Транснефть

OIL TRANSPORTING
JOINT STOCK COMPANY
"TRANSNEFT"

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

WE TRANSPORT OIL,
SO IT SETS THE WORLD IN MOTION

CONTENT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO AK Transneft

1. We have prepared the consolidated financial statements for year ended 31 December 2015 which give a true and fair view of the financial position of the OAO AK Transneft (the "Company") and its subsidiaries (the "Group") at the end of the year and of the results of its operations and cash flows for the year then ended. Management of the Group is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management believes that, in preparing the consolidated financial statements set out on pages 6 to 48 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. The consolidated financial statements were prepared based on the accounting statements of the Company and its subsidiaries prepared in accordance with Russian Accounting Standards as for the year ended 31 December 2015, and have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
4 April 2016

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Russian Federation

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Auditors' Report

To the Shareholders and Board of Directors OAO AK Transneft

We have audited the accompanying consolidated financial statements of OAO AK Transneft (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, 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.

Auditors' 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.

Audited entity: OAO AK Transneft

Registered by Moscow Registration Chamber on 26 august 1993, Registration No. 026.800

Entered in the Unified State Register of Legal Entities/Entered in the Unified State Register of Legal Entities on 24 July 2002 by Department of Ministry of Taxes and Duties, Registration No. 1027700049486, Certificate series 77 No. 007893052.

57, ul. Bolshaya Polyanka, Moscow, Russia, 119180

Independent auditor: JSC "KPMG", a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Kim A.A.

Director, (power of attorney dated 16 March 2015 No. 11/15)

JSC "KPMG"

4 April 2016

Moscow, Russian Federation

(in millions of Russian roubles, if not stated otherwise)

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Intangible assets		9,081	4,535
Property, plant and equipment	6	1,923,466	1,706,368
Available-for-sale financial assets		265	231
Investments in associates and jointly controlled entities	7	13,766	19,517
Receivables and prepayments and VAT assets	11	1,409	1,669
Other financial assets	9	70,222	44,514
Total non-current assets		**2,018,209**	**1,776,834**
Current assets			
Inventories	10	35,071	29,973
Receivables and prepayments	11	37,606	43,131
VAT assets		35,821	55,147
Current income tax prepayments		10,141	14,467
Financial assets at fair value through profit and loss, including derivatives	8	37,872	33,482
Other financial assets	9	391,690	408,234
Cash and cash equivalents	12	92,713	113,060
Total current assets		**640,914**	**697,494**
Total assets		**2,659,123**	**2,474,328**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	308	308
Share premium reserve	13	52,553	52,553
Merger reserve	13	(13,080)	(13,080)
Retained earnings		1,446,470	1,302,605
Attributable to the shareholders of OAO AK Transneft		**1,486,251**	**1,342,386**
Non-controlling interests	15	1,705	26,477
Total equity		**1,487,956**	**1,368,863**
Non-current liabilities			
Loans and borrowings	16	783,509	577,272
Deferred income tax liabilities	17	33,376	55,252
Provisions for liabilities and charges	18	101,209	75,522
Trade and other payables, including derivatives	19	12,622	13,700
Total non-current liabilities		**930,716**	**721,746**
Current liabilities			
Trade and other payables, including derivatives	19	158,507	201,349
Current income tax payable		450	450
Loans and borrowings	16	81,494	181,920
Total current liabilities		**240,451**	**383,719**
Total liabilities		**1,171,167**	**1,105,465**
Total equity and liabilities		**2,659,123**	**2,474,328**

Approved on 4 April 2016 by:

N.P. Tokarev President

The accompanying notes set out on pages 10 to 48 are an integral part of these consolidated financial statements

(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	20	815,652	774,380
Operating expenses	21	(581,590)	(541,053)
Operating profit		**234,062**	**233,327**
Finance income		541,078	303,676
Finance costs		(605,468)	(438,570)
Net finance costs	22	**(64,390)**	**(134,894)**
Changes in the Group's structure	14	-	8,796
Share of loss from associates and jointly controlled entities	7	(4,119)	(10,786)
Profit before income tax		**165,553**	**96,443**
Current income tax expense		(43,149)	(27,164)
Deferred income tax income /(expense)		21,023	(9,779)
Income tax expense	17	**(22,126)**	**(36,943)**
Profit for the reporting year		**143,427**	**59,500**
Other comprehensive income net of tax			
Items that may be reclassified to profit and loss			
Currency translation differences, net of tax		(57)	351
Total items that may be reclassified to profit and loss, net of tax		*(57)*	351
Items that will not be reclassified to profit and loss			
Remeasurement of net defined benefit plan obligation	18	(5,431)	1,580
Total items that will not be reclassified to profit and loss, net of tax		*(5,431)*	1,580
Total other comprehensive (loss)/ income for the reporting year, net of tax		**(5,488)**	**1,931**
Total comprehensive income for the reporting year		**137,939**	**61,431**
Profit attributable to:			
Shareholders of OAO AK Transneft		143,378	58,767
Non-controlling interests		49	733
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		137,890	60,643
Non-controlling interests		49	788

Approved on 4 April 2016 by:

N.P. Tokarev President

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(in millions of Russian roubles, if not stated otherwise)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Cash receipts from customers		867,198	832,209
Cash paid to suppliers and employees, and taxes other than income tax		(563,402)	(563,559)
Interest paid		(44,746)	(33,699)
Income tax paid		(39,904)	(44,122)
Income tax refund		1,267	575
VAT and other taxes refund		111,431	83,035
Other cash flows used in operating activities		(2,607)	(1,229)
Net cash from operating activities		**329,237**	**273,210**
Cash flows from investing activities			
Purchase of property, plant and equipment		(323,924)	(312,020)
Proceeds from sales of property, plant and equipment		937	794
Interest and dividends received		37,609	20,527
Purchase of notes and placement of funds on deposit accounts		(658,861)	(344,029)
Proceeds from sale of notes and close of deposit accounts		735,675	415,922
Acquisition of subsidiaries	14	(470)	-
Proceeds from changes in the Group's structure		-	6,803
Granting of loans		(2,798)	(18)
Other cash flows from investing activities		1,058	266
Net cash used in investing activities		**(210,774)**	**(211,755)**
Cash flows from financing activities			
Repayment of loans and borrowings		(72,747)	(96,998)
Proceeds from loans and borrowings		10,026	14,998
Dividends repaid	13	(2,941)	(7,897)
Acquisition of non-controlling interest	15	(15,606)	-
Other cash flows (used in)/ from financing activities	19	(68,238)	2
Net cash used in financing activities		**(149,506)**	**(89,895)**
Effects of exchange rate changes on cash and cash equivalents		**29,894**	**36,758**
Cash on accounts where operations were ceased	11	**(19,198)**	-
Net (decrease) / increase in cash and cash equivalents		**(20,347)**	**8,318**
Cash and cash equivalents at the beginning of the year	12	**113,060**	**104,742**
Cash and cash equivalents at the end of the year	12	**92,713**	**113,060**

Approved on 4 April 2016 by:

N.P. Tokarev President

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(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft						
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	**308**	**52,553**	**(13,080)**	**1,249,863**	**1,289,644**	**25,395**	**1,315,039**
Profit for the reporting year	-	-	-	58,767	**58,767**	733	**59,500**
Defined benefit plan actuarial gains	-	-	-	1,525	**1,525**	55	**1,580**
Currency translation differences, net of tax	-	-	-	351	**351**	-	**351**
Total comprehensive income for the reporting year	-	-	-	**60,643**	**60,643**	**788**	**61,431**
Acquisition of subsidiaries with non-controlling interest (Note 15)	-	-	-	-	-	294	**294**
Dividends (Note 13)							
- ordinary shares	-	-	-	(6,775)	**(6,775)**	-	**(6,775)**
- preferred shares	-	-	-	(1,126)	**(1,126)**	-	**(1,126)**
Balance at 31 December 2014	**308**	**52,553**	**(13,080)**	**1,302,605**	**1,342,386**	**26,477**	**1,368,863**
Balance at 1 January 2015	**308**	**52,553**	**(13,080)**	**1,302,605**	**1,342,386**	**26,477**	**1,368,863**
Profit for the reporting year	-	-	-	143,378	**143,378**	49	**143,427**
Defined benefit plan actuarial gains	-	-	-	(5,431)	**(5,431)**	-	**(5,431)**
Currency translation differences, net of tax	-	-	-	(57)	**(57)**	-	**(57)**
Total comprehensive income for the reporting year	-	-	-	**137,890**	**137,890**	**49**	**137,939**
Changes in the Group structure	-	-	-	-	-	(294)	**(294)**
Purchase of non-controling interests (Note 15)	-	-	-	8,921	**8,921**	(24,527)	**(15,606)**
Dividends (Note 13)							
- ordinary shares	-	-	-	(1,768)	**(1,768)**	-	**(1,768)**
- preferred shares	-	-	-	(1,178)	**(1,178)**	-	**(1,178)**
Balance at 31 December 2015	**308**	**52,553**	**(13,080)**	**1,446,470**	**1,486,251**	**1,705**	**1,487,956**

Approved on 4 April 2016 by

N.P. Tokarev President

The accompanying notes set out on pages 10 to 48 are an integral part of these consolidated financial statements

1 NATURE OF OPERATIONS

OAO AK Transneft (hereinafter OAO AK Transneft or the "Company") was incorporated on 14 August 1993 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180 Moscow, ul. Bolshaya Polyanka, 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 52,289 km at 31 December 2015 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus, Ukraine and Kazakhstan totalling 18,891 km as at 31 December 2015. Its associate OOO LatRosTrans operates an interconnected oil products pipeline system in the Latvian Republic.

During the year ended 31 December 2015, the Group transported 481 million tonnes of crude oil to domestic and export markets (year ended 31 December 2014 – 478 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 32.2 million tonnes of oil products (31.2 million tonnes for year ended 31 December 2014).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The ongoing conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities including the Company by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with, and comply with, International Accounting Standards ("IFRS") .

The principal accounting policies have been consistently applied in the preparation of these consolidated financial statements to all periods presented are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 4). The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5.

Certain comparative amounts have been corrected to confirm with the current year's presentation.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries including UP Zapad-Transnefteproduct and DP Prikarpatzapadtrans, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble ("RUB"). The official US dollar ("USD") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation ("CBR") was 72.8827 and 56.2584 as at 31 December 2015 and 31 December 2014, respectively. The official euro ("EUR") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 79.6972 and 68.3427 as at 31 December 2015 and 31 December 2014, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the non-controlling interests' portion of movements in equity since the date of the acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates and jointly controlled entities

Associates are undertakings over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence occurred when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Joint control entities are companies, financial or operating policies of which are controlled by the Group as well as other members of these companies.

Investments in associates and jointly controlled entities are accounted under equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Business combination under common control

Business combinations under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are recorded at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Property, plant and equipment

Property, plant and equipment are carried at initial historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation. Assets under construction are carried at historical cost and depreciated from the time the asset is available for use. Depreciation is calculated on the straight-line basis to write down the cost of each asset to its estimated residual value over its estimated useful life as follows:

	Years
Buildings and facilities	8-50
Crude oil pipelines and tanks	20-33
Oil product pipelines	50
Other plant and equipment	5-25

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities on an annual basis and, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable.

Renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in profit for the period in the consolidated statement of profit or loss and other comprehensive income.

Crude oil and oil products used for technical operation of the pipeline network (“linefill”) owned by the Group is treated as a separate component of the pipeline class of asset and is not depreciated as its residual value exceeds its carrying amount.

Any additions to linefill over the period are recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

Oil surpluses arising from operations are recognised at market value and are recorded in inventory with a correspondent credit to oil surplus, a component of net other operating income, in profit and loss netted by expenses on charity, made from income received.

Disposals of oil surpluses are accounted for as revenues and included in sales in the consolidated statement of profit or loss and other comprehensive income.

The prepayments which relate to property, plant and equipment and inventory for construction are included in the category Assets under construction including prepayments.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant effective interest rate on the finance balance outstanding. The leased assets are depreciated from the time the asset is available for use. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Other lease agreements are classified as operating leases and corresponding leased assets are not recognized in the Group’s consolidated statement of financial position.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-derivative financial instruments

Financial assets and liabilities

Financial assets and liabilities include cash and cash equivalents, available-for-sale financial assets, financial assets through profit or loss, receivables, borrowings, and trade and other payables and other financial assets. These items are initially recognised at fair value adjusted for transaction costs on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised only when the rights to the appropriate benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are partially or fully de-recognised only when the obligation specified in the relevant contract is discharged, cancelled, or has expired.

Financial assets at fair value through profit or loss and available-for-sale financial assets are re-measured to fair value at each subsequent reporting date, other financial assets and financial liabilities are carried at amortised cost.

The fair values of financial assets and liabilities with a maturity date less than year from the reporting date, including trade and other receivables and payables, are assumed to approximate their carrying amounts unless there is an indication of impairment at the reporting date. The fair value of all other financial assets and liabilities is based on the amount receivable or payable at the expected settlement date, discounted to net present value using a rate considered appropriate for the asset or liability.

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Besides, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of twelve months to be prolonged.

Impairment of an equity-accounted investee are disclosed in the consolidated statement of profit or loss and other comprehensive income.

Available-for-sale financial assets

Fair value of available-for-sale securities is determined using the quoted prices on active market. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Gains and losses arising from changes in the fair value of the investments classified as available-for-sale are recognised in other comprehensive income. When the investments classified as available-for-sale are sold or impaired, the fair value adjustments accumulated in other comprehensive income are included in the consolidated statement of profit or loss and other comprehensive income as a reclassification adjustment as gains and loss from the investments.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

The Group is not permitted to classify any financial assets as held to maturity during the following two financial years and reclassifies the assets of this category as available-for-sale if the Group during the current financial year has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- are close to maturity or the financial asset's call date;
- occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonable anticipated by the Group.

Held-to-maturity financial assets comprise debentures.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss -category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss for the period.

Interest income on financial assets at fair value through profit and loss calculated based on effective interest method as well as gains or losses on derecognition of these financial assets is recognized in the statement of profit or loss and other comprehensive income in the profit from operations with securities at fair value through profit and loss. Dividend income is recognized in profit or loss for the period when the Group's right to receive payment is established. Changes in fair value are recognized in the profit or loss from operations with securities at fair value through profit or loss in the period when changes occurred.

Accounts receivable

Accounts receivable are carried at original invoice amount inclusive of value added taxes less provision made for impairment.

A provision for impairment is established when there is an objective evidence that Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for the similar borrowers at the date of origination of the receivables.

The following principal criteria are used to determine whether there is objective evidence that an impairment loss might have occurred:

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

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank balances, and highly liquid investments, and which have original maturities of three months or less.

VAT assets

VAT assets relate to VAT incurred on capital construction, operating and export activities, including oil transportation to russian oil-processing plants. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Loans and borrowings

Borrowings are recognised initially at the fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are carried at amortised cost, using the effective interest rate method; any difference between the fair value (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Derivatives

The Group has certain derivatives in the form of options which were acquired for hedging and to mitigate bonds service costs. Derivatives are initially recognised at fair value, relevant expenses are recognised in the statement of profit or loss and other comprehensive income. Following initial recognition derivatives are re-measured at fair value with appropriate changes recognised directly in profit or loss for the period.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received). If the Group determines that the fair value on initial

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

recognition differs from the transaction price, the difference between the fair value at initial recognition and the transaction price is taken into account as follows:

(a) in profit or loss if the fair value of the quoted price is confirmed for identical assets or liabilities in an active market (accounted for Level 1) or based on a valuation method, which uses only data from observable markets.

(b) as deferred income or loss to defer recognition of the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the difference as the deferred gain or loss over the life of the financial instrument, but not later than the time when the estimate of its fair value can be made on fully observable market data, or the date of termination.

The Group has established a system of control in relation to the fair value measurement. Within this framework, the Group regularly checks significant unobservable inputs and valuation adjustments. In estimating the fair value of the asset or liability Group applies as possible, observable market data. Fair value estimates are different levels of the fair value hierarchy depending on the input data used in the relevant assessment methods:

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

If the initial data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the fair value generally refers to the level of the hierarchy, which corresponds to the original data of the lowest level, are essential for the entire evaluation.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Income tax

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions (including dismantlement provision)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are estimated and remeasured at each reporting date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the liability in the economic environment of the Russian Federation.

Changes in provisions resulting from the passage of time are reflected as financial items in the consolidated financial statement of profit or loss and other comprehensive income. Changes in provisions resulting from changes in the discount rate and other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension activities

State pension fund

The Group makes contributions to the State pension fund. Contribuitions to the State pension fund are recognized as expenses when accrued.

Pension liabilities

In addition to contributions to State pension fund, the Group sponsors defined benefit plans for the majority of its employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Group operates its pension obligations (non-state pension provision (hereinafter - NPO), compulsory pension insurance (hereinafter - OPS)) through its subsidiary NPF Transneft.

Insurance contracts

NPF Transneft assigns to insurance contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) and agreement for provision of OPS when significant insurance risk is transferred to NPF Transneft. NPF Transneft does not apply for additional financing of NPO to employers-investors and for additional insurance contributions to previous insurer in case of unfavorable events such as decline in investments and increase in longevity. NPF Transneft defines insurance contracts in accordance with IFRS 4 Insurance contracts as a contract under which one party (the insurer or NPF Transneft) accepts significant insurance risk from another party entered into agreement for pension provision when this risk arises from uncertainty connected with payment of pension and deviation of actual repayments from forecasted mortality tables.

Investment contracts

NPF Transneft recognizes as investment contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) when these contracts contain financial risk without significant insurance risk. All investment contracts contain discretionary participation feature and NPF Transneft recognizes them in accordance with IFRS 4 Insurance contracts.

Recognition and measurement of pension liabilities

NPF Transneft uses IAS 37 Provisions, Contingent Liabilities and Contingent Assets to measure its obligations under insurance contracts for NPO and investment contracts with discretionary participation feature. In accordance with IAS 37 the amount of provision recognized is the best estimate of expenditure required to settle the present obligation at the end of the reporting period. The provision in accoradance with IAS 37 is adjusted to risk and uncertainty. This also responds to IFRS 4 Insurance contracts requirements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with IFRS 4 Insurance contracts NPF Transneft reviews the relevance of liabilities to estimate whether there is enough pension assets to fulfill NPF Transneft's liabilities under insurance contracts for OPS. The relevance check is based on assumptions for mortality, discount rate in the period of payments and investment returns rate which are the best estimate as at the end of the reporting period.

Deed of Trust agreements

For the investments made by the Group via the Deed of Trust agreements, there is no transfer of risk and benefits related to change in fair value of the investments. Thus the investments are recognised by the Group.

Site restoration provision

The Group periodically evaluates its obligations under environmental regulations, including as discussed below for the remediation of oil spillage. As obligations are determined, they are recognised as expenses immediately unless they mitigate or prevent future environmental contamination, in which case they are capitalised.

At the date of spillage the Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment. The Group recognises the estimated recoveries under applicable insurance policies, when it is virtually certain that reimbursement will be received.

Revenue recognition

Revenues from transportation services are recognised when the services are provided as evidenced by the delivery of crude oil or oil products to the owner or the owner's customer in accordance with the contract.

Revenues from oil and oil products sales are recognised upon shipment of goods to the customer, when the goods cease to be under physical control of the Group and risks of ownership have been transferred to the buyer.

Revenue and costs under the construction contract are recognised as revenue and costs, respectively, to the extent the stages under the contract are completed as of the end of the reporting period. The percentage of completion is measured by comparing costs under the contract incurred to fulfil work as of the specific date against the aggregate costs under the contract.

Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts and value-added tax. Customs duties are reported as income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

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

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in Russian roubles, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

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

The portion of the foreign exchange movements on the USD loan eligible for capitalisation is estimated based on the interest rates of the coupon yield for the first period on the RUB non-convertible interest-bearing documentary bonds placed by the Group in the period of June-October 2009.

The foreign exchange gain on these borrowing is not attributable to the interest rate differentials and therefore is not capitalised.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency gains and losses are reported on a gross-up basis as “Finance income” or “Finance costs” in the consolidated statement of profit or loss and other comprehensive income.

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

Dividends are recognised as a liability and deducted from shareholders’ equity on the date on which they are approved. Dividends proposed at any time, and those approved between the reporting date and the date of issuing the consolidated financial statements, are disclosed.

New accounting standards

New amendments to current Standards and a new comment which have become effective for annual periods starting 1 January 2015 did not have significant influence on the Group’s consolidated financial statements.

A number of new Standards, amendments to Standards and Interpretations have been issued that are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial Instruments. IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Lease. IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.

The following new or amended standards are not expected to have a significant impact of the Group’s consolidated financial statements.

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1).

(in millions of Russian roubles, if not stated otherwise)

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

Useful lives of property, plant and equipment

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

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2015 would be RUB 12,246 higher (the year ended 31 December 2014: RUB 11,291) as a result of decrease of depreciation expenses.

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2015						
Cost	159,668	1,077,408	820,986	111,806	363,430	2,533,298
Accumulated depreciation and impairment	(43,457)	(394,951)	(388,522)	-	-	(826,930)
Net book value at 1 January 2015	**116,211**	**682,457**	**432,464**	**111,806**	**363,430**	**1,706,368**
Depreciation	(4,861)	(45,786)	(68,270)	-	-	(118,917)
Acquisition of subsidiaries, cost (Note 14)	423	-	13	-	2	438
Acquisition of subsidiaries, accumulated depreciation (Note 14)	-	-	(11)	-	-	(11)
Additions (including prepayments)	-	-	-	5,278	329,787	335,065
Transfers from assets under construction	10,455	67,694	103,434	-	(181,583)	-
Change in impairment provision	(77)	169	(436)	-	-	(344)
Net change in dismantlement provision (Note 18)	-	3,217	-	-	-	3,217
Disposals: cost	(354)	(2,433)	(3,048)	(1,498)	-	(7,333)
Disposals: accumulated depreciation and impairment	216	2,101	2,666	-	-	4,983
Net book value at 31 December 2015	**122,013**	**707,419**	**466,812**	**115,586**	**511,636**	**1,923,466**
At 31 December 2015						
Cost	170,115	1,146,055	920,949	115,586	511,636	2,864,341
Accumulated depreciation and impairment	(48,102)	(438,636)	(454,137)	-	-	(940,875)
Net book value at 31 December 2015	**122,013**	**707,419**	**466,812**	**115,586**	**511,636**	**1,923,466**

(in millions of Russian roubles, if not stated otherwise)

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2014						
Cost	148,479	1,038,640	725,591	102,262	230,474	2,245,446
Accumulated depreciation and impairment	(38,966)	(353,232)	(325,528)	-	-	(717,726)
Net book value at 1 January 2014	**109,513**	**685,408**	**400,063**	**102,262**	**230,474**	**1,527,720**
Depreciation	(4,949)	(45,654)	(66,957)	-	-	(117,560)
Acquisition of subsidiaries, cost (Note 14)	143	975	2,254	-	8	3,380
Additions (including prepayments)	27	84	3,193	10,289	310,382	323,975
Transfers from assets under construction	12,064	71,412	94,035	-	(177,511)	-
Change in impairment provision (Note 21)	-	(721)	-	-	-	(721)
Net change in dismantlement provision (Note 18)	-	(28,936)	-	-	77	(28,859)
Disposals at cost	(1,045)	(4,046)	(4,087)	(745)	-	(9,923)
Accumulated depreciation on disposals and impairment	458	3,935	3,963	-	-	8,356
Net book value at 31 December 2014	**116,211**	**682,457**	**432,464**	**111,806**	**363,430**	**1,706,368**
At 31 December 2014						
Cost	159,668	1,077,408	820,986	111,806	363,430	2,533,298
Accumulated depreciation and impairment	(43,457)	(394,951)	(388,522)	-	-	(826,930)
Net book value at 31 December 2014	**116,211**	**682,457**	**432,464**	**111,806**	**363,430**	**1,706,368**

Property, plant and equipment and assets under construction as at 31 December 2015 are presented net of impairment provision of RUB 5,771 (as at 31 December 2014 – net of impairment provision of RUB 5,427), against specific pipeline assets and machinery and equipment.

Losses from disposal of fixed assets with net book value in the amount of RUB 2,350 and RUB 1,567 as for the years ended 31 December 2015 and 31 December 2014, respectively, were included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

Linefill represents RUB 95,387 of crude oil and RUB 20,199 of oil products as at 31 December 2015 (as at 31 December 2014 – RUB 95,847 of crude oil and RUB 15,959 of oil products).

During the year ended 31 December 2015 borrowing costs in the amount of RUB 3,796 were capitalised as part of cost of assets under construction (for the year ended 31 December 2014 – RUB 3,487) including interests to be capitalised in the amount of RUB 2,540 less interest income on the temporary investment of borrowings in the amount of RUB 778 as disclosed in Note 22.

(in millions of Russian roubles, if not stated otherwise)

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Carrying amount of investment in associates and jointly controlled entities in amount of RUB 13,766 as at 31 December 2015 (RUB 19,517 - at 31 December 2014) is shown net of impairment provision of RUB 16,941 as at 31 December 2015 (RUB 16,884 - at 31 December 2014).

Summarised financial information of associates and jointly controlled entities was as follows:

	31 December 2015	31 December 2014
Current assets	32,428	32,218
including cash and cash equivalents	*17,273*	*23,301*
Non-current assets	174,939	171,132
Current liabilities	(23,209)	(110,221)
including current financial liabilities	*(31,170)*	*(102,939)*
Non-current liabilities	(140,715)	(34,431)
including non-current financial liabilities	*(117,926)*	*(25,789)*
Total net assets	43,443	58,698
Share in net assets	**13,766**	**19,517**
Carrying value of investment	**13,766**	**19,517**

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	92,142	80,861
Interest expense	5,545	4,587
Current income tax income	(2,561)	(3,089)
Loss	(7,098)	(25,794)
Total comprehensive loss	(7,098)	(25,794)
Share of comprehensive loss	**(4,119)**	**(10,786)**
Dividends received	**(547)**	**(1,338)**

The most significant share in the net assets (more than 80% as at 31 December 2015 and 85% as at 31 December 2014), revenue (58% as for the year ended 31 December 2015 and 45% as for the year ended 31 December 2014) and loss (about 100% as at 31 December 2015 and as at 31 December 2014) is attributable to NCSP (Omirico Ltd.). The estimated direct share of the Group in NCSP based on share price at MICEX amounted to RUB 7,618 (RUB 2,350 – as at 31 December 2014). The main operating activities of NCSP and its subsidiaries were the provision of stevedore and supporting services of the port as well as servicing of sea ships.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, INCLUDING DERIVATIVES

	31 December 2015	31 December 2014
Corporate bonds	22,087	26,204
Municipal bonds	3,292	5,956
Government bonds (OFZ)	12,262	567
Corporate Eurobonds	231	186
Securities	-	6
Derivatives	-	563
	37,872	**33,482**

Financial assets at fair value through profit or loss are financial instruments assigned for trading.

Financial assets at fair value through profit or loss are neither overdue nor impaired.

The issuers of afore-mentioned bonds as at 31 December 2015 and 31 December 2014 in significant part were organisations which are under control or significant influence of the state (74% and 60% respectively).

The interest rates for the bonds as at 31 December 2015 were in the range from 2.0% to 18.5% (as at 31 December 2014 – from 0.1% to 12.9%). For the bonds which issuers are organisations which are under control or significant influence of the state the interest rates as at 31 December 2015 were in the range from 2.0% to 18.5% (as at 31 December 2014 – from 0.1% to 12.9%).

(in millions of Russian roubles, if not stated otherwise)

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, INCLUDING DERIVATIVES (continued)

The Group classified these financial assets as current assets due to its ability to sell the assets before maturity dates.

Financial assets through profit or loss broken down by maturity dates as at 31 December 2015 were as follows:

Financial instrument	12 months and less	1 to 2 years	2 to 5 years	Over 5 years	Total
Corporate bonds	6,057	1,461	5,361	9,208	22,087
Municipal bonds	1,316	210	1,281	485	3,292
Government bonds (OFZ)	2,550	3,634	3,439	2,639	12,262
Corporate Eurobonds	161	70	-	-	231
	10,084	**5,375**	**10,081**	**12,332**	**37,872**

The fair value hierarchy of the financial assets at fair value through profit or loss is presented below:

Financial instrument	Level 1	Level 2	Level 3
31 December 2015			
Corporate bonds	22,087	-	-
Municipal bonds	3,292	-	-
Government bonds (OFZ)	12,262	-	-
Corporate Eurobonds	70	161	-
	37,711	**161**	**-**
31 December 2014			
Corporate bonds	26,204	-	-
Municipal bonds	5,956	-	-
Government bonds (OFZ)	567	-	-
Corporate Eurobonds	-	186	-
Securities	6	-	-
Derivatives	-	-	563
	32,733	**186**	**563**

9 OTHER FINANCIAL ASSETS

As at 31 December 2015:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related party	February 2019	USD	5,221	12,645
	December 2021 – December 2025	RUB	2,801	2,801
Bonds	February 2017 – July 2018	USD	19,702	25,105
Deposits	December 2017, October 2018	USD	24,281	29,660
Other financial assets	-	Other	9	11
			52,014	**70,222**
Short-term financial assets				
Loans granted to related party	During the year after the reporting date	USD	-	2,365
Interest-bearing notes	February 2016 – June 2016	USD	25,254	21,086
Bonds	During the year after the reporting date	USD	389	374
Deposits	During the year after the reporting date	USD	296,323	335,175
		RUB	32,631	32,631
		Other	54	54
Other financial assets	During the year after the reporting date	RUB	5	5
			354,656	**391,690**

(in millions of Russian roubles, if not stated otherwise)

9 OTHER FINANCIAL ASSETS (continued)

As at 31 December 2014:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loan to Omirico Ltd	January 2016	USD	5,221	11,069
Bonds	May 2016 – May 2018	USD	3,338	4,672
Deposits	October, November 2016, December 2017	USD	17,854	25,762
	January 2016 – December 2016	RUB	2,998	3,009
Other financial assets	-	USD	2	2
			29,413	**44,514**
Short-term financial assets				
Discounted promissory notes (on demand)	January 2015 – July 2015	USD	101,304	166,276
Interest-bearing notes	April 2015 – September 2015	USD	12,581	20,084
	May 2015	RUB	2,500	2,667
Bonds	During the year after the reporting date	USD	234	365
Deposits	During the year after the reporting date	USD	148,672	180,365
		RUB	36,349	38,414
		Other	50	50
Other financial assets	-	RUB	13	13
			301,703	**408,234**

The fair value of financial assets does not differ significantly from their carrying value.

As at 31 December 2015 and 31 December 2014 the significant amount of deposits (75% and 65% respectively) were placed in banks which are under control or significant influence of the state.
As at 31 December 2015 the interest rates for deposits were in the range from 1.6% to 25.0% (as at 31 December 2014 – from 1.8% to 29.0%). For deposits placed in banks which are under control or significant influence of the state the interest rates as at 31 December 2015 were in the range from 1.6% to 20.0% (as at 31 December 2014 – from 1.8% to 29.0%)

The issuers of afore-mentioned notes and bonds as at 31 December 2015 and 31 December 2014 in significant part were organisations which are under control or significant influence of the state (38% and 34% respectively). Acquisition of financial assets from afore-mentioned organisations were carried out at market conditions.

The interest rates for the notes and bonds as at 31 December 2015 were in the range from 2.0% to 9.1% (as at 31 December 2014 – from 1.8% to 10.5%). For the notes and bonds which issuers are organisations which are under control or significant influence of the state the interest rates as at 31 December 2015 were in the range from 5.1% to 8.1% (as at 31 December 2014 – from 1.8% to 7.8%).

According to IAS 39 Financial Instruments: Recognition and Measurement these notes were classified as loans and receivables and bonds as investments held till maturity and the Group does not intend to dispose of these notes prior to the maturity date.

10 INVENTORIES

	31 December 2015	31 December 2014
Materials and supplies	26,864	22,688
Sundry goods for resale	8,207	7,285
	35,071	**29,973**

Materials and supplies are presented net of provisions for obsolescence which amounted RUB 194 as at 31 December 2015 (as at 31 December 2014 – RUB 135). Materials are primarily used for repairment and maintenance of pipeline equipment.

(in millions of Russian roubles, if not stated otherwise)

11 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	31 December 2015	31 December 2014
Financial assets		
Other long-term receivables	1,392	1,621
Non-financial assets		
Long-term VAT	17	48
Total long-term receivables	**1,409**	**1,669**

	31 December 2015	31 December 2014
Financial assets		
Trade receivables	23,525	24,030
Other receivables	24,362	6,809
less: provision for impairment	(21,490)	(1,760)
Total financial assets in short-term receivables	**26,397**	**29,079**
Non-financial assets		
Prepayments and advances and other non-financial receivables	11,209	14,052
Total short-term receivables	**37,606**	**43,131**

As at 31 December 2015 other accounts receivable include interest receivable related to temporarily available cash balances with banks as well as receivables related to insurance, agency agreements, prepayment for taxes other than income tax and other receivables.

The provision for impairment of accounts receivable was calculated based on an analysis of collectability. The movement of the provision is shown in the table below:

	2015		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	**39**	**1,721**	**100**	**3,235**
Impairment loss	493	19,808	18	1,040
Amounts written off in trade and other receivables	-	-	-	(2,494)
Reversal of provision	(37)	(534)	(79)	(60)
As at 31 December	**495**	**20,995**	**39**	**1,721**

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

The provision for impairment of other receivables is recognized for possible loss on Group's cash balances at banks where licenses were withdrawn by Bank of Russia. These amounts were presented in the consolidated statement of cash flows as Cash on accounts where operations were ceased.

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2015 and 31 December 2014:

	31 December 2015		31 December 2014	
Outstanding period	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	549	56	153	284
More than 90 days but less than 365 days	351	69	116	424
Over 365 days	331	109	64	217
	1,231	**234**	**333**	**925**

Management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections or other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

(in millions of Russian roubles, if not stated otherwise)

11 RECEIVABLES AND PREPAYMENTS, VAT ASSETS (continued)

Breakdown of accounts receivable by currency is presented in the tables below:

Currency	31 December 2015			31 December 2014		
	Trade receivables	Other receivables	Total receivables	Trade receivables	Other receivables	Total receivables
Russian roubles	10,205	3,039	13,244	9,641	3,017	12,658
USD	12,025	312	12,337	14,341	1,961	16,302
Other	800	16	816	9	110	119
	23,030	**3,367**	**26,397**	**23,991**	**5,088**	**29,079**

12 CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Balances in Russian roubles	27,747	47,306
Balances in US dollars	63,875	64,785
Balances in Euro	642	892
Balances in other currencies	449	77
	92,713	**113,060**

The Group selects financial institutions for financial services in accordance with the Russian legislation, which includes tender process with the criteria requirements set by the legislation, procurement from a single supplier or other procurement procedures.

As at 31 December 2015 and 31 December 2014, a significant portion of cash was placed with banks, which are under control or significant influence of the state (69% and 49% correspondingly).

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital	31 December 2015			31 December 2014		
	Number of shares	Historical cost	Inflated cost	Number of shares	Historical cost	Inflated cost
Authorised, issued and fully paid shares with par value RUB 1 each						
Ordinary:	5,546,847	5.6	231	5,546,847	5.6	231
Preferred:	1,554,875	1.5	77	1,554,875	1.5	77
	7,101,722	**7.1**	**308**	**7,101,722**	**7.1**	**308**

The carrying value of the share capital as at 31 December 2015 and as at 31 December 2014 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

The difference of RUB 13,080,359 thousand between the historic IFRS book value of the Company's share in Transnefteproduct Group net assets (amounting to RUB 39,473,636 thousands) and the nominal value of the ordinary shares issued and the share premium (RUB 52,553,995 thousands including share premium of RUB 52,553,113 thousand), has been recorded as merger reserve within equity.

The Russian Federation, through the Federal Agency for the Management of State Property, holds 100% of the ordinary shares of the Company.

Rights attributable to preferred shares

Holders of preferred shares are entitled to receive dividends pursuant to the authorization of dividend payment at the general meeting of shareholders of OAO AK Transneft. The amount of dividends to be paid on preferred shares is established by the Company's Charter as 10 percent of net profits of the standalone (non-consolidated) financial statements of OAO AK Transneft prepared in accordance with Russian Accounting Standards (RAS) for the most recent financial year.

In case the general meeting does not approve payment of preferred shares dividends in a certain year the Company is not obliged to pay dividens for this year in following periods.

(in millions of Russian roubles, if not stated otherwise)

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

Shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on the following issues:

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares, including the determination or increase in the amount of dividends and/or determination or liquidation cost to be paid on preferred shares of the previous level of priority;
- on all issues within the competence of the general meeting of shareholders, after an annual general meeting of shareholders where no decision on payment of dividends was adopted or a decision was adopted on partial payment of dividends on preferred shares. This right is terminated from the time of the first full payment of dividends on the indicated shares;
- in other cases provided for by acting legislation of the Russian Federation.

Dividends

In June 2015 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2014:

	Russian roubles per share	Total
Ordinary shares	318.67	1,768
Preferred shares	757.87	1,178
		2,946

Dividends were paid out in July - August 2015.

In June 2014 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2013:

	Russian roubles per share	Total
Ordinary shares	1,221.38	6,775
Preferred shares	724.21	1,126
		7,901

Dividends were paid out in July-August 2014.

Distributable profits

Standalone financial statements of the Company prepared in accordance with Russian Accounting Standards (RAS) forms a basis for a profit distribution and other appropriations. Net profit of the Company based on the standalone RAS financial statements for the year ended 31 December 2015 amounted to RUB 12,801 (RUB 11,784 for the year ended 31 December 2014).

14 ACQUISITION OF SUBSIDIARIES

In December 2015 the Group acquired 100% interest in share capital of OOO IPTER for a consideration of RUB 436.5. The consideration was fully paid in cash. The main operating activity of OOO IPTER is research and development in the area of fundamental and applied problems of transportation of hydrocarbons. Information concerning assets and liabilities of the acquired companies as at the date of acquisition is presented below:

	2015
Non-current assets	
Property, plant and equipment	427
Other non-current assets	3
Current assets	
Receivables and prepayments	28
Other current assets	2
Current liabilities	
Trade and other payables including derivatives	(21)
Other current liabilities	(2)
Total identifiable net assets	**437**
Consideration transferred	437
Cash outflow	437

(in millions of Russian roubles, if not stated otherwise)

14 ACQUISITION OF SUBSIDIARIES (continued)

In October 2014 the Group acquired additional interest (shares) in share capitals of associates amounting to 75%, 50% and 50% of OOO Transneft Telecom (former - OOO Sigma Telecom), OOO Tikhoretsk-Nafta and AO PROMSFERA respectively. As a result the Group consolidated 100% of control in the mentioned companies. The amount of total consideration paid was RUB 2,221 (including consideration for OOO Transneft Telecom amounting to RUB 1,619). The main activity of OOO Transneft Telecom is telecommunication services, the main activities of OOO Tikhoretsk-Nafta and AO PROMSFERA are loading and shipment services. Information concerning assets and liabilities of the acquired companies as at the date of acquisition is presented below:

	2014
Non-current assets	
Property, plant and equipment	3,380
Deferred tax assets	33
Current assets	
Receivables and prepayments	446
Cash and cash equivalents	325
Inventories	131
Current liabilities	
Trade and other payables	(650)
Loans and borrowings	(302)
Total identifiable net assets	**3,363**
Consideration transferred	2,221
Payables due	(33)
Cash acquired	(325)
Cash outflow	1,863

The Company is the only founder of AO NPF Transneft (hereinafter – NPF Transneft), which was classified as unconsolidated structured entity untill 31 December 2014. Because of a decision to corporatise NPF Transnfet by OAO AK Transneft in conformity with Russian legislation, starting from 31 December 2014 NPF Transneft was included in the consolidated financial statements. As at the date of consolidation NPF Transneft's assets amounted to RUB 63,838 including securities at fair value through profit or loss in the amount of RUB 32,919; deposits amounting to RUB 28,416; liabilities amounted to RUB 55,475 including RUB 55,360 of pension liabilities. As a result of these changes the Group recognised profit in the amount of RUB 8,364. The investment of the Company in the share capital of NPF Transneft amounted to RUB 200 (31 December 2014 – RUB 50). The main activity of NPF Transneft is non-state pension benefit provision for employees of the Group.

15 NON-CONTROLLING INTERESTS

In January 2015 the Group acquired from OAO Svyazinvestneftekhim and ZAO Rosnefteflot non-controlling interests of 36% (251,956 ordinary shares with par value at RUB 1) in AO Transneft-Prikamye (previously OAO SZMN) and 25% in OOO Transneft-Terminal. As a result, the Group's controlling share increased from 64% and 75% to 100%, respectively. As at 31 December 2015 the amount due for the shares was settled in full. The carrying value of net assets in the consolidated financial statements of the Group as at the date of acquisition amounted to RUB 79,401. The Group recognised decrease of non-controlling interests amounting to RUB 24,527 and net increase of retained earnings in the amount of RUB 8,921.

The Group's share in other companies is disclosed in Note 23.

16 LOANS AND BORROWINGS

	31 December 2015	31 December 2014
Loans and borrowings	865,003	759,192
Less: current loans and borrowings and current portion of non-current loans and borrowings	(81,494)	(181,920)
	783,509	**577,272**
Maturity of non-current loans and borrowings		
Between one and five years	374,556	224,094
After five years	408,953	353,178
	783,509	**577,272**

(in millions of Russian roubles, if not stated otherwise)

16 LOANS AND BORROWINGS (continued)

Terms and conditions of loans and borrowings were as follows:

Type of loans and borrowings	Date of issue	Years to maturity	Currency	Interest rate, %	Carrying amount	
					31 December 2015	31 December 2014
Eurobonds	August 2008	10	USD	8.70	76,527	59,071
Non-convertible interest-bearing documentary	October 2009	10*	RUB	Floating, depending on CBR's REPO rate	35,000	135,000
Non-convertible interest-bearing documentary	May, September 2009	10**	RUB	11.50 – 12.05	69,102	-
Non-convertible interest-bearing documentary	December 2012	3	RUB	7.50 (1st - 4th coupons)	-	45
Non-convertible interest-bearing documentary	October 2014	10***	RUB	11	15,000	15,000
Non-convertible interest-bearing documentary	July 2015	10*	RUB	11.5	10,000	-
Loan agreement with China Development Bank Corporation	February 2009	20****	USD	Floating-LIBOR	651,895	540,706
Loan agreement with OOO Latrostrans	April 2013	2	USD	Floating-LIBOR	-	1,158

* optional earlier redemption 2017

** optional earlier redemption in the amount of RUB 10,427 in May 2016. As at 31 December 2014 these bonds were disclosed as non-convertibale interest-bearing documentary bonds with floating interest rate

*** optional earlier redemption in 2016

**** equal instalments after 5 years after attraction.

Proceeds from Eurobonds issues were used by the Group to finance investment projects or to refinance current portion of loans and borrowings to finance investment projects.

The loan proceeds from China Development Bank Corporation were used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Skovorodino to the border of the People's Republic of China and general corporate purposes.

The short-term loans and borrowings included non-convertible interest-bearing documentary bonds in the amount of RUB 25,427 with maturity dates in May 2019 and October 2024 but with optional earlier redemption on demand of bond-holders or by issuer's intention in April and May 2016.

Collateral

All borrowings and loans of the Group, except for the loan from China Development Bank Corporation, are unsecured as at 31 December 2015 and 31 December 2014.

In February 2009 as collateral for the loan from China Development Bank Corporation the Company signed a contract for the term of 20 years for the annual supply of 6 mln. tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of this obligation, a contract was signed with OAO NK Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

(in millions of Russian roubles, if not stated otherwise)

16 LOANS AND BORROWINGS (continued)

Fair value

Fair value of loan from China Development Bank Corporation was RUB 657,005 as at 31 December 2015 (RUB 542,391 as at 31 December 2014). The fair value of loan (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 31 December 2015 and 31 December 2014, respectively. The fair values of the loan and borrowings are presented below:

Type of bonds	Interest rate	Currency	Carrying amounts 31 December 2015	Carrying amounts 31 December 2014	Fair value 31 December 2015	Fair value 31 December 2014
Non-convertible interest-bearing documentary	Fixed	RUB	94,102*	15,045	95,508	14,596
Non-convertible interest-bearing documentary	Floating	RUB	35,000	135,000	35,000	135,928
Eurobonds	Fixed	USD	76,527	59,071	83,728	61,152
Loan agreement with China Development Bank Corporation	Floating-LIBOR	USD	651,895	540,706	657,005	542,391

* - as at 31 December 2014 these bonds in the amount of RUB 69,102 were disclosed as non-convertibale interest-bearing documentary bonds with floating interest rate.

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	1 January 2015	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2015
Deferred tax liabilities:				
Carrying value of fixed assets in excess of tax base	(60,003)	6,983	-	(53,020)
Changes in Group's structure	(2,598)	2,598	-	-
Other	(839)	(367)	853	(353)
	(63,440)	**9,214**	**853**	**(53,373)**
Deferred tax assets:				
Provision for inventories, receivables and accruals	1,362	5,705	-	7,067
Tax loss carry-forwards	4,210	410	-	4,620
Provisions for dismantlement and other expenses	2,616	4,296	-	6,912
Trade and other payables	-	1,398	-	1,398
	8,188	**11,809**	**-**	**19,997**
Net deferred tax liability	**(55,252)**	**21,023**	**853**	**(33,376)**

(in millions of Russian roubles, if not stated otherwise)

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

	1 January 2014	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	Changes in the Group's structure	31 December 2014
Deferred tax liabilities:					
Carrying value of property, plant and equipment in excess of tax base	(53,622)	(6,381)	-	-	(60,003)
Changes in the Group's structure	(4,014)	1,416	-	-	(2,598)
Other	(312)	(341)	(145)	(41)	(839)
	(57,948)	**(5,306)**	**(145)**	**(41)**	**(63,440)**
Deferred tax assets:					
Provisions against inventories, receivables and accruals	1,269	93	-	-	1,362
Tax loss carry-forwards	4,020	173	-	17	4,210
Provisions for dismantlement and other expenses	7,355	(4,739)	-	-	2,616
	12,644	**(4,473)**	**-**	**17**	**8,188**
Net deferred tax liability	**(45,304)**	**(9,779)**	**(145)**	**(24)**	**(55,252)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2015 and 31 December 2014.

The following is a reconciliation of theoretical profit tax expense computed at the statutory tax rate to the profit tax expense:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before income tax	**165,553**	**96,443**
Theoretical income tax expense at 20%	33,111	19,289
Increase due to:		
Changes in unrecognised deferred tax assets	(13,791)	15,020
Changes in the Group's structure	(2,598)	1,417
Current-year losses for which no deferred tax asset is recognised	914	-
Items not taxable for income tax purposes	(1,266)	(647)
Items not deductible for income tax purposes	5,756	1,864
Actual income tax expense	**22,126**	**36,943**

The Group did not recognise deferred tax liability in respect of RUB 290,483 as at 31 December 2015 (as at 31 December 2014 - RUB 372,749) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Since 1 January 2012 OAO AK Transneft and almost all of its significant subsidiaries merged into the consolidated taxpayers' group for the purpose of calculation and payment of income tax.

(in millions of Russian roubles, if not stated otherwise)

18 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2015	31 December 2014
Pension provision	89,641	71,131
Dismantlement provision	5,517	-
Other provisions	6,051	4,391
	101,209	**75,522**

Provision in accordance with IAS 19

In addition to contributions to State pension fund, the Group sponsors defined benefit plans for the majority of its employees. These plans assume regular pension payments to participants during their lifetime for those who have worked for not less than five years based on years of service, salary and received awards during working. Also in accordance with collective agreements with employees the Group has a liability due to those who have worked not less than three years to pay a one-time benefit ranging from 1 to 5 salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 “Employee Benefits”. For the calculation of obligations the projected unit method was applied.

Reconciliation of opening and closing present value of the defined benefit obligation is as follows:

Movement in defined benefit obligation	2015	2014
At 1 January	**23,154**	**8,939**
Interest cost	2,853	719
Service cost	2,217	277
Actuarial loss / (gain)	6,270	(1,580)
Adjustments	-	8,441
NPF Transneft consolidation	-	7,383
Benefits paid	(2,957)	(1,025)
At 31 December	**31,537**	**23,154**

Service cost and adjustments amounting to RUB 2,217 and RUB 8,718 as for the years ended 31 December 2015 and 2014, respectively, are included in staff costs in the consolidated statement of profit or loss and other comprehensive income, interest expense in the amount of RUB 2,853 and RUB 719 for the year ended 31 December 2015 and 2014, respectively, are included in interest expenses.

Actuarial losses amounting to RUB 6,270 for the year ended 31 December 2015 (actuarial gain amounting to RUB 1,580 for the year ended 31 December 2014) were included in other comprehensive income and total actuarial losses amounted to RUB 4,736 as at 31 December 2015 (accumulated actuarial gains amounted to RUB 1,534 as at 31 December 2014).

Assumptions regarding future mortality are based on published statistics and mortality tables. Assumptions are based on mortality statistics in Russia for 2014. The retirement age in Russia is currently 60 years for men and 55 years for women.

The amounts associated with pension provision recognised in the statement of financial position are as follows:

	31 December 2015	31 December 2014
Pension provision for defined benefit plan recognised in Provisions for liabilities and charges	31,537	23,154

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2015	31 December 2014
Average nominal discount rate	9.39%	12.32%
Future salary increases (nominal)	5.26%	5.14%
Expected long-term inflation rate	4.26%	4.14%

As at 31 December 2015, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 2,765 higher.

As at 31 December 2015, if the average nominal discount rate had decreased by 1%, the amount of the Group pension provisions would have been RUB 2,392 higher.

Pension liabilities through NPF Transneft’s activity

Pension liabilities through NPF Transneft’s activity include liabilities under insurance contracts and investment contracts.

Liabilities under insurance contracts are calculated by discounting expected future pension payments. The amount of the future pension is based on the amount guaranteed by insurance contract with pension indexation from the date of the contract to the reporting date, as well as the forecast of future pension indexation.

(in millions of Russian roubles, if not stated otherwise)

18 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Liabilities under investment contracts are amounts of the pension accounts balances of participants as at the reporting date, which are the amounts of accumulated contributions, accrued income from the placement of pension reserves less the amount of payments made to the reporting date.

	31 December 2015	31 December 2014
Pension liabilities – insurance contracts	37,353	29,138
Pension liabilities – investment contracts	20,751	18,839
	58,104	**47,977**

Increase in liabilities under insurance contracts were mainly caused by indexation of corporate non-state lifetime pensions from 1 May 2015 without additional funding by participants.

Dismantlement provision

The Group uses the following assumption in relation to the provision for dismantlement of the existing network of oil and oil product pipelines. The whole oil and oil products pipeline network will be dismantled in the end of its useful life. The Group performs regular diagnostics, maintains periodic upgrades and reconstructions of oil and oil product pipelines, which leads to the extension of its useful life. Thus, the Group can not make a reliable estimate of the period of the whole oil and oil products pipelines network dismantlement and consequently the amount of dismantlement provision. When the Group adopts a plan on liquidation and dismantlement of certain parts of network, the provision for dismantlement is recognized accordingly.

As at 31 December 2015 in relation to fixed assets included in the Programme for liquidation, adopted by the Group in accordance with established procedure, dismantlement provision was recognized in respect of future costs for liquidation of oil and oil product pipelines including site restoration expenses. The amount of provision is estimated by discounting future expenses at yield-to-maturity rates of federal bonds (OFZ) with relevant maturities; the rates amounted to 10.38 - 10.65% as at 31 December 2015. Liquidation value of fixed assets in use is included in fixed assets and depreciated over their useful life of pipeline. Provision for liquidation of fixed assets, which are decommissioned, was recognized as operating expense. The carrying value of dismantlement provision amounted to RUB 6,332 including short-term provision of RUB 815, which is presented as accruals within short-term liabilities.

19 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	31 December 2015	31 December 2014
Trade payables	53,776	44,950
Other payables	22,816	85,339
Total financial payables	**76,592**	**130,289**
Long-term portion of derivatives	(12,622)	(13,700)
Total short-term financial payables	**63,970**	**116,589**
Advances received for oil and oil product transportation services	52,229	48,481
Accrued expenses	28,826	24,627
VAT payable	8,543	8,637
Other taxes payable	4,939	3,015
Total payables	**158,507**	**201 ,349**

Breakdown of accounts payable and other liabilities incluing derivatives by currency is presented in the table below:

Currency	31 December 2015			31 December 2014		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
Russian roubles	53,293	10,109	63,402	38,325	3,364	41,689
USD	19	12,707	12,726	6,625	78,186	84,811
Euro	330	-	330	-	1,407	1,407
Other	134	-	134	-	2,382	2,382
	53,776	**22,816**	**76,592**	**44,950**	**85,339**	**130,289**

Trade payables include payables for purchases of property, plant and equipment in amount RUB 34,440 as at 31 December 2015 and RUB 30,734 as at 31 December 2014.

Accrued expenses mainly include amounts of unused vacation allowance, provision for the annual bonus of the reporting year.

19 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES (continued)

Derivatives

In December 2013 in order to reduce costs of servicing corporate bonds the Group entered into the deal with the state-controlled bank and had simultaneously purchased barrier put-option with a delayed condition and sold barrier call-option with a delayed condition (hereinafter – barrier options) for the total amount of USD 1,999 million with the exercise date in September 2015.

The Group classified this contract as a derivative recognised at fair value through profit and loss. Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market except for assumed volatility measure and the Group classified them to Level 3 in accordance with the fair value hierarchy.

At the date of transaction the excess of fair value of the liability of these derivatives over fair value of the premium receivable under the contract amounted to RUB 563 and was recognised as financial asset through profit and loss (Note 8).

In September-October 2014 the Group and the afore-mentioned bank entered into an interest rate swap transaction which assumes an exchange of one floating rate to another (float-to-float) based on an amortised nominal amount till 2029. In accordance with the deal the Group will make annual payments to the bank based on 6MLIBOR as at the dates of payment and the bank will make annual payments to the Group based on 6MLIBOR determined annually starting from the date of transaction; exchange of nominal amounts is absent. As part of the transaction the terms of the afore-mentioned transaction with barrier were revised and barrier level was increased, as well as new option contracts were entered into with exercise date in October-December 2014. The fair value of the interest rate swap transaction was estimated as the difference between present value of future net payments between the bank and the Group. Future payments were determined on the basis of 6MLIBOR forward rates provided by the Bloomberg.

The Group classified this transaction as a derivative at fair value with changes recognised in profit or loss. The Group classifies this interest-rate swap to Level 2 in accordance with the fair value hierarchy.

As at 31 December 2015 the liability under barrier options was settled and paid out in full, the amount of cash flow is shown as Other cash used in financing activities in the statement of cash flows (as at 31 December 2014 the carrying value of the liability under barrier options amounted to RUB 62,607. In the statement of profit or loss and other comprehensive income the loss under this instrument amounted to RUB 4,909 in 2015 (RUB 61,420 – in 2014) and is shown in Net loss from operations with derivatives.

Implied volatility index which was used to estimate the fair value of the barrier options amounted to 45.2% as at 31 December 2014.

Should the exchange rate of the US dollar increase / (decrease) by 1 ruble while all other input data remain constant the fair value of the liability as at 31 December 2014 would have increased / (decreased) by RUB 1,997 respectively.

The carrying value of the liability under interest rate swap shown as other payables amounted to RUB 12,700 (RUB 13,779 as at 31 December 2014).

Should the exchange rate of the US dollar increase / (decrease) by 1 ruble while all other input data remain constant the fair value of the liability at the reporting date would have increased / (decreased) by RUB 174 respectively.

Should the floating 6MLIBOR interest rates increase / (decrease) by 10% the liability as at the reporting date would increase / (decrease) by RUB 1,534 and RUB 1,406 respectively.

During the year ended 31 December 2014 in order to mitigate unfavourable consequences of the possible depreciation of US Dollar the Group in addition acquired put-options and sold call-options in the amount of USD 2,726.5 million with exercise dates in August – December 2014.

The Group classified these contracts as derivatives at fair value through profit or loss.

Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market and the Group classified them to Level 2 in accordance with the fair value hierarchy.

(in millions of Russian roubles, if not stated otherwise)

20 REVENUE

	Year ended 31 December 2015	Year ended 31 December 2014
Revenues from crude oil transportation services:		
Domestic tariff	234,360	224,450
Export tariff	324,415	275,388
Total revenues from crude oil transportation services	**558,775**	**499,838**
Revenues from oil products transportation services	57,309	48,186
Revenues from crude oil sales	171,512	193,147
Revenues from oil products sales	1,722	4,416
Revenues from oil compounding	5,329	4,633
Other revenues	21,005	24,160
	815,652	**774,380**

Revenues from crude oil sales for the year ended 31 December 2015 mainly include revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement crude oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases crude oil under the contract signed in April 2009 with OAO NK Rosneft (see Note 26).

The Group revenues from crude oil transportation services on the domestic pipeline network comprise:

- revenue from transportation of crude oil to destinations in the Russian Federation and the Custom Union countries, based on distance-related tariffs denominated and payable in RUB and revised periodically after approval by the Federal Tariff Service and Federal Antimonopoly Service (“domestic tariff”);
- revenue from transportation of crude oil which is destined for export (outside of the Russian Federation and the Custom Union countries), based on distance-related tariffs denominated in RUB and payable in RUB and revised periodically after approval by the Federal Tariff Service (“export tariff”);
- revenue from transportation of transit crude oil from Azerbaijan to export destinations through the territory of the Russian Federation to the Novorossiysk’s port, based on fixed tariff approved by intergovernmental agreement and paid for in USD till 13.02.2014; in Russian Roubles from 14.02.2014: from 14.06.2014 in accordance with tariff set by the agreement between Transneft and GNKAR, from 15.06.2014 in accordance with tariff set by the Federal Tariff Service (“export tariff”);
- revenue from transportation of transit crude oil from Kazakhstan, based on the tariffs which are set by the Federal Tariff Agency and paid for in RUB (“export tariff”).

Revenue from oil products transportation includes revenue from oil product transportation in the Russian Federation, in Belarus and in the Ukraine and Kazakhstan.

Revenue from domestic transportation of oil products is formed on the basis of tariffs which are set within limits imposed by government regulations and includes:

- revenue from oil products transportation services in the territory of the Russian Federation and countries of the Customs Union which is based on tariffs set and paid for in RUB;
- revenue from oil products transportation services for export outside the territory of the Russian Federation and countries of the Customs Union at tariffs set and paid for in RUB;

Revenue from oil product transportation in Belarus is formed on the basis of tariffs set in US Dollars by the relevant regulatory body of the Belarusian Republic in compliance with the Treaty between the governments of the Russian Federation and the Belarusian Republic on cooperation in operating oil product pipelines, located on the territory of the Belarusian Republic. These services are paid for in USD.

Revenue from oil product transportation services in the Ukraine is formed on the basis of tariffs set by OAO AK Transneft in US Dollars calculated using the amount of expenses needed for normal operation of oil product transporting companies. These services are paid for in USD.

Revenue from oil product transportation services in the Kazakhstan is formed on the basis of tariffs set by OAO AK Transneft in Kazakh tenge calculated using the amount of expenses needed for normal operation of oil product transporting companies. These services are paid for in RUB at the exchange rate set by CBR at the date of payment.

(in millions of Russian roubles, if not stated otherwise)

21 OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Amortisation and depreciation	116,763	111,818
Salaries	102,559	90,704
Social Funds contributions	25,227	20,329
Social expenses	4,416	3,429
Energy	34,471	32,043
Transportation of oil using railways	2,050	2,404
Materials	24,592	22,999
Repairs and maintenance services	14,382	13,608
Cost of crude oil sold	122,841	106,632
Customs duties	42,605	79,812
Cost of oil products sold	1,658	4,107
Insurance expense	6,640	6,126
Net change in doubtful debt provision	19,730	919
Net change in dismantlement provision and impairment provision of property, plant and equipment	3,475	721
Business trip expense	6,372	5,740
Property tax and other taxes other than profit tax	17,005	12,309
Pension expenses	10,524	11,614
Other expenses	26,280	15,739
	581,590	**541,053**

Transportation of oil by using railways comprises transportation of oil by railway from Skovorodino to port Kozmino.

Other expenses comprise of income and expenses from disposal of fixed assets, the gain from oil surplus, expenses on charity, both received and paid penalties, and also other operating income and expenses.

(in millions of Russian roubles, if not stated otherwise)

22 NET FINANCE COSTS

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income on cash and cash equivalents	7,872	4,275
Interest income from other financial assets	27,077	15,265
Other interest income	605	366
Total interest income	**35,554**	**19,906**
less interest income on the temporary investment of borrowings	(778)	(839)
Total interest income recognised in the consolidated statement of profit or loss and other comprehensive income	**34,776**	**19,067**
Foreign exchange gains	505,062	284,609
Net income from operations with financial instruments through profit or loss	1,240	-
Total finance income	**541,078**	**303,676**
Interest expense on loans and borrowings	(43,064)	(34,656)
Dismantlement provision: unwinding of the present value discount	-	(2,329)
Other interest expenses	(3,323)	(1,589)
Total interest expenses	**(46,387)**	**(38,574)**
Less capitalised finance costs	1,936	2,071
Total interest expenses recognised in the consolidated statement of profit or loss and other comprehensive income	**(44,451)**	**(36,503)**
Foreign exchange loss	(555,929)	(326,778)
Net loss from operations with derivatives	(5,088)	(75,289)
Total finance costs	**(605,468)**	**(438,570)**
Net finance costs	**(64,390)**	**(134,894)**

(in millions of Russian roubles, if not stated otherwise)

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The following are the principal subsidiaries which have been consolidated and associates and jointly controlled entities accounted for using equity method in these consolidated financial statements:

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2015
AO Transneft - Sibir	crude oil and oil products transportation	Russia	100.0
AO Chernomortransneft	crude oil transportation	Russia	100.0
AO Transneft - Druzhba	crude oil transportation	Russia	100.0
AO Transneft - Privolga	crude oil transportation	Russia	100.0
AO Transneft – Zapadnaya Sibir	crude oil and oil products transportation	Russia	100.0
AO Transneft – Verkhnyaya Volga	crude oil and oil products transportation	Russia	100.0
AO Transneft – Tsentralnaya Sibir	crude oil transportation	Russia	100.0
AO Transneft – Sever	crude oil transportation	Russia	100.0
OOO Transneft - Baltika	crude oil and oil products transportation	Russia	100.0
AO Transneft - Ural	crude oil and oil products transportation	Russia	100.0
AO Transneft – Prikamye	crude oil transportation	Russia	100.0
OOO Transneft - Vostok	crude oil transportation	Russia	100.0
OOO Transneft – Dalniy Vostok	crude oil transportation	Russia	100.0
AO AK Transnefteproduct	organization of oil product transportation	Russia	100.0
AO Mostransnefteproduct	oil product transportation	Russia	100.0
AO Sredne-VolzhskyTransnefteproduct	oil product transportation	Russia	100.0
AO Yugo-Zapad transnefteproduct	oil product transportation	Russia	100.0
DP PrikarpatZapadtrans	oil product transportation	Ukraine	100.0
Unitarnoye predpriyatiye Zapad-Transnefteproduct	oil product transportation	Belarus	100.0
AO Transnefteproduct-Samara	oil product transportation	Russia	100.0
AO Transnefteproduct-Zapad	holding of investment	Russia	100.0
OOO Transneft - Port Primorsk	loading and off-loading and oil and oil products transshipment	Russia	100.0
OOO Transneft - Port Kozmino	loading and off-loading and oil and oil products transshipment	Russia	100.0
OOO Transneft – Port Ust-Luga	loading and off-loading and oil and oil products transshipment	Russia	100.0
AO Transneft - Podvodservice	diagnostics, repair and maintenance of underwater line	Russia	100.0
AO Giprotruboprovod	project and designed work for oil pipeline	Russia	100.0
AO Svyaztransneft	technological connection	Russia	100.0
AO Transneft - Diascan	diagnostics	Russia	100.0
OOO Transneft Nadzor	technical and building supervision and control	Russia	100.0
OOO Transneft - TSD	provision of general construction services	Russia	100.0
AO Transneft - Metrologia	metrological support	Russia	100.0
OOO NII Transneft	research	Russia	100.0
OOO IPTER	research		
OOO TsUP VSTO	constructor of ESPO	Russia	100.0
OOO Transneft Finance	accounting	Russia	100.0
OOO Transneftenergo	electric power transmission	Russia	100.0
OOO Transneft-Servis	port facilities	Russia	100.0
AO Transneft - Energoterminal	organisation of cargo	Russia	50.04

(in millions of Russian roubles, if not stated otherwise)

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2015
AO Transneftsvyazstroy	general contractor	Russia	100.0
OOO Transneft-Logistika	transportation of cargo	Russia	100.0
OOO Transneftstroy	general pipe contractor	Russia	100.0
OOO Transneftstroy–Bryansk	general construction works	Russia	100.0
OOO Transneftstroy–Omsk	general construction works	Russia	100.0
OOO Transneftstroy–Tyumen	general construction works	Russia	100.0
Fenti Development Limited	financial activity	Switzerland	100.0
OOO Transneft-Terminal	wholesale of oil prodructs	Russia	100.0
OOO Transneft – Media	press	Russia	100.0
AO Telecomnefteproduct	communication services	Russia	100.0
DP Rovensky Tsekh Elektrosvyazi	communication services	Ukraine	100.0
Unitarnoye predpriyatiye Zapad-Telecomnefteproduct	communication services	Belarus	100.0
AO PROMSFERA	rent	Russia	100.0
OOO Tikhoretsk –Nafta	cargo handling	Russia	100.0
AO Transneft-Servis	crude oil sea and domestic water transportation	Russia	100.0
AO TNT	cargo handling	Russia	100.0
ZAO Omega	production of monitoring systems of pipelines	Russia	60.0
OOO Avesta and Co.	construction of buildings	Russia	100.0
OOO TES	transmission of electricity	Russia	100.0
OOO Transneft - Tekhnologii	development, tuning and implementation of automated management systems	Russia	100.0
OOO Transneft Telecom	telecommunications	Russia	100.0
OOO Transneft – Okhrana	security services	Russia	100.0
AO NPF Transneft	non-state pension management	Russia	100.0
OOO UK Invest	asset management of non-state pension fund	Russia	100.0
Equity-accounted investments			
Omirico Ltd.	financial activity	Cyprus	50.0
PAO NMTP	cargo handling	Russia	35.57
OOO PTP	cargo handling	Russia	35.57
OOO Rusenergoresurs	wholesale of electric and heat power	Russia	25.0
OOO TK-BA	designing and construction of “Burgas – Alexandroupolis” pipeline	Russia	33.34
AO TNN	development, production and sales of pumping equipment	Russia	51.0
AO RED	production of electric motors	Russia	51.0
OOO Impex-Plus	wholesale agent	Russia	50.0
OOO LatRosTrans	oil product transportation	Latvia	34.0

24 OPERATING LEASES

The Group leases a number of land plots, mainly, owned by local governments under operating lease. Land lease payments are determined by lease agreements and are as follows:

	31 December 2015	31 December 2014
Less than one year	1,251	1,067
Between one year and five years	5,002	4,267
After five years	56,274	48,004
Total	**62,527**	**53,338**

(in millions of Russian roubles, if not stated otherwise)

24 OPERATING LEASES (continued)

The land areas leased by the Group are the territories on which the Group the oil pipeline, the oil product pipeline and other assets are located. Most contracts for land lease are long term and concluded for duration up to 49 years with subsequent prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated.

The rent paid to the landlord of the land is increased in accordance with the contractual terms at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

During the year ended 31 December 2015 RUB 581 (2014: RUB 569) was recognised in profit or loss in respect of operating lease.

25 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the year ended 31 December 2015 the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims outstanding at 31 December 2015, which could have a material adverse effect on the results of operations or financial position of the Group.

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Federal Agency for State Property Management on behalf of the Russian Federation owns 100% of the ordinary shares of the Company conducting the control via the Board of Directors that as at the December 31, 2015 comprise of the State representatives (professional attorneys) and Independent Directors. The Government of the RF shall appoint the members of the Federal Antimonopoly Service to make decisions of tariff and rates structure.

As at 31 December 2015 and 31 December 2014 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium–K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium–K. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent in shares of the above companies.

The Group's transactions with other state-controlled entities occur in the normal course of business and include, but are not limited to the following: purchase of electricity for production needs, transportation of oil produced by state-owned entities, and transactions with banks, which are under common control or significant influence of the state.

The Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue from oil transportation services	270,769	246,872
OAO NK Rosneft and its subsidiaries	241,447	218,424
PAO Gazprom and its subsidiaries	28,810	27,994
Others	512	454
Revenue from oil products transportation services	20,916	20,999
OAO NK Rosneft and its subsidiaries	9,341	8,694
PAO Gazprom and its subsidiaries	11,575	12,305
Purchases of oil (OAO NK Rosneft)	98,880	83,243
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	2,965	2,641
Electricity expenses	337	384
Interest income from other financial assets	10,614	6,629
Transportation expenses	1,391	674

Operations with derivatives with entities which are under control of the state are disclosed in Note 19.

(in millions of Russian roubles, if not stated otherwise)

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

During the year ended 31 December 2015 and 31 December 2014, Group had following transactions with associates and jointly controlled entities:

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	2,779	2,444
Purchases of goods and services	31,035	29,590

At the 31 December 2015 and 31 December 2014 the Group had following accounts with related parties and associates:

	31 December 2015	31 December 2014
Trade and other receivables	1,328	2,523
Trade and other payables	443	378
Loans issued	17,811	11,069
Loan received	-	1,158

Loans issued mainly include loan to Omirico Ltd. with 5.27% interest rate p.a. with principal amount and accrued interest to be paid before or at the date of loan repayment and the carrying value with interest accrued amounting to RUB 15,010 as at 31 December 2015 (RUB 11,069 as at 31 December 2014).

Key management personnel compensation

Key management personnel (the members of the Board of Directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and bonuses	1,558	1,528
Termination benefits	23	17
Other	16	21
	1,597	**1,566**

Amounts of loans issued to key management personnel were as follows:

	2015	2014
1 January	6	7
Repaid	(1)	(1)
31 December	5	6
due for repayment during 1 year	1	1
due for repayment after 1 year	4	5

During the year ended 31 December 2015 the Group contributed to NPF Transneft in favour of the key management personnel RUB 131 (for 2014 – RUB 195).

Contributions to the AO NPF Transneft represent transfer to the fund of the present value of future pension values in connection with retirement in accordance with the terms of contracts for non-state pension benefits. These payments will be made when the right to receive the pensions in accordance with established rules of NPF Transneft vest.

Key management personnel for whom information was disclosed in the consolidated financial statements include members of the Board of Directors and the Board of OAO AK Transneft, as well as CEOs and their families (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

Total quantity of the persons who have received payments as the key management personnel as for the year ended 31 December 2015 constituted 69 persons (for the year ended 31 December 2014 – 64 persons).

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to the items below:

	Held-to-maturity investments	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets
Assets as per balance sheet				
31 December 2015				
Cash and cash equivalents (Note 12)	-	92,713	-	-
Financial assets at fair value through profit or loss (Note 8)	-	-	37,872	-
Available-for-sale financial assets	-	-	-	265
Other non-current financial assets (Note 9)	25,105	45,117	-	-
Other current financial assets (Note 9)	-	391,690	-	-
Accounts receivable (trade and other) (Note 11)	-	26,397	-	-
	25,105	**555,917**	**37,872**	**265**
31 December 2014				
Cash and cash equivalents (Note 12)	-	113,060	-	-
Financial assets at fair value through profit or loss (Note 8)	-	-	33,482	-
Available-for-sale financial assets	-	-	-	231
Other non-current financial assets (Note 9)	4,672	39,842	-	-
Other current financial assets (Note 9)	-	408,234	-	-
Accounts receivable (trade and other) (Note 11)	-	29,079	-	-
	4,672	**590,215**	**33,482**	**231**

	31 December 2015	31 December 2014
Liabilities at the reporting date		
Financial accounts payable (trade and other) (Note 19)	76,592	130,289
Loans and borrowings (Note 16)	865,003	759,192
	941,595	**889,481**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risks, credit risk and liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Foreign exchange risk

The Group's overall strategy is to mitigate currency risk which arises from use of currencies other than the Russian rouble - the US dollar. The Group has an approved policy for managing currency risk as well as policy for management of currency risk arising from operations with derivatives. The Group's foreign exchange exposure mainly arises on USD-denominated borrowings, which the Group obtained in 2007-2010 (see Note 16) and translation of cash balances and other financial assets (Note 9) denominated in US Dollars and Euro. The Group is also exposed to the currency risk arising from operations with derivatives (Note 19). Assets and liabilities of the Group denominated in Euro, Ukrainian hryvna and Belarusian rouble which give rise to foreign currency exchange exposure are insignificant.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2015, if the US Dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables left constant (except for effect of derivative instruments), after tax profit and equity would have been RUB 18,308 lower/higher (for the year ended 31 December 2014 if the US Dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant, after tax profit and equity would have been – RUB 9,944 lower/higher), mainly as a result of foreign exchange losses/(gains) on translation of USD-denominated borrowings and USD-denominated cash balances into Russian roubles.

Interest rate risk

Management has a formal policy of determining how much the Group's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management uses its judgment, economic experience and risk assessment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Borrowings received at fixed rates expose the Group to fair value interest rate risk. The Group obtains borrowings from banks at current market interest rates. The interest rate risk is constantly monitored and, if necessary, measures will be taken to decrease the Group's exposure to it. The Group does not account for any of its fixed rate financial assets and liabilities at fair value through profit or loss (except for the assets relating to NPF Transneft). Therefore, a change in interest rates for these borrowings at the reporting date would not affect profit or equity.

Loans and borrowings received by the Group under variable interest rate expose the Group to the risk of changes in the cash flows under loans and borrowings. As the Group received bank loans for financing its investment projects, the part of borrowing costs are capitalised. An increase of 1% in interest rates for the year ended 31 December 2015 would have decreased equity and profit for the period before income tax by RUB 2,838 (year ended 31 December 2014 – RUB 4,910). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

To monitor changes in interest rate risk affecting assets of NPF Transneft the Group performs a sensitivity analysis of its comprehensive income due to interest rates change based on the simplified scenario of the symmetric increase (decline) in rates by certain amount of basic points.

Sensitivity analysis for profit (loss) before tax and equity due to changes in value of financial instruments at fair value through profit and loss resulting from changes in interest rates (set up as at 31 December 2015 and 1 January 2015 according to the simplified scenario of the parallel shift of the yield curve for 100 basic points decline or increase) may be presented as follows:

	31 December 2015	
	Profit / (loss) before income tax	Net assets to execute liabiltites towards participants and insured persons
100 basic points interest rates increase	(1,359)	(1,357)
100 basic points interest rates decline	1,267	1,269

	31 December 2014	
	Profit / (loss) before income tax	Net assets to execute liabiltites towards participants and insured persons
100 basic points interest rates increase	(1,365)	(1,362)
100 basic points interest rates decline	1,260	1,257

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The Group is also exposed to the risk of changes in cash flows as a result of fluctuation of interest rates under operations with derivatives (Note 19).

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines.

The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with OAO NK Rosneft) and refineries and does not use the hedging contracts to manage the risks associated with changes in metal prices and prices for oil and oil product.

Credit risk and compliance with contractual terms and obligations

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses crediworthness of banks it deals with and reviews limit for allocation of cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured. Being the subject of natural monopolies on the Russian transportation market the Group ensures equal access to the oil and oil product pipeline for all russian oil refining and oil products companies. The majority of the Group's customers are the major oil companies of the Russian Federation including those controlled by the State. The Group has no material concentrations of credit risk or any material past due accounts receivable.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group's suppliers of assets and services are selected mainly through tenders. The criteria for the bidders include both technical and financial indicators (availability of production facilities, skilled personnel, relevant experience, cost of assets and services etc.) and reliability (financial position, professional and ethical image of the bidders, whether quality control of the assets and services is established) resulting in admission of participants. The tender approach ensures the selection of suppliers with a low risk of failure to discharge their contractual obligations.

Cash and cash equivalents are placed within major banks with credit ratings assigned by Moody's rating agency and other rating agencies adjusted to the Moody's rating scale.

Credit rating	31 December 2015
External credit rating Ba1 – Ba3	81,303
External credit rating B1 – B3	8,885
Other	2,525
	92,713

Financial assets at fair value through profit or loss were issued by issuers which had the following credit ratings assigned by Moody's or other credit agencies ratings adjusted to Moody's rating scale.

Credit rating	31 December 2015
External credit rating Aaa-A3	231
External credit rating Baa1 – Baa3	165
External credit rating Ba1 – Ba3	35,395
External credit rating B1 – B3	2,081
	37,872

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Other financial assets excluding loans to related parties were acquired from counterparties with external credit ratings assigned by Moody's and other rating agencies adjusted to the Moody's rating scale is presented in the table below.

Credit rating	31 December 2015
External credit rating Ba1-Ba3	422,610
External credit rating B1-B3	21,414
Other	17,888
Total	**461,912**

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Risks associated with securities under trust management

The Group is exposed to changes in equity price risk. Management companies which are entered into trust management agreements control operations with securities in accordance with approved investment declaration which sets the structure and ratio between debt and equity securities and cash levels which management companies must maintain. The specialized depositary also controls compliance with investment declarations on a daily basis.

To manage other price risk the Group uses periodic estimation of potential losses which can be incurred because of negative market changes as well as sensitivity analysis of profit or loss for the year to changes in shares prices in accordance with a symmetrical increase or decrease scenario for a certain percentage points.

Sensitivity analysis of net profit to changes in price of shares (computed on positions open as at 31 December 2015 and simplified scenario for 10% decline or increase in all share prices) can be shown as follows:

	31 December 2015
	Profit (loss) before taxation
10% increase in securities' quotes	3,787
10% decline in securities' quotes	(3,787)

Insurance risk

For insurance contracts for payment of benefits under guaranteed pensions where insurance risk is the mortality risk the main factor is the improvement of medical services and social conditions which increase life expectancy.

Insurance risk management is performed by permanent observation of actual mortality of participans. Currently the actual mortality rate as well as its changes are consistent with expectations. To fulfill already taken obligations the part of investment returns from allocation of pension reserves including insurance reserve will be used.

The table below shows sensitivity analysis of insurance contract liabilities under non-state pension as at 31 December 2015:

		31 December 2015
Change in obligation in relation to obligation as at reporting date		
Analysis of change in liability in case of change in discount rate	-1 p.p.	10.57%
	+1 p.p.	(8.96)%
Analysis of change in liability in case of change in assumption of indexation of pensions	-1 p.p.	(9.04)%
	+1 p.p.	10.47%
Analysis of change in liability in case of change in assumption of mortality	-10%	5.25%
	+10%	(4.62)%

(*) p.p. – percentage point

Liability adequacy test for insurance contracts under OPS would not result in a deficit in all cases when indexation rate does not exceed discount rate. NPF Transneft estimated the minimal discount rate (with fixed indexation rate used in calculation as at the reporting date) equal to 4.1% and maximal indexation rate (with discount rate left unchanged at the reporting date) equal to 7.83% when the test will result in zero.

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

A decline in mortality probability by 50% will lead to a zero result in liability adequacy test relating to insurance contracts under OPS.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

Offsetting and similar agreements

The Group may conclude agreements for purchase and sale with same counterparties in the ordinary course of business. Relevant amounts of receivables and payables are not always available for offsetting in the statement of financial position. This is due to the fact that the Group may not have currently legally enforceable right to offset the recognized amounts, since the right of set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in force in Russia, the obligation may be settled by offsetting uniform requirements, which are due either not specified or determined by the time on demand.

The following are the carrying values of recognised financial instruments under the afore-mentioned contracts:

	Trade and other receivables	Trade and other payables
31 December 2015		
Gross amounts	26,397	76,592
Net amounts shown in the consolidated statement of financial position	26,397	76,592
Amounts relating to recognised financial instruments which can not be offset	(4,642)	(4,642)
Net amount	**21,755**	**71,950**

	Trade and other receivables	Trade and other payables
31 December 2014		
Gross amounts	29,079	130,289
Net amounts shown in the consolidated statement of financial position	29,079	130,289
Amounts relating to recognised financial instruments which can not be offset	(4,217)	(4,217)
Net amount	**24,862**	**126,072**

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments:

31 December 2015:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	865,003	1,094,932	129,337	133,827	356,237	475,531
Trade and other payables	76,592	76,592	76,592	-	-	-
	941,595	**1,171,524**	**205,929**	**133,827**	**356,237**	**475,531**

(in millions of Russian roubles, if not stated otherwise)

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

31 December 2014:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	759,192	933,004	218,440	75,898	224,547	414,119
Trade and other payables	130,289	130,289	130,289	-	-	-
	889,481	**1,063,293**	**348,729**	**75,898**	**224,547**	**414,119**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the receivables and payables approximates their carrying amounts at 31 December 2015 and 31 December 2014. The fair values of loans and borrowings are disclosed in Note 16, of other financial assets in Note 9.

Capital 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 to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company and the long-term and short-term debt (long-term and short term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as total debt/EBITDA, total debt/equity and cash from operating activities/total debt; that allows the Group at the maximum available for Russian companies level.

There were no changes in the Group's approach to capital management during the reporting period.

28 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity based on management accounting under Russian Accounting Standards (RAS). The following segments were allocated: Oil transportation services, Oil product transportation services and Sales of oil and oil products.

Adjusting entries used to reconcile this information with information in the consolidated financial statements primarily include adjustments and reclassifications resulting from differences between RAS and IFRS.

Segment information for the years ended 31 December 2015 and 31 December 2014 was as follows:

Year ended 31 December 2015	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjust-ments	Total IFRS
Revenue from sales to third parties	581,563	62,606	173,234	(1,751)	815,652
Operating expenses	(407,687)	(41,576)	(166,810)	34,483	(581,590)
including depreciation	(149,115)	(9,315)	-	41,667	(116,763)
Operating profit	**173,876**	**21,030**	**6,424**	**32,732**	**234,062**
Finance income	-	-	-	-	541,078
Finance costs	-	-	-	-	(605,468)
Share of loss from associates and jointly controlled entities	-	-	-	-	(4,119)
Profit before income tax	**173,876**	**21,030**	**6,424**	**32,732**	**165,553**
Income tax expense	-	-	-	-	(22,126)
Profit for the year	**173,876**	**21,030**	**6,424**	**32,732**	**143,427**

(in millions of Russian roubles, if not stated otherwise)

28 SEGMENT INFORMATION (continued)

Year ended 31 December 2014	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjust-ments	Total IFRS
Revenue from sales to third parties	524,272	49,828	197,068	3,212	774,380
Operating expenses	(339,496)	(29,598)	(191,213)	19,254	(541,053)
Including depreciation	(132,173)	(5,068)	-	25,423	(111,818)
Operating profit	**184,776**	**20,230**	**5,855**	**22,466**	**233,327**
Finance income	-	-	-	-	303,676
Finance costs	-	-	-	-	(438,570)
Changes in the Group's structure					8,796
Share of loss from associates and jointly controlled entities	-	-	-	-	(10,786)
Profit before income tax	**184,776**	**20,230**	**5,855**	**22,466**	**96,443**
Income tax expense	-	-	-	-	(36,943)
Profit for the year	**184,776**	**20,230**	**5,855**	**22,466**	**59,500**

Adjusting items for segment's expenses in the amount of RUB 34,483 for the year ended 31 December 2015 and RUB 19,254 for the year ended 31 December 2014 include the following adjustments and reclassifications due to RAS and IFRS accounting differences:

	Year ended 31 December 2015	Year ended 31 December 2014
Dismantlement provision	(2,101)	(1,124)
Adjustment to Property plant and equipment to eliminate RAS revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(39,223)	(23,947)
Pension liabilities	2,113	7,693
Deferred payment obligation	1,749	(1,913)
Others	2,979	37
Total adjusting items for segment's expenses	**(34,483)**	**(19,254)**

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. The oil products transportation services segment has certain assets located on the territory of the Republic of Belarus, the Republic of Kazakhstan and Ukraine.

Information on revenue allocation by customers' country of incorporation is set out below:

	Year ended 31 December 2015	Year ended 31 December 2014
Russian Federation	649,455	583,728
China	143,589	168,515
Other countries	22,608	22,137
Total	**815,652**	**774,380**

Revenue from external customers in other countries mainly includes revenue from services provided to customers in the Republic of Kazakhstan.

Major customers. The Group's major customers are oil production companies which produce oil and transport it for export domestic sale or refining.

(in millions of Russian roubles, if not stated otherwise)

28 SEGMENT INFORMATION (continued)

The information about largest customers of the Group is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Companies under control of the state	291,685	267,871
China National United Oil Corporation	143,589	168,515
OAO Surgutneftegaz	97,613	92,299
PAO Lukoil	82,293	77,540
Total	**615,180**	**606,225**

Sales to the major customers are included in the results of the crude oil transportation, oil product transportation segments and trading operations for sale of oil and oil products.

29 SUBSEQUENT EVENTS

In February 2016 the Group acquired the 50% share in the share capital of OOO NMT. The consideration amounted to USD 159 mln (RUB 12,497 at Bank of Russia exchange rate as at the date of payment). The Group's effective share of OOO NMT reached 67.79% as a result of the deal. Taking into account the holding structure and key decision making process, this investment is classified as a jointly controlled entity. OOO NMT is a fuel oil terminal operating in Novorossiysk with maximum capacity of 4 mln. tons per year.

In February 2016 the Group completed the sale of AO Yugo-Zapad transnefteproduct which owns 100% of share capital of DP PrikarpatZapadtrans which assets are located on the territory of Ukraine. The amount of excess of consideration received over the carrying value of net assets disposed of amounted to RUB 998.

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