

OJSC “SURGUTNEFTEGAS”

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

31 December 2016

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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 31 December 2016	As of 31 December 2015
ASSETS		
Current assets		
9	107,453	105,696
9	943	754
10	465,854	527,189
13	18,167	19,894
18	5,353	3,184
11	86,811	59,522
14	85,131	75,844
12	18,006	22,281
	7,269	6,720
	19,842	42
	110	147
	814,939	821,273
Non-current assets		
15	1,331,593	1,230,789
16	9,271	8,667
10	1,714,883	1,940,169
18	10,325	15,109
17	6,121	6,210
28	198	1,169
13	29,234	25,000
11	899	549
	4,122	2,824
	3,106,646	3,230,486
	3,921,585	4,051,759
LIABILITIES AND EQUITY		
Current liabilities		
19	48,890	51,721
20	89,747	79,077
	20,700	21,094
21	50,153	31,002
	50	35,598
22	2,859	2,628
	212,399	221,120
Non-current liabilities		
20	16,512	4,349
28	126,665	138,579
22	119,110	104,330
	1,487	756
	263,774	248,014
Equity		
23	154,666	154,666
	4	4
23	(30)	(30)
23	57,809	57,809
	3,232,704	3,369,949
	14	41
	3,445,167	3,582,439
	245	186
	3,445,412	3,582,625
	3,921,585	4,051,759

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Director General
OJSC “Surgutneftegas”
26 April 2017

A.V.Druchinin

Chief Accountant
OJSC “Surgutneftegas”
26 April 2017

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

Notes	2016	2015
7 Sales	1,222,181	1,274,262
24 less export duties	(201,348)	(271,657)
7 Total sales revenue:	1,020,833	1,002,605
sale of oil	635,784	630,629
sale of oil products	342,184	335,396
sale of gas and gas products	22,327	21,239
sale of other products and finished goods	9,299	7,634
other sales	11,239	7,707
25 Operating expenses	(760,304)	(758,614)
Operating profit	260,529	243,991
26 Finance income	116,837	108,285
26 Finance expenses	(8,835)	(15,852)
27 Exchange differences	(438,601)	583,006
Gain / (loss) on sale and other disposal of financial assets	22	22
Share of profit / (loss) of associates	(89)	299
Other income / (expenses)	(2,060)	(229)
Profit / (loss) before tax	(72,197)	919,522
Income tax		
Current income tax	(619)	(146,349)
Changes in deferred income tax	10,783	(11,600)
28 Total income / (expense) on income tax	10,164	(157,949)
Net profit / (loss)	(62,033)	761,573
Other comprehensive income / (expense) that may be reclassified subsequently to profit / (loss), net of income tax		
Changes in fair value of financial assets available-for-sale	(29)	289
Share of other comprehensive income / (expense) of associates	-	153
Other comprehensive income / (expense) that may not be reclassified subsequently to profit / (loss), net of income tax		
Remeasurements of post-employment benefit obligations	(411)	(1,979)
Total other comprehensive income / (expense), net of income tax	(440)	(1,537)
Total comprehensive income / (expense)	(62,473)	760,036
Net profit / (loss)		
attributable to shareholders	(62,100)	761,558
attributable to non-controlling interests	67	15
Total comprehensive income / (expense)		
attributable to shareholders	(62,538)	760,016
attributable to non-controlling interests	65	20
Net earnings / (loss) attributable to shareholders per one ordinary share (rubles)		
29 basic and diluted	(1.74)	19.83

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

Notes	2016	2015
Operating activities		
	(72,197)	919,522
	Profit / (loss) before tax	
	Adjustments:	
25	77,120	70,623
	Depreciation, depletion and amortisation expenses	
25	1,726	2,772
	Expenses from disposal of exploration and production properties	
	(4,346)	2,021
	Provision accrual / (recovery)	
	427,656	(568,118)
	Exchange differences	
	(11)	(20)
	(Gain) / loss on revaluation of financial assets	
	(22)	(22)
	(Gain) / loss on sale and other disposal of financial assets	
	89	(299)
	Share of (profit) / loss of associates	
26	3,082	9,305
	Interest expenses from discounting, net	
26	(116,807)	(108,170)
	Interest receivable	
26	5,723	6,432
	Interest payable	
	6,413	3,730
	(Gain) / loss on sale and disposal of property, plant and equipment, and intangible assets	
15	1,024	1,393
	Impairment of non-financial assets	
Cash flows from operating activities before changes in working capital and income tax		
	329,450	339,169
	Change in receivables	
	(27,885)	4,596
	Change in advances issued	
	4,275	19,392
	Change in inventories	
	(5,114)	(14,618)
	Change in other assets	
	(1,298)	199
	Change in trade and other payables	
	193	1,377
	Change in advances received	
	(394)	706
	Change in restricted cash	
	(189)	(24)
	Changes in other taxes (other than income tax)	
	18,664	(3,014)
	Change in other liabilities	
	723	469
Cash from operating activities before income tax		
	318,425	348,252
	Income tax paid	
	(55,993)	(149,248)
Net cash from operating activities		
	262,432	199,004
Investing activities		
	(180,788)	(170,849)
	Capital expenditures	
	(518,121)	(827,634)
	Deposits placed	
	433,682	827,311
	Deposits refunded	
	(45,965)	(44,918)
	Loans granted	
	44,469	41,592
	Loans collected	
	63,883	115,265
	Interest received	
	4,341	9,083
	Proceeds from sale of financial assets	
	(2,810)	(12,167)
	Acquisition of financial assets	
	330	231
	Proceeds from sale of property, plant and equipment	
Net cash used for investing activities		
	(200,979)	(62,086)
Financing activities		
	24,917	30,457
	Net proceeds of borrowings	
	(74,221)	(85,741)
	Dividends paid (incl. dividend tax)	
	(6,892)	(5,696)
	Interest paid	
Net cash used for financing activities		
	(56,196)	(60,980)
Net change in balances of cash and cash equivalents		
	5,257	75,938
	Effect of exchange rate changes against ruble on cash and cash equivalents	
	(3,500)	1,839
9	105,696	27,919
	Cash and cash equivalents at the beginning of the period	
9	107,453	105,696
	Cash and cash equivalents at the end of the period	

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
Balance as of 31 December 2014	23	154,666	57,809	4	(30)	2,696,826	(396)	2,908,879	169	2,909,048
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)
Balance as of 31 December 2015	23	154,666	57,809	4	(30)	3,369,949	41	3,582,439	186	3,582,625
Net profit / (loss) for the year		-	-	-	-	(62,100)	-	(62,100)	67	(62,033)
Other comprehensive income / (expense)		-	-	-	-	(411)	(27)	(438)	(2)	(440)
Dividends declared		-	-	-	-	(74,734)	-	(74,734)	(6)	(74,740)
Balance as of 31 December 2016	23	154,666	57,809	4	(30)	3,232,704	14	3,445,167	245	3,445,412

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

1 General information

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

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

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

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

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

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

In 2016, the Company produced 61.8 million tonnes of oil and 9.8 billion cubic meters of gas. The rate of associated petroleum gas utilisation was 99.34%.

The Company implements measures to replenish and develop its resource base: performs exploration at licence blocks, participates in auctions for new blocks and further explores the existing fields. At the end of the reporting period, the Company had 162 licences for subsoil use. Meterage drilled for exploration purposes totalled 201.4 thousand metres. Two-dimensional seismic surveys covered 4.4 thousand linear kilometres, three-dimensional – 0.9 thousand square kilometres. In 2016, the Company discovered two fields in Khanty-Mansiysky Autonomous Okrug – Yugra and one in Nenetsky Autonomous Okrug, as well as 20 oil deposits at the fields discovered earlier. The additions of recoverable AB1C1 oil reserves were 103.9 million tonnes. The replacement ratio was 168%.

The Company annually brings new hydrocarbon deposits into development and conducts a significant amount of geotechnical jobs at the existing fields to keep up a steady level of oil production. In 2016, two fields – Yuzhno-Nyurymkoye, Yuzhno-Lyaminskoye located in Western Siberia, and Yuzhno-Talakanskoye in Eastern Siberia – were put into development. Development drilling totalled 4,500 thousand metres; 1,260 new oil wells and 608 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.

The Company evaluates the economic efficiency of product supplies to various selling destinations. In 2016, the Company supplied oil mostly to non-CIS countries and KINEF refinery.

In 2016, the bulk of oil deliveries to non-CIS countries (83%) went through ports Primorsk, Kozmino and Ust-Luga. The rest of exported oil was supplied to the European markets via the pipeline operated by PJSC “AK “Transneft”.

The Group exports oil products, mostly fuel oil and diesel fuel. The share of fuel oil in oil products exports amounted to 50.1%. The share of diesel fuel was 37%. In 2016, the main ports for the shipping of oil products were Ust-Luga and Primorsk.

The Group domestically sells gasoline, diesel fuel, jet kero and other refined products. The Group sells oil products wholesale and retail. In 2016, the Group operated 295 gas stations; the retail turnover amounted to 801.3 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 2016 is 117 thousand people (in 2015 – 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, or 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 of 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 of 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 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 settlement accounts, cash held with correspondent banks and other short-term highly liquid investments (with an original maturity of less than three months) that are readily convertible to previously known amounts of cash and which are subject to an insignificant risk of changes in value. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

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

Inventories

Inventories consisting primarily of materials and supplies, oil and oil products are presented in the consolidated statement of financial position at the lower of 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, exploratory and prospecting drilling, costs of equipment for exploratory wells and prospecting and appraisal wells, and topographical, geological and geophysical surveys costs are designated as exploration and evaluation assets until development of a field is proved to be commercially feasible and are capitalised within respective licence areas.

These costs are recognised to be written off pending the results of the works performed. Capitalised costs which have been ineffective are recognised within operating expenses 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 the value of an asset is reduced.

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

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

Development and production costs

Costs incurred at fields brought into commercial production, which include expenses 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 of oil and gas.

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

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

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

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

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

Land and construction in progress are not depreciated.

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 obligations 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 obligations are subject to current decommissioning obligations in respect of such facilities fulfilled to the extent that the Group is obliged to perform restoration works and include discounted costs which are expected to be incurred to fulfil such obligations. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

This liability is reviewed at the end of each reporting period. Changes in the estimates of the decommissioning obligations 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 obligations 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 obligations.

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 and is 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 or 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 two values of the CGU 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 at which the Group commits to purchase or sell a financial asset. All other purchases and sales are

recognised at the delivery date with the change in value between the commitment date and delivery 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 or 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 carried at fair value through profit or loss (financial assets at FVTPL), loans granted and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets carried 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.

The category "Financial assets at fair value through profit or loss" includes financial assets held for trading and other financial assets classified as carried 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 carried 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 or loss and other comprehensive income.

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

The category "Held-to-maturity investments" includes non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has an 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 the category "Available-for-sale financial assets".

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

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 date 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 the issuer’s financial difficulties;
- observable data indicating that there is a decrease in the estimated future cash flows from a group of financial assets, although such 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 accounts payable as well as loans and credits received. Financial liabilities are recognised at amortised cost.

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

Value added tax

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

The VAT rate is 18%.

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

Mineral extraction tax

Mineral extraction tax (MET) related to oil production is levied based on the quantities of mineral resources extracted and calculated on a monthly basis as the product of a quantity of mineral resources produced and fixed tax rate (in 2016 – RUB 857 per tonne, in 2015 – RUB 766 per tonne) adjusted depending on the monthly average global 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 global market prices of the Urals oil for the preceding period.

Income tax

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

Currently, the Group continues to apply the concept of the consolidated group of taxpayers which was introduced in the Russian law in 2012. Income tax in relation to companies which do not belong to the consolidated group of taxpayers is calculated based on 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 consolidated financial statements. Deferred taxes are not recorded for:

temporary differences on initial recognition of assets or liabilities in transactions other than business combinations and which do not affect neither accounting nor taxable profit 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 recognised 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 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 or loss and other comprehensive income on a straight-line basis over the period of the lease. Property, plant and equipment leased on an operating leasehold basis are not accounted for in the consolidated statement of financial position.

Revenue recognition

Revenue from the 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 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 and FOB basis (the seller fulfils its obligations to deliver when the goods have passed over the ship’s rail in the designated port). Some oil products are exported on DAP and CPT basis (transportation is paid up to a point specified in the contract and the risk is transferred during the transferring of goods to the first carrier). Export of gas products is made on FCA and CPT 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 currency of the Russian Federation is Russian ruble (RUB), which is the functional currency of the Group’s companies and is used as the presentation currency of these consolidated financial statements.

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

Transactions and balances in foreign currencies

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

Net earnings per share

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

Equity

Ordinary and preference shares

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

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

Additional paid-in capital

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

Treasury shares

If the Group purchases the Company’s shares, these shares are deducted from equity. Treasury shares are recorded at the 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 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 2016:

The amendments to IFRS 11 “Accounting for acquisitions of interests in joint operations” – these amendments did not have a material impact on the Group’s consolidated financial statements.

The amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortisation” – these amendments did not have a material impact on the Group’s consolidated financial statements.

The amendments to IAS 16 and IAS 41 “Agriculture: bearer plants” – these amendments are not relevant to the Group.

IFRS 14 “Regulatory deferral accounts” – this standard does not apply to companies that already provide financial statements prepared in accordance with IFRS.

Amendments to IAS 27 “Equity method in separate financial statements” – these amendments are not relevant to the Group.

Annual improvements to IFRSs 2012-2014 – these amendments did not have a material impact on the Group’s consolidated financial statements.

The amendments to IAS 1 “Disclosure initiative” – these amendments did not have a material impact on the Group’s consolidated financial statements.

The amendments to IFRS 10, IFRS 12 and IAS 28 “Investment entities: applying the consolidation exception” – 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 additional information about oil and gas reserves, changes 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. Oil and gas estimation under Russian classification is used for calculations of future cash flows to be the main evidence of asset impairment.

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

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

Impairment of goodwill and other assets

When assessed for possible impairment, forecast of cash flows requires a number of significant assumptions and estimates of such 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 groups of assets subject to assessment for impairment. Value of assets and generating groups of assets related to oil and gas production is determined based on production output projections.

Asset retirement (decommissioning) and environmental protection obligation

Production and exploration operations of the Group are governed by a number of environmental safety regulations and statutory acts. The Group assesses environmental protection 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 2017 and which the Group has not early adopted.

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

The Group's Management expects that this amendment will not have any material impact on its consolidated 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; how to determine whether a company is a principal (the provider of the goods or service) or an agent (responsible for arranging for the goods or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group's Management expects that these changes 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 the new standard from IAS 39 “Financial instruments: recognition and measurement” are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is intended to collect, it may be carried at amortised cost if it also meets the solely payments of principal and interest requirement. Debt instruments that require to pay only principal and interest and are held in the portfolio can be classified as subsequently measured at fair value in the other comprehensive income, if the entity both holds cash flows of assets and sells assets. Financial assets that do not contain cash flows, that are solely payments of principal and interest, must be measured at fair value, through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be taken into consideration when assessing compliance with the payment of only principal and interest.
- Investments in equity instruments must always be 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 held for trading, the changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses: an expected credit loss model. There is a three-stage approach based on the change in the credit quality of financial assets since the initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month expected credit losses on initial recognition of financial assets that are not credit impaired (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 operational approach for trade and lease receivables.
- Requirements for hedge accounting were amended to ensure a better compliance of accounting with risk management. The standard gives entities the opportunity to choose between accounting policy with the application of the hedge accounting requirements of IFRS 9 and further application of IAS 39 to all hedge financial instruments because the standard does not consider macro hedge accounting now.

The Group’s Management is currently analysing the implications of the standard and its 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 in the statements. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. Lessor accounting remains substantially the same as 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 in the statements in different ways.

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

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payment of taxes is expected after getting principal. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (taking into consideration the effect of discounting) without paying taxes on those gains.

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

“Disclosure initiative” – Amendments to IAS 7 (issued in January 2016 and effective for annual periods beginning on 1 January 2017). The amendments made to IAS 7 require disclosure of changes in liabilities arising from financing activities.

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

“Classification and measurement of share-based payment transactions” – Amendments to IFRS 2 (issued in June 2016 and effective for annual periods beginning on 1 January 2018). These amendments clarify the procedure for recording the terms for the transfer of rights in case of payments in cash; net settlement terms; as well as changes in payment terms that result in reclassification of operations from those that are to be settled by cash to those that are settled by equity instruments.

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

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

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

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

Annual improvements to IFRSs 2014-2016 (issued in December 2016 and effective, in part of amendment application to IFRS 12 – for annual periods beginning on or after 1 January 2017, in part of amendment application to IFRS 1 and IAS 28 – for annual periods beginning on or after 1 January 2018).

IFRIC 22 “Foreign currency transactions and advance consideration” (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).

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

6 Subsidiaries

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

Description	Area of activity	As of 31 December 2016 Ownership interest (%)	As of 31 December 2015 Ownership interest (%)
<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%

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<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%
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%
Joint Stock Company “Surgutneftegasbank”	Banking operations		97.7591%	97.7591%
LLC “Surgutmebel”	Manufacture of wood construction items		100%	100%
OJSC “Sovkhoz “Chervishevsky””	Agriculture		94.9996%	94.9996%
LLC “Media-Invest”	Television and radio broadcasting, production and coverage of TV and radio programmes		100%	100%
LLC “Lengiproneftekhim”	Engineering		100%	100%
LLC “DmitrovMontazhGrupp”	Construction of buildings and structures		97.7591%	-

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

In 2016, the Group's bank acquired 100% of the share capital of LLC “DmitrovMontazhGrupp”. As the result of the transaction the Group gained control over the subsidiary in the amount of 97.7591%. The costs of the acquisition of LLC “DmitrovMontazhGrupp”, its financial results for the reporting period and the amount of assets and liabilities as of the reporting date are not significant for the Group.

As of 31 December 2016, non-controlling interests in the amount of RUB 245 million (as of 31 December 2015 – RUB 186 million) are not significant for the Group.

7 Segment information

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

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

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

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Performance results of production segments for 2016:

	Exploration and production	Refining and sale	Other activity	Intersegment sales	Total
Sales revenue					
Export, including:	529,026	236,885	38	-	765,949
<i>revenues from oil sales</i>	529,026	-	-	-	529,026
<i>revenues from oil products sales</i>	-	236,867	-	-	236,867
<i>revenues from gas products sales</i>	-	18	-	-	18
<i>sale of other products and finished goods</i>	-	-	38	-	38
Domestic market, including:	149,778	182,498	3,014	(80,406)	254,884
<i>revenues from oil sales</i>	122,226	-	-	(15,468)	106,758
<i>revenues from oil products sales</i>	-	168,938	-	(63,621)	105,317
<i>revenues from gas and gas products sales</i>	16,340	5,976	-	(7)	22,309
<i>sale of other products and finished goods</i>	3,311	5,393	1,215	(658)	9,261
<i>other sales</i>	7,901	2,191	1,799	(652)	11,239
Total sales revenue	678,804	419,383	3,052	(80,406)	1,020,833
Operating expenses	(467,506)	(367,630)	(5,973)	80,805	(760,304)
Operating profit / (loss)	211,298	51,753	(2,921)	399	260,529
Finance income					116,837
Finance expenses					(8,835)
Exchange differences					(438,601)
Gain / (loss) on sale and other disposal of financial assets					22
Share of profit / (loss) of associates					(89)
Other income / (expenses)					(2,060)
Loss before tax					(72,197)
Income tax					10,164
Net loss					(62,033)

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Performance results of production segments for 2015:

	Exploration and production	Refining and sale	Other activity	Intersegment sales	Total
Sales revenue					
Export, including:	501,271	223,160	-	-	724,431
<i>revenues from oil sales</i>	501,271	-	-	-	501,271
<i>revenues from oil products sales</i>	-	223,160	-	-	223,160
Domestic market, including:	168,911	184,654	3,275	(78,666)	278,174
<i>revenues from oil 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
Total sales revenue	670,182	407,814	3,275	(78,666)	1,002,605
Operating expenses	(470,735)	(357,274)	(8,607)	78,002	(758,614)
Operating profit / (loss)	199,447	50,540	(5,332)	(664)	243,991
Finance income					108,285
Finance expenses					(15,852)
Exchange differences					583,006
Gain / (loss) on sale and other disposal of financial assets					22
Share of profit / (loss) of associates					299
Other income / (expenses)					(229)
Profit before tax					919,522
Income tax					(157,949)
Net profit					761,573

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

Sales	2016	2015
export of crude oil – Europe	410,769	454,646
export of crude oil – Asia	237,290	190,185
export of crude oil – CIS, other than Russia	37,733	45,926
export of crude oil – Canada	-	14,970
domestic sales of crude oil	106,758	129,358
domestic sales of gas	16,333	15,488
Total oil and gas sales	808,883	850,573
export of oil products – Europe	281,400	290,361
export of oil products – Asia	38	-
export of oil products – USA	11	-
domestic sales of oil products	105,317	112,236
export of gas products – CIS, other than Russia	16	-
export of gas products – Asia	2	-
domestic sales of gas products	5,976	5,751
Total oil and gas products sales	392,760	408,348
Other international sales	38	-
Other domestic sales	20,500	15,341
Total sales	1,222,181	1,274,262
less export duties	(201,348)	(271,657)
Total sales revenue	1,020,833	1,002,605

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 oil sales to the main buyer for 2016 is RUB 130,893 million. This revenue is included in “Exploration and production”. For 2015, the amount of revenue from sales of oil products to the main buyer is RUB 134,975 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 2016 and 2015, the Group entered into transactions with JSC “NPF “Surgutneftegas” to finance pensions of employees retired within the year, and other related parties.

Within 2016 and 2015, the Group contributed to JSC “NPF “Surgutneftegas” RUB 1,049 million and RUB 1,212 million respectively.

As of 31 December 2016, the Group had RUB 2,751 million (as of 31 December 2015 – RUB 2,285 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 (9,906 people in 2016 and 9,835 people in 2015), including business units and subsidiaries of the Company, authorised to plan, manage and control the Group’s operations in 2016 equalled RUB 33,769 million (for 2015 – RUB 32,061 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:

	As of 31 December 2016	As of 31 December 2015
Cash in hand and at settlement accounts	8,697	13,791
- rubles	5,909	6,335
- foreign currency	2,788	7,456
Deposits with original maturity under contract less than 3 months	98,756	91,905
Total cash and cash equivalents	107,453	105,696

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:

	As of 31 December 2016	As of 31 December 2015
Bank deposits:		
- short-term	465,854	527,189
- long-term	1,714,883	1,940,169
Total deposits placed	2,180,737	2,467,358

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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 agreements, the Group loses its right to the 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 2016 is RUB 50,409 million (for 2015 – RUB 100,828 million).

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

	As of 31 December 2016	As of 31 December 2015
with maturity less than 30 days	81,091	136
with maturity between 31 and 90 days	89,249	33,528
with maturity between 91 and 180 days	102,713	188,969
with maturity between 181 and 270 days	89,576	162,915
with maturity between 271 and 365 days	103,225	141,641
with maturity more than 365 days	1,714,883	1,940,169
Total deposits placed	2,180,737	2,467,358

The Group’s 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:

	As of 31 December 2016	As of 31 December 2015
Trade receivables	84,887	54,278
impairment provision	(172)	(172)
Other receivables	3,130	6,356
impairment provision	(135)	(391)
Total receivables, including:	87,710	60,071
short-term	86,811	59,522
long-term	899	549

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:

	Trade receivables	Other receivables
Impairment provision of accounts receivable as of 1 January 2015	(194)	(421)
Impairment provision of accounts receivable charged	(4)	(61)
Impairment provision of accounts receivable used	-	82
Impairment provision of accounts receivable recovered	26	9
Impairment provision of accounts receivable as of 31 December 2015	(172)	(391)
Impairment provision of accounts receivable charged	(1)	(23)
Impairment provision of accounts receivable used	1	269
Impairment provision of accounts receivable recovered	-	10
Impairment provision of accounts receivable as of 31 December 2016	(172)	(135)

As of 31 December 2016, the Group had five (as of 31 December 2015 – three) main debtors, each with at least 10% of total accounts receivable. These debtors provide about 38% of the Group’s revenue in 2016 (in 2015 – 19%).

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

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12 Advances issued

Advances issued include:

	As of 31 December 2016	As of 31 December 2015
Export custom duties	8,710	11,832
Oil transport	4,537	4,897
Other advances issued	4,759	5,552
Total advances issued	18,006	22,281

13 Loans granted

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

	As of 31 December 2016	As of 31 December 2015
Due and unimpaired credits and loans	43,066	36,365
Overdue and/or impaired credits and loans	10,881	16,171
Impairment provision	(6,546)	(7,642)
Total loans granted, including:	47,401	44,894
short-term	18,167	19,894
long-term	29,234	25,000

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

	2016	2015
Impairment provision as of 1 January	(7,642)	(4,973)
(allocations to provision) / provision recovery	1,096	(2,669)
Impairment provision as of 31 December	(6,546)	(7,642)

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 31 December 2016	As of 31 December 2015
Oil and refined products	15,948	13,872
<i>impairment provision</i>	(2)	(44)
Materials and supplies	58,945	56,933
<i>impairment provision</i>	(2,895)	(6,710)
Other reserves	7,691	6,222
<i>impairment provision</i>	(78)	(413)
Goods for resale	2,479	3,257
<i>impairment provision</i>	(19)	-
Work in progress	3,024	2,699
Gas and gas products	38	28
Total inventories	85,131	75,844

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15 Property, plant and equipment

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Historical cost as of 31 December 2014	1,015,260	225,637	109,450	34,588	1,384,935
Construction and acquisition	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 (decommissioning) obligations	22,056	-	-	-	22,056
Disposals, retirements and other movements	(8,782)	(1,678)	(1,616)	(1,756)	(13,832)
Historical cost as of 31 December 2015	1,169,402	237,846	134,324	46,065	1,587,637
Construction and acquisition	155,581	6,269	11,016	19,897	192,763
Reclassifications	-	7,973	16,441	(24,414)	-
Internal movements	(12,280)	(648)	12,928	-	-
Changes in asset retirement (decommissioning) obligations	13,598	-	-	-	13,598
Disposals, retirements and other movements	(13,530)	(414)	(1,222)	(1,197)	(16,363)
Historical cost as of 31 December 2016	1,312,771	251,026	173,487	40,351	1,777,635
Accumulated depletion, depreciation and amortisation as of 31 December 2014	(186,824)	(56,116)	(29,519)	-	(272,459)
Charge for the period	(56,497)	(21,347)	(9,137)	-	(86,981)
Internal movements (Impairment) / reversal of impairment	2,262	(85)	(2,177)	-	-
Disposals, retirements and other movements	270	(1,627)	(36)	-	(1,393)
Disposals, retirements and other movements	2,684	405	896	-	3,985
Accumulated depletion, depreciation and amortisation as of 31 December 2015	(238,105)	(78,770)	(39,973)	-	(356,848)
Charge for the period	(65,868)	(21,107)	(10,578)	-	(97,553)
Internal movements (Impairment) / reversal of impairment	1,733	148	(1,881)	-	-
Disposals, retirements and other movements	(865)	(104)	(55)	-	(1,024)
Disposals, retirements and other movements	7,951	485	947	-	9,383
Accumulated depletion, depreciation and amortisation as of 31 December 2016	(295,154)	(99,348)	(51,540)	-	(446,042)
Carrying amount as of 31 December 2014	828,436	169,521	79,931	34,588	1,112,476
Carrying amount as of 31 December 2015	931,297	159,076	94,351	46,065	1,230,789
Carrying amount as of 31 December 2016	1,017,617	151,678	121,947	40,351	1,331,593

As of 31 December 2016, property, plant and equipment included advances for purchase and construction of property, plant and equipment in the amount of RUB 2,537 million (as of 31 December 2015 – RUB 6,848 million).

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. In 2016, the Group reversed the loss from impairment of the exploration and production assets in the amount of RUB 2,982 million and recognised the loss from impairment of the exploration and production assets in the amount of RUB 3,847 million. As

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of 31 December 2016, the amount of the loss from impairment of the exploration and production assets is RUB 6,665 million (as of 31 December 2015 – RUB 6,149 million).

In 2016, the Group recognised the loss from impairment of property, plant and equipment of sales companies in the amount of RUB 660 million and reversed the loss from impairment in the amount of RUB 556 million. As of 31 December 2016, the amount of the loss from impairment of property, plant and equipment of sales companies is RUB 2,109 million (as of 31 December 2015 – RUB 2,022 million).

In 2016, the Group recognised the loss from impairment of property, plant and equipment of other companies in the amount of RUB 55 million. As of 31 December 2016, the amount of the loss from impairment of property, plant and equipment of other companies is RUB 91 million (as of 31 December 2015 – RUB 36 million).

Depreciation on property, plant, and equipment includes the amount capitalised in construction in progress for 2016 in the amount of RUB 21,175 million (for 2015 – RUB 17,006 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:

	2016	2015
As of 1 January	52,532	40,781
Capitalised costs	10,834	15,636
Reclassified to property, plant and equipment	(3,723)	(1,598)
Disposal of expenses associated with ineffective exploration and evaluation	(2,244)	(2,557)
(Impairment) / reversal of impairment	(667)	270
As of 31 December	56,732	52,532

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

	2016	2015
Historical cost as of 1 January	66,764	65,943
Impairment	(181)	(181)
Accumulated depreciation	(2,139)	(1,884)
Carrying amount as of 1 January	64,444	63,878
Acquisition	355	821
Impairment	(198)	-
Depreciation charge	(535)	(255)
Carrying amount as of 31 December	64,066	64,444

16 Intangible assets

	Software	Goodwill	Other	Total
Historical cost				
As of 31 December 2014	5,335	5,788	531	11,654
Additions	594	-	203	797
Disposal	(397)	-	(44)	(441)
As of 31 December 2015	5,532	5,788	690	12,010
Additions	1,273	-	131	1,404
Disposal	(280)	-	(24)	(304)
As of 31 December 2016	6,525	5,788	797	13,110
Amortisation and impairment loss				
As of 31 December 2014	(2,807)	(148)	(132)	(3,087)
Accumulated amortisation	(604)	-	(44)	(648)
Disposal	359	-	33	392
As of 31 December 2015	(3,052)	(148)	(143)	(3,343)
Accumulated amortisation	(665)	-	(83)	(748)
Disposal	229	-	23	252
As of 31 December 2016	(3,488)	(148)	(203)	(3,839)
Net carrying amount as of 31 December 2014	2,528	5,640	399	8,567
Net carrying amount as of 31 December 2015	2,480	5,640	547	8,667
Net carrying amount as of 31 December 2016	3,037	5,640	594	9,271

In 2016, the amount of capitalised amortisation of intangible assets into property, plant and equipment is RUB 6 million. In 2015, amortisation of intangible assets was not capitalised into property, plant and equipment.

At each date of the consolidated financial statements, the Management estimates a decline in the recoverable value of the assets below their carrying amount. As of 31 December 2016 and 2015, no impairment of intangible assets has been identified.

As of 31 December 2016 and 2015, the Group had no intangible assets with indefinite useful lives (excluding goodwill).

Goodwill

As of 31 December 2016 and 2015, the goodwill amount was allocated to “Refining and sale” segment. This goodwill is recognised as the Company and its subsidiaries represent a business combination.

As of 31 December 2016 and 2015, no impairment of goodwill has been identified.

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 2016 and 2015 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 2016 amounts to RUB 6,121 million (as of 31 December 2015 – RUB 6,210 million).

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Net assets of NMG as of 31 December 2016 amount to RUB 19,140 million (as of 31 December 2015 – RUB 19,480 million); the amount of goodwill recognised in the cost of investments as of 31 December 2016 and 2015 equalled RUB 1,103 million.

18 Other financial assets

Short-term and long-term financial assets include:

	As of 31 December 2016	As of 31 December 2015
Short-term financial assets		
Financial assets at fair value through profit or loss	-	33
Financial assets available-for-sale	4,139	1,900
Investments held-to-maturity	1,214	1,251
Total short-term financial assets	5,353	3,184
Long-term financial assets		
Financial assets at fair value through profit or loss	66	457
Financial assets available-for-sale	10,259	14,145
Investments held-to-maturity	-	507
Total long-term financial assets	10,325	15,109

Financial assets measured at fair value through profit or loss

The structure of financial assets measured at fair value through profit or loss is presented below:

	As of 31 December 2016	As of 31 December 2015
Corporate bonds	-	310
Government bonds	65	97
Subfederal and municipal bonds	-	82
Shares	1	1
Total financial assets at fair value through profit or loss	66	490

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).

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

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

Available-for-sale financial assets

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

	As of 31 December 2016	As of 31 December 2015
Shares	5,508	5,531
Government, subfederal and municipal bonds	4,158	4,430
Corporate eurobonds	2,973	4,317
Corporate bonds	1,662	1,693
Contributions to share capitals	97	74
Total financial assets available-for-sale	14,398	16,045

The movement in available-for-sale financial assets is presented below:

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	2016	2015
Carrying amount as of 1 January	16,045	9,207
Acquisition / reclassification	2,471	11,215
Redemption / sale / reclassification	(3,123)	(5,650)
Interest income accrued	692	570
Interest received	(778)	(552)
Exchange differences	(873)	896
Gains / (losses) on fair value revaluation	(36)	359
Carrying amount as of 31 December	14,398	16,045

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

Held-to-maturity investments

The structure of held-to-maturity investments is presented below:

	As of 31 December 2016	As of 31 December 2015
Government bonds	1,214	1,576
Corporate bonds	-	102
Subfederal and municipal bonds	-	80
Total investments held-to-maturity	1,214	1,758

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

	2016	2015
Carrying amount as of 1 January	1,758	4,210
Additions / reclassification	758	12,690
Disposal / redemption / reclassification	(1,182)	(21,035)
Interest income accrued	140	785
Interest received	(213)	(858)
Exchange differences	(12)	(70)
Gains / (losses) from recognition at amortised cost	(35)	8
Impairment provision	-	6,028
Carrying amount as of 31 December	1,214	1,758

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.

19 Payables and accrued liabilities

Accounts payable and accrued liabilities include:

	As of 31 December 2016	As of 31 December 2015
Accounts payable to employees of the company	28,862	27,238
Trade payables	9,415	10,269
Accounts payable for acquired property, plant and equipment	7,370	11,815
Dividends payable	1,491	1,103
Other accounts payable	1,752	1,296
Total accounts payable and liabilities accrued	48,890	51,721
Including the financial part of the accounts payable	20,002	24,476

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

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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 31 December 2016	As of 31 December 2015
Current / settlement accounts and demand accounts	10,137	10,413
Fixed-term deposits	96,122	73,013
Total other financial liabilities, including:	106,259	83,426
short-term	89,747	79,077
long-term	16,512	4,349

Interests on deposits are charged at rates ranging from 0.01% to 12% in rubles (in 2015 – from 0.01% to 18.25%) and from 0.01% to 5% in foreign currency (in 2015 – from 0.25% to 5%). Interests on settlement and current accounts range from 0.01% to 8.8% in rubles (in 2015 – from 0.01% to 14.5%) and from 0% to 0.17% in foreign currency (in 2015 – from 0% to 3.5%).

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

21 Other tax liabilities

	As of 31 December 2016	As of 31 December 2015
Mineral extraction tax	34,897	19,708
Value added tax	3,817	1,616
Property tax	3,387	3,269
Other	8,052	6,409
Total other tax liabilities	50,153	31,002

22 Provisions for future liabilities and charges

	As of 31 December 2016	As of 31 December 2015
Asset retirement obligations	102,656	88,456
Post-employment benefit obligations	17,637	16,966
Other liabilities	1,676	1,536
Total provisions for future liabilities and charges, including:	121,969	106,958
short-term	2,859	2,628
long-term	119,110	104,330

Asset retirement obligations

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

	2016	2015
Obligations as of 1 January	88,456	64,781
Acquisition	13,795	10,497
Changes in estimates and discounting rates	3,131	11,559
Discount cost amortised	2,692	1,997
Provision used	(5,418)	(378)
Obligations as of 31 December	102,656	88,456

Obligations recognised as of 31 December 2016 and 2015 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 employees who have been continuously employed by the Group for not less than five complete years and retired having reached the retirement age. The contribution to JSC “NPF “Surgutneftegas” and lump-sum payments depend on the length of service, the salary level and is defined in the collective agreement.

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

	2016	2015
Obligations as of 1 January	16,966	14,584
Interest liability expenses	841	934
Current service cost	471	389
Benefits paid	(1,205)	(1,389)
Actuarial (gain) / loss	564	2,448
Obligations as of 31 December	17,637	16,966

Obligations by maturity are as follows:

	As of 31 December 2016	As of 31 December 2015
Short-term	1,183	1,092
Long-term	16,454	15,874
Total post-employment benefit obligations	17,637	16,966

Expenses allocated to payrolls:

	2016	2015
Current service cost	471	389
Interest liability expenses	841	934
Net expenses on post-employment benefit obligations	1,312	1,323

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

	As of 31 December 2016	As of 31 December 2015
Discount rate	8.51%	9.49%
Average long-term employee compensation increase rate	3.51%	4.33%
Rate of inflation and growth of pension	3.51%	4.33%

23 Equity

Share capital and share premium

As of 31 December 2016 and 2015:

Share capital

Ordinary shares:

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

Preference shares:

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

Share premium

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

The share capital is fully paid. In 2016 and 2015, changes in the structure of the share capital did not occur. The Company did not place any shares.

Treasury shares

As of 31 December 2016 and 2015, the Group owned 650 thousand of ordinary shares, i.e. less than 1% of the total number of shares.

Dividends

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

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

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 the date of these consolidated financial statements, the Company did not declare dividends for the year ended 31 December 2016.

24 Export duties

	2016	2015
Export duties on oil sales	156,766	204,456
Export duties on oil products sales	44,582	67,201
Total export duties	201,348	271,657

Lower export duties are due to decrease in the average price of Urals oil as well as changes in the estimated coefficients used to calculate the rate of export duty on oil products.

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25 Operating expenses

	2016	2015
Taxes, excluding income tax	340,993	363,328
Selling and storage expenses	94,333	79,633
Employee benefits	86,861	81,152
Production services	78,002	87,033
Depreciation, depletion and amortisation	77,120	70,623
Supplies	38,450	41,835
Utility and electricity expenses	28,483	31,287
Goods for resale	10,596	7,476
Expenses from disposal of exploration and production properties	1,726	2,772
Changes in inventory and work in progress	(4,193)	(13,449)
Other expenses	7,933	6,924
Total operating expenses	760,304	758,614

Taxes, other than income tax, include:

	2016	2015
Mineral extraction tax	311,980	340,359
Excise	14,910	9,844
Property tax	13,467	12,439
Other taxes	636	686
Total taxes, excluding income tax	340,993	363,328

With the growth of the tax rate on oil production in 2016 to RUB 857 per tonne (in 2015 – RUB 766 per tonne), the Group's expenses on mineral extraction tax decreased as a result of a reduction in the average price level of Urals oil.

Employee benefits include:

	2016	2015
Salary and charges	85,978	80,293
Contributions to pension funds	883	859
Total employee benefits	86,861	81,152

26 Finance income and expenses

	2016	2015
Interest receivable	116,807	108,170
Interest income from discounting	30	115
Total finance income	116,837	108,285

	2016	2015
Interest payable	(5,723)	(6,432)
Interest expense from discounting	(3,112)	(9,420)
Total finance expenses	(8,835)	(15,852)

In the article “Interest expense from discounting” the amount of discount for placed deposits for 2016 in the amount of RUB 124 million is recognised (for 2015 – RUB 5,005 million).

27 Exchange differences

Exchange differences arise mainly 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:

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	As of 31 December 2016	As of 31 December 2015
US Dollar	60.66	72.88
Euro	63.81	79.70

Average exchange rates in 2016 and 2015 equalled:

	2016	2015
US Dollar	67.03	60.96
Euro	74.23	67.78

Exchange differences include:

	2016	2015
Income from exchange differences	382,508	1,382,900
Expense from exchange differences	(821,109)	(799,894)
Total exchange differences	(438,601)	583,006

28 Income tax

	2016	2015
Current income tax	(619)	(146,349)
Changes in deferred tax assets / liabilities	10,783	(11,600)
Income / (expense) on income tax	10,164	(157,949)

In 2016 and 2015, the rate of income tax currently applied in the Russian Federation was 20%. Profit / (loss) before tax recognised in the financial statements correlates with income / (expense) on income tax as follows:

	2016	2015
Profit / (loss) before tax	(72,197)	919,522
Provisional income / (expense) on income tax	14,439	(183,904)
Tax effect of the preferential tax rate	-	30,371
Tax effect of items which are not accounted for tax purposes	(4,275)	(4,416)
Total income / (expense) on income tax	10,164	(157,949)

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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 2016:

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

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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 31 December 2015	Changes for the period recognised in profit (loss) for the period	Changes for the period in other comprehensive income	As of 31 December 2014
Tax effect of deductible temporary differences				
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
Deferred tax assets	38,376	(15,544)	468	53,452
Set off deferred tax assets / (liabilities)	(37,207)			(52,356)
Total deferred tax assets	1,169			1,096
Tax effect of taxable temporary differences				
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)
Deferred tax liabilities	(175,786)	3,944	(72)	(179,658)
Set off deferred tax assets / (liabilities)	37,207			52,356
Total deferred tax liabilities	(138,579)			(127,302)

As of 31 December 2016 and 2015, the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the Group’s Management believes that the zero rate of tax levied at source of income in respect of the distribution of dividends will be applied for the distribution of these dividends.

29 Earnings / (loss) per share

Basic earnings / (loss) per share for the year ended 31 December 2016 and for the year ended 31 December 2015 were calculated based on profit / (loss), attributable to holders of the Company's ordinary shares and the weighted average number of outstanding ordinary shares. The Company has no potential ordinary shares that have a dilutive effect.

	2016	2015
Shares outstanding as of 31 December, thousand	35,725,995	35,725,995
Effect of treasury shares, thousand	(650)	(650)
Weighted average number of shares for the year ended 31 December, thousand	35,725,345	35,725,345
Net profit / (loss) for the reporting year attributable to shareholders	(62,100)	761,558
Dividends on preference shares, million rubles	-	(53,298)
Basic and diluted earnings / (loss) per share, rubles	(1.74)	19.83

Basic and diluted earnings / (loss) per share for 2016 were calculated as a ratio of net loss for 2016 attributable to shareholders to the weighted average number of outstanding ordinary shares.

30 Contingencies and commitments

Court proceedings

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

Tax exposure

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

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

Capital expenditure commitments

As of 31 December 2016, the Group has capital expenditure commitments related to the upgrading and construction of new capacities of LLC “KINEF” in the amount of RUB 7,552 million (as of 31 December 2015 – RUB 9,072 million). The obligations are to be executed in 2017.

Third-party commitments

As of 31 December 2016, the Group has commitments in the form of surety in the amount of RUB 21,947 million.

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

Credit related commitments

Credit related commitments of the Group's bank equal:

	As of 31 December 2016	As of 31 December 2015
Commitments to extend credit	3,521	3,872
Import letters of credit	418	508
Guarantees issued	2,625	4,821
Total credit related commitments	6,564	9,201

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 2016 amounts to RUB 1,163 million (for 2015 – RUB 1,258 million), and is included in the Group’s operating expenses. Future minimum lease payments under non-cancellable operating leases as of 31 December 2016 and 2015 are as follows:

	2016	2015
Less than 1 year	1,263	1,270
Between 1 and 5 years	4,794	4,854
More than 5 years	39,673	41,483
Total future minimum lease payments	45,730	47,607

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 Group is exposed to risks inherent in the oil and gas sector in the process of its core activities. The most significant of them include the drop in oil and oil products prices, growth of prices for raw materials and services purchased which may lead to an increase in operational and capital expenditures.

The drop in hydrocarbon prices significantly influences the Company’s revenue, profitability and cash flow ratios. An extended period of low oil prices may lead to the postponement or cancellation of new projects implementation, reduced investment and impairment of the Company’s assets.

Hydrocarbon prices in the global and regional markets are affected by a number of factors. Among them there are: the state of the global economy, political situation in the countries which are the largest producers of hydrocarbons, change in energy resources consumption patterns, data on oil and oil products reserves, agreements of the OPEC member countries and other major oil producing countries on the volumes of oil production, investment volumes in the industry, availability of alternative fuels and development of hard-to-recover oil and gas reserves production.

In the Russian market oil and oil products prices depend on the trends of the global market. Additionally, prices for hydrocarbons are influenced by supply and demand balance in the domestic market, oil and gas sector regulation by the state and transportation costs.

Fundamentals that determine the pricing process in the hydrocarbons market are beyond the Group’s direct control.

The Group is subject to the risk of reduction in operation efficiency due to the operational and capital expenditures increase resulting from the growth of prices for materials, equipment, energy resources as well as tariff rates of the Company’s transport providers – PJSC “Transneft” and OJSC “RZD”. The Group pays much attention to cost control taking cost optimisation measures.

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 a risk management system and a number of procedures for quantitative evaluation of impact of risks and their control 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.

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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 financial losses of the Group in case a counterparty defaults on its contractual obligations on the financial asset under the terms of the contract.

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

To mitigate such risk, the Group uses the system of integrated assessment of counterparties on the basis of qualitative and quantitative criteria to check their stable financial position and positive credit history. When concluding contracts with counterparties for the sale of products, the Group actively uses advance payment and payment by a letter of credit. Making advance payments to counterparties, the Group uses mechanisms of securing the payback: bank guarantees and sureties.

The Group has a well-reasoned approach to financial resources management and avoids excessive concentration of credit risk. To mitigate this risk, the Group uses its own formalised method of assessment of the financial position of banks which makes allowance for the credit portfolio quality, structure and dynamics of assets, liquidity level, efficiency of activity and other key indicators confirming the financial 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.

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 2016, RUB 3,497 million or 51% of cash is placed at settlement (correspondent) accounts with the Central Bank of the Russian Federation. As of 31 December 2015, RUB 5,469 million or 47% of cash was placed at settlement (correspondent) accounts with one bank with BBB+ international rating.

As of 31 December 2016, RUB 40,028 million or 41% of deposits with original maturity under contract less than three months are placed with one bank with BB+ international rating. As of 31 December 2015, RUB 32,121 million or 35% of deposits with original maturity under contract less than three months was placed with one bank with BB+ international rating.

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

	As of 31 December 2016	As of 31 December 2015
Cash in hand	1,894	2,103
Central bank of the Russian Federation	27,467	3,711
<i>Commercial banks:</i>		
Rating from A- to A+ (S&P)	1,017	133
Rating from BBB- to BBB+ (Fitch)	14,127	26,255
Rating from BB- to BB+ (S&P, Moody’s, Fitch)	56,988	73,020
Rating from B- to B+ (S&P)	269	441
No rating	5,691	33
Total cash and cash equivalents	107,453	105,696

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

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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 the largest banks being tax residents of the Russian Federation.

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 the classification of Standard & Poor’s:

	As of 31 December 2016	As of 31 December 2015
Rating from BB- to BB+ (S&P, Moody’s, Fitch)	2,180,038	2,465,934
Rating from B- to B+ (S&P)	-	77
No rating	699	1,347
Total deposits placed	2,180,737	2,467,358

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

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 and sureties to secure the payback.

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

	Amount receivable as of 31 December 2016	Amount of provision as of 31 December 2016	Amount receivable, less provision as of 31 December 2016
Trade receivables			
not past due	80,226	(167)	80,059
up to 6 months	225	-	225
more than 1 year	4,436	(5)	4,431
Total trade receivables	84,887	(172)	84,715
Other receivables			
not past due	2,977	(21)	2,956
up to 6 months	12	-	12
from 6 months to 1 year	9	-	9
more than 1 year	132	(114)	18
Total other receivables	3,130	(135)	2,995

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

	Amount receivable as of 31 December 2015	Amount of provision as of 31 December 2015	Amount receivable, less provision as of 31 December 2015
Trade receivables			
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
Total trade receivables	54,278	(172)	54,106
Other receivables			
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
Total other receivables	6,356	(391)	5,965

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As of 31 December 2016, trade receivables in the amount of RUB 80,059 million (as of 31 December 2015 – RUB 48,760 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 oil and oil products.

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

Receivables are distributed geographically as follows:

	As of 31 December 2016	As of 31 December 2015
Europe	52,123	36,880
Asia	24,167	9,786
Russia	10,789	13,405
CIS countries	630	-
USA	1	-
Total	87,710	60,071

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.

Credit and loan analysis by credit quality is presented below:

	As of 31 December 2016	As of 31 December 2015
Due and unimpaired credits and loans:		
Borrowers with a credit history less than 1 year	14,764	8,283
Borrowers with a credit history between 1 and 3 years	15,623	17,108
Borrowers with a credit history more than 3 years	12,679	10,974
Overdue and/or impaired credits and loans:		
Payment without delay	6,626	12,178
Overdue for less than 30 days	184	169
Overdue between 30 and 360 days	535	493
Overdue more than 360 days	3,536	3,331
Total credits and loans gross of impairment provision	53,947	52,536

Overdue credits are supported by the collateral the fair value of which, as of 31 December 2016, equalled RUB 4,660 million (as of 31 December 2015 – RUB 1,557 million).

Interest credit cost by currency is presented below:

	As of 31 December 2016	As of 31 December 2015
Rubles	13.14%	13.73%
US Dollars	3.66%	4.89%

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

Information on credit risk concerning financial assets at fair value through profit or 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:

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	As of 31 December 2016	As of 31 December 2015
Government bonds	65	97
Subfederal and municipal bonds		
rating from B and higher (S&P)	-	82
Russian banks		
rating from B- to BB+ (S&P)	-	63
Russian companies		
rating from BBB- to BBB+ (S&P)	-	80
rating from B- to BB+ (S&P)	-	167
no rating	1	1
Total financial assets at fair value through profit or loss	66	490

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:

	As of 31 December 2016	As of 31 December 2015
Government, subfederal and municipal bonds	4,158	4,430
Russian banks		
rating from BBB- to BBB+ (S&P)	122	115
rating from B- to BB+ (S&P, Moody's)	2,057	2,040
no rating	1,067	1,067
Foreign companies without rating	4,218	4,218
Russian companies		
rating from BBB- to BBB+ (S&P)	154	945
rating from B- to BB+ (S&P, Moody's, Fitch)	2,403	3,024
no rating	219	206
Total financial assets available-for-sale	14,398	16,045

In 2016 and 2015, 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 31 December 2016	As of 31 December 2015
Government, subfederal and municipal bonds	1,214	1,656
Russian companies		
rating from BBB- to BBB+ (S&P)	-	102
Total investments held-to-maturity	1,214	1,758

Liquidity risk

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

The Group does not apply derivative financial instruments to hedge financial risks, but takes into consideration the possibility of their use when developing investment projects, plans and budgets. In order to reduce financial risks, the Group insures assets and operations in the process of financial and business activities.

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

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

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 2016, denominated in the following currencies are presented below:

As of 31 December 2016	Ruble	US Dollar	Euro	Total
Assets				
Cash and cash equivalents	102,098	4,258	1,097	107,453
Restricted cash	943	-	-	943
Deposits placed	3,356	2,177,371	10	2,180,737
Financial assets at fair value through profit or loss	66	-	-	66
Financial assets available-for-sale	10,445	3,553	400	14,398
Investments held-to-maturity	1,214	-	-	1,214
Receivables	10,349	77,037	324	87,710
Loans granted	46,128	1,273	-	47,401
Total financial assets	174,599	2,263,492	1,831	2,439,922

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Liabilities

Financial part of the accounts payable	16,852	2,850	300	20,002
Other financial liabilities	101,942	3,364	953	106,259
Other liabilities	805	-	-	805
Total financial liabilities	119,599	6,214	1,253	127,066

As of 31 December 2016, weakening of ruble by 20% against the US dollar with all the variables held constant would have positively influenced the Group's profit / (loss) before tax in the amount of RUB 451,456 million. The effect of corresponding strengthening of the Russian ruble against the US dollar is approximately equal and opposite.

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

As of 31 December 2015

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

As of 31 December 2015, weakening of ruble by 20% against the US dollar with all the variables held constant would have positively influenced the Group's profit / (loss) before tax in the amount of RUB 512,285 million. The effect of corresponding strengthening of the Russian ruble against the US dollar is approximately equal and opposite.

(b) Interest rate risk

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

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

Cash and cash equivalents	As of 31 December 2016	As of 31 December 2015
Cash at settlement and correspondent accounts:		
US Dollars	0.00% - 1.00%	0.01% - 1.00%
Euro	0.00% - 1.00%	0.00% - 1.75%
Rubles	0.00% - 8.10%	0.00% - 7.20%
Deposits with original maturity under contract less than 3 months:		
US Dollars	2.10% - 3.00%	0.47% - 0.70%
Rubles	6.00% - 10.50%	4.10% - 11.35%

Deposits placed	As of 31 December 2016	As of 31 December 2015
US Dollars	0.38% - 8.37%	0.57% - 8.37%
Euro	0.01%	0.26%
Rubles	7.5% - 11.30%	7.50% - 14.57%

(c) Commodity price risk

The Group’s performance is negatively influenced by inflation which implies higher essential costs of production affecting the profitability of the Group’s current projects that may lead to a postponement or abandoning of new projects due to their economic inexpediency. The Group regularly analyses the impact of actual and expected inflation rates on the results of its current activities and feasibility of planned projects in the field of production, refining and marketing. To mitigate this risk, the Group holds procurement tenders and pays attention to finding the most reliable counterparties and the most favourable ways of goods and services delivery.

As of 31 December 2016, 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, profit / (loss) before tax for 12 months of 2016 would have been lower or higher by RUB 153,137 million respectively.

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, profit / (loss) before tax for 12 months of 2015 would have been lower or higher by RUB 144,848 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 borrowed funds 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 2016, the total capital under the management of the Group is RUB 3,551,426 million (as of 31 December 2015 – RUB 3,665,865 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:

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As of 31 December 2016	Quoted prices in active markets (Level 1)	Valuation technique based on observable data (Level 2)	Valuation technique based on a significant amount of non-observable data (Level 3)
Financial assets at fair value through profit or loss	65	-	1
Financial assets available-for-sale	8,893	-	5,505
Total financial assets at fair value on a recurring basis	8,958	-	5,506
As of 31 December 2015	Quoted prices in active markets (Level 1)	Valuation technique based on observable data (Level 2)	Valuation technique based on a significant amount of non-observable data (Level 3)
Financial assets at fair value through profit or loss	489	-	1
Financial assets available-for-sale	10,553	-	5,492
Total financial assets at fair value on a recurring basis	11,042	-	5,493

As of 31 December 2016 and 2015, the Group has no liabilities measured at fair value on a recurring basis.

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

Within 2016 and 2015, there were no changes in valuation technique for Level 3 recurring fair value measurements.

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

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

	As of 31 December 2016		As of 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits placed	2,180,737	2,245,388	2,467,358	2,460,605
Investments held-to-maturity	1,214	1,228	1,758	1,765

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

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Financial assets by assessment categories are shown below:

As of 31 December 2016	Loans and receivables	Assets available-for- sale	Assets at fair value through profit or loss	Investments held-to- maturity	Total
Cash and cash equivalents	107,453	-	-	-	107,453
Restricted cash	943	-	-	-	943
Deposits placed	2,180,737	-	-	-	2,180,737
Loans granted	47,401	-	-	-	47,401
Other financial assets	-	14,398	66	1,214	15,678
Receivables	87,710	-	-	-	87,710
Total financial assets	2,424,244	14,398	66	1,214	2,439,922
As of 31 December 2015	Loans and receivables	Assets available-for- sale	Assets at fair value through profit or loss	Investments held-to- maturity	Total
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
Total financial assets	2,678,773	16,045	490	1,758	2,697,066

Liabilities measured at amortised cost

All financial liabilities of the Group are measured at amortised cost. Financial liabilities are mainly funds of customers of the Group’s bank, 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 similar maturity period.

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

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 signed.