reduce the carrying amount of the investment in associates. Other post-acquisition changes in the Group's share of net assets of associates are recognised as follows:

the Group's share of profits and losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates;

the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately;

all other changes in the Group's share of the carrying amount of net assets of associates are recognised in profit or loss within the share of result of associates.

When the Group's share of losses in an associate equals or exceeds its investments in the associate (including long-term receivables recorded as part of investments), the Group ceases to further recognise its share in losses, unless it has incurred obligations or made payments on behalf of the associate.

If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these associates; unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

### **Application of uniform accounting policies**

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

### **Cash and cash equivalents, restricted cash**

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

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

### **Inventories**

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

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

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

### **Property, plant and equipment**

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

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

### **Oil and gas properties**

#### ***Exploration and evaluation costs***

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

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

Annually, all costs are measured for impairment from technical, economic and management perspectives. If any indications of impairment exist, an estimated amount is expensed and an asset is written down.

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

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

#### ***Development and production costs***

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

#### ***Oil and gas exploration and production licences***

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

#### ***Depletion, depreciation and amortisation***

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

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

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

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

Abandoned, idle items of other property, plant and equipment (except for those classified as assets held for sale) are depreciated subject to general rules applied to the respective classes of assets. Items of property, plant and equipment are depreciated on a straight-line basis over their useful lives.

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

Land and construction in progress are not depreciated.

The cumulative gain or loss on disposal of property, plant and equipment is the difference between the consideration received and the carrying amount; it is recognised as incurred in the statement of profit or loss.

### **Construction in progress**

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

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

### **Recognition of asset retirement (decommissioning) obligations**

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

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

This liability is reviewed at the end of each reporting period. Changes in the estimates of the decommissioning liabilities are subject to recognition as follows:

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

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

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

### **Intangible assets**

To recognise the internally generated intangible assets, the Group classifies the generation of an asset into a research phase and a development phase.

Research expenditures are charged to operating expenses as incurred.

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

The cost of acquired intangible assets is an aggregate of expenditures incurred to acquire and put them into service.

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

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

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

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

### **Goodwill**

Goodwill arises from the acquisition of subsidiaries.

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

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

### **Impairment of non-current non-financial assets**

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

For the purpose of impairment testing, assets are grouped into the smallest group of cash-generating units that are independent of the cash inflows from other cash-generating units.

The recoverable amount of the CGU is the higher of its value in use and its fair value, less costs to sell.

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

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

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

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

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

Impairment losses relating to other assets recognised in prior reporting periods are assessed at each reporting date to confirm whether there is any indication that they may exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed in the manner that the value of an asset shall not

exceed the carrying amount of an asset (net of amortisation or depreciation) had no impairment loss been recognised.

### **Financial assets**

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

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, i.e. the date on which the Group commits to purchase or sell a financial asset. All other purchases and sales are recognised at the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; it is recognised in profit or loss for assets classified as financial assets at fair value through profit and loss; and it is recognised in other comprehensive income for assets classified as available for sale.

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

Financial assets at FVTPL are initially recognised at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value of a financial asset is price in an active market. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Financial assets at FVTPL include financial assets held for trading and other financial assets classified as recorded at FVTPL at initial recognition.

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

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

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

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

Placed deposits are classified by the Group as loans and receivables.

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

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

Gain or loss on available-for-sale financial assets is recognised in other comprehensive income, less impairment losses and foreign exchange gains and losses.

### **Reclassification of financial assets**

The Group assesses the validity of classifying financial assets into a category at each reporting date.

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

### **Impairment of financial assets**

At each reporting period the Group assesses whether there are any indications that financial assets of all categories are impaired except for those recognised at FVTPL.

Sings of impairment are:

- significant financial difficulty of the issuer or obligor;
- a breach of contract (failure to pay, delay in payment);
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified with the individual financial assets (e.g., negative changes in industry conditions that affect borrowers in the group);
- significant changes with an adverse effect have taken place in the technological, market, economic or legal environment in which the issuer operates indicating that investments in equity instruments cannot be recovered;
- a significant or prolonged decline in the fair value of financial assets below acquisition cost.

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

An impairment loss is recognised in the amount determined by:

- making provisions for financial assets measured at amortised cost (loans and receivables, held-to-maturity investments) as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the effective interest rate calculated at initial recognition;
- financial assets measured at historical cost (available-for-sale financial assets) as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset;
- available-for-sale financial assets (measured at fair value) if there is a decrease in fair value and objective evidence of impairment as the difference between the acquisition cost of the asset (net of principal repayment and amortisation) and the current fair value.

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

### **Derecognition of financial assets**

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

### **Financial liabilities**

Financial liabilities of the Group are trade and other payables as well as loans and borrowings received. Financial liabilities are recognised at amortised cost.

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

### **Value added tax**

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

(works, services), property rights or date of payment, partial payment against future deliveries of goods (works, services), property rights.

The VAT rate is 18%.

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

#### **Mineral extraction tax**

Mineral extraction tax (MET) related to crude oil production is levied based on the quantities of mineral resources extracted and calculated on a monthly basis as the product of a quantity of mineral resources produced and fixed tax rate (in 2015 – RUB 766/tonne, in 2014 – RUB 493/tonne) adjusted depending on the monthly average world market prices of the Urals oil and RUB/USD exchange rate for the preceding month.

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

#### **Customs duties**

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

#### **Income tax**

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

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

Current income tax is the amount expected to be paid to (recovered from) the budget in respect of taxable profits or losses for the current and prior periods.

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

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

temporary differences associated with investments in subsidiaries and joint ventures to the extent where it is highly probable that they will not reverse in the foreseeable future;

temporary differences arising from the initial recognition of goodwill.

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

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

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

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

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

### **Uncertain tax positions**

The Group’s uncertain tax positions are assessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Such assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### **Employee benefits**

#### ***Pensions and other retirement benefits***

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

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

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

### **Operating leases**

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

### **Revenue recognition**

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

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

Export sales of crude oil (transfer of title and risks of accidental loss) are normally FOB based (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail in the designated port), DAF (delivered at frontier) or DAP based (delivered at place). The title passes at the time when goods pass the tanker’s permanent hose connection at the port of loading, the border of the Russian Federation, or when the seller places the goods at the disposal of the buyer on the means of transport ready for unloading, at the named place, subject to delivery conditions. Oil products are normally sold on FCA basis (delivery to a named place for transfer to a carrier nominated by the buyer), and the respective



sales proceeds are recognised once the goods have been cleared through customs and delivered to the buyer. Some oil products and petrochemicals are exported on FOB and DAP basis. The Group covers transportation expenses, duties and taxes on such sales.

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

#### **Functional and presentation currency**

The national currency of the Russian Federation is Russian ruble (RUB), which is used by the Group as the functional currency and presentation currency of these consolidated financial statements.

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

#### **Transactions and balances in foreign currencies**

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

#### **Net earnings per share**

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

#### **Equity**

##### **Ordinary and preference shares**

Ordinary and preference shares are classified as equity. Preference shares are entitled to vote on matters in respect of reorganisation and liquidation of the Company, and matters related to: releasing the Company from an obligation to disclose or provide information required under the law of the Russian Federation on securities; introducing amendments and addenda to the Company's Charter which restrict the rights of holders of the preference shares of this type; filing an application for listing or delisting of preference shares of this type.

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

##### **Additional paid-in capital**

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

##### **Treasury shares**

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

##### **Share premium**

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

##### **Non-controlling interests**

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

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

## **Dividends**

Dividends are recognised as liability attributable to the period when they have been declared.

## **Adoption of new or revised standards and interpretations**

The following new standards and interpretations became effective for annual periods beginning on 1 January 2015:

The amendments to IAS 19 “Defined benefit plans: employee contributions” – these amendments did not have a material impact on the Group’s consolidated financial statements.

Annual improvements to IFRSs 2012 – these amendments did not have a material impact on the Group’s consolidated financial statements.

Annual improvements to IFRSs 2013 – these amendments did not have a material impact on the Group’s consolidated financial statements.

## **4 Critical accounting judgements, estimates and assumptions**

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

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

### ***Estimation of oil and gas reserves***

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

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

Assumptions and estimates may vary as new information about oil and gas field reserves, change in forecast and assumptions become available.

Reserve estimations have an impact on certain amounts of financial statements – oil and gas assets depreciation value, and impairment losses. Depreciation of oil and gas assets is calculated using the unit-of-production method for each field based upon initial recoverable reserves (under Russian classification – A, B, C1 categories). Oil and gas estimation (under Russian classification – A, B, C1, C2 categories) is also used for calculations of future cash flows to be the main evidence of asset impairment.

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

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

### ***Impairment of goodwill and other assets***

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

of generating assets related to oil and gas production is determined based on production output projections.

**Asset retirement (decommissioning) and environmental protection obligation**

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

**Pension benefit obligations**

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

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

**5 New interpretations and standards**

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2016 and which the Group has not early adopted.

**“Accounting for acquisitions of interests in joint operations” – Amendments to IFRS 11** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016). This amendment introduces new guidance on how to account for the acquisition of an interest in a joint operation that is a business. The Group’s Management expects that this amendment will not have any material impact on its consolidated financial statements.

**“Clarification of acceptable methods of depreciation and amortisation” – Amendments to IAS 16 and IAS 38** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016). In the amendment the IASB clarifies that revenue-based methods are not appropriate to calculate the depreciation of an asset because the revenue from activities involving the use of an asset, usually takes into account factors other than the consumption of economic benefits associated with the asset. The Group’s Management expects that this amendment will not have any material impact on its consolidated financial statements.

**IFRS 15 “Revenue from contracts with customers”** (issued in May 2014 and effective for periods beginning on or after 1 January 2018). The new standard introduces a key principle according to which the revenue shall be recognised when goods or services are rendered to a customer at a price of the transaction. Any separate lots of goods or services shall be recognised separately, and all discounts and retrospective discounts from the contractual price are, as a rule, distributed to the separate elements. If the amount of compensation may vary due to some reason, then minimal sums shall be accepted in case they are not subject to the significant reversal risk. Expenditures associated with the support of contracts with customers shall be capitalised and depreciated for a term within which benefits from the contracts are obtained. The Group’s Management expects that this amendment will not have any material impact on its consolidated financial statements.

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

The main differences of this standard from IAS 39 “Financial Instruments: Recognition and Measurement” are as follows:

- financial assets must be classified into three measurement categories: subsequently measured at amortised cost, subsequently measured at fair value through other comprehensive income and subsequently measured at fair value through profit or loss.
- The classification of debt instruments depends on the business model for managing financial assets of the entity and on whether contractual cash flows are solely payments of principal and interest. If a debt instrument is held to raise funds, it can be measured at amortised cost, if it is also

consistent with the requirement to pay only principal and interest. Debt instruments meeting the requirement to pay only principal and interest held in the portfolio, when the entity both holds cash flows of assets and sells assets, can be classified as measured at fair value through other comprehensive income. Financial assets that do not contain cash flows meeting the requirement to pay only principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are not separated from financial assets and are included in them when assessing compliance with the payment of only principal and interest.

- Investments in equity instruments are always measured at fair value. The management can make an irreversible decision to present changes in fair value in other comprehensive income in case the instrument is not intended for trading purposes. If the equity instrument is classified as held for trading, the changes in fair value are presented in profit or loss.
- Most requirements for classification and measurement of financial liabilities were transferred from IAS 39 to IFRS 9 unchanged. The main difference is the requirement for the entity to present the effect of changes in its credit risk of financial liabilities classified as measured at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model of impairment loss recognition: an expected credit loss model. The model provides a three-stage approach based on the change in the credit quality of financial assets since their initial recognition. In practice, these new rules mean that entities must account for immediate losses equal to 12-month expected credit losses at initial recognition of financial assets that are not credit-impaired assets (or lifetime expected credit losses for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than using 12-month expected credit losses. The model provides a simplified approach for trade and lease receivables.
- Revised requirements for hedge accounting ensure a closer connection of accounting with risk management. This standard gives entities the opportunity to choose accounting policy: they may apply the hedge accounting requirements of IFRS 9 or continue to apply the requirements of IAS 39, because the standard does not consider macro hedge accounting now.

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

**“Agriculture: Bearer Plants” – Amendments to IAS 16 and IAS 41** (issued in June 2014 and effective for annual periods beginning on 1 January 2016). These amendments are not relevant to the Group.

**IFRS 14 “Regulatory deferral accounts”** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). The standard permits first-time adopters of IFRS to continue recognising amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and that do not recognise these amounts, the standard requires that the effect from rate regulation must be presented separately from other items. This standard does not apply to companies that already provide financial statements prepared in accordance with IFRS.

**“Equity method in separate financial statements” – Amendments to IAS 27** (issued in August 2014 and effective for annual periods beginning on 1 January 2016). These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements. These amendments are not relevant to the Group.

**“Sale or contribution of assets between an investor and its associate or joint venture” – Amendments to IFRS 10 and IAS 28** (issued in September 2014 and initially planned to be effective for annual periods beginning on or after 1 January 2016 – postponed). These amendments eliminate the mismatch between the requirements of IFRS 10 and IAS 28 relating to sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that gain or loss is recognised in full if the transaction constitutes a business. If the assets do not constitute a business, profit or loss is recognised partially, even if the assets belong to a subsidiary. The Group’s Management expects that this amendment will not have any material impact on its consolidated financial statements. These amendments have not been adopted for use in the Russian Federation.

**Annual improvements to IFRSs 2012-2014** (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments affect four standards.

The purpose of the amendments to IFRS 5 is to clarify that a change the method of disposal (transfer

from category “held for sale” to “held for distribution” or vice versa) is not a change of the plan of sales or distribution and shall not be accounted for as a change of this plan.

The amendment to IFRS 7 provides additional guidance to help the management determine whether servicing arrangements are representative of continuing involvement in a transferred financial asset for the purpose of the transfer disclosures in accordance with IFRS 7. In addition, the amendment clarifies that requirements for offsetting disclosure set out in IFRS 7 are not applicable to interim financial statements unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.

IAS 34 will require a cross reference from the interim consolidated financial statements to the location of “information disclosed elsewhere in the interim financial statements”.

The Group’s Management does not expect the amendments to have a material impact on the Group’s consolidated financial statements.

**“Disclosure initiative” – Amendments to IAS 1** (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explain that the company does not need to provide disclosures required by IFRS if they are not material even if such disclosures are included in the list of requirements of a certain international financial reporting standard or are the minimum required disclosures. The standard also includes new guidance on disclosures in the financial statements of subtotals, according to which the subtotals (a) should be made up of items that are recognised and evaluated in accordance with IFRS; (b) should be presented and labelled in a manner that makes the components of the subtotal understandable; (c) should be consistent from period to period; and (d) should not be displayed with more prominence than the subtotals and totals required by IFRS.

The Group is currently assessing the impact of the amendments on its financial statements.

**“Investment Entities: Applying the Consolidation Exception” – Amendments to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments explain that the investment company is required to measure its investments in subsidiaries that are investment companies at fair value through profit or loss. In addition, the exception to the requirement to present consolidated financial statements, if the ultimate or any parent company of the enterprise provides consolidated financial statements available for public use, is supplemented with an explanation that this exception applies regardless of whether the subsidiary is included in consolidation or measured at fair value through profit or loss in accordance with IFRS 10 in consolidated financial statements of the ultimate or any parent company. The Group’s Management does not expect the amendments to have a material impact on the Group’s consolidated financial statements.

**IFRS 16 “Leases”** (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard establishes principles for 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. A lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. 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.

This standard has not been adopted for use in the Russian Federation.

The Group is currently assessing the impact of the amendments on the Group’s consolidated financial statements.

**“Recognition of deferred tax assets for unrealised losses” – Amendments to IAS 12** (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment clarifies the requirement for recognition of deferred tax assets for unrealised losses on debt instruments.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

An entity shall recognise deferred tax assets for unrealised losses arising from discounted cash flows on debt instruments using market interest rates, even if it intends to hold the instrument to maturity and no payment of taxes is expected after getting principal. The economic benefit embodied in the related deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (taking into account the effect of discounting) without paying taxes on those gains.

The Group is considering the impact of the amendments on its financial statements.

**IAS 7 “Statement of cash flows”** (issued in February 2016 and effective for periods beginning on 1 January 2017). The amendments are intended to improve information about an entity’s financing activities that allows to evaluate changes in liabilities arising from financing activities, which requires the disclosure of the following changes in liabilities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair value;
- other changes.

New disclosure requirements also relate to changes in financial assets.

The amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The Group is currently assessing the impact of the amendments on its financial statements.

**“Revenue from contracts with customers” – Amendments to IFRS 15** (issued in April 2016 and effective for periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard. The amendments clarify how to identify a performance obligation (the promise to transfer goods or services to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for a good or service to be provided); and 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 is currently assessing the impact of the amendments on its financial statements. These amendments have not been adopted for use in the Russian Federation.

## 6 Subsidiaries

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

| Description                                   | Area of activity                       | As of<br>31 December<br>2015<br>Ownership<br>interest<br>(%) | As of<br>31 December<br>2014<br>Ownership<br>interest<br>(%) |
|---|--|--|--|
| <i>Oil and gas exploration and production</i> |  |  |  |
| OJSC “Surgutneftegas”                         | Oil and gas exploration and production | Parent company   | Parent company   |
| <i>Oil refining</i>                           |  |  |  |
| LLC “KINEF”                                   | Oil refining                           | 100%   | 100%   |
| <i>Oil products sale</i>                      |  |  |  |
| LLC “Novgorodnefteproduct”                    | Oil products sale                      | 100%   | 100%   |
| LLC “Pskovnefteproduct”                       | Oil products sale                      | 100%   | 100%   |
| LLC “Kaliningradnefteproduct”                 | Oil products sale                      | 100%   | 100%   |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

|  |   |          |          |
|--|---|----------|----------|
| LLC “MA “Tvernefteproduct”                                   | Oil products sale   | 100%     | 100%     |
| LLC “KIRISHIAVTOSERVIS”                                      | Oil products sale   | 100%     | 100%     |
| <i>Other companies</i>                                       |   |          |          |
| LLC “Insurance Company “Surgutneftegas”                      | Insurance   | 100%     | 100%     |
| Closed Joint Stock Company “Surgutneftegasbank” (ZAO “SNGB”) | Banking operations  | 97.7591% | 97.7591% |
| LLC “Surgutmebel”  | Manufacture of wood construction items  | 100%     | 100%     |
| OJSC “Sovkhoz “Chervishevsky”                                | Agriculture   | 94.9996% | 94.9996% |
| LLC “Media-Invest”   | Television and radio broadcasting, production and coverage of TV and radio programmes | 100%     | 100%     |
| LLC “Lengiproneftekhim”                                      | Engineering   | 100%     | 100%     |

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

As of 31 December 2015, non-controlling interests in the amount of RUB 186 million (as of 31 December 2014 – RUB 169 million) are not significant to the Group.

## **7 Segment information**

Information about the Group is considered by individual executive body represented by director general of the Company and deputies of director general covering different operations (the Management) to comprise the following operating segments:

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

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

“Other activity” includes all other non-significant segments having no similar economic performance and represents subsidiaries of the Group engaged in banking operations, insurance and production of other goods, jobs and services.

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

Results of separate significant operations and a number of adjustments required to bring RAS statements in line with the relevant IFRS amounts are considered by the Management across the whole Group without breakdown by segments.

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

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Performance results of production segments for 2015:

|   | <b>Exploration<br/>and<br/>production</b> | <b>Refining<br/>and sale</b> | <b>Other<br/>activity</b> | <b>Intersegment<br/>sales</b> | <b>Total</b>     |
|---|---|------------------------------|---------------------------|-------------------------------|------------------|
| <b>Sales revenue</b>  |   |                              |                           |                               |                  |
| Export, including:  | <b>501,271</b>                            | <b>223,160</b>               | -                         | -                             | <b>724,431</b>   |
| <i>revenues from crude sales</i>                                | 501,271                                   | -                            | -                         | -                             | 501,271          |
| <i>revenues from oil products sales</i>                         | -   | 223,160                      | -                         | -                             | 223,160          |
| <i>revenues from gas products sales</i>                         | -   | -                            | -                         | -                             | -                |
| <i>other sales</i>  | -   | -                            | -                         | -                             | -                |
| Domestic market,<br>including:                                  | <b>168,911</b>                            | <b>184,654</b>               | <b>3,275</b>              | <b>(78,666)</b>               | <b>278,174</b>   |
| <i>revenues from crude sales</i>                                | 144,996                                   | -                            | -                         | (15,638)                      | 129,358          |
| <i>revenues from oil products sales</i>                         | -   | 173,535                      | -                         | (61,299)                      | 112,236          |
| <i>revenues from gas and gas products sales</i>                 | 15,494                                    | 5,751                        | -                         | (6)                           | 21,239           |
| <i>sale of other products and finished goods</i>                | 2,846                                     | 3,897                        | 1,516                     | (625)                         | 7,634            |
| <i>other sales</i>  | 5,575                                     | 1,471                        | 1,759                     | (1,098)                       | 7,707            |
| <b>Total sales revenue</b>                                      | <b>670,182</b>                            | <b>407,814</b>               | <b>3,275</b>              | <b>(78,666)</b>               | <b>1,002,605</b> |
| Operating expenses  | (470,735)                                 | (357,274)                    | (8,607)                   | 78,002                        | (758,614)        |
| <b>Operating profit / (loss)</b>                                | <b>199,447</b>                            | <b>50,540</b>                | <b>(5,332)</b>            | <b>(664)</b>                  | <b>243,991</b>   |
| Finance income  |   |                              |                           |                               | 108,285          |
| Finance expenses  |   |                              |                           |                               | (15,852)         |
| Exchange differences  |   |                              |                           |                               | 583,006          |
| Gain / (loss) on sale and other disposal<br>of financial assets |   |                              |                           |                               | 22               |
| Share of profit / (loss) of associates                          |   |                              |                           |                               | 299              |
| Other income / (expenses)                                       |   |                              |                           |                               | (229)            |
| <b>Profit before tax</b>  |   |                              |                           |                               | <b>919,522</b>   |
| Income tax  |   |                              |                           |                               | (157,949)        |
| <b>Net income</b>   |   |                              |                           |                               | <b>761,573</b>   |



**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Performance results of production segments for 2014:

|   | Exploration<br>and<br>production | Refining<br>and sale | Other<br>activity | Intersegment<br>sales | Total            |
|---|----------------------------------|----------------------|-------------------|-----------------------|------------------|
| <b>Sales revenue</b>  |                                  |                      |                   |                       |                  |
| Export, including:  | <b>386,434</b>                   | <b>189,804</b>       | -                 | -                     | <b>576,238</b>   |
| <i>revenues from crude sales</i>                                | 386,434                          | -                    | -                 | -                     | 386,434          |
| <i>revenues from oil products sales</i>                         | -                                | 189,628              | -                 | -                     | 189,628          |
| <i>revenues from gas products sales</i>                         | -                                | 176                  | -                 | -                     | 176              |
| <i>other sales</i>  | -                                | -                    | -                 | -                     | -                |
| Domestic market,<br>including:                                  | <b>174,610</b>                   | <b>208,803</b>       | <b>3,784</b>      | <b>(72,861)</b>       | <b>314,336</b>   |
| <i>revenues from crude sales</i>                                | 152,287                          | -                    | -                 | (13,408)              | 138,879          |
| <i>revenues from oil products sales</i>                         | -                                | 195,879              | -                 | (57,793)              | 138,086          |
| <i>revenues from gas and gas products sales</i>                 | 14,564                           | 7,405                | -                 | (7)                   | 21,962           |
| <i>sale of other products and finished goods</i>                | 2,825                            | 3,482                | 1,989             | (716)                 | 7,580            |
| <i>other sales</i>  | 4,934                            | 2,037                | 1,795             | (937)                 | 7,829            |
| <b>Total sales revenue</b>                                      | <b>561,044</b>                   | <b>398,607</b>       | <b>3,784</b>      | <b>(72,861)</b>       | <b>890,574</b>   |
| Operating expenses  | (445,925)                        | (345,361)            | (8,825)           | 72,337                | (727,774)        |
| <b>Operating profit / (loss)</b>                                | <b>115,119</b>                   | <b>53,246</b>        | <b>(5,041)</b>    | <b>(524)</b>          | <b>162,800</b>   |
| Finance income  |                                  |                      |                   |                       | 69,297           |
| Finance expenses  |                                  |                      |                   |                       | (7,135)          |
| Exchange differences  |                                  |                      |                   |                       | 845,940          |
| Gain / (loss) on sale and other disposal<br>of financial assets |                                  |                      |                   |                       | (9)              |
| Share of profit / (loss) of associates                          |                                  |                      |                   |                       | (353)            |
| Other income / (expenses)                                       |                                  |                      |                   |                       | (1,001)          |
| <b>Profit before tax</b>  |                                  |                      |                   |                       | <b>1,069,539</b> |
| Income tax  |                                  |                      |                   |                       | (184,706)        |
| <b>Net income</b>   |                                  |                      |                   |                       | <b>884,833</b>   |

Sales comprise the following (based on the registration country):

| <b>Sales</b>                                 | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|
| export of crude oil – Europe                 | 454,646          | 507,214          |
| export of crude oil – Asia                   | 190,185          | 160,484          |
| export of crude oil – CIS, other than Russia | 45,926           | 36,871           |
| export of crude oil – Canada                 | 14,970           | 26,670           |
| domestic sales of crude oil                  | 129,358          | 138,879          |
| domestic sales of gas                        | 15,488           | 14,557           |
| <b>Total oil and gas sales</b>               | <b>850,573</b>   | <b>884,675</b>   |
| export of oil products – Europe              | 290,361          | 314,667          |
| domestic sales of oil products               | 112,236          | 138,086          |
| export of gas products – Europe              | -                | 291              |
| domestic sales of gas products               | 5,751            | 7,405            |
| <b>Total oil and gas products sales</b>      | <b>408,348</b>   | <b>460,449</b>   |
| Other domestic sales                         | 15,341           | 15,409           |
| <b>Total sales</b>                           | <b>1,274,262</b> | <b>1,360,533</b> |
| less export duties                           | (271,657)        | (469,959)        |
| <b>Total sales revenue</b>                   | <b>1,002,605</b> | <b>890,574</b>   |

### Information about sales to the main buyers

The Group has one buyer accounting for over 10% of total revenues of the Group. Aggregate amount of revenues from the main buyer for 2015 is RUB 134,975 million (for 2014 – RUB 142,791 million). This revenue is included in “Refining and sale”.

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

### 8 Related party transactions

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

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

Within 2015 and 2014, the Group entered into transactions with JSC “NPF “Surgutneftegas” to finance pensions of employees retired within the year, and other related parties.

Within 2015 and 2014, the Group contributed to JSC “NPF “Surgutneftegas” RUB 1,212 million and RUB 1,118 million respectively.

As of 31 December 2015, the Group had RUB 2,285 million (as of 31 December 2014 – RUB 2,051 million) of loans received from the related parties (funds of the customers of the Group’s bank).

The amount of compensation subject to the regional coefficient and Northern allowance (the salary for the reporting period with taxes and other obligatory budget and non-budget payments accrued, annual paid leave for the work performed in the reporting period and similar payments) to the key management personnel (9,835 people in 2015 and 9,732 people in 2014), including structural units and subsidiaries of the Company, authorised to plan and control the Group’s operations in 2015 equalled RUB 32,061 million (for 2014 – RUB 29,417 million). Pension benefits are provided to the management personnel on a non-preferential basis.

### 9 Cash and cash equivalents, restricted cash

Cash and cash equivalents represent the following:

|   | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|---|-----------------------------------|-----------------------------------|
| Cash in hand and at current accounts                              | 13,791                            | 6,391                             |
| - rubles  | 6,335                             | 4,870                             |
| - foreign currency  | 7,456                             | 1,521                             |
| Deposits with original maturity under contract less than 3 months | 91,905                            | 21,528                            |
| <b>Total cash and cash equivalents</b>                            | <b>105,696</b>                    | <b>27,919</b>                     |

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

Information on cash and cash equivalents placed by currency and credit quality is presented in Note 32.

### 10 Deposits placed

Placed deposits comprise the following:

|                              | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|------------------------------|-----------------------------------|-----------------------------------|
| Bank deposits:               |                                   |                                   |
| - short-term                 | 527,189                           | 727,419                           |
| - long-term                  | 1,940,169                         | 1,186,001                         |
| <b>Total deposits placed</b> | <b>2,467,358</b>                  | <b>1,913,420</b>                  |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Placed cash represents short-term and long-term bank deposits. Interest is paid mainly together with return of the principal amount to the current account. In accordance with deposit agreement, the Group loses its right to part of the accrued interest in case of early return of the principal amount.

The amount of deposits interest received at current accounts of the Group for 2015 is RUB 100,828 million (for 2014 – RUB 58,291 million).

The classification of deposits by maturity is presented in the table below:

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| with maturity less than 30 days        | 136                               | 59,217                            |
| with maturity between 31 and 90 days   | 33,528                            | 117,144                           |
| with maturity between 91 and 180 days  | 188,969                           | 208,065                           |
| with maturity between 181 and 270 days | 162,915                           | 153,003                           |
| with maturity between 271 and 365 days | 141,641                           | 189,990                           |
| with maturity more than 365 days       | 1,940,169                         | 1,186,001                         |
| <b>Total bank deposits</b>             | <b>2,467,358</b>                  | <b>1,913,420</b>                  |

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

Information on deposits placed by currency and credit quality is presented in Note 32.

The fair value of deposits is disclosed in Note 33.

## 11 Receivables

Accounts receivable include:

|                                      | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Trade receivables                    | 54,278                            | 51,548                            |
| impairment provision                 | (172)                             | (194)                             |
| Other receivables                    | 6,356                             | 10,197                            |
| impairment provision                 | (391)                             | (421)                             |
| <b>Total receivables, including:</b> | <b>60,071</b>                     | <b>61,130</b>                     |
| short-term                           | 59,522                            | 60,419                            |
| long-term                            | 549                               | 711                               |

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

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

|   | <b>Trade receivables</b> | <b>Other receivables</b> |
|---|--------------------------|--------------------------|
| <b>Impairment provision of accounts receivable<br/>as of 1 January 2014</b>   | <b>(266)</b>             | <b>(433)</b>             |
| Impairment provision of accounts receivable charged                           | (1)                      | (42)                     |
| Impairment provision of accounts receivable used                              | -                        | 26                       |
| Impairment provision of accounts receivable recovered                         | 73                       | 28                       |
| <b>Impairment provision of accounts receivable<br/>as of 31 December 2014</b> | <b>(194)</b>             | <b>(421)</b>             |
| Impairment provision of accounts receivable charged                           | (4)                      | (61)                     |
| Impairment provision of accounts receivable used                              | -                        | 82                       |
| Impairment provision of accounts receivable recovered                         | 26                       | 9                        |
| <b>Impairment provision of accounts receivable<br/>as of 31 December 2015</b> | <b>(172)</b>             | <b>(391)</b>             |

As of 31 December 2015, the Group had three (as of 31 December 2014 – three) main debtors, each with at least 10% of total accounts receivable. These debtors provide about 19% of the Group’s revenue in 2015 (in 2014 – 18%).

Information on receivables by currency and credit quality is presented in Note 32.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**12 Advances issued**

Advances issued include:

|                              | As of<br>31 December 2015 | As of<br>31 December 2014 |
|------------------------------|---------------------------|---------------------------|
| Export custom duties         | 11,832                    | 27,148                    |
| Oil transport                | 4,897                     | 9,576                     |
| Other advances issued        | 5,552                     | 4,949                     |
| <b>Total advances issued</b> | <b>22,281</b>             | <b>41,673</b>             |

**13 Loans granted**

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

|   | As of<br>31 December 2015 | As of<br>31 December 2014 |
|---|---------------------------|---------------------------|
| Current credits and loans                 | 36,365                    | 41,528                    |
| Overdue and/or impaired credits and loans | 16,171                    | 6,807                     |
| Impairment provision                      | (7,642)                   | (4,973)                   |
| <b>Total loans granted, including:</b>    | <b>44,894</b>             | <b>43,362</b>             |
| short-term                                | 19,894                    | 21,541                    |
| long-term                                 | 25,000                    | 21,821                    |

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

|   | 2015           | 2014           |
|---|----------------|----------------|
| <b>Impairment provision as of 1 January</b>     | <b>(4,973)</b> | <b>(3,950)</b> |
| (allocations to provision) / provision recovery | (2,669)        | (1,023)        |
| <b>Impairment provision as of 31 December</b>   | <b>(7,642)</b> | <b>(4,973)</b> |

Analysis of loans granted by currency and credit quality as well as information on the fair value of the collateral are disclosed in Note 32.

**14 Inventories**

Inventories include:

|                             | As of<br>31 December 2015 | As of<br>31 December 2014 |
|-----------------------------|---------------------------|---------------------------|
| Oil and refined products    | 13,872                    | 14,823                    |
| <i>impairment provision</i> | (44)                      | (11)                      |
| Materials and supplies      | 56,933                    | 42,650                    |
| <i>impairment provision</i> | (6,710)                   | (2,520)                   |
| Other reserves              | 6,222                     | 7,646                     |
| <i>impairment provision</i> | (413)                     | (411)                     |
| Goods for resale            | 3,257                     | 1,378                     |
| <i>impairment provision</i> | -                         | (5)                       |
| Work in progress            | 2,699                     | 1,873                     |
| Gas and gas products        | 28                        | 23                        |
| <b>Total inventories</b>    | <b>75,844</b>             | <b>65,446</b>             |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**15 Property, plant and equipment**

|  | <b>Oil and gas<br/>exploration<br/>and<br/>production</b> | <b>Refining and<br/>sale</b> | <b>Other<br/>properties</b> | <b>Construction<br/>in progress</b> | <b>Total</b>     |
|--|---|------------------------------|-----------------------------|-------------------------------------|------------------|
| <b>Historical cost<br/>as of 31 December 2013</b>  | <b>890,659</b>  | <b>215,553</b>               | <b>93,549</b>               | <b>26,673</b>                       | <b>1,226,434</b> |
| Construction and proceeds  | 143,049   | 2,412                        | 6,765                       | 22,457                              | 174,683          |
| Reclassifications  | -   | 8,521                        | 5,492                       | (14,013)                            | -                |
| Internal movements   | (6,352)   | 5                            | 6,347                       | -                                   | -                |
| Changes in asset retirement<br>(decommissioning) obligations                               | 118   | -                            | -                           | -                                   | 118              |
| Disposals, retirements and other<br>movements  | (12,214)  | (854)                        | (2,703)                     | (529)                               | (16,300)         |
| <b>Historical cost<br/>as of 31 December 2014</b>  | <b>1,015,260</b>  | <b>225,637</b>               | <b>109,450</b>              | <b>34,588</b>                       | <b>1,384,935</b> |
| Construction and proceeds  | 152,453   | 4,721                        | 10,085                      | 27,219                              | 194,478          |
| Reclassifications  | -   | 10,095                       | 3,891                       | (13,986)                            | -                |
| Internal movements   | (11,585)  | (929)                        | 12,514                      | -                                   | -                |
| Changes in asset retirement<br>(decommissioning) obligations                               | 22,056  | -                            | -                           | -                                   | 22,056           |
| Disposals, retirements and other<br>movements  | (8,782)   | (1,678)                      | (1,616)                     | (1,756)                             | (13,832)         |
| <b>Historical cost<br/>as of 31 December 2015</b>  | <b>1,169,402</b>  | <b>237,846</b>               | <b>134,324</b>              | <b>46,065</b>                       | <b>1,587,637</b> |
| <b>Accumulated depletion,<br/>depreciation and amortisation<br/>as of 31 December 2013</b> | <b>(117,840)</b>  | <b>(32,521)</b>              | <b>(28,275)</b>             | <b>-</b>                            | <b>(178,636)</b> |
| Charge for the period  | (59,848)  | (23,292)                     | (7,607)                     | -                                   | (90,747)         |
| Internal movements   | (4,302)   | (205)                        | 4,507                       | -                                   | -                |
| Impairment   | (6,419)   | (395)                        | -                           | -                                   | (6,814)          |
| Disposals, retirements and other<br>movements  | 1,585   | 297                          | 1,856                       | -                                   | 3,738            |
| <b>Accumulated depletion,<br/>depreciation and amortisation<br/>as of 31 December 2014</b> | <b>(186,824)</b>  | <b>(56,116)</b>              | <b>(29,519)</b>             | <b>-</b>                            | <b>(272,459)</b> |
| Charge for the period  | (56,497)  | (21,347)                     | (9,137)                     | -                                   | (86,981)         |
| Internal movements<br>(Impairment) / reversal of<br>impairment                             | 2,262   | (85)                         | (2,177)                     | -                                   | -                |
| Disposals, retirements and other<br>movements  | 270   | (1,627)                      | (36)                        | -                                   | (1,393)          |
| Disposals, retirements and other<br>movements  | 2,684   | 405                          | 896                         | -                                   | 3,985            |
| <b>Accumulated depletion,<br/>depreciation and amortisation<br/>as of 31 December 2015</b> | <b>(238,105)</b>  | <b>(78,770)</b>              | <b>(39,973)</b>             | <b>-</b>                            | <b>(356,848)</b> |
| <b>Carrying amount<br/>as of 31 December 2013</b>  | <b>772,819</b>  | <b>183,032</b>               | <b>65,274</b>               | <b>26,673</b>                       | <b>1,047,798</b> |
| <b>Carrying amount<br/>as of 31 December 2014</b>  | <b>828,436</b>  | <b>169,521</b>               | <b>79,931</b>               | <b>34,588</b>                       | <b>1,112,476</b> |
| <b>Carrying amount<br/>as of 31 December 2015</b>  | <b>931,297</b>  | <b>159,076</b>               | <b>94,351</b>               | <b>46,065</b>                       | <b>1,230,789</b> |

As of 31 December 2015, property, plant and equipment included advances for purchase and construction of property, plant and equipment in the amount of RUB 6,848 million (as of 31 December 2014 – RUB 11,224 million).

On each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. In 2015, the Group reversed the loss from impairment of the exploration and production assets in the amount of RUB 270 million. As of 31 December 2015, the amount of the loss from impairment of the exploration and production assets was RUB 6,149 million (as of 31 December 2014 – RUB 6,419 million).

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

In 2015, the Group recognised the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 1,627 million. As of 31 December 2015, the amount of the loss from impairment of property, plant and equipment of sales companies was RUB 2,022 million (as of 31 December 2014 – RUB 395 million).

As of 31 December 2015, the Group recognised the loss from impairment of property, plant and equipment of other companies in the amount of RUB 36 million (as of 31 December 2014 – no impairment has been identified).

Depreciation on property, plant and equipment includes the amount capitalised in construction in progress for 2015 in the amount of RUB 17,006 million (for 2014 – RUB 16,891 million).

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

|   | <b>2015</b>   | <b>2014</b>   |
|---|---------------|---------------|
| <b>As of 1 January</b>  | <b>40,781</b> | <b>42,651</b> |
| Capitalised costs   | 15,636        | 17,256        |
| Reclassified to property, plant and equipment                               | (1,598)       | (5,832)       |
| Disposal of expenses associated with ineffective exploration and evaluation | (2,557)       | (7,377)       |
| (Impairment) / reversals of impairment                                      | 270           | (5,917)       |
| <b>As of 31 December</b>  | <b>52,532</b> | <b>40,781</b> |

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

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| Historical cost as of 1 January                                  | 65,943        | 64,563        |
| Impairment   | (181)         | -             |
| Accumulated depreciation   | (1,884)       | (1,681)       |
| <b>Carrying amount as of 1 January</b>                           | <b>63,878</b> | <b>62,882</b> |
| Proceeds   | 821           | 1,748         |
| Disposals and retirement of assets by exploration and evaluation | -             | (368)         |
| Impairment   | -             | (181)         |
| Depreciation charge  | (255)         | (203)         |
| <b>Carrying amount as of 31 December</b>                         | <b>64,444</b> | <b>63,878</b> |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

| <b>16 Intangible assets</b>                       | <b>Software</b> | <b>Goodwill</b> | <b>Other</b> | <b>Total</b> |
|---|-----------------|-----------------|--------------|--------------|
| <b>Historical cost</b>                            |                 |                 |              |              |
| As of 31 December 2013                            | 5,036           | 5,788           | 461          | 11,285       |
| Proceeds  | 1,273           | -               | 106          | 1,379        |
| Disposal  | (974)           | -               | (36)         | (1,010)      |
| As of 31 December 2014                            | 5,335           | 5,788           | 531          | 11,654       |
| Proceeds  | 594             | -               | 203          | 797          |
| Disposal  | (397)           | -               | (44)         | (441)        |
| As of 31 December 2015                            | 5,532           | 5,788           | 690          | 12,010       |
| <b>Depreciation and impairment loss</b>           |                 |                 |              |              |
| As of 31 December 2013                            | (3,027)         | -               | (117)        | (3,144)      |
| Accumulated depreciation                          | (736)           | -               | (35)         | (771)        |
| Impairment  | -               | (148)           | -            | (148)        |
| Disposal  | 956             | -               | 20           | 976          |
| As of 31 December 2014                            | (2,807)         | (148)           | (132)        | (3,087)      |
| Accumulated depreciation                          | (604)           | -               | (44)         | (648)        |
| Disposal  | 359             | -               | 33           | 392          |
| As of 31 December 2015                            | (3,052)         | (148)           | (143)        | (3,343)      |
| <b>Net carrying amount as of 31 December 2013</b> | <b>2,009</b>    | <b>5,788</b>    | <b>344</b>   | <b>8,141</b> |
| <b>Net carrying amount as of 31 December 2014</b> | <b>2,528</b>    | <b>5,640</b>    | <b>399</b>   | <b>8,567</b> |
| <b>Net carrying amount as of 31 December 2015</b> | <b>2,480</b>    | <b>5,640</b>    | <b>547</b>   | <b>8,667</b> |

In 2015, amortisation of intangible assets was not capitalised into property, plant and equipment. In 2014, the amount of capitalised amortisation of intangible assets into property, plant and equipment was RUB 16 million.

On each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. As of 31 December 2015, no impairment of intangible assets has been identified. As of 31 December 2014, no impairment of intangible assets, excluding goodwill, has been identified.

As of 31 December 2015 and 2014, the Group had no intangible assets with indefinite useful lives (excluding goodwill).

**Goodwill**

As of 31 December 2015 and 2014, the goodwill amount was allocated to “Refining and distribution” segment. This goodwill is recognised as the Company and its subsidiaries represent a business combination.

As of 31 December 2015, no impairment of goodwill has been identified. As of 31 December 2014, the amount of the recognised loss from impairment was RUB 148 million.

**17 Investments in associates**

The Group has an equity-accounted investment in associated company CJSC “National Media Group” (NMG).

The Group’s interest in the capital of NMG as of 31 December 2015 and 2014 was 26.22%. NMG is a holding company with investments in companies involved in television and radio broadcasting in the Russian Federation, printing of periodicals (newspapers) as well as in other companies.

The carrying amount of the investment as of 31 December 2015 amounted to RUB 6,210 million (as of 31 December 2014 – RUB 5,758 million).

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Net assets of NMG as of 31 December 2015 amounted to RUB 19,480 million (as of 31 December 2014 – RUB 17,759 million); the amount of goodwill recognised in the cost of investments as of 31 December 2015 and 2014 equalled RUB 1,103 million.

**18 Other financial assets**

Short-term and long-term financial assets include:

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| <b>Short-term financial assets</b>                     |                                   |                                   |
| Financial assets at fair value through profit and loss | 33                                | 485                               |
| Financial assets available-for-sale                    | 1,900                             | 1,547                             |
| Investments held-to-maturity                           | 1,251                             | 2,791                             |
| <b>Total short-term financial assets</b>               | <b>3,184</b>                      | <b>4,823</b>                      |
| <b>Long-term financial assets</b>                      |                                   |                                   |
| Financial assets at fair value through profit and loss | 457                               | 58                                |
| Financial assets available-for-sale                    | 14,145                            | 7,660                             |
| Investments held-to-maturity                           | 507                               | 1,419                             |
| <b>Total long-term financial assets</b>                | <b>15,109</b>                     | <b>9,137</b>                      |

***Financial assets recorded at fair value through profit and loss***

The structure of financial assets recorded at fair value through profit and loss is presented below:

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| Corporate bonds  | 310                               | 177                               |
| Government bonds   | 97                                | 217                               |
| Subfederal and municipal bonds   | 82                                | 2                                 |
| Shares   | 1                                 | 3                                 |
| Corporate eurobonds  | -                                 | 144                               |
| <b>Total financial assets<br/>recorded at fair value through profit and loss</b> | <b>490</b>                        | <b>543</b>                        |

Corporate bonds are presented by interest bearing securities denominated in Russian rubles issued by major Russian companies and banks which are listed on Moscow Interbank Currency Exchange (MICEX).

Corporate eurobonds are presented by interest bearing securities denominated in US dollars issued by major Russian companies and freely traded internationally.

Government securities are federal loan bonds (FLB) issued by the Ministry of Finance of the Russian Federation and denominated in Russian rubles.

As of 31 December 2015, there were no securities held in trust (as of 31 December 2014 – the value of securities held in trust amounted to RUB 341 million).

Securities recorded at fair value through profit and loss are reviewed by credit quality and currency in Note 32.



**OJSC "Surgutneftegas"**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**Available-for-sale financial assets**

The structure of available-for-sale financial assets is presented below:

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| Shares   | 5,531                             | 5,494                             |
| Government, subfederal and municipal bonds       | 4,430                             | 646                               |
| Corporate eurobonds                              | 4,317                             | 1,745                             |
| Corporate bonds                                  | 1,693                             | 1,248                             |
| Contributions to share capitals                  | 74                                | 74                                |
| <b>Total financial assets available-for-sale</b> | <b>16,045</b>                     | <b>9,207</b>                      |

Movements in available-for-sale financial assets are presented below:

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| <b>Carrying amount as of 1 January</b>     | <b>9,207</b>  | <b>12,014</b> |
| Acquisition / reclassification             | 11,215        | 5,259         |
| Redemption / sale / reclassification       | (5,650)       | (8,175)       |
| Accrued interest income                    | 570           | 294           |
| Interest received                          | (552)         | (365)         |
| Exchange differences                       | 896           | 449           |
| Gains / (losses) on fair value revaluation | 359           | (269)         |
| <b>Carrying amount as of 31 December</b>   | <b>16,045</b> | <b>9,207</b>  |

Available-for-sale financial assets are reviewed by credit quality and currency in Note 32.

**Held-to-maturity investments**

Structure of held-to-maturity investments is presented below:

|   | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|---|-----------------------------------|-----------------------------------|
| Government bonds                          | 1,576                             | 2,828                             |
| Corporate bonds                           | 102                               | 589                               |
| Subfederal and municipal bonds            | 80                                | 269                               |
| Corporate eurobonds                       | -                                 | 524                               |
| <b>Total investments held-to-maturity</b> | <b>1,758</b>                      | <b>4,210</b>                      |

The movement in held-to-maturity investments is presented below:

|  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|
| <b>Carrying amount as of 1 January</b>             | <b>4,210</b> | <b>6,204</b> |
| Proceeds / reclassification                        | 12,690       | 7,254        |
| Disposal / redemption / reclassification           | (21,035)     | (3,385)      |
| Accrued interest income                            | 785          | 634          |
| Interest received                                  | (858)        | (586)        |
| Exchange differences                               | (70)         | 129          |
| Gains / (losses) from reflection at amortised cost | 8            | (12)         |
| Impairment provision                               | 6,028        | (6,028)      |
| <b>Carrying amount as of 31 December</b>           | <b>1,758</b> | <b>4,210</b> |

In 2015, the Group recovered impairment provision of the part of held-to-maturity investments due to asset disposal. In 2014, the reserve amounted to RUB 6,028 million.

In 2015, the Group did not change its position concerning the classification of available-for-sale financial assets. In 2014, the Group reclassified the part of investments in bonds from the category of available-for-sale financial assets into the category of held-to-maturity investments. At the date of this reclassification, the fair value of these securities equalled RUB 4,421 million.

Held-to-maturity investments are reviewed by credit quality and currency in Note 32.

Information on the fair value of held-to-maturity investments is presented in Note 33.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**19 Payables and accrued liabilities**

Accounts payable and accrued liabilities include:

|   | As of<br>31 December 2015 | As of<br>31 December 2014 |
|---|---------------------------|---------------------------|
| Accounts payable to employees of the Company                | 27,238                    | 24,460                    |
| Accounts payable for acquired property, plant and equipment | 11,815                    | 6,448                     |
| Trade payables  | 10,269                    | 10,128                    |
| Dividends payable   | 1,103                     | 582                       |
| Other accounts payable                                      | 1,296                     | 1,503                     |
| <b>Total payables and liabilities accrued</b>               | <b>51,721</b>             | <b>43,121</b>             |
| Including the financial part of the accounts payable        | 24,476                    | 18,661                    |

The financial part of the accounts payable is reviewed by currency and maturity in Note 32.

**20 Other financial liabilities**

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

|  | As of<br>31 December 2015 | As of<br>31 December 2014 |
|--|---------------------------|---------------------------|
| Current / settlement accounts and demand accounts    | 10,413                    | 8,724                     |
| Fixed-term deposits                                  | 73,013                    | 42,145                    |
| <b>Total other financial liabilities, including:</b> | <b>83,426</b>             | <b>50,869</b>             |
| short-term   | 79,077                    | 37,671                    |
| long-term  | 4,349                     | 13,198                    |

Interest rates on deposits are charged at rates ranging from 0.01% to 18.25% in rubles (in 2014 – from 0.01% to 16%) and from 0.25% to 5% in foreign currency (in 2014 – from 0% to 5%). Interests on settlement and current accounts range from 0.01% to 14.5% in rubles (in 2014 – from 0% to 14.5%) and from 0% to 3.5% in foreign currency (in 2014 – from 0% to 3.5%).

Other financial liabilities are reviewed by currency and maturity in Note 32.

**21 Other tax liabilities**

|                                    | As of<br>31 December 2015 | As of<br>31 December 2014 |
|------------------------------------|---------------------------|---------------------------|
| Mineral extraction tax             | 19,708                    | 22,068                    |
| Property tax                       | 3,269                     | 3,249                     |
| Value added tax                    | 1,616                     | 3,818                     |
| Other                              | 6,409                     | 5,885                     |
| <b>Total other tax liabilities</b> | <b>31,002</b>             | <b>35,020</b>             |

**22 Provisions for liabilities and charges**

|   | As of<br>31 December 2015 | As of<br>31 December 2014 |
|---|---------------------------|---------------------------|
| Asset retirement obligations                                    | 88,456                    | 64,781                    |
| Post-employment benefit obligations                             | 16,966                    | 14,584                    |
| Other liabilities   | 1,536                     | 2,452                     |
| <b>Total provisions for liabilities and charges, including:</b> | <b>106,958</b>            | <b>81,817</b>             |
| short-term  | 2,628                     | 3,489                     |
| long-term   | 104,330                   | 78,328                    |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**Asset retirement obligations**

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

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| <b>Obligations as of 1 January</b>         | <b>64,781</b> | <b>63,223</b> |
| Proceeds                                   | 10,497        | 11,008        |
| Changes in estimates and discounting rates | 11,559        | (10,890)      |
| Discount cost amortised                    | 1,997         | 2,061         |
| Provision used                             | (378)         | (621)         |
| <b>Obligations as of 31 December</b>       | <b>88,456</b> | <b>64,781</b> |

Obligations recognised as of 31 December 2015 and 2014 are long-term.

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

**Post-employment benefit obligations**

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

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

|                                      | <b>2015</b>   | <b>2014</b>   |
|--------------------------------------|---------------|---------------|
| <b>Obligations as of 1 January</b>   | <b>14,584</b> | <b>16,359</b> |
| Interest liability expenses          | 934           | 802           |
| Current service cost                 | 389           | 467           |
| Benefits paid                        | (1,389)       | (1,212)       |
| Actuarial (gain) / loss              | 2,448         | (1,832)       |
| <b>Obligations as of 31 December</b> | <b>16,966</b> | <b>14,584</b> |

Obligations by maturity are as follows:

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| Short-term                                       | 1,092                             | 1,037                             |
| Long-term  | 15,874                            | 13,547                            |
| <b>Total post-employment benefit obligations</b> | <b>16,966</b>                     | <b>14,584</b>                     |

Expenses allocated to payrolls:

|   | <b>2015</b>  | <b>2014</b>  |
|---|--------------|--------------|
| Current service cost                    | 389          | 467          |
| Interest liability expenses             | 934          | 802          |
| <b>Net expenses on pension benefits</b> | <b>1,323</b> | <b>1,269</b> |

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

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| Discount rate  | 9.49%                             | 13.00%                            |
| Average long-term increase<br>in employee compensation | 4.33%                             | 4.56%                             |
| Rate of inflation and growth of pension                | 4.33%                             | 4.56%                             |

## 23 Equity

### **Share capital and share premium**

As of 31 December 2015 and 2014:

#### **Share capital**

##### *Ordinary shares:*

|   |                |
|---|----------------|
| Number of shares issued, thousand             | 35,725,995     |
| Par value (1 ruble per share), million rubles | 35,726         |
| Amount adjusted for inflation, million rubles | <b>121,203</b> |

##### *Preference shares:*

|   |               |
|---|---------------|
| Number of shares issued, thousand             | 7,701,998     |
| Par value (1 ruble per share), million rubles | 7,702         |
| Amount adjusted for inflation, million rubles | <b>33,463</b> |

#### **Share premium**

|   |               |
|---|---------------|
| Amount by which the fair value of funds received exceeded the par value, million rubles | 35,245        |
| Amount adjusted for inflation, million rubles   | <b>57,809</b> |

The share capital is fully paid. In 2015 and 2014, changes in the structure of the share capital did not occur. The Company did not place any shares.

### **Treasury shares**

As of 31 December 2015 and 2014, the Group owned 650 thousand of ordinary shares, i.e. less than 1% of the total number of shares.

### **Dividends**

The Company's accounting statement prepared in accordance with Russian accounting standards which differ significantly from IFRS consolidated statement serves as the basis for the distribution of profits to shareholders. Net income of the current year calculated in accordance with the applicable law of the Russian Federation and recognised in the Company's statements prepared according to Russian Accounting Standards (RAS) is subject for distribution.

As of 27 June 2015, the annual general meeting of shareholders of the Company declared dividends for the year ended 31 December 2014 in the amount of RUB 0.65 per one ordinary share and RUB 8.21 per one preference share.

As of 27 June 2014, the annual general meeting of shareholders of the Company declared dividends for the year ended 31 December 2013 in the amount of RUB 0.6 per one ordinary share and RUB 2.36 per one preference share.

As of the date of these consolidated financial statements, the Company did not declare dividends for the year ended 31 December 2015.

## 24 Export duties

|   | <b>2015</b>    | <b>2014</b>    |
|---|----------------|----------------|
| Export duties on oil sales                  | 204,456        | 344,805        |
| Export duties on oil and gas products sales | 67,201         | 125,154        |
| <b>Total export duties</b>                  | <b>271,657</b> | <b>469,959</b> |

Lower export duties are mainly due to the change of the rate of the customs export duty for crude oil.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

**25 Operating expenses**

|   | <b>2015</b>    | <b>2014</b>    |
|---|----------------|----------------|
| Taxes, excluding income tax                                     | 363,328        | 346,019        |
| Production services   | 87,033         | 87,196         |
| Employee benefits   | 81,152         | 71,446         |
| Selling and storage expenses                                    | 79,633         | 64,252         |
| Depreciation, depletion and amortisation                        | 70,623         | 74,611         |
| Supplies  | 41,835         | 29,154         |
| Utility and electricity expenses                                | 31,287         | 29,182         |
| Goods for resale  | 7,476          | 10,227         |
| Expenses from disposal of exploration and production properties | 2,772          | 7,745          |
| Changes in inventory and work in progress                       | (13,449)       | (9,605)        |
| Other expenses  | 6,924          | 17,547         |
| <b>Total operating expenses</b>                                 | <b>758,614</b> | <b>727,774</b> |

Employee benefits include:

|                                | <b>2015</b>   | <b>2014</b>   |
|--------------------------------|---------------|---------------|
| Salary and charges             | 78,649        | 69,588        |
| Provision for vacation         | 1,644         | 1,053         |
| Contributions to pension funds | 859           | 805           |
| <b>Total employee benefits</b> | <b>81,152</b> | <b>71,446</b> |

Taxes, other than income tax, include:

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
| Mineral extraction tax                   | 340,359        | 316,457        |
| Property tax                             | 12,439         | 12,948         |
| Excise                                   | 9,844          | 15,978         |
| Other taxes                              | 686            | 636            |
| <b>Total taxes, excluding income tax</b> | <b>363,328</b> | <b>346,019</b> |

**26 Finance income and expenses**

|                                  | <b>2015</b>    | <b>2014</b>   |
|----------------------------------|----------------|---------------|
| Interest receivable              | 108,170        | 69,233        |
| Interest income from discounting | 115            | 64            |
| <b>Total financial income</b>    | <b>108,285</b> | <b>69,297</b> |

|                                   | <b>2015</b>     | <b>2014</b>    |
|-----------------------------------|-----------------|----------------|
| Interest expense from discounting | (9,420)         | (4,477)        |
| Interest payable                  | (6,432)         | (2,658)        |
| <b>Total financial expenses</b>   | <b>(15,852)</b> | <b>(7,135)</b> |

In the article “Interest expense from discounting” the amount of discount for placed deposits for 2015 in the amount of RUB 5,005 million is recognised (for 2014 – RUB 2,219 million).

**27 Exchange differences**

Exchange differences arise in the result of oil and refined products sales denominated in foreign currency and are disclosed within placed deposits in foreign currency in the statement of financial position. The official exchange rates of the Central Bank of the Russian Federation for foreign currencies against ruble are presented in rubles below:

|           | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|-----------|-----------------------------------|-----------------------------------|
| US Dollar | 72.88                             | 56.26                             |
| Euro      | 79.70                             | 68.34                             |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Average exchange rates in 2015 and 2014 equalled:

|           | <b>2015</b> | <b>2014</b> |
|-----------|-------------|-------------|
| US Dollar | 60.96       | 38.42       |
| Euro      | 67.78       | 50.82       |

Exchange differences include:

|                                   | <b>2015</b>    | <b>2014</b>    |
|-----------------------------------|----------------|----------------|
| Income from exchange differences  | 1,382,900      | 991,363        |
| Expense from exchange differences | (799,894)      | (145,423)      |
| <b>Total exchange differences</b> | <b>583,006</b> | <b>845,940</b> |

**28 Income tax**

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
| Current income tax                           | 146,349        | 166,515        |
| Changes in deferred tax assets / liabilities | 11,600         | 18,191         |
| <b>Income tax expense</b>                    | <b>157,949</b> | <b>184,706</b> |

In 2015 and 2014, the rate of income tax currently applied in the Russian Federation was 20%.

Profit before tax recognised in the financial statements correlates with income tax expenses as follows:

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
| Profit before tax  | 919,522        | 1,069,539      |
| Provisional profits tax expense                              | 183,904        | 213,908        |
| Tax effect of the preferential tax rate                      | (30,371)       | (34,788)       |
| Tax effect of items which are not accounted for tax purposes | 4,416          | 5,586          |
| <b>Total income tax expense</b>                              | <b>157,949</b> | <b>184,706</b> |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Temporary differences arising between the data of these consolidated financial statements and the data of tax accounting resulted in the following deferred assets and liabilities for income tax for 2015:

|   | As of<br>31 December<br>2015 | Changes<br>for the period<br>recognised<br>in profit (loss)<br>for the period | Changes<br>for the period<br>in the other<br>comprehensive<br>income | As of<br>31 December<br>2014 |
|---|------------------------------|---|--|------------------------------|
| <b>Tax effect of deductible temporary differences</b> |                              |   |  |                              |
| Inventories   | 2,178                        | 502   | -  | 1,676                        |
| Property, plant and equipment                         | 22,574                       | (17,042)  | -  | 39,616                       |
| Intangible assets                                     | 4,390                        | 3,622   | -  | 768                          |
| Financial assets                                      | 4,008                        | (301)   | -  | 4,309                        |
| Receivables   | 463                          | (1,128)   | -  | 1,591                        |
| Payables  | 283                          | 66  | -  | 217                          |
| Other accruals and additional charges                 | 4,480                        | (1,263)   | 468  | 5,275                        |
| <b>Deferred tax assets</b>                            | <b>38,376</b>                | <b>(15,544)</b>   | <b>468</b>   | <b>53,452</b>                |
| Set off deferred tax assets / (liabilities)           | (37,207)                     |   |  | (52,356)                     |
| <b>Total deferred tax assets</b>                      | <b>1,169</b>                 |   |  | <b>1,096</b>                 |
| <b>Tax effect of taxable temporary differences</b>    |                              |   |  |                              |
| Inventories   | (2,342)                      | 119   | -  | (2,461)                      |
| Property, plant and equipment                         | (156,056)                    | (2,264)   | -  | (153,792)                    |
| Intangible assets                                     | (14,313)                     | (907)   | -  | (13,406)                     |
| Financial assets                                      | (159)                        | 1,667   | (72)   | (1,754)                      |
| Receivables   | (2,315)                      | 3,920   | -  | (6,235)                      |
| Payables  | (55)                         | 141   | -  | (196)                        |
| Other accruals and additional charges                 | (546)                        | 1,268   | -  | (1,814)                      |
| <b>Deferred tax liabilities</b>                       | <b>(175,786)</b>             | <b>(3,944)</b>  | <b>(72)</b>  | <b>(179,658)</b>             |
| Set off deferred tax assets / (liabilities)           | 37,207                       |   |  | 52,356                       |
| <b>Total deferred tax liabilities</b>                 | <b>(138,579)</b>             |   |  | <b>(127,302)</b>             |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Temporary differences arising between the data of these consolidated financial statements and the data of tax accounting resulted in the following deferred assets and liabilities for income tax for 2014:

|   | As of<br>31 December<br>2014 | Changes<br>for the period<br>recognised<br>in profit (loss)<br>for the period | Changes<br>for the period<br>in the other<br>comprehensive<br>income | As of<br>31 December<br>2013 |
|---|------------------------------|---|--|------------------------------|
| <b>Tax effect of deductible temporary differences</b> |                              |   |  |                              |
| Inventories   | 1,676                        | 349   | -  | 1,327                        |
| Property, plant and equipment                         | 39,616                       | 7,962   | -  | 31,654                       |
| Intangible assets                                     | 768                          | 96  | -  | 672                          |
| Financial assets                                      | 4,309                        | 2,338   | 54   | 1,917                        |
| Receivables   | 1,591                        | 407   | -  | 1,184                        |
| Payables  | 217                          | 62  | -  | 155                          |
| Other accruals and additional charges                 | 5,275                        | 232   | -  | 5,043                        |
| <b>Deferred tax assets</b>                            | <b>53,452</b>                | <b>11,446</b>   | <b>54</b>  | <b>41,952</b>                |
| Set off deferred tax assets / (liabilities)           | (52,356)                     |   |  | (40,786)                     |
| <b>Total deferred tax assets</b>                      | <b>1,096</b>                 |   |  | <b>1,166</b>                 |
| <b>Tax effect of taxable temporary differences</b>    |                              |   |  |                              |
| Inventories   | (2,461)                      | (618)   | -  | (1,843)                      |
| Property, plant and equipment                         | (153,792)                    | (26,253)  | -  | (127,539)                    |
| Intangible assets                                     | (13,406)                     | (772)   | -  | (12,634)                     |
| Financial assets                                      | (1,754)                      | (633)   | -  | (1,121)                      |
| Receivables   | (6,235)                      | (1,164)   | -  | (5,071)                      |
| Payables  | (196)                        | (27)  | -  | (169)                        |
| Other accruals and additional charges                 | (1,814)                      | (170)   | (386)  | (1,258)                      |
| <b>Deferred tax liabilities</b>                       | <b>(179,658)</b>             | <b>(29,637)</b>   | <b>(386)</b>   | <b>(149,635)</b>             |
| Set off deferred tax assets / (liabilities)           | 52,356                       |   |  | 40,786                       |
| <b>Total deferred tax liabilities</b>                 | <b>(127,302)</b>             |   |  | <b>(108,849)</b>             |

As of 31 December 2015 and 2014, the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the Management believes that the zero rate of tax levied at source of income in respect of dividends will be applied for the distribution of these dividends.

## 29 Earnings per share

Basic earnings per share for the year ended 31 December 2015 and for the year ended 31 December 2014 were calculated based on income attributable to holders of the Company's ordinary shares and the weighted average number of outstanding ordinary shares. The Company has no potential ordinary shares that have a dilutive effect.

|  | 2015              | 2014              |
|--|-------------------|-------------------|
| Shares outstanding as of 31 December, thousand                             | 35,725,995        | 35,725,995        |
| Effect of treasury shares, thousand  | (650)             | (650)             |
| Weighted average number of shares for the year ended 31 December, thousand | <b>35,725,345</b> | <b>35,725,345</b> |
| Net income for the year attributable to shareholders                       | 761,558           | 884,824           |
| Dividends on preference shares, million rubles                             | (53,298)          | (63,233)          |
| Basic and diluted earnings per share, rubles                               | 19.83             | 23.00             |



### 30 Contingencies and commitments

#### **Court proceedings**

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

#### **Tax exposure**

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

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

#### **Capital expenditure commitments**

As of 31 December 2015, the Group has capital expenditure commitments related to the upgrading and construction of new capacities of LLC “KINEF” in the amount of RUB 9,072 million (as of 31 December 2014 – RUB 13,557 million). The obligations are to be executed in the period from 2016 till 2017.

#### **Third-party commitments**

As of 31 December 2015, the Group has commitments in the amount of RUB 22,138 million. Among them, issued bank guarantees equalled RUB 155 million, commitments in the form of surety agreement – RUB 21,983 million.

As of 31 December 2014, the Group had commitments in the amount of RUB 30,257 million. Among them, issued bank guarantees equalled RUB 19,696 million, commitments in the form of surety agreement – RUB 10,500 million and liabilities on other securities – RUB 61 million.

#### **Credit related commitments**

Credit related commitments of the Group’s bank equal:

|   | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|---|-----------------------------------|-----------------------------------|
| Commitments to extend credit            | 3,872                             | 3,789                             |
| Import letters of credit                | 508                               | 138                               |
| Guarantees issued                       | 4,821                             | 5,951                             |
| <b>Total credit related commitments</b> | <b>9,201</b>                      | <b>9,878</b>                      |

#### **Operating lease commitments**

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

The total amount of operating lease expenses for the year 2015 amounts to RUB 1,258 million (for 2014 – RUB 1,077 million), and is included in the Group’s operating expenses. Future minimum lease payments under non-cancellable operating leases as of 31 December 2015 and 2014 are as follows:

|  | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|
| Less than 1 year                           | 1,270         | 1,193         |
| Between 1 and 5 years                      | 4,854         | 4,337         |
| More than 5 years                          | 41,483        | 31,769        |
| <b>Total future minimum lease payments</b> | <b>47,607</b> | <b>37,299</b> |

#### **Environmental issues**

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

### **31 Operational risks**

The actions of the Group are exposed to different types of risks determined by the uncertainty of environmental factors and the peculiarities of production processes. The Group improves its risk management and internal control systems to mitigate the possible negative influence of the risks on the results of its financial and business activities and to ensure sustainable development of the Group in the long term. The constant work is underway to identify, estimate, prevent key risks and determine methods of response in case of the risk occurrence.

Industry risks of the Group are connected with the Group’s operating activities – production and processing of oil and gas and sale of finished goods. The Group’s key risks include those of oil and oil products price reduction and growing operational and capital expenditures.

The Group is subject to the risk of growing operational and capital expenditures as a result of increasing prices for purchased energy resources, equipment, basic and auxiliary production materials as well as the risk of increase in rates of OJSC “AK “Transneft”, JSC “AK” Transnefteproduct” and OJSC “RZD”, the leading companies providing transportation.

The Group regularly performs optimisation of operational and capital expenditures in all directions of its operations. The Group holds procurement tenders for machinery, equipment and materials, implements programmes aimed at better energy efficiency, develops in-house power generating facilities, reviews alternative suppliers’ offers and monitors the quality of the whole range of purchased goods and services.

### **32 Capital and financial risk management**

The Group is exposed to different financial risks. The main of them are currency, interest, credit risks and risk of liquidity.

The Group has developed a risk management system and a number of procedures for quantitative risk evaluation, assessment, monitoring and selection of proper methods to manage risks. To optimise risks, the Group takes constant measures for improvement of the general methodology intended to identify, analyse, assess and monitor risks and to develop and implement technologies which can provide the Group’s continuous activity.

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

#### **Credit risk**

Credit risk is the risk of a potential financial loss to the Group in case when a counterparty defaults on its contractual obligations on the financial asset under the terms of the contract.

The Group is exposed to credit risk mainly in relation to accounts receivable and cash invested in fixed-term deposits in Russian credit institutions. The Group’s bank also performs crediting of legal entities and natural persons.

To mitigate such risk, the Group created the system of regular integrated assessment of counterparties’ paying capacity on the basis of qualitative and quantitative criteria, which monitors their credit history and financial position. To secure payback, the Group uses bank guarantees and applies the letter of credit payment method for settlement of payments with suppliers and contractors.

The Group has a well-reasoned approach to financial resources management and avoids excessive concentration of credit risk. At the same time the Group invests its free cash in the largest highly reliable Russian credit institutions. To mitigate this risk, the Group has its own formalised method of estimation of the financial position of banks which makes allowance for the portfolio credit quality, structure and dynamics of assets, liquidity, efficiency of activity and other indicators confirming sound position of a credit institution. The Group monitors the financial position of counterparties’ banks during the whole maturity period for its cash placement.

The carrying amount of financial assets is the maximum degree of credit risk.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

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

As of 31 December 2015, RUB 5,469 million or 47% of cash is placed at current (correspondent) accounts with one bank with BBB+ international rating. As of 31 December 2014, RUB 1,211 million or 30% of cash at current (correspondent) accounts was placed with the Central Bank of the Russian Federation.

As of 31 December 2015, RUB 32,121 million or 35% of deposits with original maturity under contract less than 3 months was placed with one bank with BB+ international rating. As of 31 December 2014, RUB 7,541 million or 35% of deposits with original maturity under contract less than 3 months was placed with one bank with BBB- international rating.

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

|  | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|--|-----------------------------------|-----------------------------------|
| Cash in hand                                 | 2,103                             | 2,395                             |
| Central bank of the Russian Federation       | 3,711                             | 8,751                             |
| <i>Commercial banks:</i>                     |                                   |                                   |
| Rating from A- to A+ (S&P)                   | 133                               | 418                               |
| Rating from BBB- to BBB+ (S&P, Fitch)        | 26,255                            | 13,732                            |
| Rating from BB- to BB+ (S&P, Moody’s, Fitch) | 73,020                            | 1,777                             |
| Rating from B- to B+ (S&P)                   | 441                               | 746                               |
| No rating                                    | 33                                | 100                               |
| <b>Total cash and cash equivalents</b>       | <b>105,696</b>                    | <b>27,919</b>                     |

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

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

Deposits are placed with Russian largest banks.

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

|                                       | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|---------------------------------------|-----------------------------------|-----------------------------------|
| Rating from BBB- to BBB+ (S&P)        | -                                 | 942,174                           |
| Rating from BB- to BB+ (S&P, Moody’s) | 2,465,934                         | 969,846                           |
| Rating from B- to B+ (S&P)            | 77                                | -                                 |
| No rating                             | 1,347                             | 1,400                             |
| <b>Total deposits placed</b>          | <b>2,467,358</b>                  | <b>1,913,420</b>                  |

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

The Group applies the letter of credit payment method to settle with debtors that substantially reduces credit risk. When advancing transactions, the Group uses bank guarantees to secure the payback.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Analysis of receivables as of 31 December 2015 by the period of delay from the due date is given below:

|                                | Amount receivable as<br>of 31 December 2015 | Amount of personal<br>provision as of<br>31 December 2015 | Amount receivable<br>less provision as of<br>31 December 2015 |
|--------------------------------|---|---|---|
| <b>Trade receivables</b>       |   |   |   |
| not past due                   | 48,927                                      | (167)   | 48,760  |
| up to 6 months                 | 9   | (1)   | 8   |
| from 6 months to 1 year        | 2   | (2)   | -   |
| more than 1 year               | 5,340                                       | (2)   | 5,338   |
| <b>Total trade receivables</b> | <b>54,278</b>                               | <b>(172)</b>  | <b>54,106</b>   |
| <b>Other receivables</b>       |   |   |   |
| not past due                   | 5,916                                       | (12)  | 5,904   |
| up to 6 months                 | 54  | (33)  | 21  |
| from 6 months to 1 year        | 12  | (6)   | 6   |
| more than 1 year               | 374   | (340)   | 34  |
| <b>Total other receivables</b> | <b>6,356</b>                                | <b>(391)</b>  | <b>5,965</b>  |

Analysis of receivables as of 31 December 2014 by the period of delay from the due date is given below:

|                                | Amount receivable as<br>of 31 December 2014 | Amount of personal<br>provision as of<br>31 December 2014 | Amount receivable<br>less provision as of<br>31 December 2014 |
|--------------------------------|---|---|---|
| <b>Trade receivables</b>       |   |   |   |
| not past due                   | 47,396                                      | (168)   | 47,228  |
| up to 6 months                 | 12  | -   | 12  |
| from 6 months to 1 year        | 4,114                                       | -   | 4,114   |
| more than 1 year               | 26  | (26)  | -   |
| <b>Total trade receivables</b> | <b>51,548</b>                               | <b>(194)</b>  | <b>51,354</b>   |
| <b>Other receivables</b>       |   |   |   |
| not past due                   | 9,780                                       | (4)   | 9,776   |
| up to 6 months                 | 26  | (26)  | -   |
| from 6 months to 1 year        | 2   | (2)   | -   |
| more than 1 year               | 389   | (389)   | -   |
| <b>Total other receivables</b> | <b>10,197</b>                               | <b>(421)</b>  | <b>9,776</b>  |

As of 31 December 2015, trade receivables in the amount of RUB 48,760 million (as of 31 December 2014 – RUB 47,228 million) are not overdue or impaired. The greater part of these receivables is mainly formed by trade receivables due from large Russian and foreign buyers of crude and oil products.

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

Receivables are distributed geographically as follows:

|              | As of<br>31 December 2015 | As of<br>31 December 2014 |
|--------------|---------------------------|---------------------------|
| Europe       | 36,880                    | 39,032                    |
| Russia       | 13,405                    | 14,309                    |
| Asia         | 9,786                     | 7,789                     |
| <b>Total</b> | <b>60,071</b>             | <b>61,130</b>             |

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

**OJSC "Surgutneftegas"**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

Credit and loan analysis by credit quality is presented below:

|   | As of<br>31 December 2015 | As of<br>31 December 2014 |
|---|---------------------------|---------------------------|
| <b>Due and unimpaired credits and loans:</b>          |                           |                           |
| Borrowers with a credit history less than 1 year      | 8,283                     | 18,248                    |
| Borrowers with a credit history between 1 and 3 years | 17,108                    | 16,783                    |
| Borrowers with a credit history more than 3 years     | 10,974                    | 6,497                     |
| <b>Overdue and/or impaired credits and loans:</b>     |                           |                           |
| Payment without delay                                 | 12,178                    | 2,772                     |
| Overdue for less than 30 days                         | 169                       | 156                       |
| Overdue between 30 and 360 days                       | 493                       | 248                       |
| Overdue more than 360 days                            | 3,331                     | 3,631                     |
| <b>Total credits and loans before impairment</b>      | <b>52,536</b>             | <b>48,335</b>             |

Overdue credits are supported by the collateral the fair value of which, as of 31 December 2015, equalled RUB 1,557 million (as of 31 December 2014 – RUB 1,010 million).

Interest credit cost by currency is presented below:

|            | As of<br>31 December 2015 | As of<br>31 December 2014 |
|------------|---------------------------|---------------------------|
| Rubles     | 13.73%                    | 12.82%                    |
| US Dollars | 4.89%                     | 5.68%                     |

**Other financial assets.** Short-term and long-term financial assets are represented by financial assets at fair value through profit and loss, available-for-sale financial assets and held-to-maturity investments.

Information on credit risk concerning financial assets at fair value through profit and loss is given below. The relevant ratings are published by Standard & Poor's and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor's:

|   | As of<br>31 December 2015 | As of<br>31 December 2014 |
|---|---------------------------|---------------------------|
| Government bonds  | 97                        | 217                       |
| Subfederal and municipal bonds                                      |                           |                           |
| rating from B and higher (S&P)                                      | 82                        | 2                         |
| Russian banks   |                           |                           |
| rating from BBB- to BBB+ (S&P)                                      | -                         | 18                        |
| rating from B- to BB+ (S&P)   | 63                        | -                         |
| Russian companies   |                           |                           |
| rating from BBB- to BBB+ (S&P)                                      | 80                        | 162                       |
| rating from B- to BB+ (S&P)   | 167                       | 143                       |
| no rating   | 1                         | 1                         |
| <b>Total financial assets at fair value through profit and loss</b> | <b>490</b>                | <b>543</b>                |

Information on credit risk concerning available-for-sale financial assets is presented below. The relevant ratings are published by Standard & Poor's and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor's:

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

|  | As of<br>31 December 2015 | As of<br>31 December 2014 |
|--|---------------------------|---------------------------|
| Government, subfederal and municipal bonds       | 4,430                     | 646                       |
| Russian banks                                    |                           |                           |
| rating from BBB- to BBB+ (S&P)                   | 115                       | 2,604                     |
| rating from B- to BB+ (S&P, Moody's)             | 2,040                     | 3                         |
| no rating  | 1,067                     | 1,067                     |
| Foreign companies without rating                 | 4,218                     | 4,218                     |
| Russian companies                                |                           |                           |
| rating from BBB- to BBB+ (S&P)                   | 945                       | 434                       |
| rating from B- to BB+ (S&P, Moody's, Fitch)      | 3,024                     | 29                        |
| no rating  | 206                       | 206                       |
| <b>Total financial assets available-for-sale</b> | <b>16,045</b>             | <b>9,207</b>              |

In 2015 and 2014, no impairment of available-for-sale financial assets has been identified.

Information on credit risk on held-to-maturity investments is presented below. The relevant ratings are published by Standard & Poor's and other credit-rating agencies. The ratings are reconciled with the classification of Standard & Poor's:

|  | As of<br>31 December 2015 | As of<br>31 December 2014 |
|--|---------------------------|---------------------------|
| Government, subfederal and municipal bonds | 1,656                     | 3,097                     |
| Russian companies                          |                           |                           |
| rating from BBB- to BBB+ (S&P)             | 102                       | 827                       |
| no rating                                  | -                         | 286                       |
| <b>Total investments held-to-maturity</b>  | <b>1,758</b>              | <b>4,210</b>              |

Information on the amount of impairment provision of held-to-maturity investments is presented in Note 18.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in fulfilling financial liabilities which are to be settled by cash or financial assets. Financial liabilities of the Group are short-term accounts payable and other financial liabilities.

Liquidity risk for the Group is minimal because the Group keeps the necessary amount of liquid assets to meet its liabilities. Drafting well-balanced plans of cash flow allows to keep necessary liquidity level of the Group. Periods to maturity of the Group and to the Group, the use of offset, the letter of credit payment method and bank guarantees are taken into account while planning. Taking into consideration high volatility in the markets, the Group adjusts plans for the future periods from a week to a year. In addition, due to sufficient volume of assets the Group has access to credit assets which can be used for supporting liquidity if necessary.

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

| As of 31 December 2015                 | Less than<br>1 year | Between<br>1 and 3<br>years | Between<br>3 and 5<br>years | More<br>than 5<br>years | Total          |
|--|---------------------|-----------------------------|-----------------------------|-------------------------|----------------|
| Financial part of the accounts payable | 24,476              | -                           | -                           | -                       | 24,476         |
| Other financial liabilities            | 79,149              | 4,427                       | 162                         | -                       | 83,738         |
| Other liabilities                      | -                   | 920                         | -                           | -                       | 920            |
| <b>Total financial liabilities</b>     | <b>103,625</b>      | <b>5,347</b>                | <b>162</b>                  | <b>-</b>                | <b>109,134</b> |

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

| <b>As of 31 December 2014</b>          | <b>Less than<br/>1 year</b> | <b>Between<br/>1 and 3<br/>years</b> | <b>Between<br/>3 and 5<br/>years</b> | <b>More<br/>than 5<br/>years</b> | <b>Total</b>  |
|--|-----------------------------|--------------------------------------|--------------------------------------|----------------------------------|---------------|
| Financial part of the accounts payable | 18,661                      | -                                    | -                                    | -                                | <b>18,661</b> |
| Other financial liabilities            | 39,736                      | 14,073                               | 140                                  | -                                | <b>53,949</b> |
| Other liabilities                      | 140                         | 212                                  | 237                                  | -                                | <b>589</b>    |
| <b>Total financial liabilities</b>     | <b>58,537</b>               | <b>14,285</b>                        | <b>377</b>                           | -                                | <b>73,199</b> |

**Market risk**

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

**(a) Currency risk**

Currency risk is significant to the Group and can influence financial and production results of its activities. Significant part of the Group's revenue is formed by products export sales. Financial assets of the Group are placed in deposits mostly in US Dollars. Accordingly, changes of exchange rate of ruble to foreign currencies may worsen financial performance of the Group's activities.

The Group takes into account risks of exchange rate changes, estimates their possible influence on the key indicators of the Group's economic efficiency, determines parameters and scheme of placing financial reserves and performs current cash flow planning.

The Group regularly analyses the volatility of exchange rates, their influence on financial results of the Group, sensitivity of financial and business activity indicators to initial parameters and conducts relevant stress tests. The results of this work are considered by the Management when forming mid-term and short-term plans. However, due to existent internal reserves the Group has an opportunity to maintain the stable production process for the period of foreign currency fluctuations without debt financing.

The carrying amounts of the Group's financial instruments, as of 31 December 2015, denominated in the following currencies are presented below:

| <b>As of 31 December 2015</b>                          |  | <b>Ruble</b>   | <b>US Dollar</b> | <b>Euro</b>  | <b>Total</b>     |
|--|--|----------------|------------------|--------------|------------------|
| <b>Assets</b>  |  |                |                  |              |                  |
| Cash and cash equivalents                              |  | 51,250         | 52,841           | 1,605        | <b>105,696</b>   |
| Restricted cash  |  | 754            | -                | -            | <b>754</b>       |
| Deposits placed  |  | 4,084          | 2,463,262        | 12           | <b>2,467,358</b> |
| Financial assets at fair value through profit and loss |  | 490            | -                | -            | <b>490</b>       |
| Financial assets available-for-sale                    |  | 10,230         | 5,250            | 565          | <b>16,045</b>    |
| Investments held-to-maturity                           |  | 1,678          | -                | 80           | <b>1,758</b>     |
| Receivables  |  | 13,021         | 46,850           | 200          | <b>60,071</b>    |
| Loans granted  |  | 42,856         | 2,038            | -            | <b>44,894</b>    |
| <b>Total financial assets</b>                          |  | <b>124,363</b> | <b>2,570,241</b> | <b>2,462</b> | <b>2,697,066</b> |
| <b>Liabilities</b>                                     |  |                |                  |              |                  |
| Financial part of the accounts payable                 |  | 19,049         | 5,010            | 417          | <b>24,476</b>    |
| Other financial liabilities                            |  | 78,507         | 3,806            | 1,113        | <b>83,426</b>    |
| Other liabilities                                      |  | 733            | -                | -            | <b>733</b>       |
| <b>Total financial liabilities</b>                     |  | <b>98,289</b>  | <b>8,816</b>     | <b>1,530</b> | <b>108,635</b>   |

As of 31 December 2015, if the ruble had weakened by 20% against the US dollar with all the variables held constant, pre-tax profit would have increased by about RUB 512,285 million. The effect of a corresponding strengthening of the Russian ruble against the US dollar is approximately equal and opposite.

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

The carrying amounts of the Group’s financial instruments, as of 31 December 2014, denominated in the following currencies are presented below:

**As of 31 December 2014**

| <b>Assets</b>  | <b>Ruble</b>  | <b>US Dollar</b> | <b>Euro</b>  | <b>Total</b>     |
|--|---------------|------------------|--------------|------------------|
| Cash and cash equivalents                              | 26,398        | 817              | 704          | <b>27,919</b>    |
| Restricted cash  | 730           | -                | -            | <b>730</b>       |
| Deposits placed  | 4,192         | 1,909,222        | 6            | <b>1,913,420</b> |
| Financial assets at fair value through profit and loss | 399           | 144              | -            | <b>543</b>       |
| Financial assets available-for-sale                    | 7,462         | 1,519            | 226          | <b>9,207</b>     |
| Investments held-to-maturity                           | 1,901         | 2,240            | 69           | <b>4,210</b>     |
| Receivables  | 7,254         | 52,441           | 1,435        | <b>61,130</b>    |
| Loans granted  | 40,748        | 2,614            | -            | <b>43,362</b>    |
| <b>Total financial assets</b>                          | <b>89,084</b> | <b>1,968,997</b> | <b>2,440</b> | <b>2,060,521</b> |
| <b>Liabilities</b>                                     |               |                  |              |                  |
| Financial part of the accounts payable                 | 15,988        | 1,398            | 1,275        | <b>18,661</b>    |
| Other financial liabilities                            | 45,845        | 4,064            | 960          | <b>50,869</b>    |
| Other liabilities                                      | 480           | -                | -            | <b>480</b>       |
| <b>Total financial liabilities</b>                     | <b>62,313</b> | <b>5,462</b>     | <b>2,235</b> | <b>70,010</b>    |

As of 31 December 2014, if the ruble had weakened by 20% against the US dollar with all the variables held constant, pre-tax profit would have increased by about RUB 392,707 million. The effect of a corresponding strengthening of the Russian ruble against the US dollar is approximately equal and opposite.

**(b) Interest rate risk**

Interest rate risk has a limited effect on the Group’s activities because the Group finances capital and operational expenditures with its own cash sources without debt financing. At the same time, the Group considers interest rate risk when placing financial assets, analyses term structure and level of interest rates in the money and capital markets, opens deposit accounts with fixed rate.

Information on interest rate ranges (annual) used to allocate financial assets sensitive to changes in interest rates is presented below:

**Cash and cash equivalents**

|   | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|---|-----------------------------------|-----------------------------------|
| <b>Cash at current and correspondent accounts:</b>                        |                                   |                                   |
| US Dollars  | 0.01% - 1.00%                     | 0.03% - 1.00%                     |
| Euro  | 0.00% - 1.75%                     | 0.75% - 1.75%                     |
| Rubles  | 0.00% - 7.20%                     | 1.00% - 4.00%                     |
| <b>Deposits with original maturity under contract less than 3 months:</b> |                                   |                                   |
| US Dollars  | 0.47% - 0.70%                     | -                                 |
| Rubles  | 4.10% - 11.35%                    | 9.01% - 29.11%                    |

|                        | <b>As of<br/>31 December 2015</b> | <b>As of<br/>31 December 2014</b> |
|------------------------|-----------------------------------|-----------------------------------|
| <b>Deposits placed</b> |                                   |                                   |
| US Dollars             | 0.57% - 8.37%                     | 0.75% - 6.55%                     |
| Euro                   | 0.26%                             | 0.20%                             |
| Rubles                 | 7.50% - 14.57%                    | 7.25% - 21.88%                    |

**(c) Commodity price risk**

Significant decline of hydrocarbons prices may have the greatest influence on production and financial performance of the Group’s activities, development plans in mid and long term and is the most substantial risk.



Hydrocarbons prices depend on a vast number of factors directly connected with oil and gas industry as well as those indirectly determining the conjuncture of the market. Hydrocarbons prices are also influenced by the balance between demand and supply in the global and regional markets, data on the reserves of oil and oil products, the level of investments and the development rate of hard-to-recover oil and gas reserves. Besides, prices are set on the basis of the expected growth rate of global economy, including countries being the largest consumers of hydrocarbons, the forecast of the balance of main energy sources consumption, geopolitical situation in resource-producing regions, dynamics of the development of alternative energy sources and availability to use new technologies.

The Group has no possibility to influence the pricing factors in the market of oil, gas and their products. The Group closely monitors trends which may influence the hydrocarbons prices to estimate and plan investments in live and new projects in the sphere of production and refining, determine prospective directions of finished goods sales and develops measures on operating expenditures reduction.

Pricing mechanism in the Group is based on the market factors which suggest a stable, regular and cost-beneficial demand fulfilment as well as nondiscriminatory and equal contract terms, the pricing procedure unified for all the buyers groups, inadmissibility of price making or changing that is not conditioned by objective economic factors.

As of 31 December 2015, if the average oil and refined products prices related to the export market had weakened or strengthened by 20% with all other variables held constant, pre-tax profit for 12 months of 2015 would have been lower or higher by RUB 144,848 million respectively.

As of 31 December 2014, if the average oil and refined products prices related to the export market had weakened or strengthened by 20% with all other variables held constant, pre-tax profit for 12 months of 2014 would have been lower or higher by RUB 115,472 million respectively.

### **Capital risk management**

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

The Management considers equity and debt to be the principal elements of capital management. The Group’s objective when managing capital risks is the ability to continue as a going concern in order to provide returns and benefits for shareholders. As of 31 December 2015, the total capital under the management of the Group was RUB 3,665,865 million (as of 31 December 2014 – RUB 2,959,748 million).

The Group finances its operations mainly from its own funds.

### **33 Fair value of assets and liabilities**

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

#### **(a) Recurring fair value measurements**

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

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

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

| As of 31 December 2015  | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Valuation<br>technique based<br>on observable<br>data<br>(Level 2) | Valuation technique<br>based on a significant<br>amount of non-<br>observable data<br>(Level 3) |
|---|---|--|---|
| Financial assets at fair value<br>through profit and loss                         | 489   | -  | 1   |
| Financial assets<br>available-for-sale  | 10,553  | -  | 5,492   |
| <b>Total financial assets<br/>measured at fair value<br/>on a recurring basis</b> | <b>11,042</b>   | <b>-</b>   | <b>5,493</b>  |
| As of 31 December 2014  | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Valuation<br>technique based<br>on observable<br>data<br>(Level 2) | Valuation technique<br>based on a significant<br>amount of non-<br>observable data<br>(Level 3) |
| Financial assets at fair value<br>through profit and loss                         | 542   | -  | 1   |
| Financial assets<br>available-for-sale  | 3,715   | -  | 5,492   |
| <b>Total financial assets<br/>measured at fair value<br/>on a recurring basis</b> | <b>4,257</b>  | <b>-</b>   | <b>5,493</b>  |

As of 31 December 2015 and 2014, the Group has no liabilities recurring fair value measurements in the consolidated statement of financial position.

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

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

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

Within 2015 and 2014, there were no changes in valuation technique for Level 3 recurring fair value measurements.

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

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

|                                 | As of 31 December 2015 |            | As of 31 December 2014 |            |
|---------------------------------|------------------------|------------|------------------------|------------|
|                                 | Carrying<br>amount     | Fair value | Carrying<br>amount     | Fair value |
| Deposits placed                 | 2,467,358              | 2,460,605  | 1,913,420              | 1,848,016  |
| Investments<br>held-to-maturity | 1,758                  | 1,765      | 4,210                  | 4,139      |

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

**Financial assets carried at amortised cost.** The estimated fair value of instruments with the fixed interest rate is based on discounting of expected cash flows coupled with applying interest rates to new instruments with similar credit risk and maturity. The discount rate used depends on the credit risk of the

**OJSC “Surgutneftegas”**  
**Notes to the consolidated financial statements**  
*(in millions of Russian rubles, unless otherwise stated)*

counterparty. The fair value of held-to-maturity investments has been determined by quotations of the demand.

Financial assets by evaluation categories are shown below:

| <b>As of<br/>31 December 2015</b> | <b>Loans and<br/>receivables</b> | <b>Assets<br/>available-for-<br/>sale</b> | <b>Assets<br/>at fair value<br/>through<br/>profit or loss</b> | <b>Investments<br/>held-to-maturity</b> | <b>Total</b>     |
|-----------------------------------|----------------------------------|---|--|---|------------------|
| Cash and cash equivalents         | 105,696                          | -   | -  | -                                       | 105,696          |
| Restricted cash                   | 754                              | -   | -  | -                                       | 754              |
| Deposits placed                   | 2,467,358                        | -   | -  | -                                       | 2,467,358        |
| Loans granted                     | 44,894                           | -   | -  | -                                       | 44,894           |
| Other financial assets            | -                                | 16,045                                    | 490  | 1,758                                   | 18,293           |
| Receivables                       | 60,071                           | -   | -  | -                                       | 60,071           |
| <b>Total financial assets</b>     | <b>2,678,773</b>                 | <b>16,045</b>                             | <b>490</b>   | <b>1,758</b>                            | <b>2,697,066</b> |

| <b>As of<br/>31 December 2014</b> | <b>Loans and<br/>receivables</b> | <b>Assets<br/>available-for-<br/>sale</b> | <b>Assets<br/>at fair value<br/>through<br/>profit or loss</b> | <b>Investments<br/>held-to-maturity</b> | <b>Total</b>     |
|-----------------------------------|----------------------------------|---|--|---|------------------|
| Cash and cash equivalents         | 27,919                           | -   | -  | -                                       | 27,919           |
| Restricted cash                   | 730                              | -   | -  | -                                       | 730              |
| Deposits placed                   | 1,913,420                        | -   | -  | -                                       | 1,913,420        |
| Loans granted                     | 43,362                           | -   | -  | -                                       | 43,362           |
| Other financial assets            | -                                | 9,207                                     | 543  | 4,210                                   | 13,960           |
| Receivables                       | 61,130                           | -   | -  | -                                       | 61,130           |
| <b>Total financial assets</b>     | <b>2,046,561</b>                 | <b>9,207</b>                              | <b>543</b>   | <b>4,210</b>                            | <b>2,060,521</b> |

**Liabilities recorded at amortised cost**

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

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

**34 Subsequent events**

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