Gazprom neft Group

Consolidated Financial Statements

December 31, 2014

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Independent Auditor's Report

To the Shareholders and Board of Directors of JSC "Gazprom neft"

We have audited the accompanying consolidated financial statements of JSC "Gazprom neft" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit and loss and other comprehensive income, changes in shareholders' equity and cash flows for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standard 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 the 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.

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Independent Auditor's Report

Opinion

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

ZAO PricewaterhouseCoopers Audit

27 February 2015

Moscow, Russian Federation

I.V. Shanina, Director (licence no. 01-001340), ZAO PricewaterhouseCoopers Audit

Audited entity: JSC Gazprom neft

State registration certificate № 1025501701686 issued by Interdistrict inspectorate of Federal ta authority #15 of Saint-Petersburg on 11.12.2007

Certificate of inclusion in the United State Register of Legal Entities № 55 № 002790652 issued on 01.06.2006

5-A Galernaya st., St. Petersburg, Russian Federation

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the United State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organization non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

Currency – RUB millions

	Notes	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	7	53,167	91,077
Short-term financial assets	8	78,844	55,870
Trade and other receivables	9	103,014	87,348
Inventories	10	102,658	90,223
Current income tax prepayments		17,315	7,671
Other current assets	11	115,927	100,882
Total current assets		**470,925**	**433,071**
Non-current assets			
Property, plant and equipment	12	1,293,800	895,543
Goodwill and other intangible assets	13	71,240	55,386
Investments in associates and joint ventures	14	150,727	120,358
Long-term trade and other receivables		265	106
Long-term financial assets	16	37,631	22,406
Deferred income tax assets	17	31,460	18,508
Other non-current assets	18	41,676	18,255
Total non-current assets		**1,626,799**	**1,130,562**
Total assets		**2,097,724**	**1,563,633**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	19	61,121	52,413
Trade and other payables	20	83,817	68,035
Other current liabilities	21	40,921	26,650
Current income tax payable		520	3,872
Other taxes payable	22	45,788	46,783
Provisions for liabilities and charges	23	18,564	10,158
Total current liabilities		**250,731**	**207,911**
Non-current liabilities			
Long-term debt	24	502,306	261,455
Other non-current financial liabilities	25	105,944	7,028
Deferred income tax liabilities	17	81,032	59,729
Provisions for liabilities and charges	23	25,876	25,881
Other non-current liabilities		2,050	3,608
Total non-current liabilities		**717,208**	**357,701**
Equity			
Share capital	26	98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		50,074	19,293
Retained earnings		1,005,642	930,304
Other reserves		11,104	4,087
Equity attributable to Gazprom neft shareholders		**1,065,748**	**952,612**
Non-controlling interest	38	64,037	45,409
Total equity		**1,129,785**	**998,021**
Total liabilities and equity		**2,097,724**	**1,563,633**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom neft

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Sales		1,690,557	1,504,037
Less export duties and sales related excise tax		(282,319)	(236,434)
Total revenue from sales	**39**	**1,408,238**	**1,267,603**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(382,505)	(319,051)
Production and manufacturing expenses		(171,711)	(144,552)
Selling, general and administrative expenses		(86,318)	(72,005)
Transportation expenses		(116,125)	(107,837)
Depreciation, depletion and amortisation		(85,951)	(76,785)
Taxes other than income tax	**22**	(343,576)	(316,070)
Exploration expenses		(936)	(2,876)
Total operating expenses		**(1,187,122)**	**(1,039,176)**
Other loss, net	**28**	(8,471)	(6,310)
Operating profit		**212,645**	**222,117**
Share of (loss) / profit of associates and joint ventures	**14**	(6,306)	11,251
Net foreign exchange loss	**29**	(52,265)	(2,166)
Finance income	**30**	7,075	6,011
Finance expense	**31**	(15,279)	(11,233)
Total other (expense) / income		**(66,775)**	**3,863**
Profit before income tax		**145,870**	**225,980**
Current income tax expense		(17,518)	(34,823)
Deferred income tax expense		(1,696)	(4,437)
Total income tax expense	**32**	**(19,214)**	**(39,260)**
Profit for the period		**126,656**	**186,720**
Other comprehensive income / (loss)			
Currency translation differences		79,669	12,739
Cash flow hedge, net of deferred tax		(55,265)	(3,221)
Other comprehensive income / (loss)		139	(37)
Other comprehensive income for the period		**24,543**	**9,481**
Total comprehensive income for the period		**151,199**	**196,201**
Profit attributable to:			
- Gazprom neft shareholders		122,093	177,917
- Non-controlling interest		4,563	8,803
Profit for the period		**126,656**	**186,720**
Total comprehensive income attributable to:			
- Gazprom neft shareholders		129,110	183,406
- Non-controlling interest		22,089	12,795
Total comprehensive income for the period		**151,199**	**196,201**
Earnings per share attributable to Gazprom neft shareholders			
Basic earnings (RUB per share)		25.88	37.71
Diluted earnings (RUB per share)		25.88	37.71
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718

Currency – RUB millions

	Attributable to Gazprom neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of January 1, 2014	**98**	**(1,170)**	**19,293**	**930,304**	**4,087**	**952,612**	**45,409**	**998,021**
Profit for the period	-	-	-	122,093	-	122,093	4,563	126,656
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	62,143	62,143	17,526	79,669
Cash flow hedge, net of deferred tax	-	-	-	-	(55,265)	(55,265)	-	(55,265)
Other comprehensive income	-	-	-	-	139	139	-	139
Total comprehensive income for the period	**-**	**-**	**-**	**122,093**	**7,017**	**129,110**	**22,089**	**151,199**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(46,755)	-	(46,755)	(2,824)	(49,579)
Transaction under common control	-	-	33,700	-	-	33,700	-	33,700
Acquisition of non-controlling interest	-	-	(2,919)	-	-	(2,919)	(637)	(3,556)
Total transactions with owners	**-**	**-**	**30,781**	**(46,755)**	**-**	**(15,974)**	**(3,461)**	**(19,435)**
Balance as of December 31, 2014	**98**	**(1,170)**	**50,074**	**1,005,642**	**11,104**	**1,065,748**	**64,037**	**1,129,785**

	Attributable to Gazprom neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of January 1, 2013	**98**	**(1,170)**	**16,125**	**815,731**	**(1,402)**	**829,382**	**40,547**	**869,929**
Profit for the period	-	-	-	177,917	-	177,917	8,803	186,720
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	8,747	8,747	3,992	12,739
Cash flow hedge, net of deferred tax	-	-	-	-	(3,221)	(3,221)	-	(3,221)
Other comprehensive loss	-	-	-	-	(37)	(37)	-	(37)
Total comprehensive income for the period	**-**	**-**	**-**	**177,917**	**5,489**	**183,406**	**12,795**	**196,201**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(63,344)	-	(63,344)	(3,561)	(66,905)
Acquisition of non-controlling interest	-	-	3,168	-	-	3,168	(4,372)	(1,204)
Total transactions with owners	**-**	**-**	**3,168**	**(63,344)**	**-**	**(60,176)**	**(7,933)**	**(68,109)**
Balance as of December 31, 2013	**98**	**(1,170)**	**19,293**	**930,304**	**4,087**	**952,612**	**45,409**	**998,021**

Consolidated Statement of Cash Flows Currency – RUB millions

		Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities			
Profit before income tax		145,870	225,980
Adjustments for:			
Share of loss / (profit) of associates and joint ventures	**14**	6,306	(11,251)
Loss on foreign exchange differences		82,670	9,350
Finance income	**30**	(7,075)	(6,011)
Finance expense	**31**	15,279	11,233
Depreciation, depletion and amortisation	**12,13**	85,951	76,785
Allowance for doubtful accounts	**34**	343	(413)
Other non-cash items		5,398	1,256
Changes in working capital:			
Accounts receivable		21,110	(16,632)
Inventories		5,072	4,056
Other assets		(9,114)	9,228
Accounts payable		(5,633)	15,681
Taxes payable		(4,643)	3,111
Other liabilities		(13,206)	(7,115)
Income taxes paid		(30,122)	(33,514)
Interest paid		(16,624)	(9,981)
Dividends received		2,383	4,973
Net cash provided by operating activities		**283,965**	**276,736**
Cash flows from investing activities			
Acquisition of subsidiaries and joint operations, net of cash acquired		(12,493)	(4,657)
Acquisition of associates and joint ventures		(45,355)	(1,200)
Bank deposits placement		(129,917)	(74,295)
Repayment of bank deposits		114,040	44,870
Acquisition of other investments		(2,480)	(283)
Proceeds from sales of other investments		-	890
Short-term loans issued		(2,100)	(2,829)
Repayment of short-term loans issued		1,867	863
Long-term loans issued		(23,142)	(19,848)
Repayment of long-term loans issued		1,374	1,004
Capital expenditures		(271,330)	(208,611)
Proceeds from sale of property, plant and equipment		1,743	3,847
Interest received		3,001	4,524
Net cash used in investing activities		**(364,792)**	**(255,725)**
Cash flows from financing activities			
Proceeds from short-term borrowings		26,750	18,930
Repayment of short-term borrowings		(24,601)	(31,249)
Proceeds from long-term borrowings		109,078	119,032
Repayment of long-term borrowings		(44,067)	(50,318)
Transaction costs directly attributable to the borrowings received		(2,342)	(1,074)
Dividends paid to Gazprom neft shareholders		(46,755)	(63,328)
Dividends paid to non-controlling interest		(3,372)	(3,248)
Acquisition of non-controlling interest in subsidiaries		(4,118)	(1,755)
Net cash provided by / (used in) financing activities		**10,573**	**(13,010)**
(Decrease) / increase in cash and cash equivalents		**(70,254)**	**8,001**
Effect of foreign exchange on cash and cash equivalents		32,344	3,877
Cash and cash equivalents as of the beginning of the period		**91,077**	**79,199**
Cash and cash equivalents as of the end of the period		**53,167**	**91,077**

The accompanying notes are an integral part of these Consolidated Financial Statements

1. General

Description of Business

JSC Gazprom neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. JSC Gazprom (“Gazprom”, that is a state controlled entity), the Group’s ultimate parent company, owns 95.68% shares in the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

Subsequent events occurring after December 31, 2014 were evaluated through February 27, 2015 the date these Consolidated Financial Statements were authorised for issue.

Basis of Measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SARs) are stated at fair value.

Foreign Currency Translation

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Ruble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of Consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement have the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

Business Combinations

The Group accounts for its business combinations according to IFRS 3 *Business Combinations*. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-Controlling Interest

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Changes in Ownership Interests in Subsidiaries without Change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of Subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisitions from Entities under Common Control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

Investments in Associates

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. 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 accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

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.

Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

Non-Derivative Financial Assets

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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 are designated 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. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

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. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and Receivables

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss. Unquoted equity instruments fair value of which cannot be measured reliably are carried at cost less any impairment losses.

Non-Derivative Financial Liabilities

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Derivative Financial Instruments

A substantial portion of the Group’s revenues are received in US Dollars. Additionally, a significant portion of the Group’s financing activities is also undertaken in US Dollars. However, the Group has also significant long-term debt in Russian Ruble. Accordingly, a change in the value of the US Dollar against the Russian Ruble will impact the Group’s operating results and cash flows. The Group's policy is to hedge anticipated cash flows from revenues received in USD up to the amount of expected redemption of loans denominated in Russian Roubles. These anticipated cash flows represent highly probable forecast transactions. For the purpose of managing its USD/Rouble foreign currency exposure, the Group enters into deliverable forward contracts to sell the notional amount of US Dollar matching the amount of loans due for redemption.

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

Hedge Accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument.

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge item is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is calculated on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Assets Classified as Held for Sale

Assets are classified in the Consolidated Statement of Financial Position as ‘assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period in which they were reclassified. These assets are measured at the lower of the carrying amounts and fair value less costs to sell. Assets classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Intangible Assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Goodwill is tested annually for impairment as well as when there are indicators of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

Intangible Asset Group	Average Life
Licenses and software	1-5 years
Land rights	25 years

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround do not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Advances made on property, plant and equipment and construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

Oil and Gas Properties

Exploration and Evaluation assets

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies, that are directly attributable to exploration activity;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a ‘field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised and treated as oil and gas assets within property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

Development Costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, Depletion and Amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves, respectively. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as other equipment. The assets are depreciated based on the straight-line method.

Capitalisation of Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) 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. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of Long-Lived Assets

The carrying amounts of the Group’s long-lived assets, other than goodwill, inventories, long-term financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment of Non-Derivative Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. 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.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning Obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and Production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, Marketing and Distribution: the Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period for the purposes other than to produce inventories during that period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income Taxes

Currently eight Group companies including JSC Gazprom neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 *Income Taxes*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. 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.

The Group controls the reversal of temporary differences on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Mineral Extraction Tax and Excise Duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Common Stock

Common stock represents the authorised capital of the Group, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders’ meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per Share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-Based Compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SARs in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and Other Benefit Obligations

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant post-retirement benefits or other significant compensated benefits requiring accrual.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of Revenues

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

Buy/Sell Transactions

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in crude oil transportation to the refinery costs and any negative difference is treated as an increase in crude oil transportation costs to the refinery.

Transportation Costs

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the Transneft pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Other comprehensive Income/Loss

All other comprehensive Income/Loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related deferred tax.

3. Critical Accounting Estimates, Assumptions and Judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ the judgements, estimates made by the management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rates, discount rates etc.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Joint Arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

4. Application of New IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after January 1, 2014:

- amendments regarding offsetting rules to IAS 32 Financial Instruments: Presentation,
- amendments in respect of investment entities to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other entities and IAS 27 Separate Financial Statements,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure,
- amendments to IAS 39 Financial Instruments: Recognition and Measurement regarding novation of derivatives and hedge accounting,
- IFRIC 21 – Levies,
- Annual improvements 2013.

The Group has initially applied amended standards and new IFRIC while preparing these Consolidated Financial Statements. It has no significant impact on the Group's Consolidated Financial Statements.

5. New Accounting Standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and that the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010, November 2013 and July 2014 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value (either through Profit and loss or through Other comprehensive income), and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.

- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliably measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment has no significant impact on Group's Consolidated Financial Statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and December 2014 and effective for annual periods beginning on or after January 1, 2016) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation. The December 2014 amendments was made to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains needs of the Group in disclosure preparation. The Standard also provides new guidance on subtotals in financial statements and add additional examples of possible ways of ordering the notes. The amendments also introduce a clarification that the list of line items to be presented in Statement of financial position, Statement of profit or loss and Other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The Group is currently assessing the impact of the initiative on its Consolidated Financial Statements.

6. Acquisition of Subsidiaries and Non-controlling Interest

<u>Acquisition of LLC Gazprom neft shelf</u>

On May 22, 2014 the Group acquired 100% share of LLC Gazprom neft shelf from JSC Gazprom for RUB 2.7 billion. The acquired company holds exploration and production licenses for Prirazlomnoye oil field. As of the acquisition date LLC Gazprom neft shelf had 18.31% share in joint operation with JSC Gazprom. The arrangement was designed for joint exploration and production on Prirazlomnoye oil field located in the Russian Federation. According to the agreement each partner was assigned for the respective share in profit. The share of the Group in joint arrangement with Gazprom was considered to be joint operation under IFRS 11 Joint Arrangements as decisions abount relevant activities required the unanimous consent of both participants. The joint operation was not structured as a separate legal entity.

After acquisition of share in LLC Gazprom neft shelf the Group made additional contribution to joint operation with JSC Gazprom of RUB 4.9 billion that increased the Group's share up to 21.64%.

On October 31, 2014 JSC Gazprom made a decision to fully withdraw from the joint operation. All assets owned by the joint operation were transferred to LLC Gazprom neft shelf while JSC Gazprom will be compensated for its share in assets.

Transactions occurring on May 22, 2014 and October 31, 2014 were treated as common control transactions and accounted for using predecessor accounting method. The difference between net assets acquired on October 31, 2014 of RUB 86.9 billion and the consideration being the discounted value of the obligation of RUB 53.7 billion (included in *Other non-current financial liabilities*) was accounted for as increase in additional-paid-in-capital for the period ended December 31, 2014.

Notes to the Consolidated Financial Statements Currency – RUB millions

The following table presents information of LLC Gazprom neft shelf as of acquisition date (including share in assets and liabilities of joint operation) and information of acquired share of 78.36% in joint operation as of the date of JSC Gazprom withdrawal:

	As of May 22, 2014	As of October 31, 2014
Assets		
Cash and cash equivalents	109	1,072
Trade and other receivables	768	465
Inventories	1,611	2,495
Other current assets	2,448	2,936
Property, plant and equipment	23,007	81,035
Other non-current assets	986	1,276
Total assets acquired	**28,929**	**89,279**
Liabilities and shareholders' equity		
Short-term debt and current portion of long-term debt	(15,297)	(115)
Trade and other payables	(2,973)	(589)
Taxes payable	(29)	(198)
Long-term debt	(5,894)	(113)
Deferred income tax liabilities	(746)	(451)
Provisions for liabilities and charges	-	(939)
Total liabilities assumed	**(24,939)**	**(2,405)**
Net assets acquired	3,990	86,874

Acquisition of Gazpromneft-Aero Sheremetyevo

In March 2014 the Group acquired 100% share in LLC Aero TO the only asset of which is 50% share in LLC Gazpromneft-Aero Sheremetyevo (Aero Sheremetyevo). This acquisition provided the Group with effective control over Aero Sheremetyevo having increased its effective interest from 50% to 100%. The main businesses of Aero Sheremetyevo are retail jet fuel and integrated services for aircraft fuel and lubricant supply. The Group remeasured its previously held interest in Aero-Sheremetyevo to fair value resulting in a gain of RUB 3.4 billion recognised under *Other loss, net* line in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Notes to the Consolidated Financial Statements Currency – RUB millions

The following table summarises fair value of the assets and liabilities acquired:

	As of the acquisition date
Assets	
Cash and cash equivalents	189
Trade and other receivables	669
Inventories	530
Other current assets	528
Property, plant and equipment	1,882
Intangible assets	7,266
Other non-current assets	46
Total assets acquired	**11,110**
Liabilities and shareholders' equity	
Trade and other payables	(654)
Taxes payable	(21)
Other current liabilities	(147)
Long-term debt	(1,011)
Deferred income tax liabilities	(1,552)
Total liabilities assumed	**(3,385)**
Total identifiable assets acquired and liabilities assumed	**7,725**
Cash consideration	3,926
Fair value of the Group's investment in Aero-Sheremetyevo held before the business combination	4,110
Total	8,036
Goodwill	311

<u>Acquisition of Non-controlling Interest in Subsidiaries</u>

In 2014 the Group has accounted for the acquisition of the additional interest in several subsidiaries in the amount of RUB 4.1 billion. As a result of these transactions the Group decreased additional paid-in-capital by RUB 2.9 billion for the period ended December 31, 2014. This amount represents the excess of consideration paid over the carrying value of the non-controlling interests acquired of RUB 1.2 billion.

In 2013 the Group has accounted for the acquisition of the additional interest in several subsidiaries in the amount of RUB 1.2 billion. As a result of these transactions the Group increased additional paid-in-capital by RUB 3.2 billion for the period ended December 31, 2013. This amount represents the excess of the carrying value of the non-controlling interests acquired of RUB 4.4 billion over the consideration paid.

7. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Cash on hand	791	504
Cash in bank	41,106	21,034
Deposits with original maturity of less than three months	8,928	66,463
Cash equivalents	2,342	3,076
Total cash and cash equivalents	**53,167**	**91,077**

Notes to the Consolidated Financial Statements Currency – RUB millions

8. Short-term Financial Assets

Short-term financial assets as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Deposits with original maturity more than 3 months less than 1 year	76,658	36,869
Short-term loans issued	2,184	18,991
Forward contracts - cash flow hedge	-	10
Financial assets held to maturity	2	-
Total short-term financial assets	**78,844**	**55,870**

9. Trade and Other Receivables

Trade and other receivables as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Trade receivables	108,447	94,860
Other financial receivables	7,543	1,479
Less impairment provision	(12,976)	(8,991)
Total trade and other receivables	**103,014**	**87,348**

Trade receivables represent amounts due from customers in the ordinary course of business and are short-term by nature.

10. Inventories

Inventories as of as of December 31, 2014 and 2013 consist of the following:

	December 31, 2014	December 31, 2013
Crude oil and gas	22,619	20,328
Petroleum products and petrochemicals	41,787	44,836
Materials and supplies	34,422	21,280
Other	7,243	6,359
Less inventory provision	(3,413)	(2,580)
Total inventory	**102,658**	**90,223**

As part of the management of crude inventory the Group may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy / sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken for the period ended December 31 is as follows:

	2014	2013
Buy / sell crude oil transactions for the period ended December 31	41,450	64,281

Notes to the Consolidated Financial Statements Currency – RUB millions

11. Other Current Assets

Other current assets as of December 31, 2014 and 2013 consist of the following:

	December 31, 2014	December 31, 2013
Prepaid custom duties	18,178	22,530
Advances paid	39,782	31,618
Prepaid expenses	594	311
Value added tax receivable	42,281	35,223
Other assets	32,043	21,661
Less impairment provision	(16,951)	(10,461)
Total other current assets	**115,927**	**100,882**

The impairment provision mainly relates to other assets represented by other receivables of Group's Serbian subsidiary.

12. Property, Plant and Equipment

Movement in property, plant and equipment for the periods ended December 31, 2014 and 2013 is below:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
Cost						
As of January 1, 2014	**865,828**	**217,000**	**102,443**	**10,706**	**60,271**	**1,256,248**
Additions	206,799	843	279	4,100	48,950	260,971
Acquisitions through business combinations and increase of share in joint operations	106,025	-	1,823	25	634	108,507
Changes in decommissioning obligations	757	-	-	-	-	757
Capitalised borrowing costs	8,405	-	-	-	2,193	10,598
Transfers	-	26,850	14,386	1,987	(43,223)	-
Internal movement	2,878	(1,630)	(1,885)	(26)	29	(634)
Disposals	(9,633)	(1,148)	(1,724)	(201)	(1,293)	(13,999)
Translation differences	116,408	18,246	19,608	(64)	3,382	157,580
As of December 31, 2014	**1,297,467**	**260,161**	**134,930**	**16,527**	**70,943**	**1,780,028**
Depreciation and impairment						
As of January 1, 2014	**(281,435)**	**(56,211)**	**(21,829)**	**(1,230)**	**-**	**(360,705)**
Depreciation charge	(63,405)	(9,163)	(8,866)	(735)	-	(82,169)
Impairment	(4,116)	-	-	-	-	(4,116)
Acquisitions through business combinations and increase of share in joint operations	(1,990)	-	-	-	-	(1,990)
Internal movement	(88)	(370)	1,066	26	-	634
Disposals	3,453	488	944	55	-	4,940
Translation differences	(35,787)	(3,094)	(3,908)	(33)	-	(42,822)
As of December 31, 2014	**(383,368)**	**(68,350)**	**(32,593)**	**(1,917)**	**-**	**(486,228)**
Net book value						
As of January 1, 2014	**584,393**	**160,789**	**80,614**	**9,476**	**60,271**	**895,543**
As of December 31, 2014	**914,099**	**191,811**	**102,337**	**14,610**	**70,943**	**1,293,800**

Currency – RUB millions

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
Cost						
As of January 1, 2013	**709,528**	**183,290**	**84,292**	**7,757**	**59,278**	**1,044,145**
Additions	141,463	1,256	105	1,542	50,875	195,241
Acquisitions through business combinations	35	740	1,619	2,033	122	4,549
Changes in decommissioning obligations	2,538	-	-	-	-	2,538
Capitalised borrowing costs	1,671	166	-	-	373	2,210
Transfers	-	28,397	19,006	1,574	(48,977)	-
Internal movement	5,249	(122)	(2,232)	(1,529)	(1,366)	-
Reclassification from assets classified as held for sale	1,217	-	-	-	-	1,217
Disposals	(6,973)	(695)	(3,537)	(816)	(691)	(12,712)
Translation differences	11,100	3,968	3,190	145	657	19,060
As of December 31, 2013	**865,828**	**217,000**	**102,443**	**10,706**	**60,271**	**1,256,248**
Depreciation and impairment						
As of January 1, 2013	**(221,754)**	**(48,021)**	**(15,604)**	**(554)**	**-**	**(285,933)**
Depreciation charge	(58,409)	(7,840)	(7,503)	(773)	-	(74,525)
Internal movement	(991)	1	783	207	-	-
Reclassification from assets classified as held for sale	(1,017)	-	-	-	-	(1,017)
Disposals	3,895	112	950	13	-	4,970
Translation differences	(3,159)	(463)	(455)	(123)	-	(4,200)
As of December 31, 2013	**(281,435)**	**(56,211)**	**(21,829)**	**(1,230)**	**-**	**(360,705)**
Net book value						
As of January 1, 2013	**487,774**	**135,269**	**68,688**	**7,203**	**59,278**	**758,212**
As of December 31, 2013	**584,393**	**160,789**	**80,614**	**9,476**	**60,271**	**895,543**

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment comprised of 8.72% for the period ended December 31, 2014 (2013: 3.99%).

The information regarding Group's exploration and evaluation assets (part of O&G properties) are presented below:

	2014	2013
As of January 1	53,514	31,709
Additions	35,361	23,605
Acquisitions through business combinations and increase of share in joint operations	24,495	-
Impairment	(4,116)	-
Unsuccessful exploration expenditures derecognised	(810)	(975)
Transfer to proved property	(66,573)	(1,253)
Disposals	(183)	(1,637)
Translation differences	33,606	2,065
As of December 31	**75,294**	**53,514**

Notes to the Consolidated Financial Statements Currency – RUB millions

13. Goodwill and Other Intangible Assets

The information regarding movements in Group's intangible assets is presented below:

Cost	Goodwill	Licenses	Software	Land rights	Other IA	Total
As of January 1, 2014	**27,972**	**1,160**	**14,617**	**17,108**	**4,540**	**65,397**
Additions	44	88	3,736	346	1,607	5,821
Acquisitions through business combinations	311	-	13	-	7,267	7,591
Internal movement	72	743	(185)	25	(653)	2
Disposals	-	(261)	(579)	-	(136)	(976)
Translation differences	5,236	-	1,725	34	526	7,521
As of December 31, 2014	**33,635**	**1,730**	**19,327**	**17,513**	**13,151**	**85,356**
Amortisation and impairment						
As of January 1, 2014	**-**	**(744)**	**(5,382)**	**(3,143)**	**(742)**	**(10,011)**
Amortisation charge	-	(82)	(2,002)	(685)	(708)	(3,477)
Impairment	(188)	-	-	-	-	(188)
Internal movement	-	(1)	(41)	-	40	(2)
Disposals	-	152	282	-	13	447
Translation differences	(8)	-	(635)	(1)	(241)	(885)
As of December 31, 2014	**(196)**	**(675)**	**(7,778)**	**(3,829)**	**(1,638)**	**(14,116)**
Net book value						
As of January 1, 2014	**27,972**	**416**	**9,235**	**13,965**	**3,798**	**55,386**
As of December 31, 2014	**33,439**	**1,055**	**11,549**	**13,684**	**11,513**	**71,240**

Cost	Goodwill	Licenses	Software	Land rights	Other IA	Total
As of January 1, 2013	**25,945**	**1,381**	**10,853**	**17,072**	**2,133**	**57,384**
Additions	-	63	3,687	36	912	4,698
Acquisitions through business combinations	776	-	30	-	1,727	2,533
Internal movement	(2)	(138)	429	-	48	337
Disposals	(41)	(146)	(684)	-	(370)	(1,241)
Translation differences	1,294	-	302	-	90	1,686
As of December 31, 2013	**27,972**	**1,160**	**14,617**	**17,108**	**4,540**	**65,397**
Amortisation and impairment						
As of January 1, 2013	**-**	**(640)**	**(3,722)**	**(2,472)**	**(672)**	**(7,506)**
Amortisation charge	-	(189)	(1,246)	(671)	(154)	(2,260)
Internal movement	-	(3)	(436)	-	102	(337)
Disposals	-	88	68	-	34	190
Translation differences	-	-	(46)	-	(52)	(98)
As of December 31, 2013	**-**	**(744)**	**(5,382)**	**(3,143)**	**(742)**	**(10,011)**
Net book value						
As of January 1, 2013	**25,945**	**741**	**7,131**	**14,600**	**1,461**	**49,878**
As of December 31, 2013	**27,972**	**416**	**9,235**	**13,965**	**3,798**	**55,386**

Goodwill acquired through business combination has been allocated to Upstream and Downstream (as of December 31, 2014 RUB 26.5 billion and RUB 6.9 billion, and as of December 31, 2013 RUB 21.4 and RUB 6.6 respectively) related groups of cash generating units.

Currency – RUB millions

14. Investments in Associates and Joint Ventures

The carrying value of the investments in associates and joint ventures as of December 31, 2014 and 2013 is summarised below:

		Ownership percentage	December 31, 2014	December 31, 2013
Slavneft	Joint venture	49.9	74,177	85,015
SeverEnergy	Joint venture	45.1	60,215	24,165
Others			16,335	11,178
Total investments			150,727	120,358

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation. The reconciliation of carrying amount of investments in associates and joint ventures as of the beginning of the reporting period and as of the end of the reporting period is shown below:

	2014	2013
Carrying amount as of January 1	120,358	105,643
Share of (loss) / profit of associates and joint ventures	(6,306)	11,251
Dividends declared	(7,453)	(4,405)
Increase in associates and joint ventures	44,526	7,858
Other changes in cost of associates and joint ventures	(398)	11
Carrying amount as of December 31	150,727	120,358

The total amount of dividends received from associates in 2013 equals to RUB 578 million. The total amount of dividends received from joint ventures in 2014 equals to RUB 7,453 million (2013: RUB 3,827 million).

Slavneft

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of legal entities. Slavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and Rosneft.

SeverEnergy

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie, a 50%:50% joint venture between the Group and JSC Novatek) owning initially a 51% equity interest in SeverEnergy. In December 2013 and March 2014 Yamal Razvitie acquired 60% interest and 20% interest, respectively, in Artic Russia B.V. owning 49% stake in SeverEnergy. As a result Yamal Razvitie LLC owns 90.2% share in SeverEnergy LLC. The effective share of the Group in SeverEnergy increased from 25.5% to 40.2% and 45.1% respectively. SeverEnergy is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The Group and Novatek negotiated a series of linked transactions that aim to simplify ownership structure and achieve parity shareholdings in SeverEnergy upon completion. The Group provided several long-term loans to Yamal Razvitie of which Yamal Razvitie financed RUB 34.9 billion on acquisition of additional 20% share in Artic Russia B.V. The loans will form the Group's contribution in equity of Yamal Razvitie upon completion of the restructuring of the joint venture. The carrying amount of the Group's investment exceeds the Group's share in the underlying net assets of SeverEnergy by RUB 19.8 billion as of December 31, 2014 due to complex holding structure, current financing scheme and goodwill arising on acquisition.

Notes to the Consolidated Financial Statements Currency – RUB millions

The summarised financial information for the significant joint ventures as of December 31, 2014 and 2013 and for the period ended December 31, 2014 and 2013 is presented in the table below. The summarised financial information refers to the amounts included in the IFRS financial statements of the joint ventures. Summarised financial information on SeverEnergy includes assets and liabilities of Yamal Razvitie LLC as holding company. Other change of net assets of SeverEnergy relates to fair value adjustments on acquisition of additional share in March 2014.

	Slavneft		**SeverEnergy**	
	December 31, 2014	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Cash and cash equivalents	13,709	28,208	698	3,321
Other current assets	17,568	18,630	9,413	11,585
Non-current assets	269,667	235,420	369,502	309,204
Current financial liabilities	(68,967)	(43,758)	(112,478)	(123,167)
Other current liabilities	(20,109)	(20,617)	(2,289)	(486)
Non-current financial liabilities	(46,592)	(33,271)	(126,172)	(78,232)
Other non-current liabilities	(24,973)	(23,816)	(49,065)	(44,045)
Net assets	**140,303**	**160,796**	**89,609**	**78,179**

	Year ended December 31, 2014	**Year ended December 31, 2013**	**Year ended December 31, 2014**	**Year ended December 31, 2013**
Revenue	197,453	193,038	32,110	15,832
Depreciation, depletion and amortisation	(30,637)	(26,024)	(5,966)	(6,782)
Finance income	1,472	1,623	75	57
Finance expense	(1,530)	(1,478)	(14,263)	(3,300)
Total income tax benefit / (expense)	1,999	(4,731)	1,152	(774)
(Loss) / profit for the period	(10,282)	17,085	(4,341)	(501)
Total comprehensive (loss) / income	(9,876)	17,085	(4,341)	(501)

Current and non-current financial liabilities of SeverEnergy include RUB 130 billion Yamal Razvitie payables to Sberbank and the Group under the loan agreements.

As of December 31, 2014 the Group has contingent liabilities and commitments in relation to its associates and joint ventures in amount of RUB 22.5 billion (2013: RUB 13.1 billion).

Others

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group’s share of those joint ventures’ and associates’ profit or loss and other comprehensive income are not significant.

Other investments include effective 9.1% share in CJSC Northgas (Northgas), where the Group has a significant influence due to presence in the Board of Directors. On July 1, 2014 the Group acquired 18.2% share in LLC Gazprom Resource Northgas from Gazprombank for consideration of RUB 8.6 billion providing the Group with significant influence. LLC Gazprom Resource Northgas owns 50% share in Northgas.

In May 2014 LLC Sibgazpolimer (a 50%:50% joint venture between the Group and JSC Sibur Holding) acquired 50% in LLC Omskiy zavod polipropilena (Poliom). As a result of the transaction the Group has 25% effective share in Poliom. Main activity of Poliom is production of polypropylene.

Notes to the Consolidated Financial Statements Currency – RUB millions

15. Joint Operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development (SPD) as Joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partner).

16. Long-term Financial Assets

Long-term financial assets as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Long-term loans issued	28,229	15,335
Forward contracts - cash flow hedge	-	283
Financial assets held to maturity	112	-
Available for sale financial assets	10,266	7,478
Less impairment provision	(976)	(690)
Total long-term financial assets	**37,631**	**22,406**

17. Deferred Income Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
As of December 31, 2014			
Property, plant and equipment	8,612	(72,655)	(64,043)
Intangible assets	7	(4,144)	(4,137)
Investments	2,220	(505)	1,715
Inventories	342	(858)	(516)
Trade and other receivables	428	(98)	330
Loans and borrowings	-	(1,132)	(1,132)
Provisions	3,029	(40)	2,989
Tax loss carry-forwards	13,958	-	13,958
Other	2,864	(1,600)	1,264
Tax assets / (liabilities)	**31,460**	**(81,032)**	**(49,572)**
As of December 31, 2013			
Property, plant and equipment	4,847	(53,461)	(48,614)
Intangible assets	14	(2,889)	(2,875)
Investments	1,863	(505)	1,358
Inventories	324	(757)	(433)
Trade and other receivables	313	(27)	286
Loans and borrowings	-	(545)	(545)
Provisions	2,911	-	2,911
Tax loss carry-forwards	6,062	-	6,062
Other	2,174	(1,545)	629
Tax assets / (liabilities)	**18,508**	**(59,729)**	**(41,221)**

Notes to the Consolidated Financial Statements Currency – RUB millions

Movement in temporary differences during the period:

	As of January 1, 2014	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of December 31, 2014
Property, plant and equipment	(48,614)	(9,774)	(4,785)	(870)	(64,043)
Intangible assets	(2,875)	191	-	(1,453)	(4,137)
Investments	1,358	195	162	-	1,715
Inventories	(433)	(83)	-	-	(516)
Trade and other receivables	286	(86)	130	-	330
Loans and borrowings	(545)	(490)	(97)	-	(1,132)
Provisions	2,911	38	40	-	2,989
Tax loss carry-forwards	6,062	7,821	71	4	13,958
Other	629	492	149	(6)	1,264
	(41,221)	**(1,696)**	**(4,330)**	**(2,325)**	**(49,572)**

	As of January 1, 2013	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of December 31, 2013
Property, plant and equipment	(40,362)	(7,094)	(806)	(352)	(48,614)
Intangible assets	(3,153)	278	-	-	(2,875)
Investments	1,779	(794)	373	-	1,358
Inventories	275	(703)	(5)	-	(433)
Trade and other receivables	1,113	(860)	33	-	286
Loans and borrowings	(170)	(365)	(10)	-	(545)
Provisions	3,291	(391)	11	-	2,911
Tax loss carry-forwards	686	5,371	-	5	6,062
Other	301	121	207	-	629
	(36,240)	**(4,437)**	**(197)**	**(347)**	**(41,221)**

18. Other Non-Current Assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 38,400 million and RUB 15,867 million as of December 31, 2014 and 2013, respectively).

19. Short-term Debt and Current Portion of Long-term Debt

As of December 31, 2014 and 2013 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	December 31, 2014	December 31, 2013
Bank loans	4,875	119
Other borrowings	14,251	17,706
Current portion of long-term debt	41,995	34,588
Total short-term debt and current portion of long-term debt	**61,121**	**52,413**

Current portion includes interest payable on long-term borrowings.

Currency – RUB millions

20. Trade and Other Payables

Accounts payable as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Trade accounts payable	65,624	61,003
Dividends payable	2,509	1,943
Other accounts payable	5,762	3,999
Other current financial liabilities	9,922	1,090
Total trade and other payables	**83,817**	**68,035**

21. Other Current Liabilities

Other current liabilities as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Advances received	28,863	16,607
Payables to employees	2,180	1,844
Other non-financial payables	9,878	8,199
Total other current liabilities	**40,921**	**26,650**

22. Other Taxes Payable

Other taxes payable as of December 31, 2014 and 2013 comprise the following:

	December 31, 2014	December 31, 2013
Mineral extraction tax	16,270	19,608
VAT	12,933	15,649
Excise tax	9,276	5,826
Property tax	2,389	2,425
Other taxes	4,920	3,275
Total other taxes payable	**45,788**	**46,783**

Taxes other than income tax expense for the period ended December 31, 2014 and 2013 comprise the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Mineral extraction tax	236,027	214,023
Property tax	9,477	7,938
Excise tax	84,184	77,701
Other taxes	13,888	16,408
Total taxes other than income tax	**343,576**	**316,070**

Notes to the Consolidated Financial Statements Currency – RUB millions

23. Provisions for Liabilities and Charges

Movement in Provisions for liabilities and charges for the period ended December 31, 2014 and 2013 is below:

	Decommissioning provision	Other	Total
Carrying amount as of January 1, 2013	**20,447**	**10,749**	**31,196**
Short-term part	*34*	*7,267*	*7,301*
Long-term part	*20,413*	*3,482*	*23,895*
New obligation incurred	2,872	2,200	5,072
Provision assumed in a business combination	-	22	22
Utilisation and other changes of provision	(3,933)	1,050	(2,883)
Change in estimates	(334)	687	353
Unwind of discount	1,396	-	1,396
Translation differences	325	558	883
Carrying amount as of December 31, 2013	**20,773**	**15,266**	**36,039**
Short-term part	*33*	*10,125*	*10,158*
Long-term part	*20,740*	*5,141*	*25,881*
New obligation incurred	1,596	657	2,253
Provision assumed in a business combination	-	420	420
Utilisation and other changes of provision	(1,963)	(778)	(2,741)
Change in estimates	(839)	3,260	2,421
Unwind of discount	1,422	-	1,422
Translation differences	2,467	2,159	4,626
Carrying amount as of December 31, 2014	**23,456**	**20,984**	**44,440**
Short-term part	168	18,396	18,564
Long-term part	23,288	2,588	25,876

24. Long-term Debt

As of December 31, 2014 and 2013 the Group has long-term outstanding loans as follows:

	December 31, 2014	December 31, 2013
Bank loans	258,087	98,397
Bonds	61,609	61,583
Loan Participation Notes	221,107	132,534
Other borrowings	3,498	3,529
less current portion of debt	(41,995)	(34,588)
Total long-term debt	**502,306**	**261,455**

In September 2014 the Group signed an agreement to obtain a long-term loan facility from JSC Rosselkhozbank in the amount of RUB 30 billion at an interest rate of 11.9% due in 2019. In September 2014 the Group obtained RUB 10 billion under this agreement.

In September 2014 the Group singed agreements to obtain long-term loans facilities from JSC Sberbank of Russia in the amount of RUB 22.5 billion and RUB 12.5 billion at interest rates of 11.98% and 12.08%, respectively, due in 2019. In October 2014 the Group obtained RUB 10 billion under one of the agreements.

In March 2014 the Group drew down USD 2,150 million (RUB 78,774 million) club term facility from a group of international banks with a final maturity date falling five years from the date of the first utilisation and two-year grace period. The interest rate under the facility is LIBOR plus 1.50% per annum.

In March 2014 the Group early repaid amount outstanding under the five-year Pre-Export Finance Facility for USD 731 million (RUB 26,514 million). The facility was obtained in August 2010 and bore interest rate of LIBOR plus 1.6% per annum.

The loan agreements contain financial covenants that require the Group's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. The Group is in compliance with these covenants as of December 31, 2014 and 2013.

25. Other Non-current Financial Liabilities

Other non-current financial liabilities as of December 31, 2014 are primarily comprised of RUB 53.7 billion of deferred consideration to JSC Gazprom (see note 6) and of RUB 48.4 billion of cash flow hedge under forward contracts (RUB 3.1 billion as of December 31, 2013). The discounted liability is non-interest bearing and the timing of the redemption will occur from the future free cash flows of the Prirazlomnoye project, estimated repayment until the 2020 year.

26. Share Capital

Share capital as of December 31, 2014 and 2013 comprise of the following:

	Ordinary shares		Treasury shares	
	December 31, 2014	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
On issue as of December 31, fully paid (RUB million)	**8**	**8**	**(1,170)**	**(1,170)**

The nominal value of share capital differs from its carrying value due to effect of the inflation.

On September 30, 2014 the general shareholders' meeting of JSC Gazprom neft approved interim dividend on the ordinary shares for the six months ended June 30, 2014 in amount of RUB 4.62 per share.

On June 6, 2014 the annual general shareholders' meeting of JSC Gazprom neft approved dividend on the ordinary shares for 2013 in amount of RUB 9.38 per share including amount of interim dividends for the six months ended June 30, 2013 of RUB 4.09 per share approved on September 30, 2013.

On June 7, 2013 the annual general shareholders' meeting of JSC Gazprom neft approved dividend on the ordinary shares for 2012 in amount of RUB 9.3 per share.

27. Personnel Costs

Personnel costs for the period ended December 31, 2014 and 2013 comprise of the following:

	Year ended December 31, 2014	**Year ended December 31, 2013**
Wages and salaries	56,006	47,029
Stock appreciation rights (SAR)	594	519
Other costs	3,655	5,487
Total employee costs	**60,255**	**53,035**
Social security contributions (social taxes)	11,886	10,633
Total employee costs (with social taxes)	**72,141**	**63,668**

Currency – RUB millions

28. Other Loss, Net

Other losses for the period ended December 31, 2014 and 2013 comprise of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Penalties	(1,826)	(442)
Provisions (legal, environmental, etc.)	(1,460)	(1,671)
Impairment	(4,116)	-
Other	(1,069)	(4,197)
Total other expense	**(8,471)**	**(6,310)**

29. Net Foreign Exchange Loss

Net foreign exchange loss for the periods ended December 31, 2014 and 2013 comprise of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Net foreign exchange loss on financing activities, including:	**(122,299)**	**(9,803)**
foreign exchange gain	74,755	3,810
foreign exchange loss	(197,054)	(13,613)
Net foreign exchange gain on operating activities	70,034	7,637
Net foreign exchange loss	**(52,265)**	**(2,166)**

The exchange losses in the amount of RUB 4.8 billion arising from foreign currency borrowings were capitalised as borrowing costs to the extent that they are regarded as an adjustment to interest costs.

Net foreign exchange gain on operating activities does not include significant amount of losses for the periods ended December 31, 2014.

30. Finance Income

Finance income for the period ended December 31, 2014 and 2013 comprise of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Interest income on cash and cash equivalents	1,550	862
Interest on bank deposits	2,346	3,271
Interest income on loans issued	3,170	1,771
Other financial income	9	107
Total finance income	**7,075**	**6,011**

31. Finance Expense

Finance expense for the period ended December 31, 2014 and 2013 comprise of the following:

	Year ended December 31, 2014	Year ended December 31, 2013
Interest expense	19,661	12,047
Decommissioning provision: unwinding of the present value discount	1,422	1,396
Less: capitalised interest	(5,804)	(2,210)
Total finance expense	**15,279**	**11,233**

32. Income Tax Expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended December 31, 2014	Year ended December 31, 2013
Current income tax expense		
Current year	15,879	36,581
Adjustment for prior years	1,639	(1,758)
	17,518	**34,823**
Deferred tax expense		
Origination and reversal of temporary differences	1,769	5,777
Change in tax rate	(73)	(1,340)
	1,696	**4,437**
Total income tax expense	**19,214**	**39,260**
Share of tax of associates and joint ventures	(1,070)	2,556
Total income tax expense including share of tax of associates and joint ventures	**18,144**	**41,816**

Reconciliation of effective tax rate:

	Year ended December 31, 2014		Year ended December 31, 2013	
	RUB million	**%**	**RUB million**	**%**
Total income tax expense	**18,144**	12.5	**41,816**	18.5
Profit before income tax excluding share of of profit associates and joint ventures	152,176		214,729	
Profit before income tax of associates and joint ventures	(7,267)		10,806	
Profit before income tax	**144,909**		**225,535**	
Tax at applicable domestic tax rate (20%)	28,982	20.0	45,107	20.0
Effect of tax rates in foreign jurisdictions	(659)	(0.5)	(1,596)	(0.7)
Difference in statutory tax rate in domestic entities	(1,894)	(1.3)	(2,009)	(0.9)
Non-deductible income and expenses	(3,034)	(2.1)	3,737	1.7
Adjustment for prior years	(2,146)	(1.5)	(1,758)	(0.8)
Change in tax rate	(73)	(0.1)	(1,340)	(0.6)
Foreign exchange income/losses	(3,032)	(2.1)	(325)	(0.1)
Total income tax expense	**18,144**	12.5	**41,816**	18.5

33. Cash Flow Hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of December 31, 2014					
Forward exchange contracts					
Liabilities	(58,312)	(8,576)	(1,345)	(28,433)	(19,958)
Total	**(58,312)**	**(8,576)**	**(1,345)**	**(28,433)**	**(19,958)**
As of December 31, 2013					
Forward exchange contracts					
Assets	293	9	1	1	282
Liabilities	(3,177)	(17)	(29)	(890)	(2,241)
Total	**(2,884)**	**(8)**	**(28)**	**(889)**	**(1,959)**

As of December 31, 2014 and 2013 the Group has outstanding forward currency exchange contracts for a total notional value of US$ 1,642 million and US$ 1,769 million respectively. During the period ended December 31, 2014 the amount of RUB 827 million was reclassified from equity to a gain in the statement of income (for the period ended December 31, 2013 RUB 376 million was reclassified to a gain in the statement of income).

The Group uses estimation of fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

34. Financial Risk Management

Risk Management Framework

Gazprom neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Market Risk

Currency Risk

The Group is exposed to currency risk primarily on sales and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the group companies, for instance the Russian Ruble for companies operating in Russia. The currency in which these transactions are denominated is mainly US Dollar.

Notes to the Consolidated Financial Statements Currency – RUB millions

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: significant share of the Group's borrowings is US dollars. The currency structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. A balanced structure of currency assets and liabilities minimises the impact of currency risk factors on the Group's financial and business performance.

Furthermore, the Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

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

As of December 31, 2014

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Current					
Cash and cash equivalents	17,543	21,780	4,661	2,058	7,125
Bank deposits	630	66,558	1,146	-	8,324
Loans issued	2,162	22	-	-	-
Trade and other financial receivables	39,287	33,673	1,988	26,789	1,277
Non-current					
Trade and other financial receivables	265	-	-	-	-
Loans issued	25,680	2,544	5	-	-
Held to maturity financial assets	-	109	-	-	-
Available for sale financial assets	9,276	-	-	14	-
Financial liabilities					
Current					
Short-term debt	(25,918)	(30,211)	(4,980)	-	(12)
Trade and other financial payables	(46,170)	(17,195)	(1,442)	(7,198)	(1,891)
Forward exchange contracts	-	(9,921)	-	-	-
Payables and accruals to employees	(11,179)	(224)	(12)	(1,969)	(336)
Non-current	-	-	-	-	-
Long-term debt	(69,858)	(365,559)	(66,613)	(1)	(275)
Forward exchange contracts	-	(48,391)	-	-	-
Other non-current financial liabilities	(57,553)	-	-	-	-
Payables and accruals to employees	(7)	-	-	-	-
Net exposure	(115,842)	(346,815)	(65,247)	19,693	14,212

Notes to the Consolidated Financial Statements Currency – RUB millions

As of December 31, 2013

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Current					
Cash and cash equivalents	46,635	38,365	3,195	1,216	1,666
Bank deposits	10,804	25,031	794	-	240
Loans issued	18,434	556	-	1	-
Forward exchange contracts	-	10	-	-	-
Trade and other financial receivables	32,897	32,939	580	20,232	700
Non-current					
Trade and other financial receivables	106	-	-	-	-
Loans issued	15,287	48	-	-	-
Forward exchange contracts	-	283	-	-	-
Available for sale financial assets	6,009	-	-	779	-
Financial liabilities					
Current					
Short-term debt	(19,002)	(29,871)	(3,305)	(228)	(7)
Trade and other financial payables	(36,555)	(23,889)	(546)	(5,649)	(1,350)
Forward exchange contracts	-	(46)	-	-	-
Payables and accruals to employees	(7,294)	(213)	(4)	(964)	(198)
Non-current					
Long-term debt	(61,034)	(155,452)	(44,799)	(1)	(169)
Forward exchange contracts	-	(3,131)	-	-	-
Other non-current financial liabilities	(3,897)	-	-	-	-
Payables and accruals to employees	(1,982)	-	-	-	(42)
Net exposure	408	(115,370)	(44,085)	15,386	840

The following exchange rates applied during the period:

	Average rate		**Reporting date spot rate**	
	Year ended December 31, 2014	**Year ended December 31, 2013**	**December 31, 2014**	**December 31, 2013**
USD 1	38.42	31.85	56.26	32.73
EUR 1	50.82	42.31	68.34	44.97
RSD 1	0.43	0.37	0.57	0.39

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain/loss from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis showed in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

Notes to the Consolidated Financial Statements Currency – RUB millions

	Weakening of RUB	
	Equity	**Profit or loss**
December 31, 2014		
USD/RUB (70% increase)	(24,159)	(225,022)
EUR/RUB (70% increase)	149	(46,606)
RSD/RUB (70% increase)	61,837	-
December 31, 2013		
USD/RUB (10% increase)	(3,834)	(12,680)
EUR/RUB (10% increase)	21	(4,434)
RSD/RUB (10% increase)	8,030	-

Decrease in the exchange rates will have the same in the amount, but the opposite effect on Equity and Profit and loss of the Group.

Interest Rate Risk

The significant part of the Group's borrowings is at variable interest rates (linked to the LIBOR or EURIBOR rate). To mitigate the risk of unfavourable changes in the LIBOR or EURIBOR rates, the Group's treasury function monitors interest rate in debt markets and based on it decides whether it is necessary to hedge interest rate or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favourable over the expected period until maturity.

The interest rate profiles of the Group are presented below:

	Carrying amount	
	December 31, 2014	**December 31, 2013**
Fixed rate instruments		
Financial assets	160,238	162,272
Financial liabilities	(319,395)	(214,800)
	(159,157)	(52,528)
Variable rate instruments		
Financial liabilities	(244,032)	(99,068)
	(244,032)	(99,068)

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit or loss
December 31, 2014	
Increase by 100 bp	(2,440)
December 31, 2013	
Increase by 100 bp	(991)

Notes to the Consolidated Financial Statements Currency – RUB millions

Decrease by 100 bp in the interest rates will have the same in the amount, but the opposite effect on Profit and loss of the Group.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Credit Risk

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 in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual lending limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

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

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Any excess of receivables over approved credit limit is secured by either letter of credit from bank with external credit rating not less than A or advance payment. Management believes that not impaired trade receivables are fully recoverable.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Impairment losses

As of December 31, 2014 and 2013, the analysis of financial receivables is as follows:

	Gross December 31, 2014	**Impairment December 31, 2014**	**Gross December 31, 2013**	**Impairment December 31, 2013**
Not past due	87,434	(88)	76,049	(15)
Past due 0- 180 days	9,291	(93)	6,047	(56)
Past due 180 - 365 days	799	(623)	1,822	(502)
Past due 1 - 3 year	11,075	(5,101)	7,588	(3,621)
Past due more than three years	7,656	(7,071)	4,939	(4,797)
	116,255	**(12,976)**	**96,445**	**(8,991)**

Notes to the Consolidated Financial Statements Currency – RUB millions

The movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	2014	**2013**
Balance at beginning of the year	8,991	8,189
Increase during the year	662	403
Amounts written off against receivables	104	48
Decrease due to reversal	(284)	(378)
Other movements	(239)	(149)
Translation differences	3,742	878
Balance at end of the year	**12,976**	**8,991**

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any held-to-maturity investments that were past due but not impaired at December 31, 2014 and 2013.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	A	**BBB**	**Less than BBB**	**Without rating**	**Total**
As of December 31, 2014					
Cash and cash equivalents	8,993	26,499	6,051	8,491	**50,034**
Deposits with original maturity more than 3 months less than 1 year	65,758	5,739	1,719	3,442	**76,658**
As of December 31, 2013					
Cash and cash equivalents	4,157	71,719	8,027	3,594	**87,497**
Derivative financial assets	151	4	61	77	**293**
Deposits with original maturity more than 3 months less than 1 year	-	33,211	1,399	2,259	**36,869**

The credit quality of trade and other receivables is assessed regularly by the Management of the Group. For this purposes the customers are individually analysed based on the number of characteristics, such as:

- legal form of the entity;
- duration of relationships with the Group, including ageing profile, maturity and existence of any financial difficulties;
- whether the customer is a final customer or not, related party or not.

One of the major factors that is considered while taking decision is ageing profile. The most significant current customers do not have any breakage of payment history.

Currency – RUB millions

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure 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. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group's stable financial situation helps it to mobilise funds in Russian and foreign banks with comparative ease.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
As of December 31, 2014							
Bank loans	262,962	293,629	15,797	23,460	78,335	169,132	6,905
Bonds	61,609	70,129	12,452	2,031	23,212	32,434	-
Loan Participation Notes	221,107	295,615	5,880	2,532	6,566	80,530	200,107
Other borrowings	17,749	18,118	14,362	311	220	1,219	2,006
Other non-current financial liabilities	57,553	85,171	-	-	1,031	67,951	16,189
Trade and other payables	73,896	73,896	71,188	2,708	-	-	-
Payables and accruals to employees	13,727	13,727	13,720	-	7	-	-
	708,603	**850,285**	**133,399**	**31,042**	**109,371**	**351,266**	**225,207**
As of December 31, 2013							
Bank loans	98,516	104,339	9,014	23,556	27,158	38,833	5,778
Bonds	61,583	73,526	921	2,476	14,483	55,646	-
Loan Participation Notes	132,534	177,739	848	1,067	4,921	49,557	121,346
Other borrowings	21,235	22,638	17,706	2,114	1,098	444	1,276
Other non-current financial liabilities	3,897	4,123	-	-	1,031	3,092	-
Trade and other payables	67,989	67,989	66,381	1,608	-	-	-
Payables and accruals to employees	10,697	10,697	8,673	-	2,024	-	-
	396,451	**461,051**	**103,543**	**30,821**	**50,715**	**147,572**	**128,400**

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which include long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by average for the period figure of Capital Employed. Capital employed is defined as total equity plus net debt.

Notes to the Consolidated Financial Statements Currency – RUB millions

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Long-term debt	502,306	261,455
Short-term debt and current portion of long-term debt	61,121	52,413
Less: cash, cash equivalents and deposits	(129,825)	(127,946)
Net debt	433,602	185,922
Total EBITDA	300,761	316,463
Net debt to EBITDA ratio at the end of the reporting period	1.44	0.59
Operating profit	212,645	222,117
Operating profit adjusted for income tax expenses	185,796	181,506
Share of (loss) / profit of associates and joint ventures	(6,306)	11,251
Average capital employed	1,373,665	1,105,397
ROACE	13.07%	17.44%

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within 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).

The following assets and liabilities are measured at fair value in the Group's Consolidates Financial Statements:

- Derivative financial instruments (forward exchange contracts used as hedging instruments),
- Stock Appreciation Rights plan (SARs)
- Financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses.

Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). There were no transfers between the levels of the fair value hierarchy during the period ended December 31, 2014 and 2013. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of December 31, 2014 the fair value of bonds and loan participation notes is RUB 232,210 million (as of December 31, 2013 – RUB 189,693 million). The fair value is derived from quatations in active market and related to Level 1 of the fair value hierarchy. Carrying value of other financial assets and liabilities approximate their fair value.

Notes to the Consolidated Financial Statements Currency – RUB millions

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

	Level 2
As of December 31, 2014	
Forward exchange contracts	(58,312)
Other financial liabilities	(2,228)
Total liabilities	(60,540)
As of December 31, 2013	
Forward exchange contracts	293
Total assets	293
Forward exchange contracts	(3,177)
Other financial liabilities	(1,631)
Total liabilities	(4,808)

During 2010 the Board of Directors approved the implementation of a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareh older value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the three years vesting period. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognised is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period.

The following assumptions are used in the Black-Scholes-Merton model as of 2013:

	December 31, 2013
Volatility	3.70%
Risk-free interest rate	6.12%
Dividend yield	4.69%

As of December 31, 2014 no assumption required to be made by the Group as SAR accrual based on actual calculation is accounted for in these Consolidated Financial Statements.

In the consolidated statement of comprehensive income for the period ended December 31, 2014 and 2013 the Group recognised compensation expense of RUB 594 million and RUB 519 million respectively. This expense is included within selling, general and administrative expenses. A three years provision of RUB 2,228 million has been recorded in respect of the Group's estimated obligations under the plan as of December 31, 2014. As of December 31, 2013 the amount of the two years provision was equal to RUB 1,631 million.

Notes to the Consolidated Financial Statements Currency – RUB millions

35. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2014	December 31, 2013
Less than one year	15,425	2,659
Between one and five years	24,211	4,905
More than five years	69,062	20,472
	108,698	28,036

The Group rentals mainly land plots under pipelines and office premises.

36. Commitments and Contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal and regional budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, significant additional taxes, penalties and interest may be accrued. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years from the year when the tax authorities make decision regarding tax reviews. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2012, 2013 and 2014 are currently open for review. Management believes it has adequately provided for any probable additional tax accruals that might arise from these reviews.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce significant reporting and documentation requirements regarding market environment at the date of transaction. Compared to the old rules the new transfer pricing rules appear to be more technically elaborate and better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions (transactions with a related party and some types of transactions with an unrelated party), if the transaction pricing was not at arm's length. The Group's transactions with related parties are subject to constant internal review for compliance with the new transfer pricing rules. The Group believes that the transfer pricing documentation that the Group has prepared to comply with the new legislation provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group negotiates pricing approaches for major controllable transactions with tax authorities in advance. Nine pricing agreements between the Group and tax authorities regarding some significant intercompany transactions have been concluded in 2012-2014. Given that the practice of implementation of the new transfer pricing rules has not yet developed and some clauses of the new law have contradictions and cannot be called unambiguous, the impact of any challenge to the Group's transfer prices cannot be reliably estimated.

Economic Environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, uncertainty and volatility of the financial markets and other risks may have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from (1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, including JSC Gazprom neft, and (2) from providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies, including JSC Gazprom neft. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions, imposed in July 2014, prohibit: (1) the sale, supply, transfer or export of the equipment or technology for projects pertaining to deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in the Russian Federation; (2) technical assistance or brokering services related to such technologies; (3) financing or financial assistance related to any sale, supply, transfer or export of such technologies.

The sanctions, imposed by the EU and several other countries in September 2014, additionally prohibit: (4) provision of drilling, well testing, logging and completion services and supply of specialized floating vessels necessary for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia, (5) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, including JSC Gazprom neft and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by JSC Gazprom neft.

In November 2014 Switzerland imposed the following restrictions: (1) authorisation is required for issuance and trade in financial instruments, issued by JSC Gazprom neft, with a maturity exceeding 30 days and for the granting of loans with a maturity exceeding 30 days in favor of Gazprom neft; (2) notification of the Swiss competent authority is required in case of trade in financial instruments with a maturity exceeding 30 days, issued by JSC Gazprom neft outside Switzerland and EU; (3) notification of the Swiss competent authority is required for provision of drilling, well testing, logging and completion services and supply of specialized floating vessels necessary for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia.

The Group continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Consolidated Financial Statements.

For the period ended December 31, 2014 Currency – RUB millions

Environmental Matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and the Group does not therefore have any material environmental liabilities.

Capital Commitments

As of December 31, 2014 the Group has entered into contracts to purchase property, plant and equipment for RUB 230,578 million (December 31, 2013: RUB 109,314 million).

37. Group Entities

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

Subsidiary	Country of incorporation	Ownership interest December 31, 2014	Ownership interest December 31, 2013
OJSC "Gazpromneft-Omsk"	Russian Federation	100%	100%
OJSC "Gazpromneft-Tumen"	Russian Federation	100%	100%
OJSC "Gazpromneft-Ural"	Russian Federation	100%	100%
OJSC "Gazpromneft-Novosibirsk"	Russian Federation	100%	100%
OJSC "Gazpromneft-Yaroslavl"	Russian Federation	93%	93%
OJSC "Gazpromneft-Noyabrskneftegaz"	Russian Federation	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%
OJSC "Gazpromneft-ONPZ"	Russian Federation	100%	100%
OJSC "Gazpromneft-MNPZ"	Russian Federation	100%	96%
OJSC "CNT"	Russian Federation	100%	100%
CJSC "Gazpromneft-Severo-Zapad"	Russian Federation	100%	100%
CJSC "Gazpromneft-Kuzbass"	Russian Federation	100%	100%
CJSC "Gazpromneft-Aero"	Russian Federation	100%	100%
CJSC "Gazprom neft Orenburg"	Russian Federation	100%	100%
LLC "Gazpromneft Marin Bunker"	Russian Federation	100%	100%
LLC "Gazpromneft-Center"	Russian Federation	100%	100%
LLC "Gazpromneftfinance"	Russian Federation	100%	100%
LLC "Gazpromneft-Invest"	Russian Federation	100%	100%
LLC "Gazpromneft -Regionalnye prodazhy"	Russian Federation	100%	100%
LLC "Gazpromneft-smazochnye materialy"	Russian Federation	100%	100%
LLC "Gazpromneft-Vostok"	Russian Federation	100%	100%
LLC "Zapolyarneft"	Russian Federation	100%	100%
LLC "Gazpromneft-Hantos"	Russian Federation	100%	100%
LLC "Gazpromneft-Bitumnye materialy"	Russian Federation	100%	100%
LLC "Gazpromneft-NTC"	Russian Federation	100%	100%
LLC "Gazprom neft Novy Port"	Russian Federation	90%	90%
LLC "Gazprom neft shelf"	Russian Federation	100%	-
Gazprom Neft Trading GmbH	Austria	100%	100%
Naftna industrija Srbije A.D.	Serbia	56%	56%

Notes to the Consolidated Financial Statements Currency – RUB millions

The following table summarises the consolidated information relating to the significant Group's subsidiary Naftna industrija Srbije A.D. and its subsidiaries. The carrying amount of non-controlling interests of all other subsidiaries are not significant individually.

	Carrying amount of non-controlling interest	Profit attributable to non-controlling interest	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As of December 31, 2014	58,536	25,225	62,066	192,646	(42,726)	(62,027)
As of December 31, 2013	38,600	22,724	44,486	134,987	(39,816)	(31,453)
				Revenue		**Profit**
Year ended December 31, 2014				153,706		11,053
Year ended December 31, 2013				129,568		16,733

Dividends paid in 2014 by Naftna industrija Srbije A.D. to non-controlling share comprised RUB 2.3 billion (2013: RUB 2.0 billion).

38. Related Party Transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 *Related Party Disclosures*. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. The table below summarises transactions in the ordinary course of business with either the parent company or associates and joint ventures.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

As of December 31, 2014 and 2013 the outstanding balances with related parties were as follows:

December 31, 2014	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Cash and cash equivalents	-	13,780	-
Short-term financial assets	-	1,719	1,295
Trade and other receivables	1,257	3,038	13,190
Other assets	38	3,762	1,889
Long-term financial assets	-	-	23,541
Total assets	**1,295**	**22,299**	**39,915**
Short-term debt and other current financial liability	-	-	(981)
Trade and other payables	(1,096)	(2,217)	(1,956)
Other current liabilities	(2,108)	(507)	(328)
Long-term debt and other non-current financial liability	(57,552)	-	-
Total liabilities	**(60,756)**	**(2,724)**	**(3,265)**

Currency – RUB millions

December 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	32,965	-
Short-term financial assets	-	16,248	2,869
Trade and other receivables	2,760	3,178	3,497
Other assets	635	3,010	1,326
Long-term financial assets	-	2,587	6,494
Total assets	**3,395**	**57,988**	**14,186**
Short-term debt and other current financial liability	-	-	1,246
Trade and other payables	1,277	3,432	2,488
Other current liabilities	1	761	413
Long-term debt and other non-current financial liability	3,897	-	1,000
Total liabilities	**5,175**	**4,193**	**5,147**

For the period ended December 31, 2014 and 2013 the following transactions occurred with related parties:

Year ended December 31, 2014	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	14,259	22,523	42,790
Other revenue	16	414	10,830
Purchases of crude oil, gas and oil products	-	38,825	84,599
Production related services	-	14,737	19,092
Transportation costs	8,176	1,519	2,717
Interest income	-	821	1,772

Year ended December 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	9,929	21,994	48,156
Other revenue	158	321	6,420
Purchases of crude oil, gas and oil products	-	31,250	84,618
Production related services	145	13,597	17,089
Transportation costs	4,727	2,025	6,120
Interest income	-	788	486

Transactions with Key Management Personnel

For the periods ended December 31, 2014 and 2013 the Group recognized RUB 1,420 million and RUB 1,181 million, respectively, as compensation for key management personnel (members of the Board of Directors and Management Committee). The compensation consists of salaries, bonuses including SAR and other contributions.

39. Segment Information

Presented below is information about the Group's operating segments for the period ended December 31, 2014 and 2013. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Notes to the Consolidated Financial Statements Currency – RUB millions

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Adjusted EBITDA represents the Group's EBITDA and its share in associates and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

Year ended December 31, 2014

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	24,226	1,384,012	-	1,408,238
Inter-segment	454,755	10,114	(464,869)	-
Total revenues	478,981	1,394,126	(464,869)	1,408,238
Segment results				
Adjusted EBITDA	160,320	182,294	-	342,614
Depreciation, depletion and amortisation	64,223	21,728	-	85,951
Capital expenditure	**208,796**	**62,534**	**-**	**271,330**

Year ended December 31, 2013

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	24,284	1,243,319	-	1,267,603
Inter-segment	445,356	7,287	(452,643)	-
Total revenues	469,640	1,250,606	(452,643)	1,267,603
Segment results				
Adjusted EBITDA	175,474	161,278	-	336,752
Depreciation, depletion and amortisation	59,095	17,690	-	76,785
Capital expenditure	**154,489**	**54,122**	**-**	**208,611**

Notes to the Consolidated Financial Statements Currency – RUB millions

The geographical segmentation of the Group's revenue and capital expenditures for the period ended December 31, 2014 and 2013 is presented below:

Year ended December 31, 2014	**Russian Federation**	**CIS**	**Export and international operations**	**Total**
Sales of crude oil	42,624	15,889	233,101	291,614
Sales of petroleum products	715,854	64,582	546,498	1,326,934
Sales of gas	24,406	-	1,604	26,010
Other sales	40,695	1,430	3,874	45,999
Less custom duties and sales related excises	-	(593)	(281,726)	(282,319)
Revenues from external customers, net	823,579	81,308	503,351	1,408,238
Year ended December 31, 2013				
Sales of crude oil	19,257	48,620	209,449	277,326
Sales of petroleum products	630,359	58,309	477,365	1,166,033
Sales of gas	23,926	-	1,461	25,387
Other sales	31,266	1,065	2,960	35,291
Less custom duties and sales related excises	-	(3,355)	(233,079)	(236,434)
Revenues from external customers, net	704,808	104,639	458,156	1,267,603

	Russian Federation	**CIS**	**Export and international operations**	**Total**
Non-current assets as of December 31, 2014	1,288,625	15,332	253,751	1,557,708
Capital expenditures for period ended December 31, 2014	235,337	1,737	34,256	271,330
Non-current assets as of December 31, 2013	935,843	10,233	143,572	1,089,648
Capital expenditures for period ended December 31, 2013	168,085	2,783	37,743	208,611

Adjusted EBITDA for the period ended December 31, 2014 and 2013 is reconciled below:

	Year ended December 31, 2014	**Year ended December 31, 2013**
Profit for the period	126,656	186,720
Total income tax expense	19,214	39,260
Finance expense	15,279	11,233
Finance income	(7,075)	(6,011)
Depreciation, depletion and amortisation	85,951	76,785
Net foreign exchange loss	52,265	2,166
Other loss, net	8,471	6,310
EBITDA	300,761	316,463
add share of loss / (profit) of associates and joint ventures	6,306	(11,251)
add share of EBITDA of associates and joint ventures	35,547	31,540
Total adjusted EBITDA	**342,614**	**336,752**

Supplementary Information on Oil and Gas Activities (Unaudited) Currency – RUB millions

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group’s consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

	December 31, 2014	**December 31, 2013**
Consolidated subsidiaries and share in joint operations		
Unproved oil and gas properties	70,295	48,191
Proved oil and gas properties	1,163,584	778,836
Less: Accumulated depreciation, depletion and amortisation	(373,218)	(275,369)
Net capitalised costs of oil and gas properties	**860,661**	**551,658**
Group's share of associates and joint ventures		
Proved oil and gas properties	366,771	242,134
Less: Accumulated depreciation, depletion and amortisation	(80,870)	(62,613)
Net capitalised costs of oil and gas properties	285,901	179,521
Total capitalised costs consolidated and equity interests	**1,146,562**	**731,179**

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the period ended December 31:

	December 31, 2014	**December 31, 2013**
Consolidated subsidiaries and share in joint operations		
Exploration costs	936	3,159
Development costs	179,461	132,907
Costs incurred	**180,397**	**136,066**
Group's share of associates and joint ventures		
Exploration costs	583	1,034
Development costs	51,676	43,143
Total costs incurred consolidated and equity interests	**232,656**	**180,243**

Supplementary Information on Oil and Gas Activities (Unaudited) Currency – RUB millions

Results of operations from oil and gas producing activities for the period ended:

	December 31, 2014	December 31, 2013
Consolidated subsidiaries and share in joint operations		
Revenues:		
Sales	100,567	115,460
Transfers	396,928	325,942
Total revenues	**497,495**	**441,402**
Production costs	(84,089)	(71,847)
Exploration expenses	(936)	(3,159)
Depreciation, depletion and amortisation	(63,405)	(60,069)
Taxes other than income tax	(245,484)	(220,032)
Pretax income from producing activities	**103,581**	**86,295**
Income tax expenses	(12,058)	(16,561)
Results of oil and gas producing activities	**91,523**	**69,734**
Group's share of associates and joint ventures		
Total revenues	98,849	87,976
Production costs	(20,311)	(13,368)
Exploration expenses	(583)	(1,034)
Depreciation, depletion and amortisation	(16,293)	(12,601)
Taxes other than income tax	(50,604)	(46,456)
Pretax income from producing activities	**11,058**	**14,517**
Income tax expenses	1,979	(2,803)
Results of oil and gas producing activities	13,037	11,714
Total consolidated and equity interests in results of oil and gas producing activities	**104,560**	**81,448**

Proved Oil and Gas Reserve Quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities - in MMBbl	**December 31, 2014**	**December 31, 2013**
Consolidated subsidiaries and share in joint operations		
Beginning of year	4,981	4,870
Production	(307)	(300)
Purchases of minerals in place	105	-
Revision of previous estimates	272	411
End of year	*5,051*	*4,981*
Minority's share included in the above proved reserves	(16)	(17)
Proved reserves, adjusted for minority interest	5,035	4,964
Proved developed reserves	2,747	2,614
Proved undeveloped reserves	2,304	2,367
Group's share of associates and joint ventures		
Beginning of year	1,189	982
Production	(77)	(67)
Purchases of minerals in place	58	87
Revision of previous estimates	192	187
End of year	*1,362*	*1,189*
Proved developed reserves	614	472
Proved undeveloped reserves	748	717
Total consolidated and equity interests in reserves - end of year	**6,413**	**6,170**

Proved Gas Reserves Quantities - in Bcf	**December 31, 2014**	**December 31, 2013**
Consolidated subsidiaries and share in joint operations		
Beginning of year	6,323	6,092
Production	(455)	(436)
Purchases of minerals in place	23	-
Revision of previous estimates	430	667
End of year	*6,321*	*6,323*
Minority's share included in the above proved reserves	(29)	(38)
Proved reserves, adjusted for minority interest	6,292	6,285
Proved developed reserves	3,821	3,781
Proved undeveloped reserves	2,500	2,542
Group's share of associates and joint ventures		
Beginning of year	7,069	3,951
Production	(150)	(58)
Purchases of minerals in place	1,677	1,014
Revision of previous estimates	1,592	2,162
End of year	*10,188*	*7,069*
Proved developed reserves	4,357	493
Proved undeveloped reserves	5,831	6,576
Total consolidated and equity interests in reserves - end of year	**16,509**	**13,392**

Supplementary Information on Oil and Gas Activities (Unaudited) Currency – RUB millions

Standardised Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	December 31, 2014	December 31, 2013
Consolidated subsidiaries and share in joint operations		
Future cash inflows	12,756,212	7,690,400
Future production costs	(7,734,833)	(4,723,691)
Future development costs	(938,935)	(612,498)
Future income tax expenses	(665,167)	(354,004)
Future net cash flow	3,417,277	2,000,207
10% annual discount for estimated timing of cash flow	(1,936,851)	(1,197,686)
Standardised measure of discounted future net cash flow	**1,480,426**	**802,521**
Group's share of associates and joint ventures		
Future cash inflows	3,593,104	2,084,265
Future production costs	(2,003,356)	(1,085,733)
Future development costs	(254,790)	(151,527)
Future income tax expenses	(228,982)	(153,455)
Future net cash flow	1,105,976	693,550
10% annual discount for estimated timing of cash flow	(668,192)	(407,796)
Standardised measure of discounted future net cash flow	437,784	285,754
Total consolidated and equity interests in the standardised measure of discounted future net cash flow	**1,918,210**	**1,088,275**

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27 February 2015

62 (sixty two) pages are numbered, bound and sealed.