Bashneft Group

Consolidated financial statements
for the year ended 31 December 2014

BASHNEFT GROUP

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BASHNEFT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The following statement, which should be read in conjunction with the independent auditor's report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Oil Company Bashneft (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as of 31 December 2014, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by:

A.L. Korsik,	**A.Y. Lisovenko,**
President	Chief Accountant

Ufa, Russian Federation
24 March 2015

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Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Joint Stock Oil Company Bashneft

We have audited the accompanying consolidated financial statements of Joint Stock Oil Company Bashneft and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Deloitte + Touche

24 March 2015
Moscow, Russian Federation

Golovkina N.V., Partner
(certificate no.01-001193 dated 14 January 2013)

ZAO Deloitte & Touche CIS

The Entity: Joint Stock Oil Company Bashneft

Order No 60, issued by the Administration of the Kirov District of the city of Ufa, the Republic of Bashkortostan, on 13 January 1995.

Certificate of registration in the Unified State Register of Legal Entities No 1020202555240 of 15 October 2002, issued by Inspectorate of the Russian Ministry of Taxation of the Kirov District of the city of Ufa,
the Republic of Bashkortostan.

Address: 30 Bldg.1, Karl Marx Street, the city of Ufa, the Republic of Bashkortostan 450077, the Russian Federation

Independent Auditor: ZAO “Deloitte & Touche CIS”

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

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in “NP “Audit Chamber of Russia” (auditors’ SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Millions of Russian roubles, except for earnings per share data

	Notes	Year ended 31 December 2014	Year ended 31 December 2013*	Year ended 31 December 2012*
Revenue	7	637,271	563,296	532,502
Export tariffs and excise		(199,024)	(160,255)	(144,307)
Cost of purchased crude oil, gas and petroleum products		(139,838)	(126,438)	(124,857)
Taxes other than income tax	9	(77,771)	(69,405)	(66,709)
Production and operating expenses		(70,833)	(59,883)	(53,365)
Transportation expenses		(31,257)	(28,280)	(26,784)
Depletion and depreciation		(23,781)	(20,028)	(18,377)
Selling, general and administrative expenses		(16,019)	(15,063)	(16,085)
Other operating (expenses)/income, net		(1,751)	(1,586)	3,386
Operating profit		**76,997**	**82,358**	**85,404**
Impairment of assets	10	(13,030)	(16,689)	(4,816)
Finance income	11	4,747	5,163	4,808
Finance costs	11	(13,058)	(9,460)	(11,883)
Foreign exchange gain, net		1,299	1,094	107
Share of (loss)/profit of associate and joint ventures, net of income tax	14	(117)	492	(361)
Profit before income tax		**56,838**	**62,958**	**73,259**
Income tax	12	(13,817)	(16,559)	(16,469)
Profit for the year		**43,021**	**46,399**	**56,790**
Other comprehensive (loss)/income, net of income tax				
Item that will not be reclassified subsequently to profit or loss:				
Remeasurement of post-employment benefit obligation		(25)	37	(220)
Other comprehensive (loss)/income, net of income tax		**(25)**	**37**	**(220)**
Total comprehensive income for the year		**42,996**	**46,436**	**56,570**
Profit/(loss) for the year attributable to:				
Owners of the Company		43,146	46,170	52,291
Non-controlling interests		(125)	229	4,499
		43,021	**46,399**	**56,790**
Total comprehensive income/(loss) for the year attributable to:				
Owners of the Company		43,121	46,205	52,088
Non-controlling interests		(125)	231	4,482
		42,996	**46,436**	**56,570**
EARNINGS PER SHARE				
Weighted average number of ordinary shares in issue during the year	21	148,586,876	157,085,505	151,224,401
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)	21	245.10	242.06	285.10

*As discussed in note 10, certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year

The accompanying notes on pages 9-64 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
Millions of Russian roubles

	Notes	31 December 2014	31 December 2013	31 December 2012
ASSETS				
Non-current assets				
Property, plant and equipment	13	369,925	277,369	277,149
Advances paid for acquisition of property, plant and equipment		1,617	805	632
Intangible assets		2,982	1,981	1,830
Financial assets	15	3,567	4,019	29,318
Investments in associate and joint ventures	14	3,791	18,848	28,619
Long-term inventories	16	2,846	3,022	2,351
Deferred tax assets	12	1,959	-	-
Other non-current assets		1,619	380	1,998
		388,306	**306,424**	**341,897**
Current assets				
Inventories	16	26,359	21,450	23,839
Financial assets	15	1,330	5,066	18,635
Trade and other receivables	17	14,696	27,317	28,366
Advances to suppliers and prepaid expenses		8,881	5,906	5,649
Income tax prepaid		469	289	2,485
Other taxes receivable	27	30,822	25,990	22,534
Cash and cash equivalents	18	52,818	16,395	20,104
		135,375	**102,413**	**121,612**
Assets classified as held for sale	19	**-**	**38,962**	**-**
TOTAL ASSETS		**523,681**	**447,799**	**463,509**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	21	1,984	2,501	2,501
Treasury shares		(18,122)	(38,147)	(38,147)
Additional paid-in capital		81,462	72,682	83,651
Retained earnings		130,494	199,131	194,975
Equity attributable to owners of the Company		**195,818**	**236,167**	**242,980**
Non-controlling interests		7,834	155	4,928
		203,652	**236,322**	**247,908**
Non-current liabilities				
Borrowings	22	139,232	78,902	78,201
Decommissioning provision	24	7,473	6,145	7,083
Deferred tax liabilities	12	43,038	33,489	37,561
Prepayment on oil products supply agreement	23	17,347	-	-
Other non-current liabilities	25	1,722	6,164	5,931
		208,812	**124,700**	**128,776**
Current liabilities				
Borrowings	22	28,553	11,914	32,007
Trade and other payables	26	37,340	50,372	28,942
Dividends payable	21	398	275	224
Advances received		25,614	12,066	14,156
Provisions		824	895	718
Income tax payable		1,722	32	393
Other taxes payable	27	16,766	10,340	10,385
		111,217	**85,894**	**86,825**
Liabilities directly associated with assets classified as held for sale	19	**-**	**883**	**-**
TOTAL LIABILITIES		**320,029**	**211,477**	**215,601**
TOTAL EQUITY AND LIABILITIES		**523,681**	**447,799**	**463,509**

The accompanying notes on pages 9-64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
Millions of Russian roubles

	Notes	Year ended 31 December 2014	Year ended 31 December 2013*	Year ended 31 December 2012*
OPERATING ACTIVITIES				
Profit before income tax		**56,838**	**62,958**	**73,259**
Adjustments for:				
Depletion and depreciation		23,781	20,028	18,377
Loss on disposal of property, plant and equipment		1,981	926	770
Finance income		(4,747)	(5,163)	(4,808)
Finance costs		13,058	9,460	11,883
Impairment of assets	10	13,030	16,689	4,816
Share of loss/(profit) of associate and joint ventures	14	117	(492)	361
Group's share of loss/(gain) eliminated on transactions with joint ventures	14	1,172	(1,174)	-
Loss on disposal of financial assets		-	109	-
Foreign exchange gain, net		(1,299)	(1,094)	(107)
Change in provisions, net		47	761	(2,934)
Other, net		330	967	(702)
Operating cash flows before working capital changes		**104,308**	**103,975**	**100,915**
Movements in working capital:				
Inventories		(1,448)	(1,322)	(456)
Trade and other receivables		7,401	(4,632)	(4,309)
Advances to suppliers and prepaid expenses		(1,915)	(556)	(1,765)
Other taxes receivable		(1,376)	(4,185)	5,923
Trade and other payables		(7,902)	10,887	4,875
Advances received		12,908	(1,718)	(2,927)
Prepayment on oil products supply agreement	23	17,347	-	-
Other taxes payable		3,635	3,586	(4,489)
Cash generated from operations		**132,958**	**106,035**	**97,767**
Interest paid		(12,065)	(7,568)	(10,500)
Income tax paid		(14,834)	(15,774)	(16,126)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**106,059**	**82,693**	**71,141**

*As discussed in note 10, certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year

The accompanying notes on pages 9-64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014
Millions of Russian roubles

	Notes	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
INVESTING ACTIVITIES				
Payments for acquisition of property, plant and equipment		(48,344)	(30,441)	(30,789)
Proceeds from disposal of property, plant and equipment		46	964	1,441
Net cash (outflow)/inflow from disposal of subsidiaries and structured entities		(17)	(1,710)	39
Additional contribution to joint venture	14	(2,761)	(10,035)	(3,122)
Acquisition of subsidiaries, net of cash acquired	4	(41,283)	(152)	(846)
Payments for acquisition of intangible assets		(968)	(713)	(802)
Repayment of contributions from joint venture	14	3,133	-	-
Acquisition of share in joint venture	14	(200)	-	-
Proceeds from disposal of investment in associate		-	9,879	-
Payments for acquisition of financial assets		(400)	(19,671)	(70,365)
Proceeds from disposal of financial assets		2,476	21,257	61,622
Dividends received		-	448	-
Interest received		3,126	4,314	3,662
NET CASH USED IN INVESTING ACTIVITIES		**(85,192)**	**(25,860)**	**(39,160)**
FINANCING ACTIVITIES				
Proceeds from sale of treasury shares		-	2,617	-
Payments for acquisition of non-controlling interests		-	(513)	(7,964)
Proceeds from borrowings		101,507	50,947	25,388
Repayments of borrowings		(44,051)	(70,762)	(23,766)
Purchase of treasury shares		(17,869)	-	(15,697)
Dividends paid by the Company		(35,619)	(42,491)	(18,263)
Dividends paid by subsidiaries		-	(6)	(81)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**3,968**	**(60,208)**	**(40,383)**
Net increase/(decrease) in cash and cash equivalents		**24,835**	**(3,375)**	**(8,402)**
Cash and cash equivalents at beginning of the year	18	**16,395**	**20,104**	**28,354**
Cash and cash equivalents held on disposal group	19	-	(504)	-
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		11,588	170	152
Cash and cash equivalents at end of the year	18	**52,818**	**16,395**	**20,104**

The accompanying notes on pages 9-64 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2012		**2,252**	**(13,241)**	**34,736**	**156,870**	**180,617**	**46,312**	**226,929**
Profit for the year		-	-	-	52,291	**52,291**	4,499	**56,790**
Other comprehensive loss		-	-	-	(203)	**(203)**	(17)	**(220)**
Total comprehensive income for the year		**-**	**-**	**-**	**52,088**	**52,088**	**4,482**	**56,570**
Result of mandatory shares buy-back preceding Group reorganization		-	(11,070)	-	4,252	**(6,818)**	(12,216)	**(19,034)**
Transactions with the Controlling shareholder		-	2,977	67	-	**3,044**	3,472	**6,516**
Effect on reorganisation of the Group		249	(12,186)	48,594	-	**36,657**	(36,657)	**-**
Purchase of treasury shares		-	(4,627)	-	-	**(4,627)**	-	**(4,627)**
Dividends	21	-	-	-	(18,235)	**(18,235)**	(54)	**(18,289)**
Other equity transactions		-	-	254	-	**254**	(411)	**(157)**
Balance at 31 December 2012		**2,501**	**(38,147)**	**83,651**	**194,975**	**242,980**	**4,928**	**247,908**
Profit for the year		-	-	-	46,170	**46,170**	229	**46,399**
Other comprehensive income		-	-	-	35	**35**	2	**37**
Total comprehensive income for the year		**-**	**-**	**-**	**46,205**	**46,205**	**231**	**46,436**
Transactions with the Controlling shareholder	20	-	-	(10,455)	-	**(10,455)**	(5,004)	**(15,459)**
Acquisition of additional interests in subsidiaries		-	-	-	483	**483**	(1,017)	**(534)**
Dividends	21	-	-	-	(42,533)	**(42,533)**	(15)	**(42,548)**
Other equity transactions		-	-	(514)	1	**(513)**	1,032	**519**
Balance at 31 December 2013		**2,501**	**(38,147)**	**72,682**	**199,131**	**236,167**	**155**	**236,322**
Profit for the year		-	-	-	43,146	**43,146**	(125)	**43,021**
Other comprehensive loss		-	-	-	(25)	**(25)**	-	**(25)**
Total comprehensive income for the year		**-**	**-**	**-**	**43,121**	**43,121**	**(125)**	**42,996**
Transactions with the Controlling shareholder	4	-	-	7,575	-	**7,575**	4,205	**11,780**
Effect of reorganisation of CJSC Sistema-invest and the Group	5	(517)	20,025	-	(76,028)	**(56,520)**	-	**(56,520)**
Transfer of license on Trebs and Titov deposit to LLC Bashneft-Polyus	25	-	-	1,152	-	**1,152**	3,616	**4,768**
Dividends	21	-	-	-	(35,730)	**(35,730)**	-	**(35,730)**
Other equity transactions		-	-	53	-	**53**	(17)	**36**
Balance at 31 December 2014		**1,984**	**(18,122)**	**81,462**	**130,494**	**195,818**	**7,834**	**203,652**

The accompanying notes on pages 9-64 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Organisation and operations

Joint Stock Oil Company Bashneft (the "Company" or "Bashneft") and its subsidiaries (together referred to as the "Group" or the "Bashneft Group") are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. The Group's oil production, refining, marketing and distribution base includes oil and gas fields, refineries and petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. The Company's registered office is located at 30, bldg.1, Karl Marx Street, the City of Ufa, the Republic of Bashkortostan 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 December 2014, 2013 and 2012:

		Group's effective interest		
Company	**Principal activities**	**31 December 2014**	**31 December 2013**	**31 December 2012**
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%	100%
LLC Bashneft-Retail Sales (former LLC Bashneft-Udmurtia)	Petroleum products trading	100%	100%	100%
LLC Burneftegaz [(1)]	Exploration and production of crude oil	100%	not applicable	not applicable
LLC Bashneft-Polyus [(2)]	Exploration and production of crude oil	74.9%	not applicable	not applicable

[(1)] In March 2014 the Group acquired a 100% interest in LLC Burneftegaz ("Burneftegaz"), which is engaged in exploration and production of crude oil in the Tyumen District (refer to note 4).

[(2)] In May 2014 the Company and OAO LUKOIL signed an amendment to participation agreement that transferred effective control over the operational and financial activities of LLC Bashneft-Polyus ("Bashneft-Polyus") to the Company (refer to note 4).

Controlling shareholder

On 9 December 2014 in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 122,971,934 ordinary and 6,192,245 preferred shares of the Company representing 71.62% of the Company's charter capital previously owned by JSFC Sistema ("Sistema") and CJSC Sistema-invest ("Sistema-invest") were transferred to Russian Federal Property Management Agency ("Rosimushchestvo"). As a result of the transfer effective control over the Company passed from Sistema to the Government of Russian Federation, that became the ultimate controlling party of Bashneft Group from 9 December 2014.

Going concern

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. Consequently, the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Standards and interpretations adopted in the current year

Several amendments including amended IAS 32 *Financial Instruments: Presentation,* IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"), IAS 27 *Separate Financial Statement* ("IAS 27"), IAS 36 *Impairment of assets* ("IAS 36"), IAS 39 *Financial instruments: Recognition and Measurement* ("IAS 39") and IFRIC 21 *Levies* were applied for the first time in these consolidated financial statements. The application of these amendments did not result in significant changes to the Group's financial position or results of operations.

Standards and interpretations issued but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were issued but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 9 (2014) *Financial Instruments*	1 January 2018
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
IFRS 15 *Revenue from Contracts with Customers*	1 January 2017
Amendments to IAS 19 *Employee Benefits* – the amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	1July 2014
Annual Improvements 2010-2012 and 2011-2013	1July 2014
Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* – The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* ("IAS 16") and IAS 38 *Intangible assets* ("IAS 38") – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset	1 January 2016
Amendments to IAS 16 and IAS 41 *Agriculture* ("IAS 41") – The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41	1 January 2016
Amendments to IAS 27 – The amendments permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Venture* – Amendments clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture	1 January 2016
Annual Improvements 2012-2014	1 July 2016
Amendments to IAS 1 *Presentation of Financial Statements* – Amendments address perceived impediments to preparers exercising their judgement in presenting their financial reports	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 *Investments in Associates* ("IAS 28") – Amendments address issues that have arisen in the context of applying the consolidation exception for investment entities	1 January 2016

The impact of adoption of the aforementioned standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for those items measured at fair value.

The Group's principal accounting policies are set out below.

Functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the majority of the Company's subsidiaries as it reflects the principal economic environment of each company's operations.

Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of subsidiaries begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Profit or loss and each component of other comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses and any unrealised profits or losses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their respective fair values at the date of acquisition except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 *Income Taxes*.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognised in profit and loss and calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income and accumulated in equity in relation to that subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of investments in an associate.

Structured entities

The Group's structured entities are the entities that are controlled by the Group and that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such a conclusion might exist when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Common control transactions

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values of the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. The net assets of the subsidiaries acquired and their results are recognised from the date on which control of the subsidiaries was obtained.

The cost of assets acquired from entities under common control is measured at cost.

When the Group disposes of subsidiaries and transfers its ownership to an entity under common control, the Group recognises such transactions at carrying value and on a prospective basis. Any difference between the consideration received and carrying value of net assets disposed of is recognised as an adjustment to shareholders' equity.

Foreign currencies

In preparing financial information of each individual group entity, transactions in currencies other than Russian roubles ("foreign currency") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Property, plant and equipment

Recognition and measurement

Oil and gas exploration, evaluation and development expenditure

Oil and gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration drilling and with acquisition of rights to conduct geological exploration, prospecting, surveying and production of hydrocarbons are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss at the point at which this determination is made. Capitalisation of exploration and evaluation expenditures is made within property, plant and equipment. No depreciation or amortisation is recognised during the exploration and evaluation phase as the assets are not yet in use.

All exploration and evaluation expenditures are subject to technical, commercial, and management review, and are reviewed for indicators of impairment.

Once commercial reserves are found, and development is sanctioned by management, exploration and evaluation assets are tested for impairment and transferred to development assets. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. Extraction assets are aggregated with exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Oil and gas properties and other property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the original estimate of the cost of decommissioning of wells, pipelines, other oil and gas facilities and site restoration.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of that asset.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

Depletion and depreciation

Property, plant and equipment related to oil and gas production activities are depreciated using the unit-of-production method. Unit-of-production rates are based on proved developed producing and proved developed non-producing reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods, and do not take into account future development costs for accessing hydrocarbons from existing well-bores, where production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well. Where individually insignificant, unproved oil and gas properties may be grouped and amortised based on factors such as the average concession term and past experience of recognising proved reserves.

Acquisition costs of proved properties are depleted using the unit-of-production method based upon total proved reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon reserves to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

Assets which are not directly associated with oil production activities are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment other than oil and gas properties, are as follows:

Buildings and constructions	2-100 years
Machinery and equipment	2-39 years
Transport	1-57 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets within *Depletion and depreciation*.

The estimated useful life for the software is 1-5 years. Amortisation methods and useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When the Group has previously held an investment accounted for under IAS 39 and the Group obtains significant influence over that investment, the deemed cost of the investment in the associate, accounted for under IAS 28, is the fair value of the original investment at the date that significant influence is achieved over the entity, plus any consideration paid for the additional stake. Any gains or losses arising on the reassessment to fair value of the original investment are recognized in profit or loss at the date significant influence is achieved.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when investment ceases to be an associate or when an investment is classified as held for sale.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint ventures are accounted for using the equity method whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture.

When a venturer makes a non-monetary contribution to a joint venture in exchange for an equity interest in that joint venture, profit or loss is recognised only on the portion of the gain or loss that relates to the equity interests of the other venturers.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group. The interest income on loans provided to joint ventures is recognised in full within the consolidated statement of profit or loss and other comprehensive income as a Finance income.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Impairment of tangible and finite-lived intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and finite-lived intangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") investments, held-to-maturity investments and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – assets

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Listed and unlisted shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured, which are accounted at cost less any identified impairment losses at the end of each reporting period.

Fair value of AFS financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market prices.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity. Where the investment is derecognised, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss, except for derecognition due to transactions under common control, where the respective cumulative gain or loss is reclassified within the consolidated statement of changes in equity.

Held-to-maturity investments

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any.

Interest income is recognised using the effective interest method.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Equity securities classified as AFS, a significant and prolonged decline in the fair value of the securities below its costs is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Equity instruments

Repurchase of the Company’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Financial liabilities

Financial liabilities of the Group are classified into the following specified categories:
financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and had a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liability at FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including trade and other payables, loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method – liabilities

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Provisions and contingencies

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. When 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 the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination.

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision relates primarily to the suspension and liquidation of wells, pipelines, other oil and gas facilities and site restoration. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning costs, discounted to net present value, are capitalised and a corresponding obligation is recognised as soon as a constructive obligation arises and the amount can be reliably estimated. The unwinding of the discount is recognised within finance costs. Oil and gas properties related to decommissioning are depreciated using the unit-of-production method based on proved developed reserves.

The Group records the long-term portion of the decommissioning provision as a separate line item in the consolidated statements of financial position. The current portion is recorded within current provisions.

The adequacy of the decommissioning provision is periodically reviewed in the light of current laws and regulations, and adjustments are made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and the corresponding asset.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social contribution, is recognised as an expense in the period when it is earned.

Defined contribution plan

The Company and its subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

Defined benefit retirement plans

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period and with immediate recognition of all actuarial gains and losses in other comprehensive income. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and is not reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

Other long-term employee benefits

The Group provides its employees with other long-term benefits. The entitlement to these benefits is usually conditional on the employee remaining in service up to the certain period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit retirement plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions recognised in profit or loss in the period in which they arise.

Share-based payment arrangements

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group’s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

Sales of crude oil and petroleum products

Revenue from the sales of crude oil and petroleum products (“goods”) is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction 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 profit or loss.

Interest income

Interest income is recognised using the effective interest method. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing – the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Income tax

Income tax expense comprises current and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or assets realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred 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 tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Earnings per share

The Company has two classes of shares, “ordinary” and “preferred”. The Company’s preferred shares have the same characteristics as ordinary shares and have no preference attributed to them. Accordingly, for purposes of computing earnings per share (“EPS”), preferred shares have been treated as ordinary shares.

The Group presents basic and diluted EPS data for its ordinary and preferred shares, on a combined basis. Basic EPS is calculated by dividing profit or loss attributable to owners of the Company by the weighted average number of ordinary and preferred shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Useful economic lives of property, plant and equipment;
- Investment in Bashneft Polyus
- Exploration and evaluation expenditures;
- Impairment of property, plant and equipment;
- Decommissioning provision;
- Legal contingencies; and
- Taxation.

Useful economic lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licences and past experience, management believes oil production licences will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated licence extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

Oil and gas producing assets are depreciated on a units of production basis at a rate calculated by reference to total proved developed reserves. The Group estimates its commercial reserves on information compiled by appropriately qualified persons competent to assess the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recover factors and future commodity prices.

As economic assumptions may change, and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, including:

- Carrying value of exploration and evaluation assets, property, plant and equipment, may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in profit or loss may change where such changes are determined using the unit of production method, or where the useful life of the related assets change;
- Provisions for decommissioning may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- Recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in the estimates of the likely recovery of such assets.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Investment in Bashneft Polyus

The Group has a 74.9% interest in Bashneft-Polyus, and is the operator at the Trebs and Titov oilfield deposit. Prior to May 2014, the Group considered that its power, and those of the holder of 25.1% interest resulted in joint control over the entity, and accordingly applied equity account as a joint venture.

On 23 May 2014, an agreement to change the participation agreement governing certain financial and operational matters of Bashneft-Polyus was reached. Management considered their powers after the revisions, and concluded that they have control over Bashneft-Polyus from the date of change of the participation agreement and throughout the year as it is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether it is likely that future economic benefits are probable, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of commercial reserves. The determination of reserves is itself an estimation process that requires varying degrees of uncertainty depending on the classification of the reserve. The capitalisation policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant amount is written off in profit or loss in the period the information becomes available.

Impairment of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit based on a cash flows projection utilising the latest budgeted information available.

Decommissioning provision

The Group's oil and gas activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the licence agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of oil and gas reserves estimates and discount rates could affect the carrying amount of this provision.

Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group's results.

Taxation

Significant judgement is required in determining the provision for taxation in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Millions of Russian roubles

4. BUSINESS COMBINATIONS

LLC Burneftegaz

On 26 March 2014 the Group acquired a 100% interest in the outstanding charter capital of Burneftegaz, which is engaged in exploration and production of crude oil in the Tyumen District of the Russian Federation for total cash consideration of RUB 35,953 million. The acquisition of Burneftegaz followed the Group's strategy for the upstream segment growth, which involved the expansion of the resource base of the Group by acquiring assets with considerable production potential.

At the date of acquisition, the fair values of identifiable assets and liabilities of Burneftegaz were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	41,784
Advances paid for acquisition of property, plant and equipment	526
Inventories	293
Trade and other receivables	142
Advances to suppliers and prepaid expenses	110
Other taxes receivable	107
Cash and cash equivalents	208
Other assets	42
	43,212
LIABILITIES	
Deferred tax liabilities	(5,516)
Trade and other payables	(691)
Advances received	(185)
Other taxes payable	(478)
Borrowings	(363)
Other liabilities	(26)
	(7,259)
Fair value of net assets acquired	**35,953**
Cash consideration	**35,953**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	**-**
Net cash outflow arising on acquisition	
Consideration paid	35,953
Cash and cash equivalents acquired	(208)
Net cash outflow on acquisition	**35,745**

Burneftegaz contributed RUB 8,352 million of revenue, RUB 198 million of profit before tax and RUB 137 million of profit from the date of acquisition to 31 December 2014.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Burneftegaz did not prepare financial statements in accordance with IFRS before the acquisition.

Millions of Russian roubles

LLC Bashneft-Polyus

Until 23 May 2014 Bashneft-Polyus was a joint venture between the Company and OAO LUKOIL established for the development of Trebs and Titov oil deposits. The Company holds 74.9% interest in the charter capital of Bashneft-Polyus.

On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company.

At the date of acquisition of control, the fair values of identifiable assets and liabilities of Bashneft-Polyus were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	11,644
Advances paid for acquisition of property, plant and equipment	46
Inventories	846
Trade and other receivables	15,436
Advances to suppliers and prepaid expenses	412
Other taxes receivable	2,351
Cash and cash equivalents	11
Other assets	2
	30,748
LIABILITIES	
Trade and other payables	(4,606)
Advances received	(17)
Other taxes payable	(2,232)
Borrowings from OAO LUKOIL and JSOC Bashneft	(23,334)
Deferred tax liabilities	(386)
Other liabilities	(67)
	(30,642)
Fair value of net assets obtained	**106**
Fair value of previously held share of investment in joint venture, net of loans from the Group treated as additional contribution to the joint venture	**451**
Non-controlling interests' share in fair value of net assets	**27**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired, recognised in Other operating expenses, net	**372**
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	11
Net cash inflow on acquisition	**11**

Following the consolidation of Bashneft-Polyus, loans issued by the Group to Bashneft-Polyus in the amount of RUB 17,380 million at the date of acquisition, which were previously presented as an additional contribution to the joint venture, were eliminated in full as intra-group balances.

Bashneft-Polyus contributed RUB 9,350 million of revenue, RUB 2,631 million of loss before tax and RUB 2,091 million of loss from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 638,884 million, profit for the year would have been RUB 43,056 million.

Millions of Russian roubles

Optan group

In July and August 2014 Bashneft through a series of transactions acquired 100% stakes in five legal entities which own a network of 91 petrol stations operated under the “Optan” brand (“Optan group”) and 11 land plots located in 12 regions of the Russian Federation for a total cash consideration of RUB 7,715 million. The acquisition of the Optan group is part of Bashneft’s strategy to expand its own retail network. Optan group’s petrol stations are in high-priority regions in geographical proximity to the Group’s refining complex in Ufa.

At the date of acquisition, the fair values of identifiable assets and liabilities of Optan group were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	10,210
Intangible assets	277
Other assets	105
	10,592
LIABILITIES	
Deferred tax liabilities	(1,848)
Borrowings	(949)
Other liabilities	(80)
	(2,877)
Fair value of net assets acquired	**7,715**
Cash consideration	**7,715**
Excess of the cost of acquisition over the Group’s share in the fair value of net assets acquired	**-**
Net cash outflow arising on acquisition	
Consideration paid	**7,715**
Cash and cash equivalents acquired	(8)
Net cash outflow on acquisition	**7,707**

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of Optan Group is insignificant to the Group.

The Group’s financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Optan group did not prepare financial statements in accordance with IFRS before the acquisition.

OJSC United Petrochemical Company

On 17 September 2013 the Group entered into agreement to sell its 98% interest in OJSC United Petrochemical Company (“UPC”) to Sistema for cash consideration of RUB 6,200 million payable in one year (refer to note 20). UPC was the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez (“Ufaorgsintez”). On 24 September 2014 this agreement was terminated and the Group re-obtained the control over UPC.

Millions of Russian roubles

Both transactions were under common control so the assets and liabilities are recorded at their historical carrying values. As a result of the termination of the sale agreement the Group recognised a gain on acquisition of RUB 7,575 million, net of related income taxes in the amount of RUB 831 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of the transaction with the Group's controlling shareholder.

The result of transaction is set out below:

	Carrying value at the acquisition date
ASSETS	
Property, plant and equipment*	13,441
Intangible assets	207
Investments in joint venture	506
Inventories	1,973
Trade and other receivables	666
Advances to suppliers and prepaid expenses	542
Taxes receivable	1,079
Financial assets	1,240
Cash and cash equivalents	3,572
Other assets	88
	23,314
LIABILITIES	
Deferred tax liabilities	(1,468)
Trade and other payables	(2,361)
Advances received	(438)
Other liabilities	(236)
	(4,503)
Net assets acquired	**18,811**
Non-controlling interests	(4,205)
	14,606
Income tax expense recognised on acquisition of UPC	(831)
Consideration receivable on disposal of UPC	**(6,200)**
Gain on acquisition of UPC	**7,575**
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	3,572
Net cash inflow on acquisition	**3,572**

UPC contributed RUB 9,448 million of revenue, RUB 1,581 million of profit before tax and RUB 748 million of profit from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 657,501 million and profit for the year would have been RUB 43,953 million.

LLC AKTAN

On 2 December 2014, the Group acquired 100% interest in LLC AKTAN ("AKTAN"), for a total cash consideration of RUB 1,191 million. AKTAN is a company engaged in petroleum products trading in the Samara region through a chain of 17 petrol stations. As a result of acquisition, the Group consolidated property, plant and equipment in the amount of RUB 1,320 million and attributable deferred tax liability in the amount of RUB 190 million.

* Property, plant and equipment are presented net of accumulated depreciation in the amount of RUB 11,696 million.

Millions of Russian roubles

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of AKTAN is insignificant to the Group. The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as AKTAN did not prepare standalone financial statements in accordance with IFRS before the acquisition.

Other acquisitions

During the year ended 31 December 2014 the Group also acquired a subsidiary in the Downstream segment for a total cash consideration of RUB 350 million. The fair value of the net assets acquired approximated the consideration paid.

In 2013 and 2012, the Group acquired subsidiaries in Upstream and Downstream segments for a total consideration of RUB 522 million (of which RUB 152 million was paid in cash) and RUB 846 million paid in cash, respectively. The fair value of the net assets acquired approximates the consideration transferred.

5. REORGANISATION OF THE GROUP

Reorganisation of CJSC Sistema-Invest and the Group

On 3 February 2014 at an Extraordinary General Shareholders' Meeting of the Company, a reorganisation programme was approved involving establishment of CJSC Bashneft-Invest ("Bashneft-invest") through a spinoff from Sistema-invest and its consolidation with Bashneft.

In April 2014 as part of the reorganisation of the Group, the Company acquired 2,724,173 of its own ordinary shares and 8,885,866 of its own preferred shares for total cash consideration of RUB 17,869 million.

Bashneft-invest was created on 5 May 2014 as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest. Sistema-invest is a legal entity controlled by Sistema that owned equity interests in the Company, Ufaorgsintez and OJSC Bashkirian Power Grid Company. Bashneft's effective interest of 49.41% in the assets and liabilities of Sistema-invest were accounted for as held for sale from 31 December 2013 (refer to note 19). On the date of the spinoff Bashneft-invest effectively obtained 9,943,730 ordinary shares of the Company and acquired direct ownership of 28,196,195 ordinary shares previously recognised as assets effectively owned, but held by Sistema-invest. Those shares were accounted for as treasury shares in the financial statements of the Group at the date of the transaction. Additionally, Bashneft-invest assumed the liabilities that existed under the loan payable by Sistema-invest to the Company.

As a result of the reorganisation the Company no longer owns any shares in Sistema-invest.

The result from the reorganisation of Sistema-invest is presented below:

	5 May 2014
Decrease in assets classified as held for sale	(39,483)
Decrease in liabilities directly associated with assets classified as held for sale	832
Increase in treasury shares	**38,651**

On 6 May 2014 Bashneft-invest was legally merged with the Company. The reorganisation of the Group was completed on the date of the merger when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions, respectively.

Millions of Russian roubles

The result from the cancellation of treasury shares is presented below:

	6 May 2014
Decrease in treasury shares	(76,545)
Decrease in share capital	517
Decrease in retained earnings	**(76,028)**

6. SEGMENT INFORMATION

The Board is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

- Upstream: this segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil; and
- Downstream: this segment comprises subsidiaries and business units of the Company engaged in processing and sale of crude oil, oil products and petrochemicals on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in providing oilfield maintenance, warehouse services and other non-core activities, none of which meet the criteria for separate reporting, is presented as All other segments.

During 2012 operational and financial management of Ufaorgsintez was transferred to management of UPC, a subsidiary of the Company. Starting from 2012 the information about operations of UPC was not included in the reports provided to the Board and as a result the operations of UPC and its subsidiaries were included in the "Reconciling item" column below until the date of its disposal on 17 September 2013 (refer to note 20). Starting from 24 September 2014, following re-obtaining of control over the UPC by the Group (refer to note 4), the operations of UPC and its subsidiaries are included in the Downstream segment as the information about their operations is included in the reports provided to the Board.

There are varying levels of integration between the Group's operating segments. Inter-segment revenues of the Upstream segment represent oil transfer to the Downstream segment for the purpose of refining and crude oil sales and measured with a reference to market prices for crude oil. Inter-segment revenues of the Downstream segment and All other segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Information regarding the results of each reportable segment is reviewed by the Board. Segment EBITDA is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries. Segment EBITDA is determined as summation of Operating profit and Depletion and depreciation. Since Segment EBITDA is not a standard IFRS measure, the Group's definition of Segment EBITDA may differ from that of other companies. The significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

Millions of Russian roubles

Information about the Group's reportable segments for the year ended 31 December 2014 is presented below:

	Upstream	Down-stream	All other segments	Elimi-nations	Consoli-dated
External revenues	3,790	632,430	1,051	-	**637,271**
Inter-segment revenues	187,811	350	5,371	(193,532)	**-**
External expenses	(136,404)	(417,749)	(6,121)	-	**(560,274)**
Inter-segment expenses	(3,121)	(190,086)	(239)	193,446	**-**
Segment EBITDA	62,421	37,617	826	(86)	**100,778**
Depletion and depreciation					**(23,781)**
Impairment of assets					**(13,030)**
Finance income					**4,747**
Finance costs					**(13,058)**
Foreign exchange gain, net					**1,299**
Share of loss of joint ventures, net of income tax					**(117)**
Profit before income tax					**56,838**
Income tax expense					**(13,817)**
Profit for the year					**43,021**

Information about the Group's reportable segments for the year ended 31 December 2013 is presented below:

	Upstream	Down-stream	All other segments	Recon-ciling item	Elimi-nations	Consoli-dated
External revenues	2,297	541,938	5,355	13,706	-	**563,296**
Inter-segment revenues	168,281	6,833	18,149	2,317	(195,580)	**-**
External expenses*	(106,263)	(351,794)	(14,777)	(8,104)	-	**(480,938)**
Inter-segment expenses	(10,417)	(170,609)	(7,679)	(6,894)	195,599	**-**
Segment EBITDA*	61,419	36,101	2,564	2,283	19	**102,386**
Depletion and depreciation						**(20,028)**
Impairment of assets*						**(16,689)**
Finance income						**5,163**
Finance costs						**(9,460)**
Foreign exchange gain, net						**1,094**
Share of income of associate and joint venture, net of income tax						**492**
Profit before income tax						**62,958**
Income tax expense						**(16,559)**
Profit for the year						**46,399**

*As discussed in note 10, certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year

Millions of Russian roubles

Information about the Group's reportable segments for the year ended 31 December 2012 is presented below:

	Upstream	Down-stream	All other segments	Recon-ciling item	Elimi-nations	Consoli-dated
External revenues	1,714	510,899	7,529	12,360	-	**532,502**
Inter-segment revenues	169,648	6,957	18,646	5,545	(200,796)	**-**
External expenses*	(100,831)	(319,979)	(19,026)	(7,262)	-	**(447,098)**
Inter-segment expenses	(12,085)	(172,989)	(8,308)	(7,566)	200,948	**-**
Segment EBITDA*	63,877	33,939	1,286	4,527	152	**103,781**
Depletion and depreciation						**(18,377)**
Impairment of assets*						**(4,816)**
Finance income						**4,808**
Finance costs						**(11,883)**
Foreign exchange gain, net						**107**
Share of loss of associate and joint ventures, net of income tax						**(361)**
Profit before income tax						**73,259**
Income tax expense						**(16,469)**
Profit for the year						**56,790**

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any geographical disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are immaterial.

The Group's revenue from external customers by geographical location is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Export outside the Customs Union	353,161	309,205	263,557
Russian Federation	261,523	235,798	229,434
Export to other countries of the Customs Union	22,587	18,293	39,511
Total	**637,271**	**563,296**	**532,502**

The following counterparties relating to the Downstream segment each comprise 10% or more of the total revenue of the Group:

	Year ended 31 December 2014	
	Revenue	% of the total Revenue
Major Customer 1	107,749	17%
Major Customer 2	83,623	13%
Major Customer 3	61,598	10%

*As discussed in note 10, certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year

Millions of Russian roubles

	Year ended 31 December 2013	
	Revenue	**% of the total Revenue**
Major Customer 1	102,457	18%
Major Customer 2	81,189	14%
Major Customer 3	58,917	10%

	Year ended 31 December 2012	
	Revenue	**% of the total Revenue**
Major Customer 1	66,576	13%
Major Customer 2	54,986	10%

7. REVENUE

	Year ended 31 December 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Petroleum products	471,296	438,783	406,428
Crude oil	159,488	113,655	113,043
Other revenue	6,487	10,858	13,031
Total	**637,271**	**563,296**	**532,502**

8. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Wages and salaries	22,766	25,532	27,130
Contributions to Pension Fund of the Russian Federation (refer to note 9)	4,515	5,237	5,162
Other social contributions (refer to note 9)	1,405	1,657	1,776
Phantom shares granted	1,161	1,166	1,091
Other employee benefits	39	493	405
Total	**29,886**	**34,085**	**35,564**

9. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Mineral extraction tax	69,077	60,049	57,183
Contributions to Pension Fund of the Russian Federation	4,515	5,237	5,162
Other social contributions	1,405	1,657	1,776
Property tax	1,713	1,590	1,700
Other taxes	1,061	872	888
Total	**77,771**	**69,405**	**66,709**

Millions of Russian roubles

10. IMPAIRMENT OF ASSETS

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Impairment of financial assets	6,599	500	-
Impairment of property, plant and equipment (refer to note 13)	5,320	246	4,417
Impairment of accounts receivable (refer to note 17)	717	236	202
Impairment of investments in associate and joint venture (refer to note 14)	297	15,752	-
Other impairment/(reversal of other impairment)	97	(45)	197
Total	**13,030**	**16,689**	**4,816**

During the year ended 31 December 2014, management decided to present impairment of assets as a separate line item on the face of consolidated statement of profit or loss and other comprehensive income. Comparative information for the years ended 31 December 2013 and 2012 which was previously included in *Other operating expenses* and *Impairment of investment in associate* was reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through separate presentation of the amounts on the face of consolidated statement of profit or loss and other comprehensive income.

11. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Finance income			
Interest income on cash and deposits	2,822	1,590	2,735
Interest income on loans, promissory notes and bonds	1,925	3,125	2,073
Dividend income	-	448	-
Total	**4,747**	**5,163**	**4,808**
Finance costs			
Interest expense on borrowings	12,356	8,652	10,943
Unwinding of discount (refer to note 24)	613	726	902
Other accretion expenses	89	82	38
Total	**13,058**	**9,460**	**11,883**

12. INCOME TAX

Income tax recognised in profit or loss

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Current year income tax expense	15,556	18,807	14,668
Adjustments relating to current income tax of prior years	72	35	(1,551)
Current income tax expense	**15,628**	**18,842**	**13,117**
Deferred tax (benefit)/expense	(1,811)	(2,283)	3,352
Income tax expense	**13,817**	**16,559**	**16,469**

Millions of Russian roubles

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit before income tax differs from income tax expense recognised in profit or loss as a consequence of the following factors:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	**56,838**	**62,958**	**73,259**
Income tax at statutory rate 20%	11,368	12,592	14,652
Effect of tax on foreign exchange difference on intragroup loans	1,692	105	(28)
Effect of tax on intragroup dividends received	162	739	170
Other non-deductible and non-taxable items	523	3,088	1,680
Temporary difference recognized as a result of prior years' income tax correction	-	-	1,546
Adjustments relating to current income tax of prior years	72	35	(1,551)
Income tax expense	**13,817**	**16,559**	**16,469**

Income tax recognised in other comprehensive income or directly in equity

During the year ended 31 December 2014 the Group recognised RUB 831 million of income tax expense relating to the acquisition of UPC directly in the additional paid-in capital (refer to note 4). During the year ended 31 December 2013 the Group recognised RUB 1,208 million of current income tax benefit relating to disposal of UPC and BNSA and RUB 213 million of deferred tax liabilities relating to disposal of UPC directly in the additional paid-in capital (refer to note 20).

Deferred tax assets and liabilities

Movements in deferred tax liabilities/(assets) for the years ended 31 December 2014, 2013 and 2012 were as follows:

	1 January 2014	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2014
Property, plant and equipment	32,747	(1,215)	10,412	41,944
Investments in joint ventures	(342)	1,009	-	667
Inventories	1,614	(156)	67	1,525
Trade and other receivables	1,876	(1,604)	155	427
Decommissioning provision	(1,257)	(387)	(5)	(1,649)
Trade and other payables	(1,074)	1,506	(4)	428
Tax losses carried forward	-	4	(1,134)	(1,130)
Other	(75)	(968)	(90)	(1,133)
Total	**33,489**	**(1,811)**	**9,401**	**41,079**

Millions of Russian roubles

	1 January 2013	Recognised in profit or loss	Balances disposed of on disposal of subsidiaries	Other movements, including balances acquired on acquisition of subsidiaries	31 December 2013
Property, plant and equipment	34,564	512	(2,239)	(90)	32,747
Investments in associate and joint venture	3,662	(4,004)	-	-	(342)
Inventories	(461)	2,043	32	-	1,614
Trade and other receivables	846	931	99	-	1,876
Decommissioning provision	(1,115)	(142)	-	-	(1,257)
Trade and other payables	418	(1,664)	172	-	(1,074)
Tax losses carried forward	(306)	81	225	-	-
Other	(47)	(40)	3	9	(75)
Total	**37,561**	**(2,283)**	**(1,708)**	**(81)**	**33,489**

	1 January 2012	Recognised in profit or loss	Transfer of Trebs and Titov oilfield license	Other movements, including balances acquired on acquisition of subsidiaries	31 December 2012
Property, plant and equipment	29,796	983	3,698	87	34,564
Investments in associate and joint ventures	3,294	368	-	-	3,662
Inventories	(442)	(19)	-	-	(461)
Trade and other receivables	1,361	(507)	-	(8)	846
Decommissioning provision	(1,945)	830	-	-	(1,115)
Trade and other payables	(673)	1,091	-	-	418
Tax losses carried forward	(196)	(110)	-	-	(306)
Other	(708)	716	-	(55)	(47)
Total	**30,487**	**3,352**	**3,698**	**24**	**37,561**

At 31 December 2014 deferred tax assets in the amount of RUB nil (31 December 2013: RUB nil, 31 December 2012: RUB 225 million) have not been recognised in respect of deductible temporary differences because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

At 31 December 2014, the Group has unutilised tax losses carried forward of RUB 5,654 million, expiring in 2018-2024. A deferred tax asset in the amount of RUB 1,131 million has been recognised in respect of such losses, as management believes that sufficient taxable profits will be available to utilize those losses.

Millions of Russian roubles

13. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining	Marketing	Total
Cost				
Balance at 1 January 2012	**130,050**	**156,998**	**19,626**	**306,674**
Acquisition of subsidiaries	352	-	636	**988**
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 14)	18,490	-	-	**18,490**
Disposal of subsidiaries and structured entities	(109)	(10)	-	**(119)**
Constructions and additions	15,546	14,419	710	**30,675**
Disposals	(782)	(1,870)	(193)	**(2,845)**
Contribution to Finansoviy Alliance	-	(1,877)	(207)	**(2,084)**
Balance at 31 December 2012	**163,547**	**167,660**	**20,572**	**351,779**
Acquisition of subsidiaries	207	-	336	**543**
Disposal of subsidiaries (refer to note 20)	(9,136)	(25,462)	-	**(34,598)**
Constructions and additions	29,307	12,508	1,045	**42,860**
Disposals	(2,702)	(164)	(982)	**(3,848)**
Balance at 31 December 2013	**181,223**	**154,542**	**20,971**	**356,736**
Acquisitions of subsidiaries	53,428	25,137	11,934	**90,499**
Constructions and additions	38,114	9,252	2,069	**49,435**
Disposals	(3,545)	(516)	(424)	**(4,485)**
Contribution to LLC Vostok NAO Oil Company (refer to note 14)	(4,775)	-	-	**(4,775)**
Balance at 31 December 2014	**264,445**	**188,415**	**34,550**	**487,410**
Accumulated depletion, depreciation and impairment				
Balance at 1 January 2012	**(17,932)**	**(32,787)**	**(2,198)**	**(52,917)**
Disposal of subsidiaries and structured entities	37	4	-	**41**
Charge for the year	(7,811)	(9,401)	(1,205)	**(18,417)**
Disposals	102	501	31	**634**
Contribution to Finansoviy Alliance	-	415	31	**446**
Impairment (refer to note 10)	(1,144)	(2,352)	(921)	**(4,417)**
Balance at 31 December 2012	**(26,748)**	**(43,620)**	**(4,262)**	**(74,630)**
Disposal of subsidiaries (refer to note 20)	2,761	10,684	-	**13,445**
Charge for the year	(8,943)	(9,699)	(1,252)	**(19,894)**
Disposals	1,578	257	123	**1,958**
(Impairment)/impairment reversals (refer to note 10)	(576)	267	63	**(246)**
Balance at 31 December 2013	**(31,928)**	**(42,111)**	**(5,328)**	**(79,367)**
Acquisition of subsidiaries	-	(11,696)	-	**(11,696)**
Charge for the period	(10,954)	(11,366)	(1,240)	**(23,560)**
Disposals	2,123	210	125	**2,458**
(Impairment)/impairment reversals (refer to note 10)	(5,245)	(180)	105	**(5,320)**
Balance at 31 December 2014	**(46,004)**	**(65,143)**	**(6,338)**	**(117,485)**
Net book value				
At 1 January 2012	**112,118**	**124,211**	**17,428**	**253,757**
At 31 December 2012	**136,799**	**124,040**	**16,310**	**277,149**
At 31 December 2013	**149,295**	**112,431**	**15,643**	**277,369**
At 31 December 2014	**218,441**	**123,272**	**28,212**	**369,925**

Millions of Russian roubles

Impairment of property, plant and equipment

During 2014 as a result of various reasons, including the impact of a lower price environment in the near term, technical reserves revisions, and increases in expected decommissioning cost estimates, the Group carried out a review of the recoverable amount of all property, plant and equipment.

For the purpose of the review, recoverable amount of assets was determined for the cash generating units based on geographical location, that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

This review led to the recognition of an impairment loss of RUB 5,320 million, which was recognised in the consolidated statement of profit or loss and other comprehensive income within *Impairment of assets*. This impairment mainly relates to exploration and evaluation assets, including exploration, evaluation and development rights, on Tortasinskoye oil field.

The pre-tax discount rate used in measuring value in use was 13.26% per annum. The key assumptions to which the calculation of value in use is most sensitive includes discount rate, oil price, estimates of oil and gas reserves and the production profile.

No impairment assessment was performed in 2013 for property, plant and equipment as there was no indication of impairment.

During 2012, as a result of the unfavourable market conditions giving rise to a decrease in prices of certain petrochemical products, the Group carried out a review of the recoverable amount of certain assets which are used in the production of certain petrochemical products. This review led to the recognition of an impairment loss of RUB 2,094 million, which was recognised in the consolidated statement of profit or loss and other comprehensive income. The recoverable amount of the assets was determined on the basis of their value in use. The discount rate used in measuring value in use was 15.0% per annum.

During 2012 the Group performed an analysis of the recoverable amount of certain assets.
As a result of this analysis an impairment loss of RUB 2,323 million was recognised in the consolidated statement of profit or loss and other comprehensive income within *Impairment of assets*.

Exploration and evaluation assets

Movements in the amount of capitalised exploration and evaluation assets, included in Oil and gas properties, are presented below:

Balance at 1 January 2012	**6**
Acquisition of exploration, evaluation and development rights	4,514
Capitalised expenditures	789
Reclassified to development assets	(4)
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 14)	18,490
Balance at 31 December 2012	**23,795**
Acquisition of exploration, evaluation and development rights	1
Capitalised expenditures	11,879
Reclassified to development assets	(23,705)
Acquisition of subsidiaries	207
Balance at 31 December 2013	**12,177**
Capitalised expenditures	5,546
Reclassified to development assets	(13,346)
Establishment of LLC Vostok NAO Oil Company (refer to note 14)	(4,775)
Acquisition of subsidiaries	5,663
Impairment of exploration and evaluation assets	(5,265)
Balance at 31 December 2014	**-**

Millions of Russian roubles

In 2012, the Group won the auction for licences on Yangareyskiy and Sabriyaginskiy subsoil blocks in the Nenets Autonomous District. Total cost of the licences acquired amounted RUB 4,514 million.

In August 2013 the Group started production at the Trebs field in the Nenets Autonomous District, and as a result part of exploration and evaluation assets in the amount of RUB 23,705 million was reclassified to development assets.

During the year ended 31 December 2014 the Group recognised exploration and evaluation expenses in the amount of RUB 3,588 million (year ended 31 December 2013: RUB 3,401 million, year ended 31 December 2012: RUB 332 million) within *Production and operating expenses*.

For the year ended 31 December 2014 payments for the acquisition of exploration and evaluation assets included in payments for acquisition of property, plant and equipment in the consolidated statement of cash flows amounted to RUB 12,713 million (year ended 31 December 2013: RUB 4,712 million, year ended 31 December 2012: RUB 5,303 million).

14. INVESTMENTS IN ASSOCIATE AND JOINT VENTURES

	Year ended 31 December 2014	**Year ended 31 December 2013**		**Year ended 31 December 2012**	
	Joint ventures	**Associate**	**Joint ventures**	**Associate**	**Joint ventures**
Balance at the beginning of the year	**18,848**	**21,210**	**7,409**	**19,222**	**16,310**
Establishment of LLC Vostok NAO Oil Company	4,975	-	-	-	-
Repayment of contributions from Bashneft-Polyus	(3,133)	-	-	-	-
Additional contributions to Bashneft-Polyus	2,012	-	10,784	-	3,122
Obtaining of control over Bashneft-Polyus (refer to note 4)	(17,831)	-	-	-	-
Group's share of (loss)/gain eliminated on transactions with joint ventures	(1,172)	-	1,174	-	-
Acquired on acquisition of UPC (refer to note 4)	506	-	-	-	-
Impairment of investments in associate and joint venture (refer to note 10)	(297)	(15,752)	-	-	-
Disposal of OJSC Belkamneft to assets held for sale	-	(6,469)	-	-	-
Decrease in the carrying amount of investment in joint venture due to the return of licence on Trebs and Titov deposit to Bashneft	-	-	-	-	(9,522)
Acquisition of LLC Finansoviy Alliance	-	-	-	-	1,620
Unrealised gain on sale of property, plant and equipment to a LLC Finansoviy Alliance	-	-	-	-	(343)
Disposal of LLC Finansoviy Alliance	-	-	-	-	(1,429)
Share of (loss)/profit for the year	(117)	1,011	(519)	1,988	(2,349)
Balance at the end of the year	**3,791**	**-**	**18,848**	**21,210**	**7,409**

Millions of Russian roubles

Joint ventures

LLC Vostok NAO Oil Company

In May 2014 the Company and LLC Lukoil-Komi established a joint venture, LLC Vostok NAO Oil Company ("Vostok NAO"), to conduct geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District. The Company and LLC Lukoil-Komi have an equal interest of 50.0% in this joint venture. In July 2014 the Group transferred licenses for geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District in the amount of RUB 4,775 million to Vostok NAO.

The summarised financial information below represents amounts disclosed in Vostok NAO's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes):

	31 December 2014
Non-current assets	6,652
Current assets	661
Non-current liabilities	(109)
Current liabilities	(139)
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	3
Non-current financial liabilities (excluding trade and other payables and provisions)	(109)

For the period from 15 May 2014, revenue of Vostok NAO was RUB nil, loss for the period and total comprehensive loss amounted to RUB 2,884 million. The joint venture recognised interest income in the amount of RUB 84 million and income tax benefit in the amount of RUB 34 million. Deferred tax assets in the amount of RUB 549 million have not been recognised in respect of deductible temporary differences because it is not probable that future taxable profit will be available against which Vostok NAO can utilise the benefits therefrom.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31 December 2014
Net assets of the joint venture	7,065
Proportion of the Group's ownership interest in the joint venture	50.0%
Carrying amount of the Group's interest in the joint venture	**3,533**

Bashneft-Polyus

Bashneft-Polyus was a joint-venture of Bashneft and OAO LUKOIL until the date of consolidation on 23 May 2014 and is engaged in the development of the Trebs and Titov deposit. The Company held 74.9% interest in Bashneft-Polyus. On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company (refer to note 4).

In 2012 the Group issued a loan to Bashneft-Polyus in the amount of RUB 3,122 million. This loan was treated as an additional contribution to the joint venture as, in substance, formed part of the Group's net investment in Bashneft-Polyus. Also in the 4th quarter 2012 the interest rate for the loan was changed to 8.0% per annum.

Millions of Russian roubles

On 18 May 2012 as a result of the Federal Agency for Subsoil Use order Trebs and Titov oilfield license was transferred to the Company. As a result of that the license with carrying value of RUB 18,490 million was recognised at Bashneft with the corresponding decrease in investment in Bashneft-Polyus. Cash consideration in the amount of RUB 4,768 million paid to the Group by OAO LUKOIL for 25.1% shares of Bashneft-Polyus was recognised in other non-current liabilities as a contingent liability with an uncertain date of set off until the Group and OAO LUKOIL can negotiate a settlement for the joint venture operation and exploitation of the license.

During the year ended 31 December 2013 the Group issued loans to Bashneft-Polyus in the amount of RUB 10,035 million at 8.0% per annum. These loans were presented as an additional contribution to the joint venture as, in substance, they formed part of the Group's investment in Bashneft-Polyus. During the year ended 31 December 2013 the Group and OAO LUKOIL also made a decision to make an additional investment in Bashneft-Polyus in the amount of RUB 1,000 million in the proportion of their interests, the payment for which remained outstanding at 31 December 2013.

During 2014, before the date of consolidation on 23 May 2014, the Group issued loans to the joint venture in the amount of RUB 2,012 million at 8.0% per annum. This loan was presented as an additional contribution to the joint venture as, in substance, it formed part of the Group's investment in Bashneft-Polyus. Also during the period before the date of consolidation on 23 May 2014, Bashneft-Polyus repaid the loan in the amount of RUB 3,133 million to Bashneft.

At 31 December 2013 the Group's share in capital commitments of the joint venture was RUB 1,338 million (31 December 2012: RUB 950 million).

The summarised financial information below represents amounts shown in Bashneft-Polyus' financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes):

	31 December 2013	**31 December 2012**
Non-current assets	2,868	2,467
Current assets	24,887	8,181
Non-current liabilities	(24,702)	(11,345)
Current liabilities	(4,675)	(2,800)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	9	-
Current financial liabilities (excluding trade and other payables and provisions)	(154)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(24,702)	(11,345)

	Period ended 23 May 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Total revenue	6,289	15,677	2,711
Profit/(loss) and total comprehensive income/(loss)	140	877	(3,340)
The above profit/(loss) for the year include the following:			
Depletion and depreciation	(80)	(208)	(7)
Interest expense	(755)	-	(690)
Income tax expense	-	-	(30)

Millions of Russian roubles

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31 December 2013	**31 December 2012**
Net liabilities of the joint venture	(1,622)	(3,497)
Proportion of the Group's ownership interest in the joint venture	74.9%	74.9%
	(1,215)	**(2,619)**
Adjustments:		
Loans issued to Bashneft-Polyus	18,497	8,462
Effect of return of licence on Trebs and Titov deposit to Bashneft	1,566	1,566
Carrying amount of the Group's interest in the joint venture	**18,848**	**7,409**

Associate

OJSC Belkamneft

The Group held 38.5% interest in OJSC Belkamneft ("Belkamneft"), a company engaged in the production of crude oil. On 10 July 2013, the Company's Board of Directors approved a plan to dispose of its investment in Belkamneft. Accordingly, the Group's investment in Belkamneft was classified as an asset held for sale in accordance with IFRS 5. As a result, the carrying amount of the Group's investment in Belkamneft of RUB 22,221 million has been adjusted to fair value less estimated cost to sell of RUB 6,469 million, with the difference between the carrying amount and fair value less cost to sell recognised as Impairment of investment in associate. The impairment is mainly the result of changes in the ownership structure of controlling shareholder of Belkamneft that decreased the Company's ability to exercise significant influence over Belkamneft. The sale of the Group's investment in Belkamneft was completed on 30 September 2013 for a consideration of RUB 6,469 million.

The following is a summary of the financial information of Belkamneft:

	31 December 2012
Non-current assets	52,390
Current assets	33,822
Non-current liabilities	(9,453)
Current liabilities	(3,709)

	Period ended 10 July 2013	**Year ended 31 December 2012**
Total revenue	11,543	23,023
Profit and total comprehensive income	2,639	5,191
Group's share of profit of Belkamneft	**1,011**	**1,988**

Millions of Russian roubles

Reconciliation of the above summarised financial information to the carrying amount of the interest in Belkamneft recognised in the consolidated financial statements:

	31 December 2012
Net assets of the associate	73,050
Proportion of the Group's ownership interest in Belkamneft	38.5%
	28,124
Fair value adjustment on the date of obtaining significant influence	(6,914)
Carrying amount of the Group's interest in Belkamneft	**21,210**

15. FINANCIAL ASSETS

	31 December 2014	31 December 2013	31 December 2012
Non-current investments			
Loans given, at amortised cost	3,559	3,506	20,912
Available-for-sale investment in Ufaorgsintez held at fair value	-	423	-
Derivative financial instruments	-	90	-
Available-for-sale investments in BESK held at cost	-	-	7,406
Deposits	8	-	1,000
Total	**3,567**	**4,019**	**29,318**
Current investments			
Loans given, at amortised cost	1,330	5,020	14,491
Deposits	-	46	4,136
Other financial assets	-	-	8
Total	**1,330**	**5,066**	**18,635**

Loans given, at amortised cost

At 31 December 2014, non-current loans given at amortised cost included loans given with interest rates varying from 8.10% to 8.25% per annum.

At 31 December 2013 and 2012, non-current loans given at amortised cost included loans given and promissory notes with interest rates varying from 5.0% to 5.40% per annum and from 5.0% to 7.75% per annum, respectively.

At 31 December 2014, current loans given at amortised cost included corporate bonds, which are not quoted in an active market, loans given and promissory notes amounted RUB 8,808 million were presented net of impairment provision in the amount of RUB 7,478 million. The provision in the amount of RUB 6,599 million (refer to note 10) was created individually against these financial assets during the year ended 31 December 2014 following a recoverability analysis performed by management. The balance net of impairment represents promissory notes with interest rates varying from 3.50% to 5.00% per annum receivable upon demand.

At 31 December 2013, current loans given at amortised cost represent corporate bonds which are not quoted in an active market with interest rate of 6.0% per annum, and loans given and promissory notes with interest rates varying from 2.5% to 8.5% per annum.

At 31 December 2012, current loans given at amortised cost included promissory notes and loans given with interest rates varying from 2.5% to 8.5% per annum and interest free promissory notes of OJSC INTER RAO UES ("INTER RAO") held by Sistema-invest.

Millions of Russian roubles

Available-for-sale investments

In 2012, Bashkirenergo was reorganised and split into two entities: OJSC Bashenergoactiv ("Bashenergoactiv"), representing the power generation part of the business, and OJSC Bashkirian Power Grid Company ("BESK"), representing the power grid part of the business. Sistema-invest sold the investment in Bashenergoactiv to a third party, INTER RAO, and increased its stake in BESK. The Group therefore also retained an investment in BESK through its interest in Sistema-invest. The Group recognised this investment as an available-for-sale investment, despite its 45.7% effective ownership interest, on the basis that it had no influence over the entity, with all control and influence pertaining wholly to Sistema. This available-for-sale investment was carried at cost, as a reliable fair value cannot be determined for the investment.

As described in note 20, the Group sold its 98% interest in UPC to Sistema on 17 September 2013. The Group's residual share in Ufaorgsintez (10.64% effectively held through Sistema-invest and 5.33% held through a wholly owned subsidiary of the Group) was classified as an available-for-sale investment. On 31 December 2013 the Group reclassified all assets and liabilities held through Sistema-Invest to assets held for sale (refer to note 19). As a result of this available-for-sale investments at 31 December 2013 represented only a 5.33% interest in Ufaorgsintez held through a wholly owned subsidiary of the Group.

16. INVENTORIES

	31 December 2014	31 December 2013	31 December 2012
Inventories expected to be recovered after 12 months			
Catalytic agents	2,846	3,022	2,351
Total	**2,846**	**3,022**	**2,351**
Inventories expected to be recovered in the next 12 months			
Petroleum products	16,935	13,228	12,938
Crude oil	1,390	988	512
Raw materials and other inventories	8,381	7,898	11,487
Less: allowance for obsolete and slow-moving items	(347)	(664)	(1,098)
Total	**26,359**	**21,450**	**23,839**

The cost of inventories (excluding crude oil) recognised as an expense during the year ended 31 December 2014 amounted to RUB 8,068 million (year ended 31 December 2013: RUB 7,496 million, year ended 31 December 2012: RUB 8,127 million).

17. TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013	31 December 2012
Trade receivables	14,539	21,393	19,772
Other receivables	1,855	7,834	10,603
Total	**16,394**	**29,227**	**30,375**
Less: allowance for doubtful receivables	(1,698)	(1,910)	(2,009)
Total	**14,696**	**27,317**	**28,366**

Millions of Russian roubles

The average credit period allowed by the Group to its customers on sales of crude oil and petrochemicals is 5-10 days. No interest was charged on the outstanding trade receivables during the years ended 31 December 2014, 2013 and 2012, nevertheless, penalties for late payment are prescribed by certain sales agreements. Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2014, the Group's five largest customers represent 49.7% (31 December 2013: 70.1%, 31 December 2012: 61.7%) of the outstanding trade receivables balance. Creditworthiness of the existing customers is also periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group regularly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due.

Allowances for doubtful receivables are recognised against past due trade and other receivables, based on estimated irrecoverable amounts, determined by reference to past experience. Such allowances are regularly reassessed based on the facts and circumstances existing at each reporting date.

Ageing of trade and other receivables was as follows:

	31 December 2014		**31 December 2013**		**31 December 2012**	
	Gross	**Impairment provision**	**Gross**	**Impairment provision**	**Gross**	**Impairment provision**
Not past due	14,392	(239)	26,375	-	27,317	-
Past due up to 30 days	73	(27)	24	(20)	69	(2)
Past due from 31 to 90 days	183	(3)	215	(13)	465	(10)
Past due from 91 to 180 days	184	(27)	461	(59)	202	(20)
Past due from 181 to 365 days	493	(403)	523	(189)	262	(48)
Past due over 365 days	1,069	(999)	1,629	(1,629)	2,060	(1,929)
Total	**16,394**	**(1,698)**	**29,227**	**(1,910)**	**30,375**	**(2,009)**

Movement in the allowance for doubtful receivables in respect of trade and other receivables was as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Balance at the beginning of the year	**1,910**	**2,009**	**2,104**
Provided during the year (refer to note 10)	717	236	202
Disposed on disposal of subsidiaries and structured entities	-	(160)	(1)
Amounts written-off as uncollectable	(929)	(175)	(296)
Balance at the end of the year	**1,698**	**1,910**	**2,009**

At 31 December 2014, there is a specific allowance against trade and other receivables of RUB 956 million (31 December 2013: RUB 1,296 million, 31 December 2012: RUB 1,290 million) in respect of entities undergoing a liquidation process or that have been placed into bankruptcy. This allowance is included in the allowance for doubtful receivables and represents the difference between the carrying amount of these receivables and the present value of expected proceeds on liquidation/bankruptcy. The Group did not hold collateral in respect of these balances.

Millions of Russian roubles

18. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013	31 December 2012
Call deposits and highly liquid investments	50,962	10,425	11,320
Bank balances	1,856	5,970	8,784
Total	**52,818**	**16,395**	**20,104**

At 31 December 2014, call deposits mostly represent bank deposits which are denominated in RUB with annual interest rates varying from 7.48% to 29.75% (31 December 2013: 4.0% to 6.85%, 31 December 2012: 2.0% to 7.1%) per annum and in USD with annual interest rates varying from 0.10% to 4.14% (31 December 2013: 0.05% to 0.06%, 31 December 2012: 0.07% to 1.0%) per annum. Maturity dates for these deposits are within 3 months from the date they originated.

At 31 December 2012, highly liquid investments represent interest free promissory notes of INTER RAO of RUB 1,717 million which are denominated in RUB, held by Sistema-invest. Maturity dates for these promissory notes are within 3 months from the date they originated.

As part of its cash and credit risk management function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and cash equivalents. Banking relationships are with large Russian banks with external credit ratings of at least B+.

19. ASSETS CLASSIFIED AS HELD FOR SALE

There were no assets or associated liabilities classified as held for sale as at 31 December 2014. The disposal of the assets and associated liabilities classified as held for sale at 31 December 2013 completed during 2014 (refer to note 5).

During the year ended 31 December 2014, the Group has not recognised any impairment losses in respect of its assets classified as held for sale at 31 December 2013.

Assets classified as held for sale at 31 December 2013

On 17 December 2013, the Board of the Company approved a reorganisation programme involving the consolidation of Bashneft-invest with Bashneft and made a decision to call an Extraordinary General Shareholders' Meeting of the Company on 3 February 2014, which was required to approve the reorganisation (refer to note 5 for details of the reorganisation). Following this decision, all assets and liabilities previously recognised by Bashneft using the look through treatment were classified as held for sale.

The Group has not recognised any impairment losses at the date the assets and liabilities were classified as held for sale or at 31 December 2013.

The major classes of assets and liabilities reclassified as held for sale at 31 December 2013 are as follows:

	31 December 2013
ASSETS	
Financial assets	37,312
Trade and other receivables	1,146
Cash and cash equivalents	504
Total assets classified as held for sale	**38,962**
LIABILITIES	
Borrowings	612
Trade and other payables	45
Deferred tax liabilities	213
Other taxes payable	13
Total liabilities directly associated with assets classified as held for sale	**883**

Millions of Russian roubles

20. DISPOSAL OF SUBSIDIARIES

Disposal of OJSC United Petrochemical Company

On 17 September 2013 the Group sold its 98% interest in UPC to Sistema for cash consideration of RUB 6,200 million. UPC is the holding company of the petrochemical assets of the Group, including Ufaorgsintez. The Group recognised a loss on sale of RUB 5,749 million, net of related income taxes in the amount of RUB 564 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of a transaction with the Group's controlling shareholder. The Group's residual share in Ufaorgsintez (10.64% effectively held through Sistema-invest and 5.33% held through wholly owned subsidiary of the Group) was classified as available-for-sale investment (refer to note 15). RUB 882 million of the loss recognised is attributable to the recognition of the residual investment at its fair value. The result of transaction is set out below:

	17 September 2013
Current assets	
Cash and cash equivalents	4,509
Trade and other receivables	703
Advances to suppliers and prepaid expenses	207
Taxes receivable	542
Inventories	1,771
Financial assets	2,296
Non-current assets	
Property, plant and equipment	13,651
Advances paid for acquisition of property, plant and equipment	58
Other non-current assets	145
Current liabilities	
Trade and other payables	(2,099)
Advances received	(360)
Taxes payable	(235)
Other current liabilities	(17)
Non-current liabilities	
Deferred tax liabilities	(1,568)
Other non-current liabilities	(91)
Net assets disposed of	**19,512**
Non-controlling interests	(5,004)
	14,508
Fair value of the Group's 15.97% residual interest in Ufaorgsintez	**1,995**
Deferred tax liability recognised in respect of adjustment to fair value of residual interest in Ufaorgsintez	(213)
Income tax benefit recognised on disposal of UPC	777
Consideration receivable on disposal of UPC	**6,200**
Loss on disposal of UPC	**5,749**

Millions of Russian roubles

Disposal of LLC Bashneft-Service Assets

On 30 September 2013 the Group sold its 100% interest in BNSA to Sistema for cash consideration of RUB 4,100 million. BNSA is the oilfield service holding company which comprised 11 oilfield service companies. These companies provide services related to drilling, current and major workover of wells, the manufacture of oilfield and mechanical equipment, transport and construction. The Group recognised a loss on sale of RUB 4,706 million, net of related income taxes in the amount of RUB 431 million, within additional paid-in capital in the consolidated statement of changes in equity, being the result of a transaction with the Group's controlling shareholder. The result of transaction is set out below:

	30 September 2013
Current assets	
Cash and cash equivalents	1,125
Trade and other receivables	6,115
Advances to suppliers and prepaid expenses	70
Taxes receivable	106
Inventories	1,265
Non-current assets	
Property, plant and equipment	7,502
Other non-current assets	2
Current liabilities	
Trade and other payables	(5,451)
Advances received	(12)
Taxes payable	(735)
Other current liabilities	(49)
Non-current liabilities	
Deferred tax liabilities	(338)
Other non-current liabilities	(363)
Net assets disposed of	**9,237**
Income tax benefit recognised on disposal of BNSA	431
Consideration received on disposal of BNSA	**4,100**
Loss on disposal of BNSA	**4,706**

21. SHARE CAPITAL

Authorised, issued and fully paid share capital

	31 December 2014	31 December 2013	31 December 2012
150,570,662 (31 December 2013 and 2012: 188,710,587) ordinary shares with a par value of RUB 1.00	1,656	2,076	2,076
29,788,012 (31 December 2013 and 2012: 38,673,878) preferred shares with a par value of RUB 1.00	328	425	425
Total	**1,984**	**2,501**	**2,501**

As a result of the Group reorganisation on 1 October 2012 the outstanding shares of merged subsidiaries were converted into newly-issued shares: 18,540,833 ordinary shares and 4,051,192 preferred shares.

As a result of the Group reorganisation on 6 May 2014 (refer to note 5) the Company cancelled 38,139,925 ordinary and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions in 2014, respectively.

Millions of Russian roubles

Treasury shares

	Preferred shares	Ordinary shares
	(number of shares)	
Balance as of 1 January 2012	**158,409**	**21,020,908**
Mandatory shares buy-back preceding Group reorganization	6,861,754	832,082
Purchase of treasury shares	133,640	2,596,805
Sale of treasury shares to the controlling shareholder	(2,131,226)	-
Reorganisation of the Group	-	7,175,287
Balance as of 31 December 2012	**5,022,577**	**31,625,082**
Balance as of 31 December 2013	**5,022,577**	**31,625,082**
Mandatory shares buy-back preceding Group reorganization (refer to note 5)	8,885,866	2,724,173
Reorganisation of Sistema-invest	(158,409)	9,943,730
Reorganisation of the Group (refer to note 5)	(8,885,866)	(38,139,925)
Balance as of 31 December 2014	**4,864,168**	**6,153,060**

At 31 December 2014, 4,864,168 shares out of treasury shares were restricted for further sales.

Dividends and retained earnings

The holders of the Company's ordinary shares are entitled to one vote per share at shareholders' meetings and a right to dividends, as declared periodically.

The holders of the Company's preferred shares receive a non-cumulative dividend at the Company's discretion or whenever dividends to ordinary shareholders are declared. They do not have the right to vote at shareholders' meetings if dividends are declared but, similar to ordinary shareholders' rights, have the right to one vote per share if dividends are not declared.

Ordinary and preferred shares rank equally with regard to the Company's residual assets in the event of liquidation.

On 29 June 2012, the Company declared a dividend of RUB 99 per ordinary and preferred share amounting to RUB 20,274 million out of which RUB 224 million remained unpaid at 31 December 2012.

On 27 June 2013, the Company declared a dividend of RUB 24 per ordinary and preferred share amounting to RUB 5,324 million. A part of the dividend declared was attributable to the companies of the Group.

On 17 December 2013, the Company declared a dividend of RUB 199 per ordinary and preferred share amounting to RUB 45,250 million. At 31 December 2013 dividends payable equalled RUB 275 million. A part of the dividend declared was attributable to the companies of the Group.

On 10 June 2014, the Company declared a dividend of RUB 211 per ordinary and preferred share amounting to RUB 37,481 million. A part of the dividend declared was attributable to the companies of the Group. At 31 December 2014 dividends payable equalled RUB 398 million.

The IFRS consolidated financial statements of the Group are the basis for determining profit distribution and other appropriations.

Earnings per share

Earnings per share ("EPS") is calculated by dividing profit for the year attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for shares purchased by the Group and held as treasury shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preferred shares at a ratio of 1:1 in accordance with their participation rights as described in the Company's charter. Reciprocal interests relating to Sistema-invest's ownership in the Group are deducted from the total outstanding shares in computing the weighted average number of outstanding ordinary shares.

Basic and diluted earnings per share are calculated as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
	(millions of roubles, except per share data)		
Weighted average number of ordinary shares outstanding	148,586,876	157,085,505	151,224,401
Weighted average number of preferred shares outstanding	27,450,581	33,651,301	32,188,317
Weighted average number of shares outstanding	**176,037,457**	**190,736,806**	**183,412,718**
Profit for the year attributable to holders of ordinary shares of the Company	36,418	38,024	43,114
Profit for the year attributable to holders of preferred shares of the Company	6,728	8,146	9,177
Profit for the year attributable to owners of the Company	**43,146**	**46,170**	**52,291**
Basic and diluted earnings per share (Russian roubles per share)	245.10	242.06	285.10

22. BORROWINGS

	31 December 2014		31 December 2013		31 December 2012	
	Rate, %	Out-standing balance	Rate, %	Out-standing balance	Rate, %	Out-standing balance
Non-current liabilities						
Unsecured fixed interest rate loans and borrowings	8.00%-10.55%	91,944	8.35%-8.85%	19,984	8.9%-9.53%	59,928
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,969	8.65%-8.85%	29,960	-	-
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	-	-	-	-
Unsecured non-convertible bonds issued in December 2009	8.35%	5,274	8.35%	5,269	8.35%	5,266
Secured floating rate borrowings	Libor 1M+ 1.70%	2,045	Libor 1M+ 1.70%	13,697	Libor 1M + 1.55%	3,022
Unsecured non-convertible bonds issued in February 2012	-	-	9.0%	9,992	9.0%	9,985
Total		**139,232**		**78,902**		**78,201**
Current liabilities						
Current portion of secured floating rate borrowings	Libor 1M+ 1.70%	18,555	Libor 1M+ 1.55%-1.70%	8,904	Libor 1M + 1.55%	4,534
Unsecured non-convertible bonds issued in February 2012	9.0%	9,998	-	-	-	-
Unsecured non-convertible bonds issued in December 2011	-	-	0.10%	3,010	9.35%	9,990
Current portion of unsecured fixed interest rate borrowings	-	-	-	-	7.75%	17,483
Total		**28,553**		**11,914**		**32,007**

As a result of the decision of the Moscow Commercial Court on the recovery of JSOC Bashneft's shares owned by Sistema and Sistema-invest in favour of the Russian Federation, some debt become payable on demand due to covenants in respect of changes in control. All such debt was repaid in due time or waivers were received.

Unsecured non-convertible bonds

On 22 December 2009, the Group issued 50,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds had a coupon rate of 12.5% from issuance date to 21 December 2012 per annum, payable semi-annually. In October 2011, the Group filed a voluntary buy-back offer, as a result of which 38,496,306 bonds were bought back at par value of RUB 1,050. The excess of the purchase price over the par value of bonds in the amount of RUB 1,925 million was recognised in the consolidated statement of profit or loss and other comprehensive income within *Finance costs*. In December 2012, the Group exercised a mandatory buy-back from bondholders willing to redeem the bonds at par value, as a result of which 6,220,765 bonds were bought back at par value and a new maturity date of December 2016 was established for the remaining bonds. The coupon rate was set at 8.35%.

In February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in February 2022. The bonds have a coupon rate of 9.00% from issuance date to February 2015 per annum payable semi-annually. Subsequent coupon rates are to be determined in February 2015 at which point bondholders have the right to redeem the bonds at par value.

In February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds (Series 06), 10,000,000 non-convertible RUB-denominated bonds (Series 07), 5,000,000 non-convertible RUB-denominated bonds (Series 08) and 5,000,000 non-convertible RUB-denominated bonds (Series 09) at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 bonds have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2018. The Series 07 and 09 bonds have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2020. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.

In May 2014 the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and maturity in May 2024. These bonds have a coupon rate 10.7% per annum from the date of issuance to November 2018 payable semi-annually. Subsequent coupon rates are to be determined in November 2018 at which point the bondholders have the right to redeem the bonds at par value.

Secured borrowings

In May 2013, the Group entered into a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of USD 600 million. The facility has a three-year maturity and originally was to be repaid in equal monthly instalments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.70%.

In December 2014, the Group made an accelerated repayment of principal in the amount of USD 56 million (RUB 3,339 million) and committed to repay in advance another USD 133 million (RUB 7,501 million), which were repaid in January 2015. Repayment schedule for the amount outstanding starting from February 2015 was adjusted to reflect these early extinguishments.

Unsecured loans and borrowings

At 31 December 2014, unsecured fixed interest rate loans and borrowings are denominated in RUB and were obtained from a variety of lenders. The loans and borrowings mature from 2016 through 2020 (31 December 2013: denominated in RUB with maturity from 2016 to 2019, 31 December 2012: denominated in RUB with maturity from 2013 to 2018).

Millions of Russian roubles

23. PREPAYMENT ON OIL PRODUCTS SUPPLY AGREEMENT

In April 2014 the Company entered into a long-term oil products supply agreement and subsequently received an advance of US Dollar 500 million (RUB 17,347 million). The total minimum delivery volume approximates 3,150 thousand tons of oil products in the period from the date of the contract to July 2019.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of oil products.

The prepayments will be reimbursed starting from 2016. The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

The outstanding balance is subject to interest at Libor + 1.5% per annum.

24. DECOMMISSIONING PROVISION

Balance at 1 January 2012	**9,507**
Unwinding of discount (refer to note 11)	902
New obligations	14
Changes in estimates of existing obligations	(2,643)
Property dispositions	(93)
Balance at 31 December 2012	**7,687**
Unwinding of discount (refer to note 11)	726
New obligations	250
Changes in estimates of existing obligations	(1,255)
Property dispositions	(666)
Balance at 31 December 2013	**6,742**
Acquired on acquisition of subsidiaries	25
Unwinding of discount (refer to note 11)	613
New obligations	219
Changes in estimates of existing obligations	996
Property dispositions	(533)
Balance at 31 December 2014	**8,062**

Decommissioning provision represents an estimate of costs of wells liquidation, disturbed land restoring and dismantling of other oilfield assets. The amount of payments under decommissioning provision is determined on an annual basis. Depending on the economic environment the actual expenditures may vary from the budgeted amounts.

Current and non-current portions of decommissioning provision are as follows:

	31 December 2014	**31 December 2013**	**31 December 2012**
Current portion (included in *Provisions*)	589	597	604
Non-current portion	7,473	6,145	7,083
Total decommissioning provision	**8,062**	**6,742**	**7,687**

Millions of Russian roubles

Key assumptions used in the computation of the decommissioning provision were as follows:

	31 December 2014	31 December 2013	31 December 2012
Discount rate	12.00%	9.93%	10.29%
Inflation rate	4.00%-12.50%	1.62%-5.35%	2.02%-7.42%

The Group has estimated the costs to be incurred using the cost of technology and materials that are available at each reporting date.

25. OTHER NON-CURRENT LIABILITIES

	31 December 2014	31 December 2013	31 December 2012
Defined benefit obligation	1,434	1,216	899
Constructive obligation to OAO LUKOIL (refer to note 14)	-	4,768	4,768
Other non-current liabilities	288	180	264
Total	**1,722**	**6,164**	**5,931**

Constructive obligation to OAO LUKOIL

In 2012 as a result of the Federal Agency for Subsoil Use ("Rosnedra") order Trebs and Titov oilfield license was transferred to the Company from Bashneft-Polyus, which was a joint venture of the Company and OAO LUKOIL. As a result of that the license with a carrying value of RUB 18,490 million was recognised within Bashneft's property, plant and equipment with the corresponding decrease in the investment in Bashneft-Polyus. Cash consideration in the amount of RUB 4,768 million paid to the Company by OAO LUKOIL for 25.1% shares of Bashneft-Polyus was recognised in other non-current liabilities as a constructive obligation.

On 23 May 2014, as a result of an order issued by Rosnedra the Trebs and Titov oilfield license was transferred from Bashneft to its subsidiary Bashneft-Polyus. This transaction resulted in an increase in non-controlling interests in the amount of RUB 3,616 million with the corresponding decrease in constructive obligation to OAO LUKOIL in the amount of RUB 4,768 million. As a result of this transaction the Group recognised a gain in the amount of RUB 1,152 million within Additional paid-in Capital in the consolidated statement of changes in equity.

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. In accordance with these plans, the employees are entitled to certain benefits in accordance with the terms of collective agreements (such as retirement bonus, anniversary bonus, reimbursement of funeral costs).

Millions of Russian roubles

26. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013	31 December 2012
Financial liabilities			
Trade payables and other payables	32,900	45,129	22,441
Interest payable	1,629	1,392	516
Total	**34,529**	**46,521**	**22,957**
Non-financial liabilities			
Salary payable and accrued vacation liabilities	2,811	3,130	4,857
Phantom share plan liability	-	721	1,128
Total	**2,811**	**3,851**	**5,985**
Total trade and other payables	**37,340**	**50,372**	**28,942**

The average credit period on purchase of the majority of inventories and services consumed is 41 days (31 December 2013: 43 days, 31 December 2012: 38 days). No interest is charged on the outstanding balance of trade and other payables during this period.

27. TAXES

	31 December 2014	31 December 2013	31 December 2012
Other taxes receivable			
VAT recoverable	17,667	11,867	9,851
Custom duties prepaid	12,219	12,511	11,866
Other taxes receivable	936	1,612	817
Total	**30,822**	**25,990**	**22,534**
Other taxes payable			
VAT payable	6,875	1,561	1,955
Mineral extraction tax	5,048	5,455	4,770
Excise tax	3,669	2,105	1,995
Other taxes payable	1,174	1,219	1,665
Total	**16,766**	**10,340**	**10,385**

Millions of Russian roubles

28. RELATED PARTIES

Government-related entities

From 9 December 2014 the Government of Russian Federation became the ultimate controlling party of Bashneft Group (refer to note 1). Starting from that date the Group has applied the exemption allowed by IAS 24 *Related Party Disclosures* not to disclose all government related transactions.

In the normal course of business the Group enters into transactions with the entities controlled by the government.

The Group had transactions during the period starting from 9 December 2014 to 31 December 2014 and balances outstanding as at 31 December 2014 with government-related banks. All transactions are carried out on market rates. At 31 December 2014, balances of cash and cash equivalents which were held in government related banks were RUB 47,865 million and borrowings owed to government related banks were RUB 80,314 million. For the period starting from 9 December 2014 to 31 December 2014 interest income and expenses were RUB 536 million and RUB 652 million, respectively.

For the period starting from 9 December 2014 to 31 December 2014 the only significant transactions with government-related entities were related to transportation of oil and oil products and comprised approximately 7 percent of total transportation expenses for the year ended 31 December 2014.

At 31 December 2014 balances of advances given to government-related parties were approximately 42 percent of total advances to suppliers and prepaid expenses at 31 December 2014 and mainly comprised of advances for transportation services.

Associate and joint ventures

At 31 December 2014, 2013 and 2012, the Group had the following outstanding balances with associate and joint ventures:

	31 December 2014	31 December 2013	31 December 2012
Amount owed by associate and joint ventures	154	402	1,617
Total assets	**154**	**402**	**1,617**
Amount owed to associate and joint ventures	3	16,922	1,701
Total liabilities	**3**	**16,922**	**1,701**

The amounts outstanding were unsecured and are expected to be settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

No expense has been recognised in the current year for bad debts in respect of amounts owed by related parties.

The Group entered into the following transactions with associate and joint ventures of the Group:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Sale of goods and services	1,624	2,140	2,421
Purchase of property and construction services	2,903	11,893	260
Purchase of goods and services	1,172	2,038	2,885
Proceeds from borrowing	1,683	-	-
Repayment of borrowing	1,683	-	-
Interest expense	42	-	-
Interest income	565	1,130	542

Millions of Russian roubles

Sistema group companies

As described in note 1, on 9 December 2014 effective control over the Company passed from Sistema to the Government of the Russian Federation and, from that date, the Russian Federation became the ultimate controlling party of the Group. As of the same date, Sistema and businesses controlled by Sistema (collectively “Sistema group companies”) ceased to be related parties of the Bashneft Group.

The Group entered into the following transactions with Sistema group companies:

	Period ended 8 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Sale of subsidiaries	-	10,392	-
Obtaining control over UPC (refer to note 4)	6,200	-	-
Sale of goods and services	10,968	4,143	2,648
Purchase of goods and services	20,455	16,612	12,578
Purchase of property and construction services	8,712	3,348	4,277
Dividends declared	28,098	31,768	12,721
Other income, net	1,394	2,517	2,254

Compensation of key management personnel

The remuneration of directors and other key management personnel was as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	669	844	749
Phantom shares granted	631	576	356
Termination benefits	4	4	130
Total	**1,304**	**1,424**	**1,235**

At 31 December 2014, outstanding balances in respect of wages and salaries of key management personnel were RUB 47 million (31 December 2013: RUB 574 million, 31 December 2012: RUB 471 million).

29. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may adjust the amount of dividends paid to shareholders and return on capital to shareholders, issue new shares or sell assets to reduce debt, maintain or adjust the capital structure.

The Board monitors the return on capital, which the Group defines as a total net borrowings divided by Segment EBITDA (refer to note 6). The Group defines total net borrowings as total borrowings less cash and cash equivalents and since it is not a standard IFRS measure, the Group’s definition of total net borrowings may differ from that of other companies.

Millions of Russian roubles

The Group's gearing ratio was as follows:

	31 December 2014	31 December 2013*	31 December 2012*
Total net borrowings	114,967	74,421	90,104
Segment EBITDA	100,778	102,386	103,781
Net borrowings to Segment EBITDA ratio	**1.14**	**0.73**	**0.87**

Major categories of financial instruments

	31 December 2014	31 December 2013	31 December 2012
Financial assets			
Cash and cash equivalents	52,818	16,395	20,104
Trade and other receivables	14,696	27,317	28,366
Loans given, at amortised cost	4,889	8,526	35,403
Available-for-sale investments in BESK held at cost	-	-	7,406
Available-for-sale investments in Ufaorgsintez held at fair value	-	423	-
Derivative financial instruments	-	90	-
Other financial assets	-	-	8
Deposits	8	46	5,136
Other non-current assets	1,619	380	798
Total financial assets	**74,030**	**53,177**	**97,221**
Financial liabilities			
Borrowings	167,785	90,816	110,208
Trade and other payables	34,529	46,521	22,957
Dividends payable	398	275	224
Total financial liabilities	**202,712**	**137,612**	**133,389**

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and EUR.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Rouble, US Dollar and EUR.

*As discussed in note 10, certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year

Millions of Russian roubles

The carrying amount of the Group's US Dollar and EUR denominated monetary assets and liabilities at 31 December 2014, 2013 and 2012 were as follows:

	31 December 2014	31 December 2013	31 December 2012
Assets			
Trade and other receivables, excluding prepayments	10,535	15,846	15,078
Loans given, at amortised cost	-	4,969	2,953
Cash and cash equivalents	10,552	813	4,128
Other non-current assets	1,616	-	-
Total assets	**22,703**	**21,628**	**22,159**
Liabilities			
Borrowings	20,600	22,601	7,556
Trade and other payables	1,435	445	974
Total liabilities	**22,035**	**23,046**	**8,530**

The table below details the Group's sensitivity to the strengthening of the US Dollar and EUR against the Russian Rouble by 30%. This analysis assumes that all other variables, in particular interest rates, 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 period denominated in the respective currencies.

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Increase/(decrease) in profit before tax	200	(426)	4,089

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar and EUR is approximately equal and opposite.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2014, 2013 and 2012. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

31 December 2014	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	91,944	123,495	4,305	4,305	102,333	12,552
Secured borrowings	20,600	20,914	16,091	2,641	2,182	-
Unsecured non-convertible bonds	55,241	72,833	12,527	2,068	42,598	15,640
Dividends payable	398	398	398	-	-	-
Trade and other payables	34,529	34,529	34,529	-	-	-
Total	**202,712**	**252,169**	**67,850**	**9,014**	**147,113**	**28,192**

Millions of Russian roubles

31 December 2013	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**
Unsecured borrowings	19,984	27,313	860	860	15,026	10,567
Secured borrowings	22,601	23,499	3,484	5,891	14,124	-
Unsecured non-convertible bonds	48,231	65,367	1,985	5,001	41,417	16,964
Dividends payable	275	275	275	-	-	-
Trade and other payables	46,521	46,521	46,521	-	-	-
Total	**137,612**	**162,975**	**53,125**	**11,752**	**70,567**	**27,531**

31 December 2012	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**
Unsecured borrowings	77,411	102,443	3,443	20,636	63,156	15,208
Secured borrowings	7,556	7,723	2,341	2,320	3,062	-
Unsecured non-convertible bonds	25,241	30,199	1,154	11,138	17,907	-
Dividends payable	224	224	224	-	-	-
Trade and other payables	22,957	22,957	22,957	-	-	-
Total	**133,389**	**163,546**	**30,119**	**34,094**	**84,125**	**15,208**

For the management of its day to day liquidity requirements the management had following unused credit facilities.

	31 December 2014	**31 December 2013**	**31 December 2012**
Committed credit facilities	54,188	43,209	70,485
Less: amounts withdrawn	(11,629)	-	(37,500)
Total unused credit facilities	**42,559**	**43,209**	**32,985**

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The table below detail's the Group's annualised sensitivity to a change of floating Libor rate by 1% which would impact its operations. The analysis was applied to borrowings based on the assumption that amount of liability outstanding at the date of statements of financial position was outstanding for the whole period.

	Year ended 31 December 2014	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Change in profit or loss	208	229	76

Millions of Russian roubles

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative financial instruments is based on market quotes.

At 31 December 2014, 2013 and 2012 management believes that the carrying values of financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds and unsecured fixed interest rate loans and borrowings obtained in first half of 2014 and earlier:

	31 December 2014		31 December 2013		31 December 2012	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Unsecured non-convertible bonds	55,241	48,717	48,231	48,740	25,241	25,477
unsecured fixed interest rate loans and borrowings	91,944	85,283	19,984	19,984	77,411	77,411

At 31 December 2014 non-current loans given with carrying value of RUB 3,500 million had fair value of RUB 2,278 million. At 31 December 2013 and 2012 the carrying value of long-term financial assets approximated their fair values.

Management believes that the carrying value of current financial assets and liabilities approximated their fair values due to their short-term nature.

At 31 December 2014 there were no assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy.

At 31 December 2013 assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy were as follows:

	Level 1	Level 2	Level 3	Total
Non-current assets				
Available-for-sale investment	-	-	423	**423**
Derivative financial instruments	-	90	-	**90**
Total	**-**	**90**	**423**	**513**

Millions of Russian roubles

31. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 December 2014, contractual capital commitments of the Group amounted to RUB 67,430 million (31 December 2013: RUB 8,601 million, 31 December 2012: RUB 9,799 million). These commitments are expected to be settled during 2015-2019. Included in total capital commitments is RUB 35,858 million of capital commitments arisen in 2014 mainly in respect of drilling services based on the Group's capital construction programme, which is re-evaluated on an annual basis.

Operating leases: Group as a lessee

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from 1 to 10 years with no renewal option at the end of the lease term. The Group's extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2062.

The amount of rental expenses for the year ended 31 December 2014 were RUB 1,308 million (year ended 31 December 2013: RUB 1,488 million, year ended 31 December 2012: RUB 2,700 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 December 2014	31 December 2013	31 December 2012
Due in one year	1,066	936	1,371
Due from one to five years	2,977	2,972	4,461
Thereafter	11,951	11,972	19,536
Total	**15,994**	**15,880**	**25,368**

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated nil possible tax exposure at 31 December 2014 (31 December 2013: RUB nil, 31 December 2012: RUB nil).

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. At 31 December 2014, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Legal contingencies

At 31 December 2014, unresolved legal claims against the Group amounted to RUB 289 million (31 December 2013: RUB 151 million, 31 December 2012: RUB 49 million). Management estimates the unfavourable outcome of the legal claims to be possible, and consequently no provision has been raised. The Group is rigorously defending itself in relation to such legal claims.

Insurance

The Group does not have full coverage for property damage or loss, for business interruption and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that losses relating to such matters could have a material adverse effect on the Group's operations and financial position.

Russian Federation economic environment

Emerging markets such as the Russian Federation 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 the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Russian Federation 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.

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. In April 2014, an international credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These developments, particularly if sanctions are further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

32. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 18 March 2015 an Extraordinary General Meeting of Shareholders of the Company approved a redemption of the Company's authorized share capital by cancelling 2,724,173 ordinary shares with a par value of one rouble each which were accounted as treasury shares at 31 December 2014.