Slavneft Group

IFRS Consolidated Interim Condensed
Financial Information (Unaudited)

as of and for the three months ended
31 March 2017

CONTENTS

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Report on review of interim financial information

To the shareholders and the Board of Directors of
OJSC NGK Slavneft

Introduction

We have reviewed the accompanying consolidated interim condensed financial statements of OJSC NGK Slavneft and its subsidiaries, which comprise the consolidated interim statement of financial position as at 31 March 2017 and the related consolidated interim statements of profit or loss and other comprehensive income, changes in shareholder's equity and cash flows for the three-month period then ended and other explanatory notes ("the interim financial information").

Management of OJSC NGK Slavneft is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim 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 of interim financial information 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.

Conclusion

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

K.I. Petrov
Partner
Ernst & Young LLC

2 May 2017

Details of the entity

Name: OJSC NGK Slavneft
Record made in the State Register of Legal Entities on 30 June 2002, State Registration Number 1027739026270.
Address: Russia, 125047, Moscow, 4th Lesnoy side-street, 4.

Details of the practitioner

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

(in millions of Russian Roubles)

	Notes	31 March 2017	31 December 2016
Assets			
Non–current assets			
Property, plant and equipment	4	309,269	302,117
Deferred tax assets		10,075	9,872
Other non–current assets	5	1,013	946
Total non–current assets		**320,357**	**312,935**
Current assets			
Inventories	6	8,758	7,664
Accounts receivable and prepayments	7	10,993	14,416
Income tax receivables		602	264
Cash and cash equivalents	8	7,097	4,333
Other current assets		18	161
Total current assets		**27,468**	**26,838**
Total assets		**347,825**	**339,773**
Equity			
Ordinary share capital		70	70
Retained earnings		45,314	41,613
Other reserves		(56)	(56)
Additional paid–in capital		54,812	54,812
Total equity attributable to OAO NGK Slavneft's shareholders		**100,140**	**96,439**
Non–controlling interest	22	94,231	91,776
Total equity		**194,371**	**188,215**
Liabilities			
Non–current liabilities			
Non–current debt	9	49,064	42,876
Deferred tax liabilities		17,670	17,057
Decommissioning and environmental liabilities	10	16,937	16,722
Other non–current liabilities		2,395	2,808
Total non–current liabilities		**86,066**	**79,463**
Current liabilities			
Current portion of non–current debt	9	16,996	24,614
Trade payables	11	23,780	22,104
Advances received		1,129	372
Dividends payable		9	9
Taxes payable	12	22,908	22,803
Other current liabilities	13	2,566	2,193
Total current liabilities		**67,388**	**72,095**
Total liabilities		**153,454**	**151,558**
Total equity and liabilities		**347,825**	**339,773**

Trukhachev A.N.
Acting President
OAO NGK Slavneft

Shuvaev A.A.
Acting Vice–President on economics and finance
OAO NGK Slavneft

2 May 2017

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Revenue	**15**	**58,039**	**46,040**
Production expenses		(10,417)	(11,093)
Selling, general and administrative expenses		(1,337)	(1,381)
Cost of other sales		(958)	(791)
Taxes other than income tax	**16**	(29,216)	(16,524)
Depreciation, depletion and amortization	**4,5**	(8,538)	(7,884)
Exploration expenses		(204)	(124)
Impairment and gain/(loss) on disposal of assets		(78)	(23)
Total operating expenses and costs		**(50,748)**	**(37,820)**
Other operating income		260	116
Operating profit		**7,551**	**8,336**
Finance income	**17**	322	454
Finance expenses	**17**	(1,222)	(1,706)
Foreign exchange gain		739	2,056
Profit before income tax		**7,390**	**9,140**
Income tax expense	**14**	(1,315)	(2,149)
Profit for the year attributable to:		**6,075**	**6,991**
– OAO NGK Slavneft shareholders		3,655	3,774
– Non–controlling interest	**22**	2,420	3,217
Other comprehensive income/(loss):		**81**	**(106)**
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		–	(106)
Items that will not be reclassified to profit or loss			
Remeasurement of post–employment benefit obligation and other long–term benefits		81	–
Total comprehensive income attributable to:		**6,156**	**6,885**
– OAO NGK Slavneft shareholders		3,701	3,668
– Non–controlling interest	**22**	2,455	3,217
Earnings per share attributable to OAO NGK Slavneft shareholders:			
Basic earnings (in Russian Roubles)		0.77	0.79
Weighted average number of shares outstanding (millions)		4,754	4,754

(in million of Russian Roubles)

		Equity attributable to Group shareholders						
	Notes	**Ordinary share capital**	**Additional paid–in capital**	**Other reserves**	**Retained earnings**	**Total**	**Non–controlling interest**	**Total equity**
At 1 January 2016		**70**	**54,812**	**62**	**24,347**	**79,291**	**80,056**	**159,347**
Profit for the period		**–**	**–**	–	3,774	**3,774**	3,217	**6,991**
Other comprehensive income								
Currency translation differences		–	–	(106)	–	**(106)**	**–**	**(106)**
Total comprehensive income/(loss)		**–**	**–**	**(106)**	**3,774**	**3,668**	**3,217**	**6,885**
At 31 March 2016		**70**	**54,812**	**(44)**	**28,121**	**82,959**	**83,273**	**166,232**
At 1 January 2017		**70**	**54,812**	**(56)**	**41,613**	**96,439**	**91,776**	**188,215**
Profit for the period		–	–	–	3,655	**3,655**	2,420	**6,075**
Other comprehensive income								
Remeasurement of post–employment benefit obligation and other long–term benefits	**12**	–	–	–	46	**46**	35	**81**
Total comprehensive income		**–**	**–**	**–**	**3,701**	**3,701**	**2,455**	**6,156**
At 31 March 2017		**70**	**54,812**	**(56)**	**45,314**	**100,140**	**94,231**	**194,371**

(in million of Russian Roubles)

	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Operating activities			
Profit for the period		**6,075**	**6,991**
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation, depletion and amortization	**4,5**	8,538	7,884
Impairment and financial result from disposal of assets		78	23
Finance income	**17**	(322)	(454)
Finance expenses	**17**	1,222	1,706
Foreign exchange gain		(739)	(2,056)
Income tax expense	**14**	1,315	2,149
Change in provisions and estimates		(18)	348
Other		(198)	(300)
Cash flows from operating activities before working capital changes		**15,951**	**16,291**
Working capital changes			
Decrease/(Increase) in accounts receivable and prepayments		4,002	(6,669)
Pension paid		(64)	(48)
Increase in inventories		(1,031)	(1,271)
(Increase)/Decrease in other current and non-current assets		(58)	113
Increase in accounts payable		1,701	(580)
Increase in other current liabilities		3	92
Decrease in other non-current liabilities		(15)	–
(Decrease)/Increase in taxes payable		152	1,460
Income tax paid		(1,286)	(321)
Net cash from operating activities		**19,355**	**9,067**
Investing activities			
Dividends received		–	16
Proceeds from sale of property, plant and equipment		53	92
Purchases of property, plant and equipment		(14,603)	(15,359)
Interest received		322	415
Changes in long term investments		2	–
Net cash used in investing activities		**(14,226)**	**(14,836)**
Financing activities			
Proceeds from non-current debt		17,633	21,395
Repayments of current debt		–	(250)
Repayments of non-current debt		(18,332)	(8,638)
Interest payments		(1,672)	(1,483)
Net cash from/(used in) financing activities		**(2,371)**	**11,024**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		**6**	**(71)**
Net increase in cash and cash equivalents		**2,764**	**5,184**
Cash and cash equivalents at the beginning of the period	**8**	**4,333**	**8,078**
Cash and cash equivalents at the end of the period	**8**	**7,097**	**13,262**

NOTE 1. GENERAL INFORMATION

OAO NGK Slavneft (the "Company") and its subsidiaries (jointly referred to as the "Group") are engaged in oil exploration, development, production, refining and selling activities for oil in the Russian Federation.

The Company was established as an open joint–stock company in August 1994 in accordance with the Decree of the Government of the Russian Federation # 305, issued 8 April 1994, the Decree of the Council of Ministers of the Republic of Belarus # 589–r, issued 15 June 1994 and the Charter agreement from 27 June 1994. Under the provisions of the decrees and the Charter agreement, the Russian Federation transferred to the Company 60.5% of voting shares of OAO Slavneft–Megionneftegaz, currently the principal oil producing subsidiary of the Group, and 50.7% of voting shares of OAO Megionneftegazgeologiya, the Republic of Belarus transferred to the Company 17.6% of OAO Mozyrsky NPZ and another 15% of OAO Mozyrsky NPZ was transferred to the Company by a number of individuals in exchange for the Company's shares. Upon formation of the Company, 86.3% of its share capital was owned by the Russian Federation, 7.2% by the Republic of Belarus and 6.5% by a number of individuals.

The authorized capital of the Company is 4,754,238,000 common shares with a par value of Russian Roubles 0.001 per share. The carrying value of share capital as at 31 March 2017 and 31 December 2016 differs from its historic value due to the effect of hyperinflation in the Russian Federation till 31 December 2002.

In a series of transactions through January 2003, including participation in privatization auctions in the Russian Federation and the Republic of Belarus, 99% of the Company's shares were ultimately acquired together by OAO Siberian Oil Company (currently known as PJSC Gazprom Neft) and TNK–BP (subsequently acquired by PJSC Rosneft Oil Company). PJSC Gazprom Neft and PJSC Rosneft Oil Company (the "Primary Shareholders") are the Primary shareholders and jointly control the Group.

Registered address and place of business. The Company's registered address is 125047, Moscow, 4, 4th Lesnoy side–street, the Russian Federation. The Group's principal place of business is Russian Federation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Consolidated Interim Condensed Financial Information has been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by International Financial Reporting Standards ("IFRS").

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

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2016, such as significant accounting policies, significant estimates and judgements or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in this Consolidated Interim Condensed Financial Information are adequate to make the information presented not misleading if this Consolidated Interim Condensed Financial Information is read in conjunction with the Group's Consolidated Financial Statements for 2016.

The results reported in this Consolidated Interim Condensed Financial Information for the three months ended 31 March 2017 and 31 March 2016 are not necessarily indicative of the results expected for the full year.

Basis of measurement

This Consolidated Interim Condensed Financial Information has been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

(in million of Russian Roubles, unless noted otherwise)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* the Group's management has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity. This Consolidated Interim Condensed Financial Information is presented in Russian Roubles, and all values are rounded to the nearest million, except when otherwise indicated.

Foreign currency translation

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the reporting date, are translated into Russian Roubles ("RR") at the official exchange rates of the Central Bank of the Russian Federation ("CBR") at that date. Non monetary assets and liabilities are translated at historical rates. Revenues, expenses and cashflows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re–measurement into functional currency are included in the Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income.

The following exchange rates determined by the Central Bank of the Russian Federation have been applied at 31 March 2017 and 31 December 2016 and for the three months ended 31 March 2017 and 2016 (in RR):

	31 March	31 December	Average rates for the three months ended 31 March	
	2017	2016	2017	2016
For one currency unit to equivalent Russian Rouble				
– US dollar ("USD")	56.3779	60.6569	58.8366	74.6283
– Euro ("EUR")	60.5950	63.8111	62.6474	82.3373

Going concern

The Group's management prepared this Consolidated Interim Condensed Financial Information on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

Management believes that the current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its short–term debts and obligations when they become due.

Changes in accounting policies, estimates and judgements

The accounting policies, estimates and judgements applied by the Group in this Consolidated Interim Condensed Financial Information are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31 December 2016.

In order to improve the quality of disclosed information, the Company made reclassification between income and expenses in the Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income and in the Consolidated Interim Statement of Cash Flows for the three months ended 31 March 2016 to comply with current period presentation. These amendments did not have a material impact on the Group's Consolidated Interim Condensed Financial Information for the three months ended 31 March 2017 and 31 March 2016, therefore additional disclosure was not made.

(in million of Russian Roubles, unless noted otherwise)

NOTE 3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The accounting policies applied by the Group in this Consolidated Interim Condensed Financial Information are the same as those applied by the Group in its Consolidated Financial Statements for the year ended 31 December 2016, except that the Group has adopted those new and amended Standards that are mandatory for financial annual periods beginning on 1 January 2017:

Standards	Effective for annual periods beginning on or after
IAS 7 (Amended) *Statement of Cash Flows*	1 January 2017
IAS 12 (Amended) *Income Taxes*	1 January 2017

Application of these standards and interpretations had no significant impact on the Group's financial position or results of operations.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Machinery and equipment	Construction in progress	Total
Cost				
As of 1 January 2017	**380,670**	**114,131**	**40,024**	**534,825**
Additions	228	–	15,878	**16,106**
Transfers	8,570	5,629	(14,199)	**–**
Change in decommissioning liabilities	(101)	–	–	**(101)**
Disposals	(300)	(131)	(589)	**(1,020)**
As of 31 March 2017	**389,067**	**119,629**	**41,114**	**549,810**
Accumulated depreciation, depletion, amortization and impairment				
As of 1 January 2017	**(187,526)**	**(44,371)**	**(811)**	**(232,708)**
Depreciation, depletion and amortization	(7,023)	(1,503)	–	**(8,526)**
Impairment	–	–	(15)	**(15)**
Disposal of impairment	7	–	341	**348**
Disposals	256	104	–	**360**
As of 31 March 2017	**(194,286)**	**(45,770)**	**(485)**	**(240,541)**
Net book value as of 1 January 2017	**193,144**	**69,760**	**39,213**	**302,117**
Net book value as of 31 March 2017	**194,781**	**73,859**	**40,629**	**309,269**
Cost				
As of 1 January 2016	**337,876**	**107,699**	**35,829**	**481,404**
Additions	344	–	13,268	**13,612**
Transfers	9,195	512	(9,707)	**–**
Change in decommissioning liabilities	(127)	–	–	**(127)**
Disposals	(961)	(144)	(21)	**(1,126)**
As of 31 March 2016	**346,327**	**108,067**	**39,369**	**493,763**
Accumulated depreciation, depletion, amortization and impairment				
As of 1 January 2016	**(163,097)**	**(38,883)**	**(902)**	**(202,882)**
Depreciation, depletion and amortization	(6,396)	(1,473)	–	**(7,869)**
Disposal of impairment	46	–	–	**46**
Disposals	839	100	–	**939**
As of 31 March 2016	**(168,608)**	**(40,256)**	**(902)**	**(209,766)**
Net book value as of 1 January 2016	**174,779**	**68,816**	**34,927**	**278,522**
Net book value as of 31 March 2016	**177,719**	**67,811**	**38,467**	**283,997**

(in million of Russian Roubles, unless noted otherwise)

NOTE 5. OTHER NON–CURRENT ASSETS

	31 March 2017	31 December 2016
Other intangible assets	904	891
Other non–current financial assets	14	16
Other non–current non–financial assets	95	39
Allowance for impairment of non–current assets	–	–
Total other non–current assets	**1,013**	**946**

Intangible assets are stated net of accumulated amortization in the amount of RR 94 million and RR 82 million as of 31 March 2017 and 31 December 2016 respectively. For the three months ended 31 March 2017 accumulated amortization accrued in the amount of RR 12 million (for the three months ended 31 March 2016 – RR 15 million).

NOTE 6. INVENTORIES

	31 March 2017	31 December 2016
Crude oil	4,172	3,868
Materials and supplies	3,114	2,479
Petroleum products	791	430
Other	854	1,123
Allowance for inventory impairment	(173)	(236)
Total inventories	**8,758**	**7,664**

NOTE 7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2017	31 December 2016
Trade receivables	5,709	10,187
Other accounts receivable	2,294	1,528
Allowance for doubtful accounts	(721)	(709)
Trade and other receivables, net	**7,282**	**11,006**
Advances to suppliers and prepayments	1,997	1,989
VAT recoverable	1,714	1,421
Tax prepayments and advances issued	**3,711**	**3,410**
Total trade and other receivables, net	**10,993**	**14,416**

NOTE 8. CASH AND CASH EQUIVALENTS

	31 March 2017	31 December 2016
Cash held in banks – Russian Roubles	154	63
Cash held in banks – foreign currencies	708	973
Deposits – Russian Roubles	6,086	3,297
Deposits – foreign currencies	149	–
Total cash and cash equivalents	**7,097**	**4,333**

(in million of Russian Roubles, unless noted otherwise)

NOTE 9. NON-CURRENT DEBT

	Currency	31 March 2017	31 December 2016
JSC Alfa bank	RR	15,333	14,338
JSC Gazprombank	RR	15,000	15,000
PJSC VTB Bank	RR	8,031	8,030
PJSC CREDIT BANK OF MOSCOW	RR	7,005	7,013
PJSC Bank Sankt Petersburg	RR	6,378	6,772
LLC Ekspobank	RR	5,500	5,500
JSC Raiffeisenbank	USD	4,558	5,604
JSC UniCreditbank	USD	4,255	5,233
Less current portion		(16,996)	(24,614)
Total non–current debt		**49,064**	**42,876**

Loan agreements contain a number of restrictive financial and other areas that the Company or its subsidiaries as the borrowers are obliged to fulfill. These covenants include maintaining certain financial ratios. As of 31 March 2017 and 31 December 2016 the Group complied with all restrictive financial and other covenants contained in the loan agreements.

Current portion of non-current debt

	31 March 2017	31 December 2016
Current portion of non–current loans – Russian Roubles	11,956	19,190
Current portion of non–current loans – foreign currencies	5,040	5,424
Total current portion of non–current debt	**16,996**	**24,614**

NOTE 10. DECOMMISSIONING AND ENVIRONMENTAL LIABILITIES

The table below presents movement of decommissioning and environmental provisions:

	Three months ended 31 March 2017	Three months ended 31 December 2016
Decommissioning and environmental provisions, opening balance (including current portion)	**17,094**	**13,895**
Additions	54	139
Disposal	(1)	(22)
Change in estimates	(104)	(207)
Unwinding of discount	284	165
Decommissioning and environmental provisions, closing balance	**17,327**	**13,970**
Less current portion	(390)	(373)
Decommissioning and environmental provisions, closing balance (non–current portion)	**16,937**	**13,597**

NOTE 11. TRADE PAYABLES

	31 March 2017	31 December 2016
Payables to suppliers and contractors	14,884	12,812
Payables for purchased non–current assets	8,896	9,292
Total trade payable	**23,780**	**22,104**

(in million of Russian Roubles, unless noted otherwise)

NOTE 12. TAXES PAYABLE

	31 March 2017	31 December 2016
Mineral extraction tax	8,771	8,599
Value added tax	8,641	7,997
Excise	2,796	3,585
Property tax	1,083	933
Income tax allowance	892	826
Social payments	559	575
Personal income tax	87	82
Income tax	46	192
Other	33	14
Total taxes paybles	**22,908**	**22,803**

NOTE 13. OTHER CURRENT LIABILITIES

	31 March 2017	31 December 2016
Accrual for bonus payments	741	491
Accrual for vacation payments	722	619
Wages and salaries	478	452
Environmental liabilities (current portion)	390	372
Accrued liabilities	20	17
Other	215	242
Total other current liabilities	**2,566**	**2,193**

NOTE 14. INCOME TAX

The Group calculates the income tax expense for the period based on the tax rate that will be applied to the expected total profit for the year. The main components of income tax expense in the interim condensed statement of profit or loss were as follows:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Current income tax expense	1,084	1,437
Deferred tax expense	410	712
Income tax allowance	66	–
Income tax adjustments for previous periods	(245)	–
Total income tax expense	**1,315**	**2,149**

NOTE 15. REVENUE

	Three months ended 31 March 2017	Three months ended 31 March 2016
Crude oil	50,762	37,868
Processing services	6,110	6,724
Other sales	1,068	1,345
Associated gas	99	103
Total revenue	**58,039**	**46,040**

(in million of Russian Roubles, unless noted otherwise)

NOTE 16. TAXES OTHER THAN INCOME TAX

	Three months ended 31 March 2017	Three months ended 31 March 2016
Mineral extraction tax	27,379	14,688
Property tax	1,028	1,028
Social payments	770	767
Other	39	41
Total taxes other than income tax	**29,216**	**16,524**

NOTE 17. FINANCE INCOME AND EXPENSES

	Three months ended 31 March 2017	Three months ended 31 March 2016
Interest income	322	415
Other income	–	39
Total finance income	**322**	**454**
Interest expenses	(872)	(1,482)
Unwinding of discount on decommissioning and environmental liabilities	(284)	(165)
Expenses on pension liabilities	(50)	(46)
Bank commissions and charges	(14)	(12)
Other	(2)	(1)
Total finance expenses	**(1,222)**	**(1,706)**
Total finance expenses, net	**(900)**	**(1,252)**

NOTE 18. RELATED PARTY TRANSACTIONS

For the purposes of this Consolidated Interim Condensed Financial Information, 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 or joint control over the other party in making financial and operational decisions. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.

The Group's principal related parties for the three months ended 31 March 2017 were the Primary Shareholders (Note 1) and their group entities (Rosneft Group and Gazprom Neft Group).

Remuneration of key management personnel of the Group (members of the Board of Directors and the Management Board of OJSC NGK Slavneft, OJSC Slavneft–Megionneftegaz, OJSC Slavneft–Yaroslavnefteorgsintez) was as follows:

	Three months ended 31 March 2017	Three months ended 31 March 2016
Short–term employee benefits	52	35
Long–term bonus scheme and other long–term employee benefits	3	1
Total	**55**	**36**

(in million of Russian Roubles, unless noted otherwise)

NOTE 18. RELATED PARTY TRANSACTIONS (CONTINUED)

Sales (including other sales) to related parties were as follows:

Customer	**Description**	**Three months ended 31 March 2017**	**Three months ended 31 March 2016**
Entities of Rosneft Group	Crude oil	25,221	18,799
Entities of Gazprom Neft Group	Crude oil	25,221	18,799
Entities of Rosneft Group	Processing services	3,056	3,362
Entities of Gazprom Neft Group	Processing services	3,054	3,362
Other	Other	1,024	1,142
Total		**57,576**	**45,464**

For the three months ended 31 March 2017 the Group incurred operating expenses with related parties representing purchases in the amount of RR 260 million (for the three months ended 31 March 2016 – RR 164 million).

Receivables from related parties were as follows:

	31 March 2017	**31 December 2016**
Entities of Rosneft Group	1,974	4,190
Entities of Gazprom Neft Group	2,223	4,070
Other	4	5
Total	**4,201**	**8,265**

Accounts payable to related parties were as follows:

	31 March 2017	**31 December 2016**
Entities of Gazprom Neft Group	2,924	2,135
Entities of Rosneft Group	1,661	748
Other	2	–
Total	**4,587**	**2,883**

Dividends payable to the Primary Shareholders were as follows:

	31 March 2017	**31 December 2016**
Entities of Gazprom Neft Group	4	4
Entities of Rosneft Group	4	4
Total	**8**	**8**

NOTE 19. CONTINGENCIES AND COMMITMENTS

Capital expenditure commitments

The Group has approved contractual capital expenditure commitments for construction and fixed assets acquisition as of 31 March 2017 in the amount of RR 28,690 million (31 December 2016 – RR 14,270 million).

Litigation

The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. The Group’s management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Neiborz Drilling International Limited LLC has filed a lawsuit against OOO Slavneft-Krasnoyarskneftegaz for the recovery of pre-term cancellation of the contract for the amount of USD 4 million. The dispute will be considered at the ICAC at the Chamber of Commerce and Industry of the Russian Federation, the date of consideration has not been determined.

NOTE 19. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Taxation contingencies in the Russian Federation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the tax authorities.

Currently the Russian tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that the Group has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle such liabilities.

Amended Russian transfer pricing legislation took 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 Organization for Economic Cooperation and Development. 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. The Group's management has implemented internal procedures to be in compliance with the new transfer pricing legislation. The Group's management believes that its pricing methodology is in compliance with the transfer pricing legislation and applied intra–Group prices are arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and the overall operations of the Group.

Operating environment

Russia continues economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of the economic, financial and monetary measures taken by the Government.

A decline in oil prices and sanctions imposed on Russia by some countries have a negative impact on the Russian economy. Interest rates of borrowings in Russian Roubles remain high. The combination of these factors led to a decrease in the availability of capital and increase of its value, as well as to an increase in uncertainty about future economic growth, which may adversely affect the financial position, results of operations and business prospects.

The Group's management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

In the normal course of business the Group is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

Risk management is carried out by the Management Board on a monthly basis. The Company's Management Board and the Management Boards of subsidiaries jointly with the Boards of Directors provide principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk and interest rate risk.

(in million of Russian Roubles, unless noted otherwise)

NOTE 20. FINANCIAL RISK MANAGEMENT

Market risk

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, foreign currency exchange rates, interest rates, stock prices and other indices that could affect the value of the Group's financial assets, liabilities or expected future cash flows. The measures taken by the Group's management to optimize revenues and expenses help to reduce the impact of this risk.

Foreign currency risk

The Company undertakes transactions nominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing nominated in foreign currencies.

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

	31 March 2017					
	RUR	USD	EUR	BYR	Subtotal for foreign currency	Total
Current assets						
Trade accounts receivable	6,512	–	749	21	**770**	**7,282**
Cash and cash equivalents	6,240	588	115	154	**857**	**7,097**
Other current assets	19	–	–	–	–	**19**
Non–current liabilities						
Non–current debt	(45,291)	(3,773)	–	–	**(3,773)**	**(49,064)**
Current liabilities						
Current debt	(11,956)	(5,040)	–	–	**(5,040)**	**(16,996)**
Trade accounts payable	(22,925)	(8)	(827)	(20)	**(855)**	**(23,780)**
Total	**(67,401)**	**(8,233)**	**37**	**155**	**(8,041)**	**(75,442)**

	31 December 2016					
	RUR	USD	EUR	BYR	Subtotal for foreign currency	Total
Current assets						
Trade accounts receivable	9,971	–	1,032	3	**1,035**	**11,006**
Cash and cash equivalents	3,360	814	119	40	**973**	**4,333**
Other current assets	12	–	–	149	149	161
Non–current liabilities						
Non–current debt	(37,464)	(5,412)	–	–	**(5,412)**	**(42,876)**
Current liabilities						
Current debt	(19,190)	(5,424)	–	–	**(5,424)**	**(24,614)**
Trade accounts payable	(20,728)	(8)	(1 332)	(36)	**(1,376)**	**(22,104)**
Total	**(64,039)**	**(10,030)**	**(181)**	**156**	**(10,055)**	**(74,094)**

The impact of the 20% appreciation /(depreciation) of the Russian ruble against foreign currencies on the Company's income before income tax would be the following:

	Three months ended 31 March 2017			Three months ended 31 March 2016		
	USD	EUR	BYR	USD	EUR	BYR
Effect on pre–tax profit	–/+1,647	+/–7	+/–31	–/+5,002	–/+64	+/–138

(in million of Russian Roubles, unless noted otherwise)

NOTE 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Commodity price risk

The Group's overall commercial trading strategy in crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group sells substantionally all its crude oil and related products to the Primary Shareholders.

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising from the possible movement of variable elements of the overall interest rate.

The interest rate profile of the Group's interest–bearing financial instruments is as follows:

	31 March 2017	**31 December 2016**
Bank deposits	6,235	3,297
Non–current debt	(6,724)	(11,043)
Current portion of non-current debt	(1,276)	(11,579)
Fixed rate financial instruments, net	**(1,765)**	**(19,325)**
Non–current debt	(42,340)	(31,833)
Current portion of non-current debt	(15,663)	(12,975)
Variable rate financial instruments	**(58,003)**	**(44,808)**

The Group analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax.

The table below summarizes the impact of a potential increase or decrease on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

A 5% change in interest rates would have the following effect on pre–tax profit:

	Three months ended 31 March 2017	**Three months ended 31 March 2016**
Effect on pre–tax profit	663	840

The sensitivity analysis is limited to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, that may accompany the relevant changes in market interest rates.

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group.

The Group is dependent on a limited number of customers – the Primary Shareholders. The Group's top trade debtors are entities associated with the Primary Shareholders. Therefore the credit quality of trade receivables not impaired at 31 March 2017 is not a significant risk as the debtors (Primary Shareholders and other parties) in the past has not violated the terms of arranged agreements. Disclosure regarding trade receivables that are either past due or impaired is presented in Note 7.

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

NOTE 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its financial liabilities as they fall due. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

As of 31 March 2017 net current liability position ot the Group totally was RR 39,920 million (31 December 2016 – RR 45,257 million). Positive cash flow from operations for the three months ended 31 March 2017 was RR 19,355 million (for the three months ended 31 December 2016 – RR 9,067 million). As of 31 March 2017 the Group has an equity to total asset ratio of 56% (as of 31 December 2016 – 55%).

The Group's Management ensures flexibility in funding by maintaining availability of credit line facilities. The unused portion of committed credit lines as of 31 March 2017 was RR 16,597 million (as of 31 December 2016 – RR 17,095 million). The unused portion of uncommitted credit lines as of 31 March 2017 was RR 5,427 million (as of 31 December 2016 – RR 16,760 million). After the reporting date the Group has agreed an additional uncommitted credit line in the sum of RR 4,000 million.

The Group's Management expects that the major sources of the Group's liquidity in 2017 will be cash generated from operations and additional financing for investments in order to refinance the existing loans and to optimize finance costs.

NOTE 21. FAIR VALUE FOR FINANCIAL INSTRUMENTS

Fair value measurement

There were no transfers between the levels of the fair value hierarchy during the three months enden 31 March 2017 year. There are no significant assets or liabilities measured at fair value categorised within Level 1 and Level 3 of the fair value hierarchy. Borrowings are within Level 2 of the fair value hierarchy.

Cash and cash equivalents, short–term bank deposits, accounts receivable and accounts payable

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

Non–current debt

Loans under bank arrangements have variable and fixed interest rates that reflect currently available terms and conditions for a similar debt.

The fair value of non–current debt differs from its carrying value and amount to RR 66,142 million as at 31 March 2017 (as of 31 December 2016 – RR 68,129 million).

(in million of Russian Roubles, unless noted otherwise)

NOTE 22. NON–CONTROLLING INTEREST

The table below presents information regarding non–controlling interest (“NCI”) as of 31 March 2017 and as of 31 December 2016, and for the three months ended 31 March 2017 and 31 March 2016.

		31 March 2017		Three months ended 31 March 2017	
Subsidiaries	**Core activity**	**NCI share, %**	**NCI in the net assets**	**NCI in the net profit**	**NCI in the net comprehensive (loss)/income**
OAO Slavneft–Megionneftegaz	Oil and gas development and production	43.58%	58,444	1,561	1,596
OAO Slavneft Yaroslavnefteorgsintez	Petroleum refining	60.17%	31,776	673	673
OAO Ob’neftegazgeologiya	Oil and gas development and production	19.76%	2,647	163	163
OOO MUBR	Field survey and exploration	43.58%	1,128	(4)	(4)
OAO Slavneft–Megionneftegazgeologiya	Oil and gas development and production	5.28%	113	–	–
OOO MegionEnergoNeft’	Field survey and exploration	43.58%	134	10	10
OOO Megion Geologiya	Field survey and exploration	11.87%	(62)	2	2
Other	–	–	51	15	15
Total			**94,231**	**2,420**	**2,455**

		31 December 2016		Three months ended 31 March 2016	
Subsidiaries	**Core activity**	**NCI share, %**	**NCI in the net assets**	**NCI in the net profit**	**NCI in the net comprehensive (loss)/income**
OAO Slavneft–Megionneftegaz	Oil and gas development and production	43.58%	56,848	1,722	1,722
OAO Slavneft Yaroslavnefteorgsintez	Petroleum refining	60.17%	31,102	1,305	1,305
OAO Ob’neftegazgeologiya	Oil and gas development and production	19.76%	2,484	191	191
OOO MUBR	Field survey and exploration	43.58%	1,132	25	25
OAO Slavneft–Megionneftegazgeologiya	Oil and gas development and production	5.28%	113	(18)	(18)
OOO MegionEnergoNeft’	Field survey and exploration	43.58%	124	4	4
OOO Megion Geologiya	Field survey and exploration	11.87%	(64)	4	4
OOO Sobol’	Oil and gas development and production	16.31%	–	(16)	(16)
Other	–	–	37	–	–
Total			**91,776**	**3,217**	**3,217**

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. PRINCIPAL SUBSIDIARIES

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

		31 March 2017		31 December 2016	
Subsidiaries	**Core activity**	**Preferred and common shares**	**Voting shares**	**Preferred and common shares**	**Voting shares**
OAO Slavneft–Megionneftegazgeologiya	Oil and gas development and production	94.72%	94.72%	94.72%	94.72%
OAO Slavneft–Megionneftegaz	Oil and gas development and production	56.42%	56.42%	56.42%	56.42%
OAO Ob'neftegazgeologiya	Oil and gas development and production	80.24%	80.24%	80.24%	80.24%
ZAO Ob'neftegeologiya	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'–Nizhnevartovsk	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'–Krasnoyarskneftegaz	Field survey and exploration	100%	100%	100%	100%
OAO Slavneft Yaroslavnefteorgsintez	Petroleum refining	39.83%	51.46%	39.83%	51.46%

NOTE 24. DIVIDENDS

The Group did not declare and did not pay dividends during the three months ended 31 March 2017 or until the date of issuance of this Consolidated Interim Condensed Financial Information.

The Group did not declare and did not pay dividends during the three months ended 31 March 2016.

NOTE 25. EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events which have or may have an impact on the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's Consolidated Interim Condensed Financial Information for the three months ended 31 March 2017 prepared in accordance with IFRS.