Investgeoservice Group

Consolidated Financial Statements
Prepared in accordance with International
Financial Reporting Standards
and independent auditor's report

31 December 2016

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CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Investgeoservis

Opinion

We have audited the consolidated financial statements of JSC "Investgeoservis" (OGRN 1067760718871, 10A Prospekt 60-letya Oktyabrya, Moscow, 117036) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements for the year ended 31 December 2016, which comprise a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and members of the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Members of the Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with members of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Engagement Partner on the audit resulting in this independent auditor's report is A.B. Baliakin

Audit company:
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Principal Registration Number of the Entry in the State Register of Auditors and Audit Organizations: 11603059593

26 April 2017

(All amounts are in thousands of Russian Rubles unless stated otherwise)

		Year ended 31 December	
	Note	**2016**	**2015**
Sale of services	6	15,922,438	20,966,832
Cost of sales	7	(13,036,573)	(17,749,942)
Gross profit		**2,885,865**	**3,216,890**
Administrative expenses	8	(1,190,796)	(930,270)
Gain on disposal of investment in subsidiary		-	455
Gain / (loss) from disposal of property, plant and equipment		156,845	(68,433)
Loss on revaluation and reclass of assets held for sale into investment property	14	(40,967)	-
Other operating income	9	149,165	64,032
Other operating expenses	9	(418,183)	(313,952)
Operating profit		**1,541,929**	**1,968,722**
Finance income	10	39,694	51,482
Finance expense	10	(892,910)	(1,247,462)
Profit before income tax		**688,713**	**772,742**
Income tax expense	19	(155,473)	(188,429)
Profit for the period		**533,240**	**584,313**
Other comprehensive income		-	-
Total comprehensive income for the period		**533,240**	**584,313**
Profit attributable to:			
Equity holders of Investgeoservice Group		533,041	584,081
Non-controlling interest		199	232
Total comprehensive income attributable to:			
Equity holders of Investgeoservice Group		533,041	584,081
Non-controlling interest		199	232
Basic and diluted earnings per share attributable to the equity holders of Investgeoservice Group (in Rubles)	21	2,348	2,573

Signed on behalf of the Board of Directors on 24 April 2017

D.Kh. Tuktarov
Chief Executive Officer
24 April 2017

S.V. Kochukhova
Chief Financial Officer
24 April 2017

(All amounts are in thousands of Russian Rubles unless stated otherwise)

	Note	31 December 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	5	632,959	274,599
Trade and other receivables	12	4,898,235	8,080,617
Inventories	11	2,061,436	2,542,767
Income tax receivable		197,624	129,437
Assets held for sale	14	-	86,689
Loan provided to parent company	22	-	2,302
Total current assets		**7,790,254**	**11,116,411**
Non-current assets			
Property, plant and equipment	13	5,563,533	7,115,591
Other non-current receivables	12	113,636	50,670
Investment property	14	45,722	-
Goodwill and intangible assets	15	26,338	30,064
Deferred tax assets	19	314,099	274,811
Total non-current assets		**6,063,328**	**7,471,136**
Total assets		**13,853,582**	**18,587,547**
Liabilities and equity			
Current liabilities			
Borrowings	16	2,026,730	4,005,029
Trade and other payables	17	5,656,583	7,868,662
Provisions	18	170,344	30,079
Income tax payable		10,068	-
Total current liabilities		**7,863,725**	**11,903,770**
Non-current liabilities			
Borrowings	16	6,468,959	3,280,209
Other non-current payables and accrued liabilities	17	10,141	9,051
Total non-current liabilities		**6,479,100**	**3,289,260**
Equity			
Share capital	20	226,987	226,987
Share premium	20	1,827,584	1,827,584
Treasury shares	20	(4,417,000)	-
Retained earnings		1,872,605	1,339,564
Total equity attributable to the equity holders of Investgeoservice Group		**(489,824)**	**3,394,135**
Non-controlling interest		581	382
Total equity		**(489,243)**	**3,394,517**
Total liabilities and equity		**13,853,582**	**18,587,547**

Signed on behalf of the Board of Directors on 24 April 2017

D.Kh. Tuktarov
Chief Executive Officer
24 April 2017

S.V. Kochukhova
Chief Financial Officer
24 April 2017

(All amounts are in thousands of Russian Rubles unless stated otherwise)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities:			
Profit before income tax		688,713	772,742
Adjustments for:			
Depreciation and amortisation	13, 15	1,286,175	1,408,549
Loss on revaluation and reclass of assets held for sale into investment property	14	40,967	-
(Gain) / loss from disposal of property, plant and equipment		(156,845)	68,433
Gain on disposal of investment in subsidiary		-	(455)
Finance expense, net	10	853,216	1,195,980
(Reverse of) / allowance for inventory impairment provision	11	(29,720)	13,480
Provision for doubtful accounts	5	132,139	15,979
Operating cash flows before working capital changes		**2,814,645**	**3,474,708**
Change in trade and other receivables		2,987,277	(3,465,926)
Change in inventories	11	511,051	(439,530)
Change in accounts payable and accrued liabilities		(2,069,262)	2,318,953
Operating cash flows before interest and income taxes		**4,243,711**	**1,888,205**
Income tax paid		(252,880)	(148,163)
Interest received		38,216	51,480
Interest paid		(892,329)	(1,235,877)
Net cash provided by operating activities		**3,136,718**	**555,645**
Cash flows from investing activities:			
Purchase of property, plant and equipment	13	(510,062)	(2,033,405)
Proceeds from the disposal of property, plant and equipment and intangible assets		7,935	2,128
Purchase of intangible assets	15	(8,241)	(9,897)
Repayment of loan provided to parent company	22	2,318	-
Issue of loan to parent company	22	-	(2,300)
Net cash used in investing activities		**(508,050)**	**(2,043,474)**
Cash flows from financing activities:			
Proceeds from borrowings		6,439,842	2,876,434
Repayments of borrowings		(4,293,150)	(2,088,531)
Purchase of treasury shares	20	(4,417,000)	
Payment of dividends	20	-	(522,070)
Net cash (used in) / provided by financing activities		**(2,270,308)**	**265,833**
Net increase / (decrease) in cash and cash equivalents		**358,360**	**(1,221,996)**
Cash and cash equivalents at the beginning of the year	5	274,599	1,496,595
Cash and cash equivalents at the end of the year	5	**632,959**	**274,599**

Signed on behalf of the Board of Directors on 24 April 2017

D.Kh. Tuktarov
Chief Executive Officer
24 April 2017

S.V. Kochukhova
Chief Financial Officer
24 April 2017

The accompanying notes on pages 10 to 37 are an integral part of these consolidated financial statements

(All amounts are in thousands of Russian Rubles unless stated otherwise)

	Attributable to the equity holders of Investgeoservice Group						
	Share capital	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2014	**226,987**	**1,827,584**	**-**	**1,277,553**	**3,332,124**	**150**	**3,332,274**
Profit for the year	-	-	-	584,081	**584,081**	232	**584,313**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	**584,081**	**584,081**	**232**	**584,313**
Payment of dividends	-	-	-	(522,070)	**(522,070)**	-	**(522,070)**
Balance at 31 December 2015	**226,987**	**1,827,584**	**-**	**1,339,564**	**3,394,135**	**382**	**3,394,517**
Profit for the year	-	-	-	533,041	**533,041**	199	**533,240**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	**533,041**	**533,041**	**199**	**533,240**
Purchase of treasury shares	-	-	(4,417,000)	-	**(4,417,000)**	-	**(4,417,000)**
Balance at 31 December 2016	**226,987**	**1,827,584**	**(4,417,000)**	**1,872,605**	**(489,824)**	**581**	**(489,243)**

Signed on behalf of the Board of Directors on 24 April 2017

D.Kh. Tuktarov
Chief Executive Officer
24 April 2017

S.V. Kochukhova
Chief Financial Officer
24 April 2017

(All amounts are in thousands of Russian Rubles unless stated otherwise)

1. General information

Joint Stock Company Investgeoservis (JSC IGS or the Company) was incorporated under the law of Russian Federation on 7 December 2006. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group or Investgeoservice Group). The Group provides a range of services in the oil and gas industry in the Russian Federation, including exploration and development drilling, geotechnical surveying and other oilfield services.

The Group's main operating subsidiaries at 31 December 2016 and 2015 are described below.

		% of ordinary shares held as of	
Entities	**Nature of operations**	**31 December 2016**	**31 December 2015**
LLC "Nova Energeticheskie Uslugy"	Exploration and development drilling	100%	100%
CJSC "PGO Tyumengeologia"	Operational management center	99%	99%
LLC "IGS-Avto"	Transportation services	100%	100%
LLC "IGS Technology"	Well cementing services	100%	-
IGS Drilling Ltd (Cyprus)	Special purpose entity	100%	100%

At 31 December 2016, IGS International Ltd (BVI), IGS Drilling Ltd (Cyprus) and OJSC Gazprombank were the shareholders of JSC IGS with 60%, 40% less 1 share, 1 share in the registered share capital, respectively. As IGS Drilling Ltd (Cyprus) is 100% subsidiary of JSC IGS, then its shares (40% less 1 share) in JSC IGS are considered to be treasury shares.

At 31 December 2015, IGS Investments Limited (Cyprus) was the sole shareholder of JSC IGS. At 31 December 2015, IGS International Ltd (BVI) and OJSC Gazprombank were the shareholders of IGS Investments Limited (Cyprus) with 60% and 40% in the registered share capital, respectively.

At 31 December 2015, Mr Stanislav Kotov ceased to be the ultimate controlling party of JSC IGS as he held 36.8% interest in the equity of IGS International Ltd (BVI) with the remaining interest referred to a number of individuals with insignificant interest in share capital. So as at 31 December 2016 and 31 December 2015, the shares issued are spread between the shareholders in such a way that neither of them is an ultimate controlling party.

2. Basis of preparation

Statement of compliance
These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and relevant interpretations approved by the International Accounting Standards Board ("IASB").

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), except for a special purpose entity IGS Drilling Ltd (Cyprus), which prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113. The accompanying consolidated financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Basis of measurement
These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment property and initial recognition of financial instruments at fair value.

Basis of consolidation
Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the company and by other parties;
- Other contractual arrangements;
- Historic patterns in voting attendance.

2. Basis of preparation (continued)

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Non-controlling interest represents that portion of the profit and loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent and are presented separately in the consolidated statement of comprehensive income and the equity in the consolidated statement of financial position.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

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. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles ("RR").

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in the notes below. These accounting policies have been consistently applied to all periods presented in these consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of acquired entity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group applies a policy of treating transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity and attributed to equity holders of the parent. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit and loss component of the consolidated statement of comprehensive income.

3. Summary of significant accounting policies (continued)

Goodwill and non-controlling interest
Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any excess of the fair value of acquirer's share of net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition over the cost of acquisition is recognised within the profit and loss component of the consolidated statement of comprehensive income. Goodwill on acquisitions of subsidiaries is presented as a component of goodwill in the consolidated statement of financial positions. Following initial recognition, goodwill is measured at cost less accumulated impairment loss, if any. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment, testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Foreign currency transactions
Transactions in foreign currencies are translated to the Russian Rubles at official exchange rates of the Central Bank of Russian Federation at the dates of the transactions. At the reporting date monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences arising from retranslation are recognised within profit and loss component of the consolidated statement of comprehensive income.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 60.66 and 72.88 as of 31 December 2016 and 2015, respectively.

Intangible assets
Intangible assets are stated at the amount initially recognised, less accumulated amortisation. Intangible assets include trademarks, computer software and licenses.

Intangible assets acquired separately from a business combination are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the intangible asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives. The useful lives of the Group's intangible assets are as follows:

	Range of average estimated useful lives
Software	1-3 years
Other	2-10 years

At each financial year-end, the Group reviews amortisation periods for the intangible assets with finite lives. If the expected useful life of an asset is different from the previous estimates, the amortisation period is changed accordingly.

Investment property
Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment property is remeasured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the profit and loss component of the consolidated statement of comprehensive income in the period in which they arise and presented separately.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. Earned rental income is recorded in the profit and loss component of the consolidated statement of comprehensive income within other operating income.

3. Summary of significant accounting policies (continued)

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit and loss component of the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a clear change in intended use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Assets held for sale
Assets are classified as assets held for sale if its carrying amount will be recovered principally through a sale rather than continuing use. Assets held for sale are not depreciated and measured at the lower of carrying and fair value less costs to sell. These assets are presented separately in the statement of financial position.

Property, plant and equipment
Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. The initial cost of the asset includes the purchase price or expenditures incurred that are directly attributable to the acquisition of the assets. The purchase price is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Major replacements of property, plant and equipment are capitalised. All other repair and maintenance costs are charged to the profit and loss component of the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on plant and equipment except for drilling pipe is calculated using the straight-line method over the estimated useful lives, as follows:

	Range of average estimated useful lives
Drilling rigs	5-24 years
Buildings	5-60 years
Machinery and equipment	3-25 years
Transport vehicles	2-10 years

Depreciation on drilling pipe is calculated using the units of production method.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the profit or loss component of the consolidated statement of comprehensive income.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss component of the consolidated statement of comprehensive income to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity.

Impairment of non-financial assets
At each reporting date impairment review of non-financial assets is carried out to determine if there is indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of asset is compared to the estimated recoverable amount in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of an asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the profit and loss component of the consolidated statement of comprehensive income immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. Summary of significant accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the profit or loss component of the consolidated statement of comprehensive income.

Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; specifically, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Group substantially all the risks and rewards of ownership of the leased item, are capitalised in property, plant and equipment at the commencement of the lease at fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised in the profit or loss component of the consolidated statement of comprehensive income over the lease period using effective interest method.

A leased asset is depreciated over the useful life of the asset similar to other PPE. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the profit and loss component of the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Inventories

Inventories include materials and work in progress. Cost of materials is determined using the weighted average method. The materials are accounted for at their cost of purchase, which comprises the purchase price, import duties and other taxes, other than those subsequently recoverable from the tax authorities, and transport, handling and other directly attributable costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The cost of work in progress includes the cost of materials, direct labour, other direct costs and related production overheads based on normal operating capacity. Inventories are valued at the lower of cost or net realisable value which is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The excess of the carrying amount over the net realizable value of inventories and the cost of the obsolete stock are recognised as the inventories impairment reserve which is expensed in the Group's profit and loss component of the consolidated statement of comprehensive income.

Financial assets

The Group's financial assets include cash and cash equivalents, trade and other receivables and other contractual rights to receive cash or another financial asset from other entities, and contractual right to exchange financial assets or financial liabilities with other entities under conditions that are potentially favourable to the Group. The Group derecognises its financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3. Summary of significant accounting policies (continued)

The Group initially recognises its financial assets at fair value, including transaction costs that are directly attributable to their acquisition or issuance. After initial recognition, the Group measures its financial assets at amortised cost using the effective interest rate ('EIR') method. A gain or loss from the amortisation process and from derecognising or impairment of a financial asset is recognised in the profit and loss component of the consolidated statement of comprehensive income. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount is reduced or restored through the use of the allowance account. The net amount of the change in the allowance account is recognised in the profit and loss component of the consolidated statement of comprehensive income. The Group does not maintain any financial assets which are measured at fair value through profit and loss nor any financial assets classified as 'held-to-maturity investments' or 'available-for-sale'.

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 Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. 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.

Equity
Common shares are classified as equity. The difference between the nominal value of the shares and the issue price is recorded as share premium. Additional contributions are classified as equity if the entity has no obligation to return additional contributions paid by the shareholders.

Loans and borrowings
Loans and borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are measured at amortised cost, using the effective interest rate ("EIR") method: any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense in the profit and loss component of the consolidated statement of comprehensive income over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period when they incurred. Borrowing costs comprise of interest and other costs that the Group incurs in connection with the borrowing of funds.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value which is determined using the prevailing market rate of interest for a similar instrument and subsequently measured at amortised cost using the EIR method.

Current and deferred income tax
The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the Russian Federation. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Summary of significant accounting policies (continued)

Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related temporary differences reverse. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of business combination. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, net of discounts, value-added tax ("VAT") or other sales taxes or duty, subsequently recoverable from the tax authorities.

The Group applies the percentage of completion method for revenue recognition of certain service contracts to provide drilling services, which represent the majority of the Group's revenue.

The Group's services are provided based upon fixed price contracts with customers. If the outcome of such a contract can be reliably measured, revenue associated with the service contract is recognised by reference to the stage of completion of the contract activity at year end (the percentage of completion method).

The outcome of a service contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the cost to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately. In loss contracts, unrecognised revenue equals estimated remaining costs.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on proportion of total contract costs incurred to date and the estimated costs to complete.

Contract revenue corresponds to the initial amount of revenue agreed in the contract: variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Contract costs are recognised as expenses in the period in which they are incurred. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

3. Summary of significant accounting policies (continued)

The Group presents as an asset within trade and other receivables the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings paid by the customers. Progress billings not yet paid by customers are included within trade and other receivables.

The Group presents a liability for the gross amount due to customers for contract work for all contracts in progress for which progress billings paid exceed costs incurred plus recognised profits (less recognised losses).

Earnings per share
The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period, adjusted for own shares held.

Employee benefits
Payroll and current leave liabilities are recognised as the employee's services are provided.

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme and defined amounts of one-time retirement grants for employees according to collective agreements. The Group recognises its liability under the collective agreements as the present value of the defined benefit obligation arising from the current service cost, interest expense, actuarial gains and losses, past service cost and other effects. The actuarial gains and losses and all past service cost are recognised in the profit or loss component of the consolidated statement of comprehensive income as incurred.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Adoption of New or Revised Standards and Interpretations
The following amendments to standards and interpretations became effective from 1 January 2016 but did not have any material impact on the Group's consolidated financial statements:

- **Amendments to IAS 16 and IAS 38** – Clarification of Acceptable Methods of Depreciation and Amortisation, prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. It introduces a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. It is to be applied prospectively for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 27** – Equity Method in Separate Financial Statements, effective from 1 January 2016 with earlier application permitted. It allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.
- **Amendments to IAS 1,** clarifying the principles of disclosing information with expanded definition of materiality.
- **Amendments to IFRS 11** – Accounting for Acquisition of Interest in Joint Operations, stating that relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied.
- **Amendments to IFRS 10 and IAS 28** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, which applies prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted. The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss in recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

(All amounts are in thousands of Russian Rubles unless stated otherwise)

3. Summary of significant accounting policies (continued)

New accounting pronouncements

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group and the Group is assessing the impact of the amended standards on its consolidated financial statements.

- **IFRS 9**, Financial Instruments: Classification and Measurement, issued in November 2009, amended in October 2010 and November 2013; finalized in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 9 replaces the parts of IAS 39 relating to classification and measurement of financial assets. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The financial instruments are measured at fair value or amortised cost. An "expected credit loss" model for the measurement of the impairment was introduced.
- **IFRS 15,** Revenue from Contracts with Customers, issued in May 2014 and effective for annual periods beginning on or after 1 January 2018. It will supersede both IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.
- **IFRS 16,** Leases, issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. It contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.
- **Amendments to IAS 7,** Disclosure Initiative, effective for annual periods beginning on or after 1 January 2017. The amendments require entities to provide a reconciliation of the opening and closing carrying amounts of each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows (e.g. borrowing, lease liabilities).
- **Amendments to IAS 12,** Income Taxes, effective for annual periods beginning on or after 1 January 2017, introduce several clarifications to the standard related to recognition of Deferred Tax Assets for Unrealised Losses.

Changes in presentation and correction of errors

The Group has revised the 2015 Statement of Financial Position to reflect correct reclassification of current portion of non-current borrowings. The previously reported amounts of current and non-current borrowings have been reclassified as follows:

	As originally presented for 2015 in FS for 2015	Reclassification	As reclassified for 2015 in FS for 2016
Current borrowings	3,513,149	491,880	4,005,029
Non-current borrowings	3,772,089	(491,880)	3,280,209
Total	**7,285,238**	-	**7,285,238**

As a result of reclassification Note 16 Borrowings has been adjusted accordingly.

4. Critical estimates and judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Management also makes certain judgments, apart from those involving estimations, in process of applying the accounting policies. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from our estimates, and our estimates can be revised in future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimates.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

Estimation of the percentage of completion on services contracts
Certain of the Group's revenue are recognised under the percentage method. The estimation of the extent of revenue to be recognised under the percentage of completion method is a matter of management judgment based upon expectations of future costs to be incurred to complete the respective contracts. Nevertheless, differences between management estimate and actual results may result in losses in future periods. The sensitivity of the 2016 sales from change of estimated profit margins is discussed in Note 6.

Useful lives of property, plant and equipment.
The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group at the each financial year end. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions. All estimates of useful lives are set out in Note 3.

Where the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be to increase it by RR 41,548 or decrease it by RR 21,866 (31 December 2015: increase by RR 18,358 or decrease by RR 21,426).

Allowance for doubtful accounts
The Group makes allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Impairment charges are given in Note 12.

Deferred income tax asset recognition.
The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last two years taxable profits and expectations of future taxable profits. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are volumes of drilling penetration in meter and profit margins expected to be earned on service contracts.

Based on the management analysis and expectations deferred tax asset was recognised in these financial statements in amount of RR 314,099 as at 31 December 2016 (as at 31 December 2015 – RR 274,811). If the actual results differ from the management expectations the recognised deferred tax asset will be written-off partially or in full.

(All amounts are in thousands of Russian Rubles unless stated otherwise)

5. Financial risk management

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade and other receivables, cash and short-term deposits that arrive directly from its operations.

At 31 December 2016 and 2015 the Group financial instruments were as follows:

	31 December 2016	31 December 2015
Financial assets:		
Cash and cash equivalents (Note 5)	632,959	274,599
Financial receivables (Note 12)	3,901,033	7,256,384
Total financial assets	**4,533,992**	**7,530,983**
Financial liabilities:		
Financial payables (Note 17)	(3,930,489)	(5,737,412)
Current borrowings (Note 16)	(1,320,536)	(3,513,149)
Non-current borrowings (Note 16)	(7,175,153)	(3,772,089)
Total financial liabilities	**(12,426,178)**	**(13,022,650)**

At 31 December 2016 and 2015 the carrying values of the financial assets and financial liabilities approximated their fair values.

The Group is exposed to credit risk, liquidity risk and market risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

Credit risk. Credit risk is the risk that a customer or counterparty to a financial instrument will fail to pay amounts due or fail to perform causing financial loss to the Group. The Group's credit risk principally arises from cash and cash equivalents and from credit exposures of its customers relating to outstanding receivables and loans provided to third parties. The Group has not used any financial risk management instruments in this or prior periods to hedge against this exposure.

The Group only maintains accounts with banks and, therefore, believes that it does not have a material credit risk in relation to its cash or cash equivalents. The Group focuses on servicing large Russian independent oil and gas exploration and production customer groups which management considers creditworthy. The Group monitors and assesses regularly the likelihood of collection on a customer-by-customer basis in order to mitigate exposure to potential material losses from uncollected accounts. The Group believes that its financial receivables which are neither past due nor impaired represent low exposure to credit risk. The Group believes that its maximum exposure to credit risk is the carrying value of its financial assets recognised in the consolidated statement of financial position at 31 December 2016 and 2015.

At 31 December 2016 the ageing of the financial receivables was as follows:

Trade receivables	Total before impairment provision	Impaired	Total recognised	Neither past due nor impaired
Unbilled amounts due for construction contract work	1,460,489	-	1,460,489	1,460,489
Within 90 days	1,903,555	-	1,903,555	1,903,555
91 to 180 days	287,145	-	287,145	287,145
181 to 360 days	260,150	(10,306)	249,844	249,844
Past due	146,734	(146,734)	-	-
Total	**4,058,073**	**(157,040)**	**3,901,033**	**3,901,033**

At 31 December 2015 the ageing of the financial receivables was as follows:

Trade receivables	Total before impairment provision	Impaired	Total recognised	Neither past due nor impaired
Unbilled amounts due for construction contract work	1,823,273	-	1,823,273	1,823,273
Within 90 days	4,486,996	-	4,486,996	4,486,996
91 to 180 days	409,712	-	409,712	409,712
181 to 360 days	539,861	(3,458)	536,403	536,403
Past due	136,905	(136,905)	-	-
Total	**7,396,747**	**(140,363)**	**7,256,384**	**7,256,384**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

5. Financial risk management (continued)

Movements of the Group's provision for allowance for doubtful accounts of trade and other receivables for 2016 year were as follows:

Allowance for doubtful accounts	31 December 2015	Written-off against provision	Additional / (reversed) provision	31 December 2016
Trade receivables	140,363	(3,312)	19,989	157,040
Other receivables	586	(563)	11,650	11,673
Advances issued	38,167	(20,598)	100,500	118,069
Total	**179,116**	**(24,473)**	**132,139**	**286,782**

Movements of the Group's provision for allowance for doubtful accounts of trade and other receivables for 2015 year were as follows:

Allowance for doubtful accounts	31 December 2014	Written-off against provision	Additional / (reversed) provision	31 December 2015
Trade receivables	140,583	(9,002)	8,782	140,363
Other receivables	1,565	(798)	(181)	586
Advances issued	32,626	(1,837)	7,378	38,167
Total	**174,774**	**(11,637)**	**15,979**	**179,116**

The past due trade receivables as at 31 December 2016 and 2015 mainly comprise of a receivable from customer that went bankrupt and therefore was not able to pay for services rendered majorly in 2013 in the amount of RR 125,282. Therefore, the Group initiated an arbitration court procedure against the debtor. At 31 December 2016, the Group's claims were included into schedule of creditors, in the management's view it is probable that the receivables will not be recovered in full.

The past due advances issued as at 31 December 2016 mainly comprise of advances issued for purchase of property, plant and equipment to a supplier that went bankrupt in the amount of RR 88,211. In 2016 the Group initiated an arbitration court procedure against the debtor.

The individually impaired other receivables relate to debtors which are in difficult economic situations and in default on obligations for the period of more than 360 days. In the management's view a portion of the receivables will be recovered.

Cash and cash equivalents held at 31 December 2016 and 2015 comprised cash on hand and short-term bank deposits. The credit quality of cash and cash equivalents balances are summarized below. Ratings are actual at 31 December 2016.

Bank	Rating agency	Rating	31 December 2016	31 December 2015
OJSC Gazprombank	Moody's	Ba2	496,512	1,408
OJSC Sberbank	Moody's	Ba2	13,854	258,770
OJSC VBRR	Moody's	Ba3	110,694	-
OJSC West Siberian Commercial Bank	unrated	-	2,761	6,975
OJSC Rosbank	Moody's	Ba2	6,544	-
CJSC Probank	unrated	-	-	3,646
OJSC Pervobank	unrated	-	-	3,249
OJSC Promsvyazbank	Moody's	Ba3	1,234	-
OJSC SMP Bank	unrated	-	618	-
OJSC Bank FK Otkrytie	Moody's	Ba3	416	416
OJSC Bank VTB	Moody's	Ba2	242	27
Cash on hand	-	-	84	108
Total cash at bank			**632,959**	**274,599**

Concentration risk. The Groups main customers are companies controlled by the natural gas producer OJSC Novatek. In 2016 66% of revenue (2015: 49%) resulted from drilling contracts with this counterparty. To reduce the risks arising from reliance on a single customer, the group is actively seeking to expand its customer base to other companies. The company has signed further supply contracts with other customers and expects the percentage of revenue arising from Novatek subsidiaries to reduce over time. Management believes that long successful cooperation with its customers will provide the Group with future orders which are supported by long-term agreements.

(All amounts are in thousands of Russian Rubles unless stated otherwise)

5. Financial risk management (continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages the liquidity risk by regularly updating its financing plan to closely monitor its funding needs against its medium term funding plans.

The Group maintains adequate relationships with Russian financial institutions and has been and continues to be able to raise funds in debt markets to meet its debt service requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings (excluding finance lease liability)	2,205,861	2,366,708	4,532,195
Finance lease liabilities	856,054	467,566	261,212
Trade and other payables	3,930,489	-	-
Total	**6,992,404**	**2,834,274**	**4,793,407**

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings (excluding finance lease liability)	3,144,128	1,570,857	473,042
Finance lease liabilities	1,383,464	1,321,179	1,093,880
Trade and other payables	5,737,412	-	-
Total	**10,265,004**	**2,892,036**	**1,566,922**

Interest rate risk. The Group is exposed to interest rate risk from its variable interest rate borrowings, which was not hedged. The Group assesses interest rate risk by reference to market information about ranges of changes in floating interest rates of both actual movements during the year prior the reporting period and reasonably possible changes in the year thereafter.

In 2016, the Group determined such interest rate sensitivity as one percentage point and determined that if the floating interest rates increased by one percentage point, with all other variable remain constant, the Group's profit for the year ended 31 December 2016 would decrease by RR 8,972. For the decreasing of floating interest rate by one percentage point effect is approximately opposite. At 31 December 2015 the Group had no borrowings with floating interest rate.

The Group is exposed to risk of change in fair value concerning fluctuations of market interest rates for borrowings which were at fixed interest rates during 2016 and 2015.

The Group does not use any hedging instruments to manage its exposure to changes in interest rates because management of the Group considers that there is no necessity to do so.

Foreign currency risk. The Group has certain operations denominated in foreign currency and, therefore, is exposed to foreign currency risk arising due to changes in US dollar and EUR exchange rates against the Russian Ruble. Foreign currency risk is managed by making operating decisions depending on the current market situation. The amounts of the Group's assets and liabilities denominated in a foreign currency other than the functional currency of the Group's companies at 31 December 2016 are provided below:

	in thousand USD	in thousand EUR	Total
Advances issued	500	398	
Trade accounts payable	(23)	(3)	
Net total, in foreign currency	**477**	**395**	
Net total at 31 December 2016, in RR at the exchange rate at the reporting date	**28,933**	**25,205**	**54,138**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

5. Financial risk management (continued)

The amounts of the Group's assets and liabilities denominated in a foreign currency other than the functional currency of the Group's companies at 31 December 2015 are provided below:

	in thousand USD	in thousand EUR	Total
Advances issued	448	5	
Trade accounts payable	(832)	(11)	
Net total, in foreign currency	**(384)**	**(6)**	
Net total at 31 December 2015, in RR at the exchange rate at the reporting date	**(27,987)**	**(478)**	**(28,465)**

The Group's sensitivity to the strengthening of the US Dollar against the Russian Ruble by 10% reflects in increasing in profit before tax by RR 2,894 (2015 – decreasing by RR 2,799). The Group's sensitivity to the strengthening of EUR against the Russian Ruble by 10% reflects in increasing in profit before tax by RR 2,521 (2015 – decreasing by RR 48). This analysis assumes that all other variables remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the end of the reporting period denominated in respective currencies. The effect of corresponding strengthening of Russian Ruble against US Dollar and EUR is approximately opposite.

Capital management risk. Capital includes equity attributable to the equity holders of parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using net debt-to-capital ratio, which is net debt excluding finance lease liabilities divided by total capital plus net debt excluding finance lease liabilities. The Group's policy is to keep the ratio between 30% and 40%. As at 31 December 2016 it was higher due to purchase of treasury shares (40% less 1 share) from its shareholder OJSC Gazprombank. As at 31 December 2015 it was higher due to payment of dividends in 2015.

	31 December 2016	31 December 2015
Bank loans (Note 16)	6,582,932	4,024,842
Loans (Note 16)	549,498	395,905
Less: cash and cash equivalents (Note 5)	(632,959)	(274,599)
Net debt excluding finance lease liabilities	**6,499,471**	**4,146,148**
Total equity	(489,243)	3,394,517
Equity and net debt excluding finance lease liabilities	**6,010,228**	**7,540,665**
Debt-to-equity ratio	**108%**	**55%**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

6. Revenue

	Year ended 31 December	
	2016	**2015**
Service contracts	15,694,831	20,803,648
Other services	227,607	163,184
Total revenue	**15,922,438**	**20,966,832**

The Group's service contracts represent majorly exploration and development drilling, while other services represent majorly geotechnical surveying, other oilfield services and transportation services.

The status of service contracts in progress at 31 December 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
Contract revenue recognised as revenue in the period	3,536,517	6,966,575
Contract costs incurred and recognised profits / (losses) to date	5,612,740	8,593,035
Contract costs incurred	5,862,446	7,808,065
Recognised profits less recognised losses, net	(249,706)	784,970
Advances received	-	176,540

The recognition of the revenue from service contracts uncompleted as of 31 December 2016 is primarily based on an assumption of profit margins expected to be earned from inception to completion of each contract. If such expected profit margins reduced by one percent, the revenue from such contracts will reduce by RR 30,695. If expected profit margins increased by one percent, the revenue from such contract will increase by RR 84,176.

7. Cost of Sales

	Year ended 31 December	
	2016	**2015**
Services	7,314,235	10,865,827
Payroll expenses	2,396,963	3,009,582
Materials and supplies	2,011,332	2,400,665
Depreciation	1,253,544	1,379,265
(Reverse of) / allowance for inventory impairment provision	(29,720)	13,480
Other	90,219	81,123
Total	**13,036,573**	**17,749,942**

For the year ended 31 December 2016 payroll expenses include payments to social funds in the amount of RR 425,927 (2015: RR 511,528).

8. Administrative expenses

	Year ended 31 December	
	2016	**2015**
Payroll expenses	696,106	585,739
Services	188,395	206,620
Accrual of allowance for doubtful accounts	132,139	15,979
Bank fees	112,254	65,132
Depreciation	20,664	13,993
Materials and supplies	18,746	29,041
Other	22,492	13,766
Total administrative expenses	**1,190,796**	**930,270**

For the year ended 31 December 2016 payroll expenses include payments to social funds in the amount of RR 65,871 (2015: RR 66,401).

(All amounts are in thousands of Russian Rubles unless stated otherwise)

9. Other operating income and expenses

	Year ended 31 December	
	2016	**2015**
Income from legal claims against third parties	45,548	-
Reverse of provision for legal claims	28,629	-
Other rental income	21,459	32,805
Accounting for surpluses after inventory stocktaking	17,044	-
Rental income derived from assets held for sale	11,419	17,627
Fines and penalties	6,648	7,384
Accounts payable write-off	1,767	-
Other income	16,651	6,216
Total other operating income	**149,165**	**64,032**
Provision for legal claims	170,344	30,079
Fines and penalties	108,462	57,143
Rental expenses	47,023	26,899
Expenses under void orders	13,959	-
Employment termination and social expenses	11,254	8,947
Direct operating expenses arising from assets held for sale	8,600	6,880
Expenses for legal claims against the Group	8,600	-
Loss from sale of inventories	4,401	22,038
Taxes other than income tax	3,932	83,503
Charitable contributions	3,100	6,305
Other expenses	38,508	72,158
Total other operating expenses	**418,183**	**313,952**
Total other operating expenses, net	**269,018**	**249,920**

10. Finance income and expense

	Year ended 31 December	
	2016	**2015**
Finance expense		
Interest expense on bank borrowings	521,036	528,027
Interest expense on finance lease liabilities	317,060	664,242
Interest expense on loans	54,814	44,328
Foreign exchange loss, net	-	10,061
Other	-	804
Total finance expense	**892,910**	**1,247,462**
Finance income		
Interest income on short-term bank deposits	38,216	51,480
Foreign exchange gain, net	1,455	-
Interest income on loan provided to parent company	16	2
Other	7	-
Total finance income	**39,694**	**51,482**

11. Inventories

	31 December 2016	**31 December 2015**
Material and supplies	2,098,616	2,609,667
Allowance for inventory impairment provision	(37,180)	(66,900)
Total inventories	**2,061,436**	**2,542,767**

Movements of the Group's allowance for inventory impairment provision for 2016 and 2015 were as follows:

	Year ended 31 December	
	2016	**2015**
Opening balance as at 1 January	66,900	53,420
Additional / (reversed) provision	(29,720)	13,480
Closing balance as at 31 December	**37,180**	**66,900**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

12. Trade and other receivables

	31 December 2016	31 December 2015
Financial receivables		
Trade receivables (net of allowance for doubtful accounts of RR 157 million and RR 140 million at 31 December 2016 and 2015, respectively)	2,440,544	5,433,111
Amounts due from customers for contract work	1,460,489	1,823,273
Total financial receivables	**3,901,033**	**7,256,384**
Non-financial receivables		
Advances issued to suppliers (net of allowance for doubtful accounts of RR 118 million and RR 38 million at 31 December 2016 and 2015, respectively)	299,316	362,194
Taxes receivable / recoverable	432,098	343,232
Other current receivables (net of allowance for doubtful accounts of RR 12 million and RR 0.6 million at 31 December 2016 and 2015, respectively)	265,788	118,807
Total non-financial receivables	**997,202**	**824,233**
Total trade and other receivables	**4,898,235**	**8,080,617**

Other non-current receivables

	31 December 2016	31 December 2015
Advances issued for property, plant and equipment acquisition (net of allowance for doubtful accounts of RR nil as at 31 December 2016 and 2015)	113,636	50,670
Total other non-current assets	**113,636**	**50,670**

13. Property, plant and equipment

	Drilling rigs	Buildings	Machinery and equipment	Transport vehicles	Other	Construction in progress	Total
Cost							
At 31 December 2014	**7,020,093**	**630,930**	**3,264,030**	**506,074**	**48,222**	**10,701**	**11,480,050**
Additions	1,105,432	25,522	801,891	87,924	7,099	9,070	2,036,938
Disposals	(23,441)	(7,485)	(145,815)	(55,911)	(3,490)	-	(236,142)
Transfers	758	34	-	-	-	(792)	-
At 31 December 2015	**8,102,842**	**649,001**	**3,920,106**	**538,087**	**51,831**	**18,979**	**13,280,846**
Additions	1,281	2,307	110,235	63,969	4,412	327,858	510,062
Disposals	(1,528,221)	(1,864)	(111,006)	(177,347)	(183)	-	(1,818,621)
Transfers	-	-	8,044	-	3,809	(11,853)	-
At 31 December 2016	**6,575,902**	**649,444**	**3,927,379**	**424,709**	**59,869**	**334,984**	**11,972,287**
Accumulated depreciation							
At 31 December 2014	**(1,985,961)**	**(202,914)**	**(2,270,748)**	**(443,964)**	**(30,458)**	**-**	**(4,934,045)**
Depreciation charge	(846,396)	(38,930)	(437,192)	(62,963)	(7,777)	-	(1,393,258)
Disposals	23,442	4,779	82,746	47,772	3,309	-	162,048
At 31 December 2015	**(2,808,915)**	**(237,065)**	**(2,625,194)**	**(459,155)**	**(34,926)**	**-**	**(6,165,255)**
Depreciation charge	(835,061)	(37,534)	(352,956)	(41,010)	(7,647)	-	(1,274,208)
Disposals	819,252	1,419	57,827	152,028	183	-	1,030,709
At 31 December 2016	**(2,824,724)**	**(273,180)**	**(2,920,323)**	**(348,137)**	**(42,390)**	**-**	**(6,408,754)**
Net book value							
At 31 December 2014	5,034,132	428,016	993,282	62,110	17,764	10,701	6,546,005
At 31 December 2015	5,293,927	411,936	1,294,912	78,932	16,905	18,979	7,115,591
At 31 December 2016	3,751,178	376,264	1,007,056	76,572	17,479	334,984	5,563,533

The Group leases drilling rigs, production machinery and equipment and transport vehicles under a number of finance lease agreements. At 31 December 2016 the net carrying amount of leased drilling rigs was RR 2,203,063; the net carrying amount of leased transport vehicles was RR nil (31 December 2015: RR 3,407,293 and RR 256, respectively).

(All amounts are in thousands of Russian Rubles unless stated otherwise)

13. Property, plant and equipment (continued)

In addition to the above property, plant and equipment at 31 December 2016 were pledged in the amount of RR 480,039 (31 December 2015: RR 1,094,676) (Note 16).

The Group did not capitalise interest on borrowings in 2016 and 2015, as there were no qualifying assets.

The net book value of assets under construction includes drilling rig ZJ50DBS in the amount of RR 296,610 and a set of drilling pipes in total amount of RR 17,376 which were purchased in December 2016 and were not yet put into operation as at 31 December 2016.

14. Investment property / Assets held for sale

Assets held for sale

	Year ended 31 December	
	2016	**2015**
Opening balance at 1 January	86,689	86,689
Reclass form assets held for sale into investment property	(86,689)	-
Closing balance at 31 December	-	**86,689**

Investment property

	Year ended 31 December	
	2016	**2015**
Opening balance at 1 January	-	-
Reclass form assets held for sale into investment property	86,689	-
Net loss form fair value adjustments	(40,967)	-
Closing balance at 31 December	**45,722**	-

	Year ended 31 December	
	2016	**2015**
Rental income derived from investment property / assets held for sale	11,419	17,627
Direct operating expenses	(8,600)	(6,880)
Net profit arising from investment property / assets held for sale	2,819	10,747

At 31 December 2014 Central base for production procurement was reclassified from investment property to assets held for sale due to changes in management intentions. The management intends to sell it out to OJSC Urengoygoravtodor, which has been a tenant for many years. It was preliminary agreed that the price would be RR 167,147 including VAT paid in equal instalments within 5 years. The fair value of it was determined based on discounted cash inflows at the WACC rate of 21.32%.

As at 31 December 2016 the negotiations with the customer were suspended and it was highly probable that the transaction would not be finalized within the year. Thus, it was reclassified back to investment property with charging loss on fair value adjustment as difference between its carrying amount of assets held for sale and carrying amount of investment property on the date it was reclassified from investment property to assets held for sale.

The Group has no restrictions on the realizability of its investment property and no contractual obligations to either purchase, construct or develop investment property.

(All amounts are in thousands of Russian Rubles unless stated otherwise)

15. Goodwill and intangible assets

	Goodwill	Software	Other	Total
Cost				
At 31 December 2014	**13,145**	**33,972**	**11,647**	**58,764**
Additions	-	6,966	2,931	9,897
Disposals	-	-	-	-
At 31 December 2015	**13,145**	**40,938**	**14,578**	**68,661**
Additions	-	8,108	133	8,241
Disposals	-	-	-	-
At 31 December 2016	**13,145**	**49,046**	**14,711**	**76,902**
Accumulated amortisation				
At 31 December 2014	-	**(17,312)**	**(5,994)**	**(23,306)**
Amortisation	-	(12,939)	(2,352)	(15,291)
Disposals	-	-	-	-
At 31 December 2015	-	**(30,251)**	**(8,346)**	**(38,597)**
Amortisation	-	(9,966)	(2,001)	(11,967)
Disposals	-	-	-	-
At 31 December 2016	-	**(40,217)**	**(10,347)**	**(50,564)**
Net carrying amount				
At 31 December 2014	13,145	16,660	5,653	35,458
At 31 December 2015	13,145	10,687	6,232	30,064
At 31 December 2016	13,145	8,829	4,364	26,338

Goodwill in the amount of RR 13,145 was recognized as excess of consideration paid over fair value of net assets of Group's subsidiary CJSC "PGO Tyumengeologia" in 2009 as at the date of acquisition.

The Group tests goodwill for impairment at least annually. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Management believes that no reasonably possible change in any of the assumptions would cause the carrying value of the cash generated unit to materially exceed its recoverable amount.

16. Borrowings

Non-current borrowings

	Interest rate	Year of maturity	31 December 2016	31 December 2015
Bank loans				
OJSC Gazprombank	CBR key rate + 2.5%	2019 - 2020	3,740,859	-
GPB-DI Holding Ltd	CBR key rate + 2.5%	2018	1,150,000	-
OJSC Bank FK Otkrytie	13%	2020	618,910	1,110,790
OJSC SMP Bank	13%	2018	472,534	-
OJSC Sberbank	10.25% - 13.25%	2017	-	700,000
Total bank loans			**5,982,303**	**1,810,790**
Loans				
Aptus Growth Opportunities Ltd	CBR key rate + 2.5%	2021	396,066	-
LLC NGK Gorny	CBR key rate + 2.5%	2021	153,432	-
Total loans			**549,498**	-
Finance lease liability	11% - 28%	2020	**658,850**	**1,961,299**
Current portion of borrowings			(721,692)	(491,880)
Total non-current borrowings			**6,468,959**	**3,280,209**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

16. Borrowings (continued)

Current borrowings

	Interest rate	31 December 2016	31 December 2015
Bank loans			
OJSC Sberbank	13% - 15%	11	1,752,755
OJSC Gazprombank	13.8% - 14%	600,618	349,937
OJSC Bank FK Otkrytie	16.8%	-	111,360
Total bank loans		**600,629**	**2,214,052**
Loans			
Aptus Growth Opportunities Ltd	12.3%	-	395,905
Total loans		-	**395,905**
Finance lease liability	11% - 28%	**704,409**	**903,192**
Current portion of borrowings		721,692	491,880
Total current borrowings		**2,026,730**	**4,005,029**

The Group is subject to certain covenants related primarily to its loans and borrowings. The Group was in compliance with all covenants at 31 December 2016. As at 31 December 2015 the Group did not comply with particular terms of financial covenants. As a result, as at 31 December 2015 long-term loan in the amount of RR 500,000 from OJSC Sberbank was classified as short-term one.

As at 31 December 2016 the Group had unused limits under credit line agreements with OJSC Gazprombank in the amount of RR 809,142. As at 31 December 2015 the Group had unused limits under credit line agreements with OJSC Gazprombank and OJSC Bank FK Otkrytie in the amounts of RR 251,964 and RR 297,850, respectively.

Property, plant and equipment have been pledged as collateral for bank loans at 31 December 2016 in the amount of RR 480,039 (at 31 December 2015: RR 1,094,676) (Note 13).

Minimum lease payments under finance leases and their present values as at 31 December 2016 are presented in the table below:

	Due in 1 year	Due between 1 and 5 years	Total
Minimum lease payments at 31 December 2016	856,054	728,778	1,584,832
Less future finance charges	(151,645)	(69,928)	(221,573)
Present value of minimum lease payments at 31 December 2016	**704,409**	**658,850**	**1,363,259**

Minimum lease payments under finance leases and their present values as at 31 December 2015 are presented in the table below:

	Due in 1 year	Due between 1 and 5 years	Total
Minimum lease payments at 31 December 2015	1,383,464	2,415,059	3,798,523
Less future finance charges	(480,272)	(453,760)	(934,032)
Present value of minimum lease payments at 31 December 2015	**903,192**	**1,961,299**	**2,864,491**

17. Trade and other payables

	31 December 2016	31 December 2015
Financial payables		
Trade payables	3,914,742	5,665,286
Amounts due to customers for contract work	15,747	72,126
Total financial payables	**3,930,489**	**5,737,412**
Non-financial payables		
Advances received	693,636	969,802
Staff payables	50,698	76,696
Accruals for unused vacations and bonus	611,640	528,435
Taxes payable	365,930	513,170
Other current payables	4,190	43,147
Total non-financial payables	**1,726,094**	**2,131,250**
Total accounts payable	**5,656,583**	**7,868,662**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

17. Trade and other payables (continued)

Other non-current payables represent defined benefit obligations in amount of RR 10,141 at 31 December 2016 (31 December 2015: RR 9,051).

Taxes payable at 31 December 2016 and 2015 were as follows:

	31 December 2016	31 December 2015
Value-added tax	326,766	425,115
Personal income tax	6,118	9,948
Property tax	1,890	2,172
Mandatory social contributions	29,956	73,846
Other taxes	1,200	2,089
Total other taxes payable	**365,930**	**513,170**

18. Provisions

	31 December 2016	31 December 2015
Provisions for legal claims	170,344	30,079
Total provisions	**170,344**	**30,079**

The Group is currently involved in a number of legal disputes. The amount provided represents the management best estimate of the Group's liability having taken legal advice. Uncertainties relate to whether claims will be settled out of court or if not whether the Group is successful in defending any action. The management believes that the claims provided will be settled within one year from the reporting dates.

The most significant legal claim as at 31 December 2016 represents the claim from JSC "Baker Hughes" in the amount of RR 141,432.

Movement of provisions for legal claims for the years 2016 and 2015 are provided in the table below:

	Year ended 31 December	
	2016	2015
Opening balance as at 1 January	30,079	-
Charged to profit or loss	170,344	30,079
Utilised in year	(1,450)	-
Reverse of provisions	(28,629)	-
Closing balance as at 31 December	**170,344**	**30,079**

19. Income tax

	Year ended 31 December	
	2016	2015
Current income tax expense	194,761	139,696
Deferred income tax (benefit) / expense	(39,288)	48,733
Income tax expense	**155,473**	**188,429**

Reconciliation of income taxes. The table below reconciles actual income tax expense and theoretical income tax related to the continuing operations, determined by applying the Russian statutory income tax rate to income before income tax and non-controlling interest.

	Year ended 31 December	
	2016	2015
Profit before tax	688,713	772,742
Theoretical tax expense at Russian statutory income tax rate of 20%	(137,743)	(154,548)
Tax effects of:		
Expenses not deductible for tax purposes	(17,730)	(33,881)
Income tax expense	**(155,473)**	**(188,429)**

(All amounts are in thousands of Russian Rubles unless stated otherwise)

19. Income tax (continued)

Deferred income tax. Differences between IFRS and statutory tax regulations give rise to the temporary differences between the carrying value of assets and liabilities for financial reporting purpose and their income tax bases.

	31 December 2015	Charge to P&L	31 December 2016
Property, plant and equipment	(924,437)	280,402	(644,035)
Non-current receivables	22,783	(10,645)	12,138
Investment property / Assets held for sale	23,025	8,193	31,218
Losses carried forward	532,570	(132,692)	399,878
Inventories	188,864	12,299	201,163
Trade and other receivables	(667,234)	182,332	(484,902)
Non-current borrowings	252,889	(251,914)	975
Other non-current payables	(74,496)	14,195	(60,301)
Current borrowings	772,500	(186,423)	586,077
Trade and other payables	148,347	123,541	271,888
Total	**274,811**	**39,288**	**314,099**

Current portion of net deferred tax assets in amount of RR 574,227 at 31 December 2016 represents the amount of deferred tax assets to be recovered during the year ended 31 December 2017.

Difference in useful life and deemed cost for IFRS and statutory tax regulations results in property, plant and equipment temporary differences. Implementing of IAS 11 gives rise to temporary differences between IFRS and statutory tax regulations for trade and other payables and for trade and other receivables. Different treatment of finance lease under IFRS and statutory tax regulations reflects in property, plant and equipment and borrowings (current and non-current) temporary differences.

	31 December 2014	Charge to P&L	31 December 2015
Property, plant and equipment	(941,956)	17,519	(924,437)
Non-current receivables	32,576	(9,793)	22,783
Assets held for sale	23,025	-	23,025
Losses carried forward	377,530	155,040	532,570
Inventories	364,060	(175,196)	188,864
Trade and other receivables	(470,938)	(196,296)	(667,234)
Non-current borrowings	472,395	(219,506)	252,889
Other non-current payables	(65,502)	(8,994)	(74,496)
Current borrowings	579,098	193,402	772,500
Trade and other payables	(46,744)	195,091	148,347
Total	**323,544**	**(48,733)**	**274,811**

Current portion of net deferred tax assets in amount of RR 442,477 at 31 December 2015 represents the amount of deferred tax assets to be recovered during the year ended 31 December 2016.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 127,259 and RR 66,976 at 31 December 2016 and 2015, respectively. A deferred tax liability on these temporary differences was not recognised because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

20. Share capital

	Number of shares	Share capital
At 31 December 2015	226,987	226,987
At 31 December 2016	226,987	226,987

Ordinary shares

At 31 December 2016 and 2015 the issued and paid share capital comprised 226,987 ordinary shares. The ordinary shares have par value of 1,000 Rubles. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

(All amounts are in thousands of Russian Rubles unless stated otherwise)

20. Share capital (continued)

In October 2016 OJSC Gazprombank sold 40% less 1 share to IGS Drilling Ltd (Cyprus) for RR 4,417,000 and remained 1 share with 1 voting right in Board of Directors of JSC IGS. IGS Drilling Ltd (Cyprus) is 100% subsidiary of JSC IGS. The transaction was financed by OJSC Gazprombank by a number of loans issued to JSC IGS in the total amount of RR 3,500,000 under CBR key rate + 2.5% (Note 16). The remainder was financed by JSC IGS in cash. As a result treasury shares in total amount of RR 4,417,000 were accounted in equity of the Group as at 31 December 2016. Besides, these treasury shares were pledged as collateral for bank loans provided by OJSC Gazprombank.

No dividends were declared nor paid by the Group in 2016. In 2015 the Group declared and paid dividends in the total amount of RR 522,070 which comprised RR 2.3 per share.

21. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Profit per share was calculated as follows:

	31 December 2016	31 December 2015
Weighted average number of ordinary shares	226,987	226,987
Profit attributable to shareholders	533,041	584,081
Basic and diluted profit per share (in RR per share)	2,348	2,573

22. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible party relationship, attention is directed to the substance of the relationship, not merely the legal from.

OJSC Gazprombank and its subsidiaries are considered to be related parties to the Group as OJSC Gazprombank can exercise significant influence over the Group since September 2012 when it acquired 40% of share capital of parent company of the Group. In October 2016 OJSC Gazprombank sold its 40% less 1 share to the Group company IGS Drilling Ltd (Cyprus) but remained 1 share with voting right in Board of Directors (Note 19). Therefore OJSC Gazprombank is considered to be related party to the Group as it can exercise significant influence over the Group.

LLC NGK Gorny is considered to be related party to the Group as it is controlled by some of the same shareholders as the Group.

The following balances of transactions with related parties were as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
Accounts receivable from LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	10,461	19,204
Other receivables from OJSC SOGAZ (subsidiary of OJSC Gazprombank)	3,089	6,786
Loan provided to parent company - IGS Investments Limited (Cyprus) *	-	2,302
Accrued liabilities for transportation services from LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	(6,550)	-
Finance lease liability due to OJSC GPB Leasing (subsidiary of OJSC Gazprombank)	(554,347)	(953,671)
Loan from OJSC Gazprombank	(4,341,477)	(349,937)
Loan from GPB-DI Holding Ltd (Cyprus, subsidiary of OJSC Gazprombank)	(1,150,000)	-
Loan from LLC NGK Gorny	(153,432)	-

* IGS Investments Limited (Cyprus) ceased to be parent company of IGS Group in October 2016

(All amounts are in thousands of Russian Rubles unless stated otherwise)

22. Related party transactions (continued)

The following transactions were carried out with related parties in 2016 and 2015:

	Year ended 31 December	
	2016	**2015**
Sales revenue for well construction services from LLC NGK Gorny	16,367	-
Sales revenue for transportation services from LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	5,162	-
Sales revenue from sale of inventories to LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	2,744	-
Interest income on deposits placed with OJSC Gazprombank	26,823	26,129
Interest income on loan provided to parent company - IGS Investments Limited (Cyprus) *	16	2
Insurance services from OJSC SOGAZ (subsidiary of OJSC Gazprombank)	(11,736)	(24,897)
Purchase of inventories from LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	(11,123)	-
Cost of transportation services from LLC Eriell Neftegazservice (associated company of OJSC Gazprombank)	(5,551)	-
Interest expense on finance lease from OJSC GPB Leasing (subsidiary of OJSC Gazprombank)	(177,495)	(267,951)
Interest expense on loan from OJSC Gazprombank	(134,264)	(85,746)
Interest expense on loan from GPB-DI Holding Ltd (Cyprus, subsidiary of OJSC Gazprombank)	(25,529)	-
Interest expense on loan from LLC NGK Gorny	(3,432)	-

* IGS Investments Limited (Cyprus) ceased to be parent company of IGS Group in October 2016

Property, plant and equipment have been pledged as collateral for bank loans from OJSC Gazprombank at 31 December 2016 in the amount of RR 66,570 (At 31 December 2015 in the amount of RR 79,844).

In December 2015 the Company provided shot-term loan to its parent company – IGS Investments Limited (Cyprus) in total amount of RR 2,300 under 12% p.a. The loan was fully repaid in January 2016.

Management compensation

The key management personnel include the members of Board of Directors, general director, deputy general director, financial director, executive director, director for operations and managing director. The total number of the key management personnel comprise of 7 and 13 employees in 2016 and 2015. In 2016 the members of Board of Directors who are not also employees of the Group (5 persons) did not receive any remuneration so they were not included in total number of the key management personnel. In 2015 the shareholders agreed annual compensation to the members of Board of Directors so in 2015 the members of Board of Directors were included in total number of the key management personnel.

In 2016 and 2015, the Group's key management personnel compensation represented by salary and bonuses totalled RR 137,243 and RR 202,170, respectively.

23. Contingencies, Commitments and Operating Risks

Operating environment of the Group. The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2015 and were subject to significant fluctuations in 2016. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Ruble and other negative economic consequences.

23. Contingencies, Commitments and Operating Risks (continued)

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

Contractual commitments. In the normal course of business, the Group entered into contracts for the purchase of property, plant and equipment. At 31 December 2016 and 2015, the Group had no any contractual commitments.

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 Group 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.

Tax contingencies. Russian tax and customs 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 Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant 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 of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation is effective 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. 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 on an arm's length basis.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2016 management of the Group believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2016 no provision for potential tax liabilities had been recorded (31 December 2015: similarly).

23. Contingencies, Commitments and Operating Risks (continued)

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

At 31 December 2016, the Group was involved in a number of court proceedings, both as a plaintiff and a defendant, arising in the ordinary course of business. The Group management believes that there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group and which have not otherwise been accrued or disclosed in these consolidated financial statements.

24. Events after the reporting date

In March 2017 the Central Bank of the Russian Federation decreased its key rate by 0.25 percentage points from 10% to 9.75%. As a result effective interest rate on loans from OJSC Gazprombank with total outstanding balance of RR 4,890,859 as at 31 December 2016 decreased from 12.5% to 12.25%.

In April 2017 the Company was in negotiations with OJSC Gazprombank for provision of another credit line and bank warranty. Under these agreements the Company is to pledge as collateral its future sales revenue from customers in total amount of RR 5,327,945.

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Supplementary disclosures

The management uses certain additional non-IFRS measures to assess performance and believes these measures provide useful supplemental information to investors and credit institutions. These measures have no standardized meaning prescribed by IFRS, and, accordingly, may not be comparable to similar measures used by other companies.

EBITDA

EBITDA is defined as "earnings before interest, income tax, other non-cash charges, depreciation and amortisation", as derived from information reported in the Consolidated Statement of Comprehensive Income. Management believes that, in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of results generated by the Group's principal business activities prior to consideration of how these activities are financed, how the results are taxed and how non-cash charges, depreciation and amortisation affect results.

EBITDA is computed with reference to the Group's profit for the years 2016 and 2015 as follows:

	Year ended 31 December	
	2016	**2015**
Profit for the year	533,240	584,313
Income tax expense	155,473	188,429
Finance expense	892,910	1,247,462
Finance income	(39,694)	(51,482)
Gain on disposal of investment in subsidiary	-	(455)
(Gain) / loss from disposal of property, plant and equipment	(156,845)	68,433
Loss on revaluation and reclass of assets held for sale into investment property	40,967	-
Depreciation	1,274,208	1,393,258
Amortisation	11,967	15,291
EBITDA	**2,712,226**	**3,445,249**
Weighted average exchange rate, RR/USD	63.0349	60.9579
EBITDA in thousands of USD	**43,027**	**56,518**

Net debt

Net debt is calculated as sum total of all loans and borrowings plus finance lease liabilities less cash and short-term deposits. Net debt as at 31 December 2016 and 2015 was as follows:

	31 December 2016	**31 December 2015**
Bank loans (Note 16)	6,582,932	4,024,842
Loans (Note 16)	549,498	395,905
Finance lease liability (Note 16)	1,363,259	2,864,491
Less: cash and cash equivalents (Note 5)	(632,959)	(274,599)
Net debt	**7,862,730**	**7,010,639**