ALLIANCE OIL COMPANY LTD

International Accounting Standard No. 34

Condensed Consolidated Interim Financial Statements and Review Report

30 June 2017

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ALLIANCE OIL COMPANY LTD

Statement of management's responsibilities for the preparation and approval of the condensed consolidated interim financial statements for the quarter and six months ended 30 June 2017

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of Alliance Oil Company Ltd and its subsidiaries (the "Group") as at 30 June 2017, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in compliance with IAS 34, "Interim financial reporting".

In preparing the condensed consolidated interim financial statements, management is responsible for:

- properly selecting and applying accounting policies and significant estimates;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

On behalf of management:

Andreas Andreou
Director

V.V. Bondarenko
Chief Financial Officer

08 September 2017

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholder and Management of Alliance Oil Company Ltd:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Alliance Oil Company Ltd. and its subsidiaries (the "Group") as of 30 June 2017 and the related condensed consolidated interim statements of profit or loss and comprehensive income for the three months and six months then ended, and changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements 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 statements 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 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Andrei Shvetsov
Engagement partner

Deloitte & Touche

08 September 2017

The Entity: Alliance Oil Company Limited

Registration number: 25413

Address: Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444
Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

(Expressed in USD thousands)		Quarter ended 30 June 2017	Quarter ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Revenue					
Revenue from sales of crude oil and gas		170,884	136,369	336,808	230,703
Revenue from sales of oil products		475,491	378,535	998,665	708,518
Revenue from other sales		8,550	7,283	16,010	13,844
		654,925	**522,187**	**1,351,483**	**953,065**
Cost of sales					
Production costs of crude oil and gas	5	(96,685)	(63,127)	(188,460)	(109,714)
Production costs of oil products	6	(390,558)	(307,602)	(823,530)	(546,145)
Cost of other sales		(4,743)	(3,705)	(9,621)	(7,136)
Depletion and depreciation of oil and gas production and refining assets		(48,999)	(41,638)	(93,238)	(78,444)
Gross profit		**113,940**	**106,115**	**236,634**	**211,626**
Selling expenses		(58,378)	(48,766)	(120,234)	(95,247)
Administrative expenses		(28,146)	(23,252)	(51,898)	(41,893)
Depreciation and amortisation of marketing and other assets		(4,090)	(3,347)	(7,983)	(6,258)
Other operating (expenses)/income, net	7	(2,145)	16,307	3,235	11,374
Operating income		**21,181**	**47,057**	**59,754**	**79,602**
Interest income		9,728	6,847	18,955	11,654
Finance costs		(50,257)	(44,561)	(100,227)	(86,756)
Share of profits of associates and joint ventures		943	474	1,867	1,008
Foreign currency exchange (loss)/gain from financing activities, net		(39,441)	51,363	22,653	137,539
(Loss)/Profit before tax		**(57,846)**	**61,180**	**3,002**	**143,047**
Income tax expense		(3,119)	(13,986)	(17,194)	(34,691)
(Loss)/Profit for the period		**(60,965)**	**47,194**	**(14,192)**	**108,356**
Attributable to:					
Owners of the Company		(79,172)	39,266	(36,099)	96,653
Non-controlling interests		18,207	7,928	21,907	11,703
		(60,965)	**47,194**	**(14,192)**	**108,356**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Expressed in USD thousands)	**Quarter ended 30 June 2017**	**Quarter ended 30 June 2016**	**Six months ended 30 June 2017**	**Six months ended 30 June 2016**
(Loss)/Profit for the period	**(60,965)**	**47,194**	**(14,192)**	**108,356**
Other comprehensive (loss)/income				
Items that will not be reclassified subsequently to profit or loss:				
Effect of translation to presentation currency	(12,632)	9,666	6,030	22,125
	(12,632)	**9,666**	**6,030**	**22,125**
Items that may be reclassified subsequently to profit or loss:				
Currency exchange differences on intercompany loans forming net investment in foreign operations	(5,547)	5,542	2,968	13,246
Income tax relating to currency exchange differences on intercompany loans forming net investment in foreign operations	1,109	(1,108)	(594)	(2,649)
Effect of translation to presentation currency	(43,583)	35,996	30,847	82,902
	(48,021)	**40,430**	**33,221**	**93,499**
Other comprehensive (loss)/income for the period, net of income tax	(60,653)	50,096	39,251	115,624
Total comprehensive (loss)/income for the period	**(121,618)**	**97,290**	**25,059**	**223,980**
Attributable to:				
Owners of the Company	(127,193)	79,696	(2,878)	190,152
Non-controlling interests	5,575	17,594	27,937	33,828
	(121,618)	**97,290**	**25,059**	**223,980**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Expressed in USD thousands)	Note	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	8	2,391,439	2,373,758
Goodwill		41,922	40,836
Investments in associates and joint ventures		52,806	49,665
Deferred tax assets		106,414	92,252
Other financial assets	9	292,489	305,044
Other non-current assets		1,128	1,220
		2,886,198	**2,862,775**
Current assets			
Inventories		164,016	169,642
Trade and other accounts receivable		42,345	51,100
Value added tax recoverable and other taxes receivable		102,308	104,280
Income tax receivable		20,329	8,889
Advances paid and prepaid expenses		63,365	63,857
Other financial assets	9	114,880	52,329
Cash and cash equivalents		153,081	138,113
		660,324	**588,210**
TOTAL ASSETS		**3,546,522**	**3,450,985**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		2	2
Additional paid-in capital		1,353,809	1,353,798
Translation reserve on intercompany loans		(513,743)	(516,117)
Reserve on translation to presentation currency		(1,446,661)	(1,477,508)
Retained earnings		1,254,853	1,290,952
Equity attributable to owners of the Company		**648,260**	**651,127**
Non-controlling interests		277,688	249,836
TOTAL EQUITY		**925,948**	**900,963**
Non-current liabilities			
Loans and borrowings	10	1,393,038	1,631,958
Advances received	11	99,342	-
Financing component of long-term advances received	11	9,756	-
Deferred tax liabilities		87,942	85,918
Provision for decommissioning and site restoration costs		21,407	19,611
Post-employment benefit obligations		6,029	5,513
		1,617,514	**1,743,000**
Current liabilities			
Loans and borrowings	10	666,764	460,693
Trade and other accounts payable		60,701	58,344
Advances received and accrued expenses		193,462	206,485
Income tax payable		893	380
Other taxes payable		81,240	81,120
		1,003,060	**807,022**
TOTAL LIABILITIES		**2,620,574**	**2,550,022**
TOTAL EQUITY AND LIABILITIES		**3,546,522**	**3,450,985**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Expressed in USD thousands)	Attributable to owners of the Company							
	Share capital	Additional paid-in capital	Translation reserve on intercompany loans	Reserve on translation to presentation currency	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**2**	**1,353,766**	**(532,095)**	**(1,612,197)**	**1,159,102**	**368,578**	**188,454**	**557,032**
Profit for the period	-	-	-	-	96,653	**96,653**	11,703	**108,356**
Other comprehensive income, net of income tax	-	-	10,597	82,902	-	**93,499**	22,125	**115,624**
Total comprehensive income for the period	**-**	**-**	**10,597**	**82,902**	**96,653**	**190,152**	**33,828**	**223,980**
Balance at 30 June 2016	**2**	**1,353,766**	**(521,498)**	**(1,529,295)**	**1,255,755**	**558,730**	**222,282**	**781,012**
Balance at 1 January 2017	**2**	**1,353,798**	**(516,117)**	**(1,477,508)**	**1,290,952**	**651,127**	**249,836**	**900,963**
(Loss)/Profit for the period	-	-	-	-	(36,099)	**(36,099)**	21,907	**(14,192)**
Other comprehensive income, net of income tax	-	-	2,374	30,847	-	**33,221**	6,030	**39,251**
Total comprehensive income/(loss) for the period	**-**	**-**	**2,374**	**30,847**	**(36,099)**	**(2,878)**	**27,937**	**25,059**
Changes in ownership of subsidiaries	-	11	-	-	-	**11**	(85)	**(74)**
Balance at 30 June 2017	**2**	**1,353,809**	**(513,743)**	**(1,446,661)**	**1,254,853**	**648,260**	**277,688**	**925,948**

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Expressed in USD thousands)	**Six months ended 30 June 2017**	**Six months ended 30 June 2016**
Operating activities		
Profit before tax	3,002	143,047
Adjustments for:		
Depreciation, depletion and amortisation	101,221	84,702
Interest income	(18,955)	(11,654)
Finance costs	100,227	86,756
Foreign currency exchange gain from financing activities, net	(22,653)	(137,539)
Share of profits of associates and joint ventures	(1,867)	(1,008)
Other non-cash items	5,644	13,129
Operating cash flows before changes in working capital	**166,619**	**177,433**
Movements in working capital		
Decrease/(Increase) in inventories	13,002	(17,263)
Decrease/(Increase) in accounts receivable, advances paid and prepaid expenses	11,409	(8,514)
Increase/(Decrease) in accounts payable, advances received and accrued expenses	76,951	(61,107)
Cash generated from operations	**267,981**	**90,549**
Interest paid	(95,965)	(81,905)
Income tax paid	(28,009)	(20,159)
Total cash generated from/(used in) operating activities	**144,007**	**(11,515)**
Investing activities		
Investments in oil and gas production assets	(36,743)	(36,522)
Investments in refining assets	(10,318)	(14,741)
Investments in marketing and other assets	(3,877)	(4,302)
Interest capitalised and paid	(1,687)	(3,234)
Proceeds from disposal of assets	199	-
Interest received	2,805	5,274
Loans provided	(29,704)	(177,174)
Loans repaid	-	2,920
Total cash used in investing activities	**(79,325)**	**(227,779)**
Financing activities		
Proceeds from loans and borrowings	246,445	199,629
Repayment of loans and borrowings	(298,456)	(211,951)
Partial bonds repayment	-	(13,245)
Bonds prolongation costs	-	(1,215)
Other financial activities	(74)	-
Total cash used in financing activities	**(52,085)**	**(26,782)**
Effect of foreign currency exchange rate changes	2,371	21,084
Change in cash and cash equivalents	**14,968**	**(244,992)**
Cash and cash equivalents at beginning of the period	**138,113**	**354,656**
Cash and cash equivalents at end of the period	**153,081**	**109,664**

Note 1 Organisation

Alliance Oil Company Limited (the "Company") and its subsidiaries (together the "Group") is an independent vertically integrated oil and gas holding with upstream operations in the Russian Federation and Kazakhstan and downstream operations in the Russian Federation. The Group's upstream operations include crude oil and gas exploration, extraction and production in the Timano-Pechora, Volga-Urals and Tomsk regions of the Russian Federation and the Atyrau region of Kazakhstan. The downstream operations include oil refining, transportation, marketing and sales of oil products in the Russian Far East and Eastern Siberia.

Alliance Oil Company Limited was incorporated in Bermuda on 1 September 1998 as a tax exempted limited liability private company. Alliance Oil Company Limited's registered office is located at: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Note 2 Basis of preparation and significant accounting policies

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34, "Interim financial reporting". These consolidated condensed interim financial statements supplement the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The principal accounting policies and significant judgments and estimates applied therein are consistent with those of the consolidated financial statements for the year ended 31 December 2016, except for the policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2017 (Note 3).

<u>Income taxes</u>

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

<u>Seasonality of operations</u>

The Group's operations are not seasonal. Income and expenses are earned and incurred evenly during the financial year.

Note 3 Adoption of new and revised standards and interpretations

The following amendments to standards became effective on 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016);
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016);
- Annual Improvements to IFRSs 2014-2016 Cycle.

These amendments to standards did not have any impact or did not have a material impact on the Group's condensed consolidated interim financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2017, and have not been early adopted by the Group:

- IFRS 9 "*Financial Instruments: Classification and Measurement*" (issued in July 2014 effective for annual periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial statements;

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 3 Adoption of new and revised standards and interpretations (continued)

- IFRS 15 "*Revenue from contracts with customers*" (issued on 28 May 2014 with Amendments issued on 12 April 2016 and effective for the periods beginning on or after 1 January 2018). The Group is currently assessing the impact of the standard on its consolidated financial statements;
- IFRS 16 "*Leases*" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the standard on its consolidated financial statements.

Other new standards, amendments to standards and interpretations are expected to have no impact or to have a non-material impact on the Group's condensed consolidated interim financial statements.

Note 4 Segment information

The Group identifies segments in accordance with the criteria set forth in IFRS 8 "*Operating segments*", as well as based on how its operations are regularly reviewed by the chief operating decision-maker in order to analyse performance and allocate resources.

The Group has identified the following business segments:

- Upstream segment, which includes crude oil and gas exploration, extraction and production;
- Downstream segment, which includes oil refining, transportation and sale of oil products;
- Management and other companies segment, which include management function, parent company and subsidiaries involved in non-core activities.

Management reviews and evaluates the performance of these segments on a regular basis.

Management assesses the performance of the operating segments based on segment-adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The segment financial information provided to management is prepared using the management accounts and includes segment-adjusted EBITDA as a measure of profitability in order to allocate finance and make operational decisions. Segment-adjusted EBITDA is prepared on a basis that does not directly align with IFRS. The explanations for the differences as to IFRS are included below, as a reconciliation of segment-adjusted EBITDA (on a non-IFRS basis) to adjusted EBITDA (on an IFRS basis), which in turn is reconciled to profit before tax.

Business segment assets and liabilities are not reviewed by management and, thus, are not disclosed in these condensed consolidated interim financial statements.

There are no differences from the last annual statements in the basis of segmentation or in the basis of the measurement of segment profit or loss.

Financial information by reportable segments is presented below:

Quarter ended 30 June 2017

	Up-stream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	153,647	503,803	417	657,867	(4,180)	1,238	654,925
Less inter-segment revenue	-	(3,941)	(239)	(4,180)	4,180	-	-
Revenue from external customers	153,647	499,862	178	653,687	-	1,238	654,925
Segment-adjusted EBITDA	**51,089**	**40,423**	**(26,382)**	**65,130**	**-**	**9,701**	**74,831**
Foreign currency exchange (loss)/gain from financing activity, net	(5,491)	(41,076)	3,402	(43,165)	-	3,724	(39,441)
Loss for the period	**(5,753)**	**(35,586)**	**(33,958)**	**(75,297)**	**-**	**14,332**	**(60,965)**

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 4 Segment information (continued)

Quarter ended 30 June 2016

	Up-stream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	137,162	401,150	302	538,614	(16,545)	118	522,187
Less inter-segment revenue	(12,080)	(4,254)	(211)	(16,545)	16,545	-	-
Revenue from external customers	125,082	396,896	91	522,069	-	118	522,187
Segment-adjusted EBITDA	**87,183**	**39,601**	**(19,274)**	**107,510**	**-**	**(15,196)**	**92,314**
Foreign currency exchange gain from financing activity, net	13,049	47,966	694	61,709	-	(10,346)	51,363
Profit/(Loss) for the period	**41,083**	**38,022**	**(24,706)**	**54,399**	**-**	**(7,205)**	**47,194**

Six months ended 30 June 2017

	Up-stream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	324,019	1,043,336	774	1,368,129	(17,859)	1,213	1,351,483
Less inter-segment revenue	(10,206)	(7,187)	(466)	(17,859)	17,859	-	-
Revenue from external customers	313,813	1,036,149	308	1,350,270	-	1,213	1,351,483
Segment-adjusted EBITDA	**116,267**	**79,003**	**(47,576)**	**147,694**	**-**	**14,385**	**162,079**
Foreign currency exchange gain from financing activity, net	2,439	18,013	4,645	25,097	-	(2,444)	22,653
Profit/(Loss) for the period	**8,168**	**10,975**	**(62,802)**	**(43,659)**	**-**	**29,467**	**(14,192)**

Six months ended 30 June 2016

	Up-stream	Down-stream	Management and other companies	Total reportable segments	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	232,451	746,775	579	979,805	(29,450)	2,710	953,065
Less inter-segment revenue	(20,096)	(8,956)	(398)	(29,450)	29,450	-	-
Revenue from external customers	212,355	737,819	181	950,355	-	2,710	953,065
Segment-adjusted EBITDA	**127,930**	**91,983**	**(36,439)**	**183,474**	**-**	**(18,259)**	**165,215**
Foreign currency exchange gain from financing activity, net	36,148	100,983	5,194	142,325	-	(4,786)	137,539
Profit/(Loss) for the period	**52,967**	**96,685**	**(42,933)**	**106,719**	**-**	**1,637**	**108,356**

Revenue of the Upstream and Downstream segments includes revenue from sales of crude oil and gas, and oil products, respectively, as well as revenue from other sales.

The reconciliation of segment-adjusted EBITDA (on a non-IFRS basis) to adjusted EBITDA (on an IFRS basis) includes the following reconciling items:

- elimination of unrealised gains/losses on intra-segment operations;
- foreign currency exchange gains/losses from non-financing activities;
- share of profits of associate and joint venture.

The prices used in transactions between reportable segments are determined at an arm's length basis in a manner equal to transactions with third parties, with the exception of received and provided loans.

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 4 Segment information (continued)

Reconciliation of the segment-adjusted EBITDA (on a non-IFRS basis) to adjusted EBITDA (on an IFRS basis) to profit before tax is presented below:

	Quarter ended 30 June 2017	Quarter ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Adjusted EBITDA of reportable segments	65,130	107,510	147,694	183,474
Effect of reconciling items	9,701	(15,196)	14,385	(18,259)
Adjusted EBITDA (on an IFRS basis)	**74,831**	**92,314**	**162,079**	**165,215**
Depreciation, depletion and amortisation	(53,089)	(44,985)	(101,221)	(84,702)
Interest income	9,728	6,847	18,955	11,654
Finance costs	(50,257)	(44,561)	(100,227)	(86,756)
Foreign currency exchange (loss)/gain from financing activities, net	(39,441)	51,363	22,653	137,539
Other	382	202	763	97
(Loss)/Profit before tax	**(57,846)**	**61,180**	**3,002**	**143,047**

Note 5 Production costs of crude oil and gas

	Quarter ended 30 June 2017	Quarter ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Mineral extraction tax	49,169	38,663	103,366	62,670
Crude oil purchased for re-sale	17,456	492	26,005	732
Employee benefits	7,909	5,605	16,017	11,915
Repairs and maintenance	7,206	4,991	13,309	9,524
Taxes other than income tax and mineral extraction tax	4,631	4,660	9,280	9,003
Materials and fuel	2,951	1,711	6,386	3,804
Transportation	2,241	1,582	4,102	3,103
Other	5,122	5,423	9,995	8,963
	96,685	**63,127**	**188,460**	**109,714**

Note 6 Production costs of oil products

	Quarter ended 30 June 2017	Quarter ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Crude oil purchased for refining	253,929	203,045	564,677	353,672
Taxes other than income tax	51,313	39,404	98,819	65,971
Transportation	30,010	29,872	67,749	61,369
Oil products purchased for re-sale	26,041	11,184	36,731	20,850
Materials	9,998	9,851	22,102	19,261
Employee benefits	6,203	4,894	11,750	8,727
Other	13,064	9,352	21,702	16,295
	390,558	**307,602**	**823,530**	**546,145**

Note 7 Other operating (expenses)/income, net

	Quarter ended 30 June 2017	Quarter ended 30 June 2016	Six months ended 30 June 2017	Six months ended 30 June 2016
Correction of mineral extraction tax of prior years, net	6,296	21,646	6,296	21,646
Foreign exchange gain on non-financial activities	3,960	994	20,163	4,428
Foreign exchange loss on non-financial activities	(12,921)	(2,242)	(23,966)	(13,204)
Other operating income/(expenses), net	520	(4,091)	742	(1,496)
	(2,145)	**16,307**	**3,235**	**11,374**

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 8 Property, plant and equipment

During the six months ended 30 June 2017, additions to the construction and acquisition of production and other assets amounted to USD 55.5 million (six months ended 30 June 2016: USD 55.4 million), including USD 37.2 million related to oil and gas fields (six months ended 30 June 2016: USD 37.8 million) and USD 14.4 million related to AO NNK-Khabarovsk Oil Refinery (six months ended 30 June 2016: USD 14.1 million).

Useful economic lives of oil and gas production assets

The Group’s oil and gas production assets are depleted over the respective life of the oil and gas fields using the unit-of-production method based on 2P oil and gas reserves and incorporating the anticipated future capital cost for the development of those reserves. Depletion rates for the six months ended 30 June 2017 were based on an independent reserve engineer report as at 31 December 2016 (six months ended 30 June 2016: based on the report as at 31 December 2015).

Note 9 Other financial assets

	30 June 2017	31 December 2016
Non-current		
Loans provided to an entity under common control, including interest accrued	270,014	241,940
Loans provided to third parties, including interest accrued	22,254	63,007
Other	221	97
	292,489	**305,044**
Current		
Loans provided to third parties	119,660	56,985
Less allowance for loans provided to third parties	(4,780)	(4,656)
	114,880	**52,329**

During the six months ended 30 June 2017, the following new loans were issued:

- long-term loan provided to an entity under common control denominated in RUB in the amount of RUB 386.8 million (USD 6.6 million) bearing interest of 12% per annum and maturing in March 2019;
- short-term loans provided to a third party denominated in USD in the amount of USD 23.1 million bearing interest of Libor 12M+0.21% and Libor 6M+0.45% per annum and maturing in December 2017.

Note 10 Loans and borrowings

					30 June 2017
	Currency	Interest rate	Principal	Interest	Total
Non-convertible interest-bearing Eurobonds	USD	7.0% - 11.0%	794,267	15,496	809,763
Bank loans denominated in USD	USD	5.3%	629,576	461	630,037
Bank loans denominated in RUB	RUB	12.75%-15.5%	462,521	4,119	466,640
Non-convertible interest-bearing bonds	RUB	11.25%	152,290	1,072	153,362
Total loans and borrowings			**2,038,654**	**21,148**	**2,059,802**
Short-term and current portion of long-term loans and borrowings					666,764
Long-term loans and borrowings					**1,393,038**

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 10 Loans and borrowings (continued)

			31 December 2016		
	Currency	Interest rate	Principal	Interest	Total
Non-convertible interest-bearing Eurobonds	USD	7.0% -10.5%	792,901	15,040	807,941
Bank loans denominated in USD	USD	5.3%	672,468	589	673,057
Bank loans denominated in RUB	RUB	13.0%-15.5%	458,738	3,846	462,584
Non-convertible interest-bearing bonds	RUB	12.0%	147,906	1,163	149,069
Total loans and borrowings			**2,072,013**	**20,638**	**2,092,651**
Short-term and current portion of long-term loans and borrowings					460,693
Long-term loans and borrowings					**1,631,958**

In February and May 2017, AO NNK-Khabarovsk Oil Refinery, a subsidiary of the Group, partially repaid a USD-denominated bank loan in the total amount of USD 43.8 million. The above amount was partially refinanced by obtaining in January and February 2017 a 3-year prepayment for crude oil delivery in the total amount of USD 140.0 million, containing a financial liability component of USD 12.2 million (balance as at 30 June 2017 being USD 9.8 million).

In March 2017, AO Nezavisimaya Neftegazovaya Kompaniya, a subsidiary of the Group, refinanced short-term tranches of long-term credit line obtained in October 2016 in the amount of RUB 3,000 million, set to mature in September 2017. The credit line has a fixed interest rate of 13% per annum and is available till October 2018.

In February 2017, AO Nezavisimaya Neftegazovaya Kompaniya refinanced short-term tranches of long-term credit line obtained in September 2014 in the amount of RUB 11,500 million, set to mature in August 2017. The interest rate is equal to the Central Bank of Russia key rate increased by 3.5 percentage points. As at 30 June 2017, the interest rate amounted to 12.5% per annum (31 December 2016: 13.5%).

As at 30 June 2017 and 31 December 2016, the Group had no borrowings at floating interest rates.

Total borrowings include collateralised liabilities of USD 61.7 million (31 December 2016: USD 64.9 million).

As at 30 June 2017, loans and borrowings were collateralised by:

- 100% of the Group's holding in OOO SN-Gazdobycha (31 December 2016: 100%);
- property, plant and equipment with a carrying value of USD 79.3 million (31 December 2016: USD 79.1 million).

The maturity profile of the Group’s loans and borrowings based on contractual undiscounted payments, including accrued interest, was as follows:

	30 June 2017		
	Principal	Interest	Total
Within one year	648,103	148,792	796,895
Within second year	417,563	95,911	513,474
Within years three and four	722,174	86,027	808,201
Five years and more	263,274	22,099	285,373
	2,051,114	**352,829**	**2,403,943**

	31 December 2016		
	Principal	Interest	Total
Within one year	440,298	153,178	593,476
Within second year	429,925	119,456	549,381
Within years three and four	899,602	121,584	1,021,186
Five years and more	317,354	31,896	349,250
	2,087,179	**426,114**	**2,513,293**

Note 10 Loans and borrowings (continued)

The interest payments were based on the interest rate effective at 30 June 2017 and 31 December 2016, respectively. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 30 June 2017 and 31 December 2016, respectively.

The Group is subject to external requirements imposed on Eurobonds and loans provided by certain banks on the basis of net debt to adjusted EBITDA ratio. As at 30 June 2017 and 31 December 2016, the Group was restricted from incurring additional loans and borrowings except for refinancing of existing borrowings owing to the increase in the net debt to adjusted EBITDA ratio. This restriction does not create breach or event of default for the Eurobonds and other loans.

Note 11 Advances received

In January and February 2017, the Group obtained a 3-year prepayment for crude oil delivery in the total amount of USD 140.0 million, containing a financial liability component of USD 9.8 million as at 30 June 2017.

Note 12 Financial instruments fair value

The different levels in fair value have been defined as follows:

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

The estimated fair values of loans and borrowings bearing fixed interest rate (Level 3 in the fair value measurement hierarchy) with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The discount rates used ranged from 3.93% p.a. to 12.71% p.a. (31 December 2016: 4.29% p.a. to 13.01% p.a.) depending on the length and currency of the liability. The fair values of loans and borrowings bearing a fixed interest rate as at 30 June 2017 exceeded their carrying values by
USD 84.2 million (31 December 2016: USD 88.2 million).

Management believes that the fair values of the following financial assets and liabilities approximate their carrying amount (Level 3 in the fair value measurement hierarchy):

- trade and other accounts receivable;
- other financial assets;
- cash, cash equivalents and restricted cash;
- trade and other accounts payable;
- financing component of long-term advances received.

Note 13 Related party transactions

Related parties include shareholders, associate, joint venture and other related parties representing entities under common ownership and control with the Group, as well as members of key management personnel.

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 13 Related party transactions (continued)

Significant balances with related parties:

	30 June 2017	31 December 2016
Entities under common control		
Loans provided including interest accrued	270,014	241,940
Trade and other accounts receivable	1,661	2,543
Other related parties		
Trade and other accounts receivable	4,997	3,442

No allowance for doubtful debts with respect to the amounts owed by related parties was recognised.

All related party balances are unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

Significant transactions with related parties:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Associate and joint venture		
Purchase of services	2,994	2,316
Entities under common control		
Interest income	15,383	6,027
Loans provided	6,601	138,859
Loans repaid	-	2,920
Other related parties		
Revenue	27,733	19,562

Transactions with shareholders with significant influence, associate, entities under common control and other related parties relate to transactions in the ordinary course of business with terms and conditions, which management believes to be similar to transactions with third parties.

Revenue from sales to related parties mainly includes sales of oil products in the domestic market. Purchase of services from related parties mainly includes management services.

As at 30 June 2017 and 31 December 2016, 100% of the Company's shares were pledged under the loan provided to the parent company.

As at 30 June 2017 and 31 December 2016, the principal beneficial shareholder and the ultimate controlling party of the Group was Mr. Eduard Y. Khudaynatov.

Note 14 Commitments and contingencies

The Group’s contractual capital commitments at 30 June 2017 and 31 December 2016 amounted to USD 105.5 million and USD 51.1 million, respectively.

Note 15 Financial risk management

As at 30 June 2017, the Group’s current liabilities exceeded its current assets by USD 342.7 million (31 December 2016: USD 218.8 million). The Group's budget for 2017 forecasts sufficient operating cash flows to settle the outstanding amount of short-term liabilities as at 30 June 2017. The Group considers its current position to be sustainable.

Management of the Company plans to negotiate refinancing of short-term borrowings on long-term basis. The Group has favorable past history of refinancing with its creditors, which include large credit organisations controlled by the Russian government.

Note 16 Operating environment of the Group

The Group's business operations are primarily located in the Russian Federation and are thus exposed to risks and uncertainties of the economic environments and financial markets of the Russian Federation.

The Russian Federation continues to display some characteristics of an emerging market. The Russian economy is particularly sensitive to world oil and gas prices, therefore, significant prolonged declines in world oil prices have a negative impact on the Russian economy. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation.

This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

On 1 June 2017 the Office of Foreign Assets Control of U.S. Department of the Treasury ("OFAC") included AO Nezavisimaya Neftegazovaya Kompaniya and AO NNK-Primornefteproduct, subsidiaries of the Group, to the Specially Designated Nationals and Blocked Persons list ("SDN List"). Sanctions were implied based on the US President Executive Order No. 13722 dated 15 March 2016.

Currently sanctions do not have a significant effect on the Group's operations though risk of refusal from cooperation of some counterparties of the Group and risk of partial blocking of the Group's revenues can not be fully excluded. The Group cooperates with OFAC on all arising matters and is preparing together with its legal advisors an application to exclude its subsidiaries from the SDN List.

The Group has received a confirmation from The Bank of New York Mellon of the current absence of obstacles for the provision of services and payments settlement under the Group's existing Eurobonds.

Note 17 Significant events after the end of the period

In August 2017, AO NNK-Khabarovsk Oil Refinery, a subsidiary of the Group, partially repaid a USD-denominated bank loan in the amount of USD 21.9 million. The Group refinanced the above amount by obtaining a 3-year prepayment for crude oil delivery in the total amount of USD 270.0 million, containing a financial liability component of USD 24.7 million. The remaining USD 246 million was provided as long-term loans to an entity under common control. The loans are denominated in USD, bear interest of 5.74% per annum and mature in March 2019.

In August 2017, the Group refinanced short-term tranches of long-term credit line obtained in September 2014 in the amount of RUB 11,500 million (USD 191.1 million as of the transaction date) by short-term tranches of the two new credit lines in the amount of RUB 6,000 million and RUB 5,500 million, respectively, set to mature in February 2018. The new credit lines have interest rates of the Central Bank of Russia key rate increased by 3.5% (12.5%) per annum and are available till August 2022.