Tatneft Group

IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2014

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Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Tatneft

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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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

31 March 2015

Moscow, Russian Federation

L. S. Khodakova, Senior Manager (licence no. 01-000990), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO Tatneft

State registration certificate № 632, issued by Ministry of Finance of the Republic of Tatarstan on 21 January 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 July 2002 under registration № 1021601623702

75, Lenina St., Almetyevsk, Tatarstan, Russia, 423400

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 Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

TATNEFT
Consolidated Statement of Financial Position
(In millions of Russian Roubles)

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	6	41,548	29,535
Restricted cash		1,635	917
Accounts receivable, net	7	46,059	52,098
Short-term financial assets	8	25,323	16,693
Inventories	9	32,462	29,538
Prepaid expenses and other current assets	10	31,157	22,139
Prepaid income tax		2,418	1,078
Total current assets		**180,602**	**151,998**
Long-term accounts receivable, net	7	1,364	1,016
Long-term financial assets	11	29,893	25,814
Investments in associates and joint ventures	12	7,212	7,778
Property, plant and equipment, net	13	507,586	481,883
Deferred income tax assets	18	2,982	2,049
Other long-term assets	14	3,295	3,551
Total non-current assets		**552,332**	**522,091**
Total assets		**732,934**	**674,089**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	15	15,859	36,561
Accounts payable and accrued liabilities	16	37,999	28,444
Taxes payable	18	14,440	16,706
Income tax payable		166	1,462
Total current liabilities		**68,464**	**83,173**
Long-term debt, net of current portion	15	12,888	12,785
Other long-term liabilities	17	2,960	3,839
Decommissioning provision, net of current portion	13	44,779	54,511
Deferred income tax liability	18	21,599	15,799
Total non-current liabilities		**82,226**	**86,934**
Total liabilities		**150,690**	**170,107**
Shareholders' equity			
Preferred shares (authorized and issued at 31 December 2014 and 2013 – 147,508,500 shares; nominal value at 31 December 2014 and 2013 – RR1.00)	19	746	746
Common shares (authorized and issued at 31 December 2014 and 2013 – 2,178,690,700 shares; nominal value at 31 December 2014 and 2013 – RR1.00)	19	11,021	11,021
Additional paid-in capital		87,482	87,482
Accumulated other comprehensive income		1,888	889
Retained earnings		457,915	384,376
Less: Common shares held in treasury, at cost (55,514,000 shares and 55,592,000 shares at 31 December 2014 and 2013, respectively)		(3,087)	(3,102)
Total Group shareholders' equity		**555,965**	**481,412**
Non-controlling interest	19	**26,279**	**22,570**
Total shareholders' equity		**582,244**	**503,982**
Total liabilities and equity		**732,934**	**674,089**

Approved for issue and signed on behalf of the Board of Directors on 31 March 2015.

Maganov N.U.
CEO

Voskoboinikov V.A.
Director of International Reporting

(In millions of Russian Roubles)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Sales and other operating revenues, net	22	**476,360**	**454,983**
Costs and other deductions			
Operating	20	(102,614)	(89,634)
Purchased oil and refined products		(54,478)	(50,312)
Exploration		(2,100)	(1,839)
Transportation		(23,209)	(30,388)
Selling, general and administrative	20	(43,355)	(44,123)
Depreciation, depletion and amortization	13	(21,121)	(19,323)
(Loss)/gain on disposals of property, plant and equipment, investments and impairments		(1,799)	1,209
Taxes other than income taxes	18	(117,060)	(111,336)
Maintenance of social infrastructure and transfer of social assets		(4,091)	(4,828)
Total costs and other deductions		**(369,827)**	**(350,574)**
Other income/(expenses)			
Foreign exchange gain/(loss)		14,876	(438)
Interest income	21	6,944	3,365
Interest expense, net of amounts capitalized	21	(5,482)	(6,924)
(Loss)/earnings from equity investments	12	(313)	350
Other income, net		1,415	529
Total other income/(expenses)		**17,440**	**(3,118)**
Profit before income taxes		**123,973**	**101,291**
Income taxes			
Current income tax expense		(21,376)	(21,645)
Deferred income tax expense		(4,920)	(1,302)
Total income tax expense	18	**(26,296)**	**(22,947)**
Profit for the year		**97,677**	**78,344**
Other comprehensive income:			
Items to be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		649	530
Unrealized holding losses on available-for-sale securities, including share of associates, net of tax		(270)	(43)
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on employee benefit plans		620	(324)
Other comprehensive income		**999**	**163**
Total comprehensive income for the year		**98,676**	**78,507**
Profit attributable to:			
- Group shareholders		92,227	70,832
- Non-controlling interest		5,450	7,512
		97,677	**78,344**
Total comprehensive income is attributable to:			
- Group shareholders		93,226	70,995
- Non-controlling interest		5,450	7,512
		98,676	**78,507**
Basic and diluted net earnings per share (RR)			
Common	19	40.61	31.19
Preferred		40.58	31.16
Weighted average shares outstanding (millions of shares)			
Common	19	2,123	2,123
Preferred		148	148

Consolidated Statement of Changes in Equity

(In millions of Russian Roubles)

	Attributable to Group shareholders									Non-controlling interest	Total equity
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial loss on employee benefit plans	Foreign currency translation adjustments	Unrealized holding gain/(losses) on available-for-sale securities, including share of associates, net of tax	Retained earnings	Total shareholders' equity		
Balance at 1 January 2013	**2,270,656**	**11,767**	**87,482**	**(3,093)**	**(494)**	**754**	**466**	**333,072**	**429,954**	**16,279**	**446,233**
Profit for the year	-	-	-	-	-	-	-	70,832	70,832	7,512	78,344
Other comprehensive (loss)/income for the year	-	-	-	-	(324)	530	(43)	-	163	-	163
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(324)**	**530**	**(43)**	**70,832**	**70,995**	**7,512**	**78,507**
Treasury shares	(49)	-	-	(9)	-	-	-	-	(9)	-	(9)
- Acquisitions	(175)	-	-	(36)	-	-	-	-	(36)	-	(36)
- Disposals	126	-	-	27	-	-	-	-	27	-	27
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(237)	(237)
Dividends declared	-	-	-	-	-	-	-	(19,528)	(19,528)	(984)	(20,512)
Balance at 31 December 2013	**2,270,607**	**11,767**	**87,482**	**(3,102)**	**(818)**	**1,284**	**423**	**384,376**	**481,412**	**22,570**	**503,982**
Profit for the year	-	-	-	-	-	-	-	92,227	92,227	5,450	97,677
Other comprehensive income for the year	-	-	-	-	620	649	(270)	-	999	-	999
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**620**	**649**	**(270)**	**92,227**	**93,226**	**5,450**	**98,676**
Treasury shares	78	-	-	15	-	-	-	-	15	-	15
- Acquisitions	(302)	-	-	(63)	-	-	-	-	(63)	-	(63)
- Disposals	380	-	-	78	-	-	-	-	78	-	78
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	78	78
Dividends declared	-	-	-	-	-	-	-	(18,688)	(18,688)	(1,819)	(20,507)
Balance at 31 December 2014	**2,270,685**	**11,767**	**87,482**	**(3,087)**	**(198)**	**1,933**	**153**	**457,915**	**555,965**	**26,279**	**582,244**

(In millions of Russian Roubles)

	Year ended 31 December 2014	Year ended 31 December 2013
Operating activities		
Profit for the year	97,677	78,344
Adjustments:		
Depreciation, depletion and amortization	21,121	19,323
Income tax expense	26,296	22,947
Loss/(gain) on disposals of property, plant and equipment, investments and impairments	1,799	(1,209)
Transfer of social assets	1	23
Effects of foreign exchange	10,036	3,282
Equity investments loss/(earnings) net of dividends received	313	(350)
Change in provision for impairment of financial assets	(165)	633
Change in fair value of trading securities	(283)	(351)
Interest income	(6,944)	(3,365)
Interest expense	5,482	6,924
Other	31	736
Changes in operational working capital, excluding cash:		
Accounts receivable	7,456	1,094
Inventories	(4,054)	(1,630)
Prepaid expenses and other current assets	(9,206)	4,733
Trading securities	1,294	3,159
Accounts payable and accrued liabilities	6,423	(1,659)
Taxes payable	(2,094)	3,490
Notes payable	(2)	256
Other non-current assets	205	674
Net cash provided by operating activities before income tax and interest	**155,386**	**137,054**
Income taxes paid	(24,012)	(19,634)
Interest paid	(1,378)	(2,636)
Interest received	6,487	3,365
Net cash provided by operating activities	**136,483**	**118,149**
Investing activities		
Additions to property, plant and equipment	(62,574)	(56,827)
Proceeds from disposal of property, plant and equipment	1,248	1,539
Proceeds from disposal of investments	77	564
Purchase of investments	(117)	(17)
Purchase of certificates of deposit, net	(7,598)	(5,034)
(Issuance)/repayment of loans and notes receivable, net	(2,176)	1,457
Change in restricted cash	(718)	452
Net cash used in investing activities	**(71,858)**	**(57,866)**
Financing activities		
Proceeds from issuance of debt	16,742	30,258
Repayment of debt	(50,501)	(53,820)
Dividends paid to shareholders	(18,674)	(19,526)
Dividends paid to non-controlling shareholders	(1,819)	(984)
Purchase of treasury shares	(37)	(27)
Proceeds from sale of treasury shares	37	27
Proceeds from issuance of shares by subsidiaries	60	-
Net cash used in financing activities	**(54,192)**	**(44,072)**
Net change in cash and cash equivalents	**10,433**	**16,211**
Effect of foreign exchange on cash and cash equivalents	1,580	241
Cash and cash equivalents at the beginning of the period	29,535	13,083
Cash and cash equivalents at the end of the period	**41,548**	**29,535**

Note 1: Organisation

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 22).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 31 December 2014 and 2013 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, holds approximately 36% of the Company's voting stock. These shares were contributed to OAO Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company (see Note 19). The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almet'evsk, Tatarstan Republic, Russian Federation.

Note 2: Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group first adopted IFRS for the fiscal year ended 31 December 2012, with a date of transition to IFRS on 1 January 2011.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value.

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Note 2: Basis of presentation (continued)

Reclassifications. Certain reclassifications have been made to previously reported balances to conform to the current year presentation; such reclassifications had no effect on net income profit for the year, shareholders' equity or cash flows.

Note 3: Summary of Significant Accounting Policies

Functional and Presentation Currency. The presentation currency of the Group is the Russian rouble.

Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Rouble because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of IAS 21 *The Effects of Changes in Foreign Exchange Rates.*

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are recognized in the profit or loss for the year.

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at 31 December 2014 and 2013 was RR 56.26 and RR 32.73 to US $, respectively. Average rate of exchange for the years ended 31 December 2014 and 2013 were RR 38.42 and RR 31.85 per US $, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition – related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets.

Note 3: Summary of Significant Accounting Policies (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss for the year.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Associates and joint ventures. Associates and joint ventures are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group’s share of net assets of an associate and joint ventures are recognised as follows: (i) the Group’s share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

However, when the Group’s share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

Current/Non-current Presentation. Group presents current and non-current assets, and current and non-current liabilities, as separate classifications in its Consolidated Statement of Financial Position.

Group discloses for each asset and liability line item that combines amounts expected to be recovered or settled in period no more than 12 months after the reporting period are disclosed as current; and more than 12 months after the reporting period as non-current.

Cash and cash equivalents. Cash represents cash on hand and in bank accounts, which can be effectively withdrawn at any time without prior notice. Cash equivalents include 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 recognized based on the cost of acquisition which approximates fair value.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the consolidated statement of cash flows and disclosed separately.

Financial Assets. All financial assets are initially recognised when an entity becomes a party to the contract, they recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group‘s financial assets include cash and cash equivalents, deposits, securities, trade and other receivables, loans issued.
Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss.

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. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year.

Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates require the exercise of judgment and the use of assumptions.

The losses arising from impairment are recognized as selling, general and administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

Note 3: Summary of Significant Accounting Policies (continued)

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 recognized in profit and loss for the year.

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. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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 recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

Financial liabilities. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings.

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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

The Group does not use derivative financial instruments.

The Group does not offset assets and liabilities unless required or permitted to by an IFRS.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Prepaid expenses. Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

Note 3: Summary of Significant Accounting Policies (continued)

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 493 and RR 470 per ton in 2014 and 2013, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ exchange rate for the preceding month. The base tax rate formula for MET is modified by benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold.

The ultimate amount of the MET on crude oil depends also on geographic location of the oil field (for certain regions zero tax rate may be applied depending on the volume of crude oil produced and period of field development). Also a zero MET tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions).

MET is recorded within Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

Value added tax. Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

Oil and gas exploration and development cost. Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a “field by field” basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation 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 indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Property, Plant and Equipment. Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs to sell and value-in-use.

Note 3: Summary of Significant Accounting Policies (continued)

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in Gain/(loss) on disposals of property, plant and equipment, investments and impairments in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

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

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

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

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

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

Employee Benefits, Post-employment and other long-term Benefits. Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

Note 3: Summary of Significant Accounting Policies (continued)

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arose as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs are recognised as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

Stock-based compensation. The Company has a share-based compensation plan (the “Plan”) for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards (“Awards”) are issued on an annual basis to the Company's directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company’s common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Exchange MICEX-RTS (MOEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company’s Management Committee approval.

The liability at 31 December 2014 and 2013 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

Decommissioning provisions. The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group’s field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group’s licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group’s estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit and loss.

The Group’s petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. 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.

Note 3: Summary of Significant Accounting Policies (continued)

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognised for all deductable or taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and Taxes payable in the Consolidated Statement of Financial Position, respectively. Income tax interest expense and payable are included in Interest expense in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and other accounts payable and accrued expenses in the Consolidated Statement of Financial Position, respectively.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders' meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Treasury shares. Common shares of the Company owned by the Group at 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. Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when title has transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the Consolidated Statements of Profit or Loss and Other Comprehensive Income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Note 3: Summary of Significant Accounting Policies (continued)

Transportation expenses. Transportation expenses recognised in the Consolidated Statements of Profit or Loss and Other Comprehensive Income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in Selling, General and administrative expenses.

Interest income. Interest income is recognised on a time-proportion basis using the effective interest method.

Note 4: Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of long-lived assets;
- Consolidation.

Estimation of oil and gas reserves. Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

Useful life of property, plant and equipment. Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

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.

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

(in millions of Russian Roubles)

Note 4: Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Decommissioning provisions. 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 decommissioning provisions 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 recognized 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 Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. 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.

Sensitivity analysis for changes in rates, and other estimates:

		Impact on decommissioning provision	
	Change in	**At 31 December 2014**	**At 31 December 2013**
Discount rate	+1%	(9,890)	(11,436)
	-1%	13,103	15,384

Information about decommissioning provision is presented in Note 13.

Impairment of Long-lived Assets. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and refining margins appropriate to the local circumstances and environment. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

At 31 December 2014 management assessed whether there is any indication of impairment of long-lived assets. Management believes that there is no any impairment loss that should be recognized at 31 December 2014.

Consolidation. The Company made significant judgements related to significant subsidiaries which are controlled by the Group, even though the Group holds less than half of the voting rights of these subsidiaries.

The Company considers that the Group has control over several entities even though it has less than 50% of the voting rights. This is because the Company has power over the investee, has rights to variable returns of the investee, and has the power to affect variable returns.

Additional information is disclosed in Note 25.

Note 5: Adoption of New or Revised Standards and Interpretations

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

- amendments regarding offsetting rules to IAS 32 Financial Instruments,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure,
- IFRIC 21 – Levies.

The amended standards and new IFRIC have no significant impact on the Group's consolidated financial statements.

Note 5: Adoption of New or Revised Standards and Interpretations (continued)

The amendments to current IFRS and annual improvements became effective for the periods beginning on or after 1 July 2014:

- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The amended standard and annual improvements have no significant impact on the Group's consolidated financial statements.

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 which the Group has not early adopted.

IFRS 9 Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The standard reflects all phases of the financial instruments project and replaces all previous of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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 amortization. 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.

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 recognized 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 recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 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.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards.
IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

(in millions of Russian Roubles)

Note 5: Adoption of New or Revised Standards and Interpretations (continued)

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

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 that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 December 2014	At 31 December 2013
Cash on hand and in banks	8,077	8,012
Term deposits with original maturity of less than three months	33,471	21,523
Total cash and cash equivalents	**41,548**	**29,535**

As of 31 December 2014 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries, Sberbank, Raiffeisenbank, VTB and Ak Bars Bank. As of 31 December 2013 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries, Ak Bars Bank, Credit Europe Bank and Sberbank. Bank deposits represent deposits with original maturities of less than three months. The fair value of cash and term deposits approximates their carrying value.

The credit quality of cash and cash equivalents balances may be summarised as follows:

	At 31 December 2014		At 31 December 2013	
	Cash on hand and in banks	Term deposits	Cash on hand and in banks	Term deposits
Investment grade rating	287	-	1,056	4,825
Non-investment grade rating	6,486	33,264	5,026	15,537
No external rating	1,304	207	1,930	1,161
Total	**8,077**	**33,471**	**8,012**	**21,523**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB for Standard and Poor's Rating, respectively.

(in millions of Russian Roubles)

Note 7: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	At 31 December 2014	At 31 December 2013
Short-term accounts receivable:		
Trade receivables	61,591	60,395
Other financial receivables	4,748	4,259
Less provision for impairment	(20,280)	(12,556)
Total short-term accounts receivable	**46,059**	**52,098**
Long-term accounts receivable:		
Trade receivables	650	251
Other financial receivables	761	835
Less provision for impairment	(47)	(70)
Total long-term accounts receivable	**1,364**	**1,016**
Total financial assets within trade and other receivables	**47,423**	**53,114**

In accordance with the Group's policies for recorded provision for impairment the Group fully provided for receivables from ChMPKP Avto of US $334 million as of 31 December 2014 and 2013, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 24).

The estimated fair value of short-term and long-term accounts receivable approximates their carrying value.

Analysis by credit quality of trade and other receivables is as follows:

	At 31 December 2014		At 31 December 2013	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Not over due and not impaired	**40,784**	**4,803**	**46,686**	**4,484**
Past due but not impaired				
- less than 90 days overdue	1,333	134	1,652	19
- 91 to 180 days overdue	246	40	200	26
- over 180 days overdue	-	83	-	47
Total past due but not impaired	**1,579**	**257**	**1,852**	**92**
Individually determined to be impaired (gross)				
- less than 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- over 180 days overdue	19,880	447	12,110	517
Total individually impaired	**19,880**	**447**	**12,110**	**517**
Less provision for impairment	(19,880)	(447)	(12,110)	(517)
Total	**42,363**	**5,060**	**48,538**	**4,576**

Movements in the provision for impairment for trade and other receivables are as follows:

	2014		2013	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**(12,110)**	**(517)**	**(10,637)**	**(567)**
(Provision for impairment)/recovery during the year	(4)	58	(850)	(13)
Amounts written off during the year as uncollectible	9	6	-	-
Foreign exchange loss	(7,813)	-	(788)	-
Change in Group structure	38	6	165	63
Provision for impairment at 31 December	**(19,880)**	**(447)**	**(12,110)**	**(517)**

(in millions of Russian Roubles)

Note 8: Short-term financial assets

Short-term financial assets comprise the following:

	At 31 December 2014	At 31 December 2013
Loans and receivables:		
Notes receivable	3,536	2,178
Other loans (net of provision for impairment of RR 50 million and RR 18 million as of 31 December 2014 and 2013)	3,156	2,026
Certificates of deposit	16,111	8,973
Financial assets at fair value through profit or loss:		
Held-for-trading	2,520	3,516
Total short-term financial assets	**25,323**	**16,693**

During the year ended 31 December 2014 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 78,425 million and RR 71,287 million, respectively.

During the year ended 31 December 2013 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 13,024 million and RR 8,302 million, respectively.

During the year ended 31 December 2014 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 5,185 million and RR 6,485 million, respectively.

During the year ended 31 December 2013 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 2,569 million and RR 5,213 million, respectively.

The estimated fair value of loans and receivables approximates their carrying value.

Financial assets at fair value through profit and loss comprise the following:

	At 31 December 2014	At 31 December 2013
Held-for-trading:		
Russian government debt securities	152	18
Corporate debt securities	1,705	1,762
Equity securities	663	1,736
Total financial assets at fair value through profit and loss	**2,520**	**3,516**

Information on trading securities issued by related parties is disclosed in Note 23.

(in millions of Russian Roubles)

Note 9: Inventories

	At 31 December 2014	At 31 December 2013
Materials and supplies	10,924	11,354
Crude oil	8,799	5,657
Refined oil products	7,634	6,495
Petrochemical supplies and finished goods	5,105	6,032
Total inventories	**32,462**	**29,538**

Note 10: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At 31 December 2014	At 31 December 2013
Prepaid export duties	14,177	8,311
VAT recoverable	5,788	5,728
Advances	7,972	5,626
Prepaid transportation expenses	938	668
Other	2,282	1,806
Prepaid expenses and other current assets	**31,157**	**22,139**

Note 11: Long-term Financial Assets

Long-term financial assets comprise the following:

	At 31 December 2014	At 31 December 2013
Loans and receivables:		
Notes receivable (net of provision for impairment of RR 318 million as of 31 December 2014 and 2013)	3,571	1,019
Loans to employees	2,636	2,493
Other loans	2,353	3,197
Certificates of deposit	16,581	14,445
Available-for-sale investments	4,752	4,660
Total long-term financial assets	**29,893**	**25,814**

The fair value of long-term financial assets is estimated by discounting the future contractual cash outflows at the market interest rate available to the Group at the end of the reporting period. The carrying amounts and fair values of long-term financial assets are as follows:

	Carrying amounts		Fair values	
	At 31 December 2014	At 31 December 2013	At 31 December 2014	At 31 December 2013
Notes receivable	3,571	1,019	3,292	1,122
Loans to employees	2,636	2,493	2,636	2,493
Other loans	2,353	3,197	1,852	3,156
Certificates of deposit	16,581	14,445	11,578	15,163
Total long-term financial assets	**25,141**	**21,154**	**19,358**	**21,934**

During the year ended 31 December 2014 purchases of long-term certificates of deposit were RR 460 million.

During the year ended 31 December 2013 purchases of long-term certificates of deposit were RR 312 million.

(in millions of Russian Roubles)

Note 11: Long-term financial assets (continued)

During the year ended 31 December 2014 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 5,235 million and RR 1,759 million, respectively.

During the year ended 31 December 2013 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 2,582 million and RR 1,395 million, respectively.

Note 12: Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of an investee	Ownership percentage at 31 December		Net book value as 31 December		Group's share of profit/(loss) for	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Associates and joint ventures:						
Bank Zenit	25	25	7,131	6,984	402	555
Other	20-75	20-75	81	794	(715)	(205)
Total			**7,212**	**7,778**	**(313)**	**350**

The country of incorporation or registration is also their principal place of business. For all major associates and joint ventures the country of incorporation is the Russian Federation.

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures:

	2014	**2013**
Net book value at 1 January	**7,778**	**6,711**
Share of result of associates and joint ventures	(313)	350
Share of other comprehensive loss of associates and joint ventures	(270)	(21)
Reclassification on loss of control/disposal of associates (reclassification on obtaining control)	(14)	801
Others	31	(63)
Net book value at 31 December	**7,212**	**7,778**

The condensed financial information of the Group's equity basis investments is as follows:

	Year ended 31 December 2014		**Year ended 31 December 2013**	
	Bank Zenit	Other	Bank Zenit	Other
Sales/interest income	26,617	6,513	23,425	3,107
Net income	1,636	(722)	2,258	(473)
Total assets	335,097	6,406	299,856	7,736
Total liabilities	305,447	6,074	270,685	7,060

(in millions of Russian Roubles)

Note 13: Property, plant and equipment

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construction in progress	Total
Cost					
As of 31 December 2012	**322,629**	**148,170**	**108,216**	**92,166**	**671,181**
Additions	163	1	1	59,730	59,895
Disposals	(1,990)	(596)	(1,078)	(1,835)	(5,499)
Changes in Group structure	-	(1,574)	(2,193)	(241)	(4,008)
Transfers	21,674	7,769	13,568	(43,011)	-
Changes in decommissioning provision	(1,751)	-	-	-	(1,751)
As of 31 December 2013	**340,725**	**153,770**	**118,514**	**106,809**	**719,818**
Depreciation, depletion and amortisation					
As of 31 December 2012	**151,723**	**20,477**	**50,078**	**-**	**222,278**
Depreciation charge	8,437	3,898	7,164	-	19,499
Disposals	(1,633)	(355)	(1,045)	-	(3,033)
Changes in Group structure	-	(361)	(448)	-	(809)
As of 31 December 2013	**158,527**	**23,659**	**55,749**	**-**	**237,935**
Net book value					
As of 31 December 2012	**170,906**	**127,693**	**58,138**	**92,166**	**448,903**
As of 31 December 2013	**182,198**	**130,111**	**62,765**	**106,809**	**481,883**

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construction in progress	Total
Cost					
As of 31 December 2013	**340,725**	**153,770**	**118,514**	**106,809**	**719,818**
Additions	38	-	825	64,912	65,775
Disposals	(3,199)	(1,723)	(1,355)	(3,313)	(9,590)
Changes in Group structure	-	(6)	(2)	(7)	(15)
Transfers	23,882	27,525	26,615	(78,022)	-
Changes in decommissioning provision	(12,988)	-	-	-	(12,988)
As of 31 December 2014	**348,458**	**179,566**	**144,597**	**90,379**	**763,000**
Depreciation, depletion and amortisation					
As of 31 December 2013	**158,527**	**23,659**	**55,749**	**-**	**237,935**
Depreciation charge	8,928	4,570	8,394	-	21,892
Disposals	(2,975)	(309)	(1,127)	-	(4,411)
Changes in Group structure	-	(2)	-	-	(2)
As of 31 December 2014	**164,480**	**27,918**	**63,016**	**-**	**255,414**
Net book value					
As of 31 December 2013	**182,198**	**130,111**	**62,765**	**106,809**	**481,883**
As of 31 December 2014	**183,978**	**151,648**	**81,581**	**90,379**	**507,586**

For the years ended 31 December 2014 and 2013 the Group recorded RR 683 million and RR 1,248 million of capitalized borrowing cost as property, plant and equipment additions, respectively. The capitalisation rate was 3.5% (2013: 3.5%).

Included within construction in progress are advances for construction of RR 11,841 million and RR 14,716 million at 31 December 2014 and 2013, respectively.

(in millions of Russian Roubles)

Note 13: Property, plant and equipment (continued)

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2018 and 2044. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 1 January 2013	**11,285**
Additions	1,363
Reclassification to development assets	(351)
Charged to expense	(67)
At 31 December 2013	**12,230**
Additions	904
Reclassification to development assets	(823)
Charged to expense	(988)
At 31 December 2014	**11,323**

For the years ended 31 December 2014 and 2013, operating and investing cash flows used for exploration and evaluation activities amounted to RR 2,100 million and RR 904 million and RR 1,839 million and RR 1,363 million, respectively.

Social assets. During the years ended 31 December 2014 and 2013 the Group transferred social assets with a net book value of RR 1 million and RR 23 million, respectively, to local authorities. At 31 December 2014 and 2013 the Group held social assets with a net book value of RR 5,442 million and RR 5,276 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 4,090 million and RR 4,805 million for the years ended 31 December 2014 and 2013, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

(in millions of Russian Roubles)

Note 13: Property, Plant and Equipment (continued)

Decommissioning provisions.

The following tables summarize the Group's decommissioning provisions and decommissioning costs activities:

	2014	2013
Balance, beginning of period	**55,037**	**52,450**
Unwinding discount	4,397	4,503
New obligations	328	350
Release of existing obligations	(708)	(166)
Changes in estimates	(13,316)	(2,100)
Balance, end of period	**45,738**	**55,037**
Less: current portion of decommissioning provisions (Note 16)	(959)	(526)
Long-term balance, end of period	**44,779**	**54,511**

In 2014 the Group recorded the change in estimate for oil and gas properties decommissioning due to the change in discount rate and expected long-term inflation rate.

Key assumptions used for evaluation of decommissioning provision were as follows:

	At 31 December 2014	At 31 December 2013
Discount rate	11.67%	7.99%
Inflation rate	7.75%	4.70%

Note 14: Other long-term assets

Other long-term assets are as follows:

	At 31 December 2014	At 31 December 2013
Prepaid computer programs	1,985	2,347
Prepaid license agreements	90	124
Other long-term assets	1,220	1,080
Total other long-term assets	**3,295**	**3,551**

(in millions of Russian Roubles)

Note 15: Debt

	At 31 December 2014	At 31 December 2013
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	11,887	31,595
Other foreign currency denominated debt	382	-
Rouble denominated debt		
Current portion of long-term debt	75	36
Other rouble denominated debt	3,515	4,930
Total short-term debt	**15,859**	**36,561**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	10,779	14,771
US $1.5 bln 2009 credit facility	-	2,328
US $550 mln 2011 credit facility	-	17,961
US $75 mln 2011 credit facility	2,573	1,529
US $144.5 mln 2011 credit facility	4,273	2,762
EUR 55 mln 2013 credit facility	3,521	2,018
Other foreign currency denominated debt	2,830	2,122
Rouble denominated debt		
Other rouble denominated debt	874	925
Total long-term debt	**24,850**	**44,416**
Less: current portion of long-term debt	(11,962)	(31,631)
Total long-term debt, net of current portion	**12,888**	**12,785**

Foreign currency debts are primarily denominated in US Dollars.

Long-term debt had the following maturity profile (based on the discounted contractual cash flows):

	At 31 December 2014	At 31 December 2013
Due for repayment:		
Between one and two years	2,848	5,535
Between two and five years	5,021	3,554
After five years	5,019	3,696
Total long-term debt, net of current portion	**12,888**	**12,785**

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 3,515 million and RR 4,930 million bear contractual interest rates of 8% to 14.85% per annum as of 31 December 2014 and 1.1% to 8.75% per annum as of 31 December 2013.

Note 15: Debt (continued)

Long-term foreign currency denominated debt. In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to US $1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. This credit facility is collateralized with the contractual rights and receivables under an oil export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 360,000 metric tons of oil and refined products in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The 3-year tranche was fully repaid. The 5-year tranche bore interest at LIBOR plus 4.10%. The loan was fully repaid in October 2014.

In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to US $2 billion arranged by Barclays Bank PLS, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ LTD, Citibank N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tons of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The 3-year tranche was fully repaid. The 5-year tranche has the margin of LIBOR plus 3.40%, while the 7-year tranche bears the interest of LIBOR plus 5%.

In June 2011, the Company entered into a US $550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank of Tokyo Mitsubishi UFJ LTD., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG London Branch. The loan agreement required compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The loan was fully repaid in June 2014.

In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In November 2011, TANECO entered into a US $144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

Management believes that for the year ended 31 December 2014 and 2013 the Group was in compliance with all covenants required by the above loan agreements.

(in millions of Russian Roubles)

Note 15: Debt (continued)

The carrying amounts and fair-values of long-term debt are as follows:

	Carrying amounts		Fair values	
	At 31 December 2014	**At 31 December 2013**	**At 31 December 2014**	**At 31 December 2013**
US$ denominated fixed rate	2,830	20,083	2,830	20,083
US$ denominated floating rate	17,625	21,390	13,910	21,390
EUR denominated floating rate	3,521	2,018	2,015	2,018
RR denominated fixed rate	874	925	874	925
Total long-term debt	**24,850**	**44,416**	**19,629**	**44,416**

The fair value of long-term debts was determined based on future cash flows discounted at the market interest rate available to the Group at the end of the reporting period.

Note 16: Accounts payable and accrued liabilities

	At 31 December 2014	**At 31 December 2013**
Trade payables	17,269	14,260
Dividends payable	117	103
Other payables	1,347	980
Total financial liabilities within trade and other payables	**18,733**	**15,343**
Salaries and wages payable	4,187	4,109
Advances received from customers	6,883	1,045
Current portion of decommissioning provisions (Note 13)	959	526
Other accounts payable and accrued liabilities	7,237	7,421
Total non-financial liabilities	**19,266**	**13,101**
Accounts payable and accrued liabilities	**37,999**	**28,444**

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2014 and 2013 approximates their carrying value.

(in millions of Russian Roubles)

Note 17: Other long-term liabilities

Other long-term liabilities are as follows:

	At 31 December 2014	At 31 December 2013
Pension liability	2,749	3,768
Other long-term liabilities	211	71
Total other long-term liabilities	**2,960**	**3,839**

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization "National Non-Governmental Pension Fund". In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions are as follows:

	At 31 December 2014	At 31 December 2013
Discount rate	12.75%	8.0%
Rate of increase in salary levels	7.5%	7.2%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.47%	30.85%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognized in the consolidated statement of financial position.

Amounts recognized in the consolidated statement of financial position:

	At 31 December 2014	At 31 December 2013
Present value of defined benefit obligation	4,379	5,598
Less: Fair value of plan assets	(1,630)	(1,830)
Net defined benefit liability	**2,749**	**3,768**

Change in the defined benefit obligation amount:

	2014	2013
Defined benefit obligation at beginning year	5,598	5,441
Effect of exchange rate changes	50	8
Current service cost	189	181
Interest cost	448	392
Benefits paid	(531)	(487)
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(1,510)	58
Actuarial losses arising from changes in demographic assumptions	30	6
Actuarial losses/(gains) - Experience	56	(3)
Past service cost	101	-
Other	(52)	2
Defined benefit obligation at the end of the year	**4,379**	**5,598**

(in millions of Russian Roubles)

Note 17: Other long-term liabilities (continued)

The amounts recognized in profit or loss are as follows:

	2014	2013
Service cost	272	181
Net interest expense	301	261
Remeasurement (gains)/losses:		
Actuarial (gain)/losses arising from changes in financial assumptions	(323)	17
Actuarial losses arising from changes in demographic assumptions	10	2
Actuarial gains – Experience	(100)	(91)
Other	(52)	2
Total included in 'employee benefits expense'	**108**	**372**

The amounts recognized in other comprehensive income are as follows:

	2014	2013
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	(845)	224
Actuarial losses arising from changes in demographic assumptions	20	4
Actuarial losses – Experience	155	88
Effect of exchange rate changes	50	8
Total included in other comprehensive income	**(620)**	**324**

Reconciliation of the opening and closing balances of plan assets' fair value:

	2014	2013
Plan assets at beginning of year	1,830	1,819
Interest income	146	131
Contributions	229	230
Benefits paid	(232)	(167)
Actuarial loss	(342)	(183)
Other	(1)	-
Plan assets at year end	**1,630**	**1,830**

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	At 31 December 2014	At 31 December 2013
Russian corporate bonds and equity securities of Russian issuers	34.61%	51.74%
Russian government and regions bonds	8.51%	11.61%
Bank deposits	33.84%	33.12%
Foreign government securities	10.11%	-
Other	12.93%	3.53%
Total plan assets	**100%**	**100%**

Expected contributions to be paid during the next annual reporting period are RR 547 million.

(in millions of Russian Roubles)

Note 18: Taxes

Income tax expense comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax expense	(21,376)	(21,645)
Deferred income tax expense	(4,920)	(1,302)
Income tax expense for the year	**(26,296)**	**(22,947)**

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% (for the year ended 31 December 2013: 20%) to income before income taxes:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income taxes and non-controlling interest	123,973	101,291
Theoretical income tax expense at statutory rate	(24,795)	(20,258)
Increase due to:		
Non-deductible expenses, net	(2,545)	(2,689)
Other	1,044	-
Income tax expense	**(26,296)**	**(22,947)**

No provision has been made for additional income taxes on RR 24,311 million of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 1,550 million if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	At 31 December 2014	At 31 December 2013
Tax loss carry forward	4,508	3,824
Decommissioning provision	8,956	11,007
Other	778	624
Deferred income tax assets	**14,242**	**15,455**
Property, plant and equipment	(27,458)	(24,146)
Inventories	(2,370)	(1,847)
Accounts receivable	(319)	(152)
Long-term investments	(94)	(95)
Undistributed Earnings	-	(1,044)
Other liabilities	(2,618)	(1,921)
Deferred income tax liabilities	**(32,859)**	**(29,205)**
Net deferred tax liability	**(18,617)**	**(13,750)**

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	At 31 December 2014	At 31 December 2013
Deferred income tax asset	2,982	2,049
Deferred income tax liability	(21,599)	(15,799)
Net deferred tax liability	**(18,617)**	**(13,750)**

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

Tax losses carry forward. At 31 December 2014, the Group had recognized deferred income tax assets of RR 4,508 million (RR 3,824 million at 31 December 2013) in respect of unused tax loss carry forwards of RR 22,541 million (RR 19,119 million at 31 December 2013). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

(in millions of Russian Roubles)

Note 18: Taxes (continued)

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Mineral extraction tax	110,416	105,302
Property tax	5,161	4,518
Penalties and interest	53	40
Other	1,430	1,476
Total taxes other than income taxes	**117,060**	**111,336**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a benefit of approximately RR 29.7 billion and RR 24.4 billion for the years ended 31 December 2014 and 2013, respectively.

At 31 December 2014 and 2013 taxes payable were as follows:

	At 31 December 2014	At 31 December 2013
Mineral extraction tax	7,300	9,485
Value Added Tax on goods sold	2,694	2,205
Export duties	596	1,765
Property tax	1,419	1,195
Other	2,431	2,056
Total taxes payable	**14,440**	**16,706**

Note 19: Shareholders' equity

Authorized share capital. At 31 December 2014 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

Golden share. OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of 31 December 2014 holds approximately 33.59% of the Company's capital stock (approximately 36% of voting stock). These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law.

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

(in millions of Russian Roubles)

Note 19: Shareholders' equity (continued)

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2014 and 2013, the Company had a statutory current profit of RR 82,061 million and RR 63,850 million, respectively.

In June 2014 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2013 in amount of RR 8.23 per preference and ordinary share. In June 2013 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2012 in amount of RR 8.6 per preference and ordinary share.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2014	**Year ended 31 December2013**
Profit attributable to Group shareholders	92,227	70,832
Common share dividends	(17,474)	(18,260)
Preferred share dividends	(1,214)	(1,268)
Income available to common and preferred shareholders, net of dividends	**73,539**	**51,304**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,123	2,123
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,271	2,271
Basic and diluted earnings per share (RR)		
Common	40.61	31.19
Preferred	40.58	31.16

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 1,819 million and RR 984 million at 31 December 2014 and 2013, respectively.

Note 20: Employee benefit expenses

	Year ended 31 December 2014	**Year ended 31 December 2013**
Wages and salaries	35,144	32,479
Statutory insurance contributions	10,197	9,045
Bonus certificates granted to directors and employees	1,235	1,038
Pension costs – defined benefit plans (Note 17)	108	372
Other employee benefits	2,467	2,655
Total employee benefit expense	**49,151**	**45,589**

(in millions of Russian Roubles)

Note 20: Employee benefit expenses (continued)

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and Maintenance of social infrastructure and transfer of social assets and other expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

Note 21: Interest income and interest expense

Interest income comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income from loans and receivables	6,852	3,315
Unwinding of the present value discount of long-term financial assets	92	50
Total interest income	**6,944**	**3,365**

Interest expense comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Bank loans	1,660	2,204
RR denominated non-convertible bonds	-	261
Unwinding of the present value discount of decommissioning provision	4,123	4,494
Unwinding of the present value discount of long-term financial assets and liabilities	45	590
Total interest expense	**5,828**	**7,549**
Less capitalised interest costs	(346)	(625)
Total interest costs recognised in profit or loss	**5,482**	**6,924**

Note 22: Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group’s business activities are conducted predominantly through three main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

(in millions of Russian Roubles)

Note 22: Segment information (continued)

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income taxes and non-controlling interest not including interest income, expense, and earnings from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2014, revenues of RR 61,719 million or 13% of the Group's total sales and operating revenues is derived from one external customer.

For the year ended 31 December 2013, revenues of RR 88,807 million or 20% and RR 51,424 million or 11% of the Group's total sales and operating revenues are derived from two external customers, respectively.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment.

Management does not believe the Group is dependent on any particular customer.

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Year ended 31 December 2014	Year ended 31 December 2013
Exploration and production		
Domestic own crude oil	75,601	57,262
CIS own crude oil	8,825	7,057
Non-CIS own crude oil	105,411	137,495
Other	4,263	4,300
Intersegment sales	107,869	90,628
Total exploration and production	**301,969**	**296,742**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	12,218	394
Refined products	126,967	98,623
Total Domestic sales	139,185	99,017
CIS sales		
Refined products	12,087	7,176
Total CIS sales(1)	12,087	7,176
Non-CIS sales		
Crude oil purchased for resale	10,083	14,999
Refined products	62,329	73,542
Total non-CIS sales(2)	72,412	88,541
Other	5,105	3,496
Intersegment sales	3,399	3,487
Total refining and marketing	**232,188**	**201,717**
Petrochemicals		
Tires – domestic sales	25,027	24,395
Tires – CIS sales	6,579	6,714
Tires – non-CIS sales	1,486	1,321
Petrochemical products and other	2,794	2,359
Intersegment sales	933	846
Total petrochemicals	**36,819**	**35,635**
Total segment sales	**570,976**	**534,094**
Corporate and other sales	17,585	15,850
Elimination of intersegment sales	(112,201)	(94,961)
Total sales and other operating revenues	**476,360**	**454,983**

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
(2) - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands, United Kingdom based traders and Poland based refineries.

(in millions of Russian Roubles)

Note 22: Segment information (continued)

Segment earnings.

	Year ended 31 December 2014	Year ended 31 December 2013
Segment earnings		
Exploration and production	90,778	92,746
Refining and marketing	21,046	16,321
Petrochemicals	320	338
Total segment earnings	**112,144**	**109,405**
Corporate and other	(5,611)	(4,996)
Other income/(expenses)	17,440	(3,118)
Profit before income tax	**123,973**	**101,291**

Segment assets.

	At 31 December 2014	At 31 December 2013
Assets		
Exploration and production	280,081	281,384
Refining and marketing	294,658	259,879
Petrochemicals	30,094	29,830
Corporate and other	128,101	102,996
Total assets	**732,934**	**674,089**

As of 31 December 2014 and 2013 corporate and other segment comprised RR 7,212 million and RR 7,778 million, respectively, investments in associates and joint ventures.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

Segment depreciation, depletion and amortisation and additions to property, plant and equipment.

	Year ended 31 December 2014	Year ended 31 December 2013
Depreciation, depletion and amortization		
Exploration and production	11,633	11,424
Refining and marketing	5,516	4,203
Petrochemicals	1,741	1,682
Corporate and other	2,231	2,014
Total segment depreciation, depletion and amortization	**21,121**	**19,323**
Additions to property, plant and equipment		
Exploration and production	12,186	25,696
Refining and marketing	32,633	23,791
Petrochemicals	1,254	942
Corporate and other	6,714	7,715
Total additions to property, plant and equipment	**52,787**	**58,144**

For the years ended 31 December 2014 and 2013 additions to property, plant and equipment of exploration and production segment include a reduction of RR 12,988 million and RR 1,751 million, respectively, associated with changes in the decommissioning provision.

Note 23: Related party transactions

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

(in millions of Russian Roubles)

Note 23: Related party transactions (continued)

Transactions are entered into in the normal course of business with affiliates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales of crude oil and refined products, purchases of electricity and banking transactions.

Associates, joint ventures and other related parties

The amounts of transactions for each year and the outstanding balances at each year end with affiliates and other related parties are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Revenues and income		
Sales of refined products	15	15
Other sales	324	226
Costs and expenses		
Purchases of crude oil	148	124
Other services	527	629
Other purchases	1,644	1,105

For the years ended 31 December 2014 and 2013, the Group sold crude oil on a commission basis from related parties for RR 148 million and RR 124 million, respectively.

For the year ended 31 December 2014 and 2013 the Group has entered into transactions with related parties for purchases of equipment in the amount of RR 0 million and RR 1,986 million, respectively, which is included in our property, plant and equipment.

At 31 December 2014 and 2013 the outstanding balances with related parties were as follows:

	At 31 December 2014	At 31 December 2013
Assets		
Cash and cash equivalents	6,258	11,342
Restricted cash	1,554	912
Accounts receivable	421	332
Notes receivable	3,459	2,164
Short-term certificates of deposit	4,394	4,300
Trading securities	176	7
Loans receivable	515	310
Prepaid expenses and other current assets	189	107
Due from related parties short-term	**16,966**	**19,474**
Long-term accounts receivable	6	-
Long-term certificates of deposit	16,006	14,341
Long-term loans receivable	4,974	2,366
Due from related parties long-term	**20,986**	**16,707**
Liabilities		
Accounts payable and accrued liabilities	(45)	(162)
Short-term debt	(1,744)	(1,991)
Due to related parties short-term	**(1,789)**	**(2,153)**
Long-term debt	-	(66)
Due to related parties long-term	**-**	**(66)**

As of 31 December 2014 and 2013, the Group had RR 7,719 million and RR 3,879 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2015 and 2022, bearing interest between 2.48% and 8.5%. As of 31 December 2014 and 2013, the Group has short and long-term certificates of deposit of RR 20,400 million and RR 18,641 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

In March 2009 the Group placed a long-term deposit with Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%. In February 2014 an additional agreement was signed, as result of which this deposit will be payable in 15 years with a new interest rate of 9.35% per annum.

(in millions of Russian Roubles)

Note 23: Related party transactions (continued)

The Group entered into a subordinated deposit agreement with Bank Zenit in January 2013 in the amount of RR 3,600 million payable in 10 years bearing interest of 9% per annum. In February 2014 an additional agreement was signed, as result of which this deposit will be payable in 15 years without a change of interest rate.

Russian Government bodies and state organizations

The amounts of transactions for each year with Government bodies and state organizations are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Sales of crude oil	1,292	-
Sales of refined products	2,841	1,848
Other sales	330	304
Purchases of refined products	18,821	8,771
Purchases of electricity	11,037	10,115
Purchases of transportation services	15,061	22,489
Other services	3,287	4,067
Other purchases	204	136

Compensation to key management personnel

As of 31 December 2014 and 2013 total remuneration, including pension cost, for key management personnel was RR 1,582 million and RR 1,625 million, respectively.

For the year ended 31 December 2014, the Company issued 9,264,850 Awards to senior management and directors, all of which are expected to be settled at a price of RR 133.28 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July-September 2015. For the year ended 31 December 2013, the Company issued 10,138,230 Awards to senior management and directors, all of which are expected to be settled at a price of RR 102.4 per Award. The amount of related compensation expense recognized in Selling, General and administrative expenses of the Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2014 and 2013 was RR 1,235 million and RR 1,038 million, respectively.

Note 24: Contingencies and commitments

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tensions.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

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.

Capital commitments. As of 31 December 2014 and 2013 the Group has outstanding capital commitments of approximately RR 36,977 million and RR 23,180 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2015 and 2017.

Note 24: Contingencies and commitments (continued)

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 15). Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Tax authorities have completed the tax review of the Company's consolidated taxpayers group for the 2012. The results of this review did not have a material effect on the Group's results of operations or cash flows.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

Legal contingencies. The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Social commitments. The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Guarantees. The Group has no outstanding guarantees at 31 December 2014 and 2013.

Transportation of crude oil. The Group benefits from the blending of its crude oil in the Transneft pipeline system since the Group's crude oil production is generally of a lower quality than that produced by some other regions of the Russian Federation (mainly Western Siberia) which supply through the same pipeline system. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme is not determinable at present. However, if this practice were to change, the Group's business could be materially and adversely affected.

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest.

(in millions of Russian Roubles)

Note 24: Contingencies and commitments (continued)

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this report. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

As of 31 December 2014 the Group had approximately RR 5,731 million of assets associated with its Libyan operations of which RR 5,503 million is related to capitalized exploration costs, RR 210 million of inventories and RR 18 million of cash. As of 31 December 2013 the company had approximately RR 5,673 million of assets associated with its Libyan operations of which RR 5,455 million is related to capitalized exploration costs, RR 210 million of inventories and RR 8 million of cash.

Note 25: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2014. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

		At 31 December 2014		At 31 December 2013	
Name of entity	**Principal activity**	**% of ownership Interest held by the Group**	**% of ownership Interest held by the NCI**	**% of ownership Interest held by the Group**	**% of ownership Interest held by the NCI**
Tatneft Europe AG	Export oil sales	100	-	100	-
Taneco OAO	Oil refinery	91	9	91	9
TMS group OOO	Oil lifting services	-	100	-	100
Burenie OOO	Drilling services	-	100	-	100
Nizhnekamskshina OAO	Tires production	58	42	61	39
Nizhnekamskiy zavod shin CMK OOO	Tires production	100	-	100	-
Trade House Kama OOO	Tires sales	100	-	100	-
Tatneft AZS-Centr OOO	Oil products sales	100	-	100	-
Tatneft AZS-Zapad OOO	Oil products sales	100	-	100	-

The total non-controlling interest for the year ended 31 December 2014 is RR 5,450 million, of which RR 1,560 million is attributed to TMS group OOO and Burenie OOO. The total non-controlling interest for the year ended 31 December 2013 is RR 7,512 million, of which RR 3,167 million is attributed to TMS group OOO and Burenie OOO. As of 31 December 2014 and 2013 accumulated non-controlling interest in TMS group OOO and Burenie OOO was RR 9,527 million and RR 8,571 million, respectively.

(in millions of Russian Roubles)

Note 25: Principal subsidiaries (continued)

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (Loss)
Year ended 31 December 2014						
Taneco OAO	14,628	183,403	179,424	13,352	37,488	6,786
TMS group OOO	1,380	29,344	1,450	4,902	26,866	2,012
Nizhnekamskshina OAO	963	3,276	4,935	504	13,596	(131)
Burenie OOO	456	970	1,426	-	14,472	(113)
Total	**17,427**	**216,993**	**187,235**	**18,758**	**92,422**	**8,554**
Year ended 31 December 2013						
Taneco OAO	8,920	144,521	148,193	6,779	20,620	3,607
TMS group OOO	380	28,302	1,384	4,225	23,862	2,060
Nizhnekamskshina OAO	2,500	2,891	5,692	751	16,256	218
Burenie OOO	499	797	1,144	1	14,943	1,329
Total	**12,299**	**176,511**	**156,413**	**11,756**	**75,681**	**7,214**

Note 26: Financial risk management

Financial risk management objectives and policies.

The accounting policies for financial instruments, as described in Note 3, have been applied to the financial statements line items below:

	Note	At 31 December 2014	At 31 December 2013
Financial assets			
Current			
Cash and cash equivalents	6	41,548	29,535
Restricted cash		1,635	917
Accounts receivable	7	46,059	52,098
Short-term financial assets	8	25,323	16,693
Non-current			
Long-term accounts receivable		1,364	1,016
Long-term financial assets	11	29,893	25,814
Total financial assets		**145,822**	**126,073**
Financial liabilities			
Current			
Trade and other payable	16	(18,733)	(15,343)
Short-term debt and current portion of long-term debt	15	(15,859)	(36,561)
Non-current			
Long-term debt, net of current portion	15	(12,888)	(12,785)
Total financial liabilities		**(47,480)**	**(64,689)**

The Group‘s activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group‘s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group‘s financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

At 31 December 2014	**Russian Rouble**	**US dollar**	**Other**	**Total**
Financial assets				
Current				
Cash and cash equivalents	37,686	3,778	84	41,548
Restricted cash	-	127	1,508	1,635
Accounts receivable	34,974	10,242	843	46,059
Short-term financial assets	22,184	3,139	-	25,323
Non-current				
Long-term accounts receivable	1,364	-	-	1,364
Long-term financial assets	24,381	5,512	-	29,893
Total financial assets	**120,589**	**22,798**	**2,435**	**145,822**
Financial liabilities				
Current				
Trade and other payable	(15,964)	(1,661)	(1,108)	(18,733)
Short-term debt and current portion of long-term debt	(3,590)	(11,484)	(785)	(15,859)
Non-current				
Long-term debt, net of current portion	(799)	(8,971)	(3,118)	(12,888)
Total financial liabilities	**(20,353)**	**(22,116)**	**(5,011)**	**(47,480)**

At 31 December 2013	**Russian Rouble**	**US dollar**	**Other**	**Total**
Financial assets				
Current				
Cash and cash equivalents	26,121	3,346	68	29,535
Restricted cash	20	106	791	917
Accounts receivable	24,443	25,841	1,814	52,098
Short-term financial assets	13,934	2,759	-	16,693
Non-current				
Long-term accounts receivable	1,016	-	-	1,016
Long-term financial assets	22,305	3,509	-	25,814
Total financial assets	**87,839**	**35,561**	**2,673**	**126,073**
Financial liabilities				
Current				
Trade and other payable	(13,450)	(1,798)	(95)	(15,343)
Short-term debt and current portion of long-term debt	(4,966)	(31,387)	(208)	(36,561)
Non-current				
Long-term debt, net of current portion	(890)	(10,086)	(1,809)	(12,785)
Total financial liabilities	**(19,306)**	**(43,271)**	**(2,112)**	**(64,689)**

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Effect on pre-tax profit	Increase/decrease in exchange rate	Year ended 31 December 2014	Year ended 31 December 2013
US $/RR loss	+10%	(68)	(771)
US $/RR gain	-10%	68	771

b) Interest rate risk.

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Effect on pre-tax profit	Year ended 31 December 2014	Year ended 31 December 2013
Increase by 100 basis points	(264)	(372)
Decrease by 100 basis points*	50	25

* - floating rate decrease capped at zero.

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the reporting date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group's crude oil export sales to Europe are sold under long-term contracts.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized in the Consolidated Statement of Financial Position.

Credit risk arises from cash and cash equivalents, certificates of deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash. As of 31 December 2014 and 2013 the majority of loans and receivables (Note 8, Note 11) are held in Bank Zenit which is related party to the Group (Note 23) and other non-investment grade entities with credit rating not less than BB- according to Standard and Poor's.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure 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 debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term debt, current portion of long-term and long-term debt	16,662	3,465	5,869	5,496	31,492
Trade and other payable	18,733	-	-	-	18,733

At 31 December 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term debt, current portion of long-term and long-term debt	37,971	6,174	4,506	4,271	52,922
Trade and other payable	15,343	-	-	-	15,343

As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Fair value hierarchy

Fair values. 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 estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company‘s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	At 31 December 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Held-for-trading investments	1,160	-	1,360	**2,520**	2,522	-	994	**3,516**
Available-for-sale investments	-	4,752	-	**4,752**	-	4,660	-	**4,660**
Total	**1,160**	**4,752**	**1,360**	**7,272**	**2,522**	**4,660**	**994**	**8,176**

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 measurements at 31 December 2014:

	Fair value	Valuation technique	Inputs used
Available-for-sale investments	4,752	Quoted prices for similar investments in active markets, net assets valuation	Publicly available information
Total	**4,752**		

Available-for-sale financial assets, comprise of RR 3,585 million (11.7%) AK Bars Bank shares which are not quoted in any Stock Exchange and the fair value are measured on AK Bars Bank Group per IFRS Financial Statements (Net assets value) and other publicly available information.

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2014 (2013: none).

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	At 31 December 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Assets								
Cash and cash equivalents	41,548	-	-	**41,548**	29,535	-	-	**29,535**
Restricted cash	1,635	-	-	**1,635**	917	-	-	**917**
Accounts receivable	-	-	47,423	**47,423**	-	-	53,114	**53,114**
Financial assets	-	-	42,162	**47,944**	-	-	35,112	**34,332**
Total assets	**43,183**	**-**	**89,585**	**138,550**	**30,452**	**-**	**88,226**	**117,898**
Liabilities								
Debt	-	-	(23,526)	**(28,747)**	-	-	(49,346)	**(49,346)**
Trade and other payable	-	-	(18,733)	**(18,733)**	-	-	(15,343)	**(15,343)**
Total liabilities	**-**	**-**	**(42,259)**	**(47,480)**	**-**	**-**	**(64,689)**	**(64,689)**

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed and floating interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Management of Capital

The primary objective of the Group‘s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

Description	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Consolidated total borrowings:	**29,006**	**49,607**
- Short-term debt and current portion of long-term debt	15,859	36,561
- Long-term debt, net of current portion	12,888	12,785
- Notes payable	259	261
Consolidated shareholders’ equity	**555,965**	**481,412**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders’ equity)	**5%**	**10%**

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31 March 2015

49 (forty nine) pages are numbered, bound and