ФБК

OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 September 2016

Москва | 2016

Contents

ФБК

Report on Review of Interim Condensed Financial Information

To the Shareholders and Board of Directors of OJSC «Severneftegazprom»

Auditor

Company name:

Limited Liability Company "Accountants and business advisors" (LLC "FBK").

Address:

101990, Moscow, Myasnitskaya St., 44/1, bld. 2, AB.

State registration certificate:

Registered by the Moscow Registration Chamber on November 15, 1993, the certificate: series YZ 3 № 484.583 RP. Entered in the Uniform State Register of Legal Entities on July 24, 2002 under the main state number 1027700058286.

Membership in Self-Regulatory Organization of Auditors:

Self-regulatory organization of auditors Association «Sodruzhestvo».

Number in the register of Self-Regulatory Organization of Auditors:

Certificate of membership in the Self-regulatory organization of auditors Association «Sodruzhestvo» № 7198, number in the register – 11506030481.

Introduction

We have reviewed the accompanying interim condensed statement of financial position of OJSC Severneftegazprom as of 30 September 2016 and the related interim condensed information of profit and loss and other comprehensive income, the related interim condensed statements of cash flows and changes in equity for the nine-month period then ended and notes to the interim condensed financial information. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

ФБК

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

Partner of FBK, LLC

A.O. Birin

(on the ground of the power of attorney № 5/15, dated 13.01.2015,
audit qualification certificate № 01-000696, dated 09.07.2012, registration number 20201042340).

November 11, 2016
Moscow, Russian Federation

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS OF 30 SEPTEMBER 2016
(In thousands of Russian Roubles)

	Notes	30 September 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	6	7,615,617	21,105,214
Trade and other receivables	7	9,665,811	6,807,097
Inventories	8	685,488	734,020
Total current assets		**17,966, 916**	**28,646,331**
Non-current assets			
Property, plant and equipment	10	66,738,908	68,815,736
Long-term accounts receivables	9	18,420	23,816
Other non-current assets	11	-	9,492,276
Total non-current assets		**66,757, 328**	**78,331,828**
TOTAL assets		**84,724, 244**	**106,978,159**
Liabilities and equity			
Current liabilities			
Trade and other payables	12	1,338,870	2,272,338
Other taxes payable	13	3,805,279	4,231,924
Current income tax payable		202,541	478,121
Short-term loans and current portion of long-term debt	14	-	9,530,553
Total current liabilities		**5,346,690**	**16,512,936**
Non-current liabilities			
Long-term debt	15	-	17,872,789
Provisions for liabilities and charges	16	4,011,936	3,750,086
Deferred income tax liabilities	13	7,183,260	6,799,200
Total non-current liabilities		**11,195,196**	**28,422,075**
Total liabilities		**16,541,886**	**44,935,011**
Equity			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	873,253	873,253
Retained earnings		42,170,060	36,030,850
Total equity		**68,182,358**	**62,043,148**
TOTAL liabilities and equity		**84,724,244**	**106,978,159**

Approved for issue and signed on November 11, 2016 by the following members of management:

V.V. Dmitruk
General Director

A.A. Chernyshev
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED INFORMATION OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE NINE MONTHS ENDED AS OF 30 SEPTEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Revenue	18	35,544,667	33,498,697
Cost of sales	19	(21,762,721)	(20,480,214)
Gross profit		**13,781,946**	**13,018,483**
General and administrative expenses	20	(751,219)	(670,151)
Research and development costs		(21,130)	(113,998)
Other operating income	21	325,989	265,461
Other operating expenses	22	(111,131)	(126,604)
Operating profit		**13,224,455**	**12,373,191**
Finance income	23	5,683,264	13,566,841
Finance costs	24	(4,731,173)	(14,829,122)
Profit before income tax		**14,176,546**	**11,110,910**
Income tax	13	(2,683,777)	(1,891,383)
Profit for the period		**11,492,769**	**9,219,527**
Comprehensive income for the period		**11,492,769**	**9,219,527**

Approved for issue and signed on November 11, 2016 by the following members of management:

V.V. Dmitruk
General Director

A.A. Chernyshev
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED INFORMATION OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED AS OF 30 SEPTEMBER 2016
(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Profit before income tax		**14,176,546**	**11,110,910**
Adjustments for:			
Finance income	23	(1,049,580)	(1,067,714)
Finance costs	24	643,017	637,714
Depreciation	19	3,458,535	2,817,485
(Gain) / loss on disposal of property plant and equipment	21, 22	(1,595)	51,347
Net foreign exchange loss/(gain)	23, 24	(545,528)	1,692,281
Impairment of inventory	22	4,597	18,721
Reversal of inventory impairment	21	(6,535)	(5,217)
Reversal of impairment of R-55 well	21	(139,951)	-
Adjustments for non-cash investing activity		17,732	30,623
Operating cash flows before changes in working capital		**16,557,238**	**15,286,150**
Change in inventories	8	50,470	46,094
Change in trade and other receivables, excluding dividends receivable		6,652,691	(4,915,664)
Change in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		(1,145,900)	150,282
Change in accounts payable for exploration and evaluation service		(53,640)	(104,381)
Income taxes paid		(2,585,383)	(1,145,129)
Net cash inflows from operating activities		**19,475,476**	**9,317,352**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,257,892)	(5,319,516)
Interest received		1,034,797	1,063,022
Net cash outflow from investing activities		**(223,095)**	**(4,256,494)**
Cash flows from financing activities			
Repayment of borrowings		(26,389,451)	(7,113,067)
Interest paid		(438,199)	(662,494)
Dividends paid to the Company's shareholders	17	(5,353,559)	(2,361,937)
Net cash outflow from financing activities		**(32,181,209)**	**(10,137,498)**
Net decrease in cash and cash equivalents		**(12,928,828)**	**(5,076,640)**
Effect of exchange rate changes on cash and cash equivalents		(560,769)	1,003,222
Cash and cash equivalents at the beginning of the year		**21,105,214**	**13,842,559**
Cash and cash equivalents at the end of the period	6	**7,615,617**	**9,769,141**

Approved for issue and signed on November 11, 2016 by the following members of management:

V.V. Dmitruk
General Director

A.A. Chernyshev
Deputy director on economics and finance

(In thousands of Russian Roubles, unless otherwise stated)

	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2015	533,330	40,000	25,099,045	873,253	25,431,998	51,444,296
Profit for the period	-	-	-	-	9,219,527	**9,219,527**
Total comprehensive income for the period	-	-	-	-	9,219,527	**9,219,527**
Dividends	-	-	-	-	(2,361,937)	**(2,361,937)**
Balance at 30 September 2015	533,330	40,000	25,099,045	873,253	32,289,588	58,301,886
Balance at 1 January 2016	533,330	40,000	25,099,045	873,253	36,030,850	62,043,148
Profit for the period	-	-	-	-	11,492,769	**11,492,769**
Total comprehensive income for the period	-	-	-	-	11,492,769	**11,492,769**
Dividends	-	-	-	-	(5,353,559)	**(5,353,559)**
Balance at 30 September 2016	533,330	40,000	25,099,045	873,253	42,170,060	68,182,358

Approved for issue and signed on November 11, 2016 by the following members of management:

V.V. Dmitruk
General Director

A.A. Chernyshev
Deputy director on economics and finance

1. ACTIVITIES

The core activities of Open Joint Stock Company Severneftegazprom ("the Company") are exploration and development of the Yuzhno-Russkoye oil and gas field, production and sales of gas.

The Company was established in 2001 as a result of reorganization of limited liability company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 30 September 2016 shareholders of the Company were represented by PJSC Gazprom which holds 50 per cent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 per cent of ordinary shares minus 3 ordinary shares plus 2 class A and 1 class C preference shares and Uniper E&P GmbH which holds 25 per cent of ordinary shares minus 3 ordinary shares plus 3 class B preference shares. Uniper E&P GmbH received ownership of shares of the Company as a result of swap transaction with the Gazprom group in 2009.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

Registered address and place of business. 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT OF THE COMPANY

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation. During the period ended 30 September 2016 the Russian economy was impacted by a fluctuation in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile and are characterized by frequent significant price movements and increased trading spreads.

These and other events could have a material impact on the Company's activities, its future financial position, operating results and business prospects. Management believes it is taking all the necessary measures to maintain the stability and development of the Company's business.

These financial statements reflect management's view on the impact of the current business environment in the Russian Federation on the Company's operations and financial position. Future economic and regulatory situation may differ from management's current expectation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 "Interim financial reporting" (IAS 34). This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Certain amounts in comparative period were reclassified to provide their comparability with the information in the reported period.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"); it's functional and presentation currency is the Russian Rouble ("RR").

The official US dollar to RR exchange rates as determined by the CBRF were 63.16 and 72.88 as at 30 September 2016 and 31 December 2015, respectively.

The official Euro to RR exchange rates, as determined by the CBRF, were 70.88 and 79.70 as at 30 September 2016 and 31 December 2015, respectively.

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Costs of minor repairs and maintenance are expensed when incurred.

Property, plant and equipment include the cost of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount (refer to Note 10).

Oil and gas exploration assets

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry wells, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved developed reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

(In thousands of Russian Roubles, unless otherwise stated)

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	**Other assets**
Buildings	Units of production	5- 30 years
Pipeline	Units of production	-
Machinery and equipment	Units of production	1-15 years
Wells	Units of production	-
Roads	Units of production	-
Other	-	1-20 years

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 5.155 per cent for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015 - 4.793 per cent).

(c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting period and are included in the financial statements at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”. This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company's uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are valued at the lower of the cost and net realisable value.
Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(g) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(h) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(i) Financial assets and liabilities

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables, cash and cash equivalents, restricted cash and other non-current assets. These assets are carried at amortized costs and are classified as loans and receivables.
Financial liabilities consist of trade payables, other payables, loans and borrowings and are carried at amortised costs.

All financial assets and liabilities are initially recognised at fair value.

(j) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:
Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Company, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Company, Level 2 inputs include observable market value measures applied to available for sale securities.
Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company‘s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Cash and cash equivalents are included into Level 1 of fair value hierarchy, all other financial instruments - Level 3 of fair value hierarchy.

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(k) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(l) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

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 is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Company has the following financial instruments that are incurred at amortised cost: trade and other accounts receivables, long-term accounts receivables, trade and other accounts payables, borrowings.

The carrying amounts of these items are a reasonable approximation of their fair value.

(m) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial statements that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The accounts receivable impairment provision is created on the base of the management assessment of collectability of customers' accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

(n) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

Capitalisation of borrowing costs.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.
The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(o) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves" (refer to Note 17).

(p) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.
Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(q) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(r) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

(s) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

(t) Equity

Share capital

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(u) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(v) Mineral extraction tax (MET)

Average MET rate for the nine months of 2016 was approximately RR 820 per 1000m^3 for the Cenomanian gas and RR 172 per 1000m^3 for the Turonian gas. Average MET rate for the nine months of 2015 was approximately RR 814 per 1000m^3 for the Cenomanian gas and RR 171 per 1000m^3 for the Turonian gas. MET is recorded within Cost of sales in the “Statement of Profit and Loss and Other Comprehensive Income.”

(w) Employee Benefits

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. In the normal course of business the Company contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

(x) Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. The Company considers that the initial recognition exemption should be applied for decommissioning liabilities and therefore deferred taxes are not recorded for differences related to decommission liabilities.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(y) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles (“RR”).

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(z) New Accounting Developments

(a) Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Company from 1 January 2016:

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards:

– IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
– The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.
– The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.
– IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

Unless otherwise described above, these standards, amendments to standards and interpretations did not have a material impact on these annual financial statements.

(b) New Standards and Interpretations

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

− IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The amended standard did not have a material impact on the Company.

− Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

− Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016) – Clarification of Acceptable Methods of Depreciation and Amortisation - In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

− Amendments to IAS 27 – Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

− Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

(c) New standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 September 2016, and have not been applied in preparing Consolidated Financial Statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

− In July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The final version of IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.
− IFRS 15 "Revenue from Contracts with Customers" will come into effect for annual periods beginning on or after January 1, 2018. The new standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty or revenue and cash flows arising from a contract with a customer. IFRS 16 "Leases" is effective for annual reporting periods beginning on or after January 1,

2019, earlier application is permitted if IFRS 15 “Revenue from Contracts with Customers” is also adopted. IFRS 16 replaces the existing lease accounting guidance in IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The new standard eliminates the current dual accounting model for leases, which distinguishes between on-balance sheet finance leases and off-balance. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The management is currently assessing the impact of the adoption of these new and revised Standards in future periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Tax legislation*.** Russian tax, currency and customs legislation is subject to varying interpretations (refer to Note 25).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Classification of production licenses. Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statement.

Site restoration and environmental costs. Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss on units of production basis. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

Reserves estimation. Unit-of-production depreciation charges are principally measured based on Company’s estimates of proved developed reserves. Proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment 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 in economic factors, including product prices, contract terms or development plans. Changes to Company’s estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related exploration drilling costs. Information about the carrying amounts of production assets and the amounts of depreciation charged to the profit or loss as well as sensitivity analysis for estimation of gas reserves is presented in Note 10.

(In thousands of Russian Roubles, unless otherwise stated)

5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	30 September 2016	31 December 2015
Current assets			
Cash and cash equivalents	6	7,615,617	21,105,214
Receivables from related parties	7	9,518,524	6,347,433
Other short-term receivables	7	72,882	75,223
Non-current assets			
Long-term other receivables	9	18,420	23,816
Other non-current assets	11	-	9,492,276
Total Assets at amortized cost		**17,225,443**	**37,043,962**

Liabilities at amortized cost	Notes	30 September 2016	31 December 2015
Current liabilities			
Short-term borrowings and current portion of long-term debt	14	-	9,530,553
Trade payables	12	935,203	1,270,975
Payables to related parties	12	52,399	108,476
Interest payable	12	-	70,155
Other payables	12	8,091	8,130
Long-term liabilities			
Long-term borrowings	15	-	17,872,789
Total Liabilities at amortized cost		**995,693**	**28,861,078**

6. CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Deposit accounts	7,049,000	-
Current accounts	566,617	21,105,214
Total cash and cash equivalents	**7,615,617**	**21,105,214**

The fair value of cash and cash equivalents as at 30 September 2016 and 31 December 2015 approximates their carrying value.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents:

				30 September 2016	31 December 2015
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
Gazprombank	Ba2	Moody's	Not set	7,053,645	7,846
Credit Agricole	BBB-	Fitch	Not set	561,972	21,097,314
Rosbank	Ba2	Moody's	Not set	-	54
Total cash and cash equivalents				**7,615,617**	**21,105,214**

The table below shows analysis of restricted cash (Note 10). In August 2016 the Company early fulfilled its obligations under the project financing agreement, which was raised back in 2011. Therefore, all related covenants have been removed as at 30 September 2016 (Note 15).

				30 September 2016	31 December 2015
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
ING bank N.V.	Aaa	Moody's	Not set	-	5,987,626
Credit Agricole	BBB-	Fitch	Not set	-	3,504,650
				-	**9,492,276**

(In thousands of Russian Roubles, unless otherwise stated)

7. TRADE AND OTHER RECEIVABLES

	30 September 2016	31 December 2015
Financial assets		
Receivables from related parties (refer to Note 26)	9,518,524	6,347,433
Other receivables	1,974,443	1,977,332
Impairment for other receivables	(1,901,561)	(1,902,109)
Total financial assets	**9,591,406**	**6,422,656**
Non-financial assets		
Advances to suppliers	43,918	58,893
Impairment for advances to supplies	(427)	(427)
VAT recoverable	28,968	79,981
Prepaid taxes, other than income tax	1,946	245,994
Total non-financial assets	**74,405**	**384,441**
TOTAL trade and other receivables	**9,665,811**	**6,807,097**

The aging analysis of past due and impaired trade and other receivables are as follows:

Aging from the due date

	30 September 2016	31 December 2015
Within 1 year overdue	(1,896,521)	(1,897,069)
From 1 to 3 years overdue	-	(4,342)
More than 3 years overdue	(5,040)	(698)
	(1,901,561)	**(1,902,109)**

Movements of the provision for impairment of other accounts receivable and advances to supplies are as follows:

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Provision for impairment at the beginning of the year	(1,902,109)	(5,040)
Provision for impairment reversed	548	-
Provision for impairment at the end of the year	**(1,901,561)**	**(5,040)**

Provision for impairment of other accounts receivable was increased due to the revocation of the license of Vneshprombank. As of 30 September 2015 cash in the amount of RR 1,851,570 thousand was placed on deposit accounts in Vneshprombank. Due to the revocation of the bank license on 21 January 2016 the return probability of the deposit is assessed as low. As a result, the Company reclassified the deposit in the amount of RR 1,851,570 into doubtful debt.

All receivables that are past due are fully provided against as at 30 September 2016 and 31 December 2015.

As the principal debtors of the Company are related parties, the Company believes that the default risk is low and, therefore, does not establish provision for impairment of these receivables. No receivables from related parties were past due or impaired as at 30 September 2016 and at 31 December 2015.

The fair value of accounts receivable as at 30 September 2016 and 31 December 2015 approximates their carrying value.

8. INVENTORIES

	30 September 2016	31 December 2015
Materials and supplies	851,453	902,023
Other materials	13,000	12,900
Impairment of materials	(178,965)	(180,903)
Total inventories	**685,488**	**734,020**

(In thousands of Russian Roubles, unless otherwise stated)

9. LONG-TERM ACCOUNTS RECEIVABLES

	30 September 2016	31 December 2015
Other receivables	18,420	23,816
Total long-term accounts receivables	**18,420**	**23,816**

The fair value of long-term accounts receivable as at 30 September 2016 and 31 December 2015 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost at 1 January 2015	**9,248,849**	**9,385,050**	**32,276,840**	**10,089,434**	**13,684,925**	**137,320**	**7,710,342**	**82,532,760**
Addition	-	-	223,546	46,042	-	2,646	5,047,115	**5,319,349**
Disposal	-	-	-	(564)	-	(350)	(51,180)	**(52,094)**
Transfer to inventories	-	-	-	-	-	-	(5,085)	**(5,085)**
Transfer	-	-	1,033	1,352	-	1,814	(4,199)	-
Cost at 30 September 2015	**9,248,849**	**9,385,050**	**32,501,419**	**10,136,264**	**13,684,925**	**141,430**	**12,696,993**	**87,794,930**
Addition	-	-	447,898	587,473	-	12,629	550,833	**1,598,833**
Change in component for decommissioning and site restoration obligation	340,613	245,588	1,299,757	131,903	-	-	-	**2,017,861**
Disposal	-	-	(607)	-	-	-	-	**(607)**
Transfer to inventories	-	-	-	-	-	-	(91,307)	**(91,307)**
Impairment of assets under construction	-	-	-	-	-	-	(139,951)	**(139,951)**
Transfer	-	-	3,278,428	5,610,803	-	-	(8,889,231)	-
Cost at 31 December 2015	**9,589,462**	**9,630,638**	**37,526,895**	**16,466,443**	**13,684,925**	**154,059**	**4,127,337**	**91,179,759**
Addition	-	-	525	44,245	-	6,499	1,208,218	**1,259,487**
Disposal	-	-	-	(5,927)	-	(93)		**(6,020)**
Transfer to cost of sales	-	-	-	-	-	-	(1,002)	**(1,002)**
Recovery of impairment of assets under construction	-	-	-	-	-	-	139,951	**139,951**
Transfer	-	-	61,552	453,159	-	472	(515,183)	-
Cost at 30 September 2016	**9,589,462**	**9,630,638**	**37,588,972**	**16,957,920**	**13,684,925**	**160,937**	**4,959,321**	**92,572,175**
Accumulated depreciation at 1 January 2015	**(2,182,683)**	**(2,160,487)**	**(7,057,239)**	**(2,964,801)**	**(2,951,845)**	**(95,008)**	**-**	**(17,412,063)**
Charged for the period	(330,761)	(339,576)	(1,188,191)	(455,093)	(514,408)	(14,790)	-	**(2 842 819)**
Disposal	-	-	-	564	-	145	-	**709**
Accumulated depreciation at 30 September 2015	**(2,513,444)**	**(2,500,063)**	**(8,245,430)**	**(3,419,330)**	**(3,466,253)**	**(109,653)**	**-**	**(20,254,173)**
Charged for the year	(125,315)	(128,097)	(691,762)	(569,399)	(190,122)	(4,971)	-	**(1,709,666)**
Change in component for decommissioning and site restoration obligation	(71,583)	(19,339)	(290,651)	(19,089)	-	-	-	**(400,662)**
Disposal	-	-	477	-	-	-	-	**477**
Accumulated depreciation at 31 December 2015	**(2,710,342)**	**(2,647,499)**	**(9,227,366)**	**(4,007,817)**	**(3,656,375)**	**(114,624)**	**-**	**(22,364,023)**
Charged for the period	(354,166)	(359,594)	(1,453,271)	(775,478)	(516,935)	(15,820)	-	**(3,475,264)**
Disposal	-	-	-	5,927	-	93	-	**6,020**
Accumulated depreciation at 30 September 2016	**(3,064,508)**	**(3,007,093)**	**(10,680,637)**	**(4,777,368)**	**(4,173,311)**	**(130,351)**	**-**	**(25,833,267)**
Net book value at 1 January 2015	**7,066,166**	**7,224,563**	**25,219,601**	**7,124,633**	**10,733,080**	**42,312**	**7,710,342**	**65,120,697**
Net book value at 30 September 2015	**6,735,405**	**6,884,987**	**24,255,989**	**6,716,934**	**10,218,672**	**31,777**	**12,696,993**	**67,540,757**
Net book value at 31 December 2015	**6,879,120**	**6,983,139**	**28,299,529**	**12,458,626**	**10,028,550**	**39,435**	**4,127,337**	**68,815,736**
Net book value at 30 September 2016	**6,524,954**	**6,623,545**	**26,908,335**	**12,180,552**	**9,511,614**	**30,586**	**4,959,321**	**66,738,908**

As at 30 September 2016 borrowing costs totaling RR 77,648 thousand were capitalized in property, plant and equipment. For the period ended 30 September 2016 the capitalization rate applied to qualifying assets was 3.39 per cent.

As at 31 December 2015 borrowing costs and foreign exchange costs totaling RR 887,232 thousand were capitalized in property, plant and equipment. For the year ended 31 December 2015 the capitalization rate applied to qualifying assets was 11.4 per cent.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 30 September 2016 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at those dates.

(In thousands of Russian Roubles, unless otherwise stated)

Management's assessment of plant and equipment of Yuzhno-Russkoye oil and gas field value in use materially exceeds its carrying value, therefore any significant changes to assumptions used in management's assessment will not result in impairment.

There was no impairment recognized for the period ended 30 September 2016.

Construction in progress consists mainly of the construction of an industrial facility, production building with heated parking, shift team gathering station, an administrative facility and exploration wells.

As a result of early repayment under the project financing agreement in August 2016, as at 30 September 2016 the Company does not have properties transferred as a deposit (mortgage) (Note 15).

As at 31 December 2015 the Company had properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 21,654,237 thousand (Note 15). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2015	9,248,693	7,936,778	8,348,542	4,277,274	129,657	**29,940,944**
Accumulated depreciation at 31 December 2015	(2,638,725)	(2,242,265)	(2,289,850)	(1,080,027)	(35,840)	**(8,286,707)**
Net book value at 31 December 2015	**6,609,968**	**5,694,513**	**6,058,692**	**3,197,247**	**93,817**	**21,654,237**

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Estimates of proved developed reserves are also used in determination of impairment charges and reversals. Proved developed reserves are estimated by independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Estimates of gas reserves are inherently imprecise, require the application of judgments 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 in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of mineral rights and gas properties.

11. OTHER NON-CURRENT ASSETS

Financial assets	30 September 2016	31 December 2015
Debt service reserve accounts	-	6,492,276
Expenditure reserve accounts	-	3,000,000
Total financial assets	**-**	**9,492,276**

In accordance with the long-term project financing agreement finalized in 2011, certain cash is required to be set aside and can only be used in restricted circumstances until 2018.

The fair value of other non-current assets as at 31 December 2015 approximated their carrying value.

As a result of early repayment under the project financing agreement in August 2016 all related covenants have been removed. As at 30 September 2016 there is no cash placed on expenditure reserve account.

As at 31 December 2015 cash balances of the Company on debt service reserve accounts were RR 2,620,443 thousand (Euro 32,879.99 thousand), RR 3,367,183 thousand (US dollar 46,200.03 thousand) and RR 504,650 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account.

(In thousands of Russian Roubles, unless otherwise stated)

12. TRADE AND OTHER PAYABLES

	30 September 2016	31 December 2015
Financial liabilities		
Trade payables	895,046	1,270,975
Payables to related parties (refer to Note 26)	92,556	108,476
Other payables	8,090	8,130
Interest payable	-	70,155
Total financial liabilities	**995,692**	**1,457,736**
Non-financial liabilities		
Accrued employee benefit costs	156,099	375,209
Provision for lump-sum retirement benefit	85,766	-
Wages and salaries	75,280	274
Provision for revegetation	26,033	30,000
Provision for repayment of property tax	-	399,033
Provision for payment of income tax	-	10,086
Total non-financial liabilities	**343,178**	**814,602**
Total trade and other payables	**1,338,870**	**2,272,338**

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision was recognised in the financial statement in respect of revegetation works to be performed in 2016.

13. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	30 September 2016	31 December 2015
Value added tax (VAT)	2,088,138	2,505,686
Extraction tax	1,406,044	1,596,867
Property tax	200,160	14,011
Insurance contributions for employees	95,964	114,478
Personal income tax	14,587	77
Other taxes and accruals	386	805
Total income tax and other taxes payable	**3,805,279**	**4,321,924**

Income tax expense comprises the following:

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Current tax expense	2,299,717	1,752,334
Deferred tax expense	384,060	139,049
Total tax expense	**2,683,777**	**1,891,383**

14. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

Long-term debt, current portion (refer to Note 15) including:

	30 September 2016	31 December 2015
US dollar denominated floating rate	-	4,980,131
Euro denominated floating rate	-	3,927,262
RR denominated fixed rate	-	623,160
Total short-term loans and current portion of long-term debt	**-**	**9,530,553**

(In thousands of Russian Roubles, unless otherwise stated)

15. LONG-TERM DEBT

	30 September 2016	31 December 2015
Banks: UniCredit Bank AG		
US dollar denominated floating rate:	-	14,293,152
Euro denominated floating rate:	-	11,237,903
RR denominated fixed rate:	-	1,872,287
	-	**27,403,342**
Less: current portion of long-term debt (refer to Note 14)	-	(9,530,553)
Total long-term debt	**-**	**17,872,789**

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling Euro 474,088 thousand, US dollar 657,465 thousand and RUB 5,992,523 thousand. Unicredit Bank AG is acting as Facility Agent for a group of international financial institutions. Final repayment of this project financing was due in December 2018. In May 2011 the project financing was received. This loan was collateralized by a mortgage in respect of the gas pipeline, certain immovable assets and certain gas wells, land lease rights and a pledge of rights under the gas sale agreements (Note 10).

In August 2016 the Company paid off the remaining part of the loan ahead of schedule, so there is no long-term portion of debt.

Interest rates for the Euro- and US dollar-denominated parts of the loan were EURIBOR/LIBOR +250 basis points per annum from 1 April 2014 to 31 March 2017, EURIBOR/LIBOR +275 basis points per annum from 1 April 2017 to the final repayment date. A fixed interest rate for the RUB-denominated part of the loan was 11.4 % per annum.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2016	31 December 2015
Provision for decommissioning and site restoration	4,011,936	3,750,086
Total provisions for liabilities and charges	**4,011,936**	**3,750,086**

Provision for decommissioning and site restoration

	Notes	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
At the beginning of the period		**3,750,086**	**1,906,918**
Unwinding of discount	24	261,850	169,477
At the end of the period		**4,011,936**	**2,076,395**

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development and accordingly a provision for decommissioning and site restoration was recognized in the financial statement for the period ended 30 September 2016 and for the year ended 31 December 2015 with a corresponding asset recognised within property, plant and equipment (refer to Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 September 2016 was 9.31 per cent (31 December 2015 – 9.31 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

17. EQUITY

Share capital

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand. Total amount of share capital was RR 616 thousand.

In fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RR 1,639,449 thousand was recorded in equity as share premium.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand. Total amount of share capital was RR 667 thousand.

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type «A») with the nominal value of RR 2,462 thousand, 3 preference shares (type «B») with the nominal value of RR 667 thousand per share and 1 preference share (type «C») with the nominal value of RR 1,077 thousand. Total amount of share capital amounts to RR 40,000 thousand.

As at 30 September 2016 due to the early repayment under the project financing agreement all the shares (533,324 ordinary shares, 2 preference shares (type «A»), 3 preference shares (type «B») 1 preference share (type «C») were removed from the pledge in ING BANK N.V.

As at 30 September 2016 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type «A») are calculated as 12.308 per cent of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type «B») as 5 per cent of the allocated profit for dividends; preference shares (type «C») as 2.692 per cent of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

The basis for distribution is defined by legislation as the current year net profit as calculated in accordance with the Russian accounting rules. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial statement.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount of received funds totalling RR 1,810,635 thousand, net of respective deferred tax effect of RR 571,799 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loan and the amount of received funds totalling RR 4,585,301 thousand, net of respective deferred tax effect of RR 1,447,990 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company early repaid part of the loans to its shareholder. The fair value effect from early redemption of these loans totalling RR 1,323,746 thousand, net of respective deferred tax effect of RR 418,025 thousand, was recognized as a reduction in Other reserves.

In the year ended 31 December 2008 the Company redeemed all the loans for which Other reserves were recognized. The fair value effect from early redemption in the amount of RR 4,198,937 thousand, net of respective deferred tax effect of RR 1,325,954 thousand, was recognized as a reduction in Other reserves.

(In thousands of Russian Roubles, unless otherwise stated)

Dividends

The Annual General Shareholders' Meeting of the Company held on June 30, 2016 decided to pay dividends RR 5,353,559 thousand for the year ended December 31, 2015.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

18. REVENUE

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Revenue from gas sales	35,544,667	33,498,697
Total revenue from gas sales	**35,544,667**	**33,498,697**

All customers of the Company represent related parties. Please refer to Note 26.

19. COST OF SALES

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Extraction tax	15,115,046	14,933,105
Depreciation	3,458,535	2,817,485
Wages, salaries and other staff costs	1,214,910	936,316
Property tax	631,881	624,996
Services	527,658	444,092
Contributions to the State pension fund	272,279	205,851
Materials	196,817	180,975
Insurance	119,746	110,653
Contributions to the non-State pension fund	69,523	55,593
Transportation services	58,520	57,513
Fuel and energy	26,154	25,742
Other	71,652	87,893
Total cost of sales	**21,762,721**	**20,480,214**

Depreciation in the amount of RR 16,729 thousand for the period ended 30 September 2016 was capitalized (for the period ended 30 September 2015 – RR 25,334 thousand).

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Wages, salaries and other staff costs	402,263	339,425
Social contributions	122,539	101,295
Services and other administrative expenses	226,417	229,431
Total general and administrative expenses	**751,219**	**670,151**

\

(In thousands of Russian Roubles, unless otherwise stated)

21. OTHER OPERATING INCOME

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Gain on sale of foreign currency	157,255	193,798
Reversal of impairment	139,951	-
Fees and penalties due to violation of contract covenants	10,734	-
Reversal of impairment of inventories	6,535	5,217
Reimbursement of the road maintenance costs	3,403	5,849
Gain on disposal of property plant and equipment	1,595	-
Insurance payout	-	22,085
Other	6,516	38,512
Total operating income	**325,989**	**265,461**

22. OTHER OPERATING EXPENSES

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Social costs	70,887	23,176
Non-refundable VAT	9,419	4,415
Provision for impairment of materials	4,597	18,721
Loss on disposal of materials	3	545
Loss on disposal of property, plant and equipment	-	51,347
Other	26,225	28,400
Total operating expenses	**111,131**	**126,604**

23. FINANCE INCOME

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Foreign currency exchange gains	4,633,684	12,499,127
Interest income	1,049,580	1,067,714
Total finance income	**5,683,264**	**13,566,841**

24. FINANCE COSTS

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Foreign currency exchange losses	4,088,156	14,191,408
Interest expenses	381,167	468,237
Unwinding of discount of provisions (refer to Note 16)	261,850	169,477
Total finance costs	**4,731,173**	**14,829,122**

25. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

(In thousands of Russian Roubles, unless otherwise stated)

Russian transfer pricing legislation was introduced from 1999 and was amended with effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.
Management believes that its pricing policy used in 2016 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given the specifics of TP rules, the impact of any challenge of the Company’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Company.

(b) Legal proceedings

The Company is subject of, or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial statement.

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

26. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Transactions with shareholders

The Company is under the control of PJSC Gazprom and is included in the Gazprom Group. PJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and Uniper E&P GmbH, which is part of the E.ON SE have significant influence on the Company (refer to Note 1).

Transactions of the Company with its shareholders for the periods ended 30 September 2016 and 30 September 2015 are presented below:

	Notes	**For the nine months ended 30 September 2016**	**For the nine months ended 30 September 2015**
Sales of gas to PJSC Gazprom	18	24,920,366	13,399,479
Sales of gas to CJSC Gazprom YRGM Trading	18	5,587,622	11,724,544
Sales of gas to JSC Gazprom YRGM Development	18	5,036,679	8,374,674
Purchases of goods and services from Gazprom Group		212,315	166,036

All operations with Gazprom Group, BASF SE Group and E.ON SE were performed in accordance with signed agreements and on general market conditions.

(In thousands of Russian Roubles, unless otherwise stated)

Significant balances with shareholders are summarised as follows:

	Notes	30 September 2016	31 December 2015
Trade and other receivables from PJSC Gazprom	7	6,671,797	2,538,220
Trade and other receivables from CJSC Gazprom YRGM Trading	7	1,495,944	2,220,943
Trade and other receivables from JSC Gazprom YRGM Development	7	1,348,443	1,586,388
Other receivables from Gazprom Group	7	2,340	1,882
Total trade and others receivables		**9,518,524**	**6,347,433**

As at 30 September 2016 and 31 December 2015 short-term and long-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

	Notes	30 September 2016	31 December 2015
Payables to the Gazprom Group	12	92,556	108,476
Total payables to the Gazprom Group		**92,556**	**108,476**

Transactions with Key Management Personnel

Management of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015
Short-term benefits	193,242	171,885
Other long-term benefits	8,819	-
Total benefits	**202,061**	**171,885**

The General Shareholder's meeting, held on June, 2016 decided to pay compensation to the members of the Board of directors amounting to RR 5,306 thousand.

The General Shareholder's meeting, held on May, 2015 decided to pay compensation to the members of the Board of directors amounting to RR 5,126 thousand.

Transactions with parties under control of the Government

The Company does not have transactions with parties under the control of the Government except for the Gazprom Group.

27. SUBSEQUENT EVENTS

Dividends

The Extraordinary General Shareholders' Meeting of the Company held on October 05, 2016 decided to pay dividends RR 8,500,000 thousand for the first six months of 2016.