

PAO Petrarko

Consolidated Financial Statements

For the year ended December 31, 2014

and Independent Auditor's Report

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Independent Auditors' Report

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Independent auditor's report

To the Shareholders and the Board of Directors of PAO Petrarko

We have audited the accompanying consolidated financial statements of PAO Petrarko and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 provide a basis for our audit opinion.

Opinion

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

A.V. Aksenichev
Director

April 30, 2015

LLC «AF SOVA»

Orenburg, Russia



**Consolidated Statement of Comprehensive Income
for the year ended December 31, 2014**

(all amounts are in thousands of US dollars, except for earnings per share)

	Notes	2014	2013 Restated
Revenue	16	236	147
Cost of sales	17	(153)	(113)
GROSS PROFIT		83	34
Selling, general and administrative expenses	18	(205)	(32)
Other income		6	18
Other expenses		(20)	-
OPERATING PROFIT		(136)	20
Finance income	19	11	28
Finance costs	19	-	(13)
PROFIT BEFORE INCOME TAX		(125)	35
Income tax	13	(66)	78
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(191)	113
(LOSS) PROFIT FOR THE YEAR		(191)	113
Exchange differences on translation from functional to presentation currency		(156)	(94)
OTHER COMPREHENSIVE (LOSS) / PROFITFOR THE YEAR, NET OF INCOME TAX		(156)	(94)
TOTAL COMPREHENSIVE (LOSS) / PROFITFOR THE YEAR		(347)	19
(Loss) / profit for the year attributable to:			
Owners of the Company		(191)	113
Non-controlling interest		-	-
		(191)	113
Total comprehensive (loss) / profit for the year attributable to:			
Owners of the Company		(347)	19
Non-controlling interest		-	-
		(347)	19
Earnings per share, basic and diluted, US dollars	12	(0.0064)	0.0038

Approved on April 30, 2015 by:

General Director of PAO Petrarko
S.G. Ivanov



The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Financial Position at December 31, 2014
(All amounts are in thousands of US dollars)

	Notes	31.12.2014	31.12.2013 Restated
NON-CURRENT ASSETS			
Property, plant and equipment	7	29,396	-
Intangible assets		4,082	-
Loans receivable	9	823	-
Deferred tax asset	13	687	152
		<u>34,988</u>	<u>152</u>
CURRENT ASSETS			
Inventories		247	224
Trade and other receivables	8	2,790	1,391
Loans receivable	9	202,499	239
Cash		306	8
		<u>205,842</u>	<u>1,862</u>
TOTAL ASSETS		<u><u>240,830</u></u>	<u><u>2,014</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	984	984
Retained earnings		199	390
Additional paid-in capital		18,784	-
Effect of translation to presentation currency		(244)	(88)
Equity attributable to owners of the Company		<u>19,723</u>	<u>1,286</u>
Non-controlling interests		11,760	-
TOTAL EQUITY		<u>31,483</u>	<u>1,286</u>
NON-CURRENT LIABILITIES			
Decommissioning provision	20	1,598	-
Long-term borrowings	14	179,505	95
Deferred tax liabilities	13	2,039	8
		<u>183,142</u>	<u>103</u>
CURRENT LIABILITIES			
Short-term borrowings	14	23,440	331
Trade and other payables	15	2,760	294
Income tax payable		5	-
		<u>26,205</u>	<u>625</u>
TOTAL EQUITY AND LIABILITIES		<u><u>240,830</u></u>	<u><u>2,014</u></u>

Approved on April 30, 2015 by:

General Director of PAO Petrarko
 S.G. Ivanov



The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

	Notes	2014	2013 Restated
Operating activities			
Profit before tax from continuing operations		(125)	35
Adjustments to reconcile loss before tax to net cash provided by operating activities:			
Depreciation, amortisation and impairment		-	3
Finance costs	19	274	15
Finance income	19	(32)	-
		<u>117</u>	<u>53</u>
Changes in operating assets and liabilities:			
Increase in inventories		(23)	16
Decrease/(increase) in advances, taxes recoverable, receivables and other non-current assets		(1,399)	1
(Decrease)/increase in trade and other payables		<u>2,466</u>	<u>(54)</u>
Net cash generated from operations		1,161	16
Interest paid		-	(308)
Interest received		<u>38</u>	<u>19</u>
Net cash flows used in/from operating activities		1,199	(273)
Investing activities			
Acquisition of subsidiary, net of cash acquired	6	271	-
Loans provided		(1,448)	-
Proceeds from repayment of loans provided		<u>185</u>	<u>327</u>
Net cash flows used in investing activities		(992)	327
Financing activities			
Proceeds from borrowings		71	-
Repayment of borrowings		-	(43)
Net cash flows from financing activities		71	(43)
Net increase/(decrease) in cash		<u>278</u>	<u>11</u>
Effect of exchange rate changes on cash		<u>20</u>	<u>(25)</u>
Cash at beginning of the year		8	22
Cash at end of the year		306	8

The accompanying notes form an integral part of these consolidated financial statements

**Consolidated Statement of Changes in Equity
for the year ended December 31, 2014**

(All amounts are in thousands of US dollars)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owners of the Company	Non- controlling interests	Total equity
At December 31, 2012	984		6	277	1,267	-	1,267 0
Net profit for the year	-	-	-	113	113	-	113
Other comprehensive loss for the year	-	-	(94)	-	-94	-	-94
Total comprehensive (loss)/income for the year	-	-	(94)	113	19	-	19
At December 31, 2013 restated	984	-	(88)	390	1286	-	1286
Net profit for the year	-	-	-	(191)	(191)	-	(191)
Other comprehensive loss for the year	-	-	(156)	-	(156)	-	(156)
Total comprehensive (loss)/income for the year	-	-	(156)	(191)	(347)	-	(347)
Acquisition of subsidiaries	-	-	-	-	-	11,760	11,760
Transactions with the Controlling shareholder	-	18,784	-	-	18,784	-	18,784
At December 31, 2014	984	18784	(244)	199	19,723	11,760	31483

The accompanying notes form an integral part of these consolidated financial statements

1. Corporate Information

Organization and Operations

The Consolidated Financial Statements of the Group were authorized for release by the General Director of PAO Petrarko on April 30, 2015.

PAO Petrarko (the "Company") was registered as a Russian joint stock company on February 27, 2004. The registered and headquarter address of the Company is at 268 Pushkinskay str., Izhevsk, 460014, Russia.

PAO Petrarko worked in IT-market in 2013 and 2014. At the end of 2014 PAO Petrarko purchased controlling stakes of two companies primarily involved in exploration and production of natural gas and crude oil in Orenburg region of the Russian Federation. Natural gas and crude oil resource base of PAO Petrarko and its subsidiary (the "Group") included eight oil and gas fields in December 31, 2014 (Note 20). The Group derives all its revenues in the territory of the Russian Federation.

List of the Group shareholders is presented below:

Shareholder	December 31, 2014, %	December 31, 2013, %
UNGP Holding Ltd	-	62
LLC Gazprom dobycha Orenburg (subsidiary of OJSC Gazprom)	38	38
PETRARKO Ltd	62	-
Total	100	100

Ultimate controlling party of the Group is Mr Victor Horoshatsev.

As at December 31, 2014 and 2013, the Group employed 146 and 4 people, respectively.

2. Basis of Preparation and Consolidation

Statement of Compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

Basis of Preparation

The Consolidated Financial Statements have been prepared on a historical cost basis. The Consolidated Financial Statements are presented in US dollars ("USD"), and all values are rounded to the nearest thousand, except where otherwise indicated.

The Consolidated Financial Statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements, which has a material impact on the Group.

2. Basis of Preparation and Consolidation (continued)

Basis of Consolidation

The Consolidated Financial Statements of the Group comprise the financial statements of the Group as at December 31, 2014.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Where the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit and loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests ("NCI"), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any NCI;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of profit or loss and other comprehensive income;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies and Estimates

Current Versus Non-current Classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Functional and Presentation Currency

The Group has chosen the US dollar as the presentation currency as being more convenient for the major current and potential users of the Consolidated Financial Statements.

The functional currency of the Company and its subsidiary is the Russian rouble. The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The assets and liabilities are translated into the presentation currency at the rate of exchange ruling at the reporting date, and transactions are translated at the weighted average exchange rates for the 9 months and 4 quarter of 2014 separately. Equity items, other than the net profit or loss for the year that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction. The exchange differences arising on the translation are recognized in other comprehensive income or loss.

Transactions in foreign currencies in the Company and its subsidiary are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the rate of exchange ruling at the reporting date. All resulting differences are recorded in the statement of comprehensive income as foreign currency exchange gains or losses in the period in which they arise. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange rates used in the preparation of the Consolidated Financial Statements were as follows:

	2014	2013
Russian rouble/US dollar		
December 31	56.2584	32.7292
Average for the year	37.6248	31.8143
Average for the nine months	35.3408	-

Average for the fourth quarter

46.5525

3. Significant Accounting Policies and Estimates (continued)

Fair Value Measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 22.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial Assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

The Group's financial assets include cash and cash equivalents, loans, trade and receivables.

Cash and Short-term Deposits

Cash and short-term deposits comprise cash at banks, cash on hand and short-term deposits with an original maturity of three months or less in the statement of financial position and for the purpose of the statement of cash flows.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees r costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the statement of comprehensive income.

3. Significant Accounting Policies and Estimates (continued)

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

For amounts due from loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continued to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the statement of comprehensive income.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when either:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. Significant Accounting Policies and Estimates (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Common control transaction

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

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

When the Group disposes of subsidiaries and transfers its ownership to an entity under common control, the Group recognizes such transactions at carrying value of net assets disposed of is recognized as an adjustment to shareholders' equity.

Oil and Gas Properties and Other Property, Plant and Equipment

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis.

Pre-license Costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and Evaluation Costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

During the geological and geophysical exploration phase, costs are recognized in the statement of comprehensive income, as incurred. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation tangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no potentially commercial hydrocarbon reserves are discovered, the exploration asset is written off through the statement of comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., by drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as a tangible asset while sufficient and continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as a tangible asset.

All such capitalized costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. If it is determined that commercial discovery has not been achieved, these costs are written off through the statement of comprehensive income. When proved reserves of hydrocarbons are identified and development is sanctioned by management, the relevant capitalized expenditure is transferred to production oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Other than license costs, no amortization is charged during the exploration and evaluation phase.

3. Significant Accounting Policies and Estimates (continued)

Oil and Gas Properties and Other Property, Plant and Equipment (continued)

Development Costs

Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized as assets under construction within property, plant and equipment. When development is completed on a specific field, it is transferred to production assets. Extraction assets aggregate exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Initial Recognition

Property, plant and equipment are recorded at cost, less accumulated depletion and depreciation and/or accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where required), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When a development project moves into the production stage, the capitalization of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalization relating to oil and gas property asset additions, improvements or new developments.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of property, plant and equipment are recognized in profit and loss as incurred. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Significant accounting judgements, estimates and assumptions below and Decommissioning provision (Note 19) for further information about the recorded decommissioning provision.

Depletion and Depreciation

Oil and gas properties are depreciated on a unit-of-production basis over the total proved developed reserves of the field concerned. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date. Oil and gas proved reserves of the Group have been determined based on estimates of hydrocarbon reserves in accordance with internationally recognized definitions by internationally recognized petroleum engineers to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

3. Significant Accounting Policies and Estimates (continued)

Oil and Gas Properties and Other Property, Plant and Equipment (continued)

Other property, plant and equipment are generally depreciated on a straight-line basis from the time the assets are available for use, over their estimated useful lives.

Description	Useful life, years
Buildings	5-50
Other plant and equipment	2-15
Transport	3-7

Land is not depreciated. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognized. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Derecognition

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of the asset are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in the statement of comprehensive income when the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period and adjusted prospectively, if appropriate.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the useful economic lives from 3 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them to use. Internally generated intangible assets are not capitalized and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

3. Significant Accounting Policies and Estimates (continued)

Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset or cash generated unit ("CGU") may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculations on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. Value in use does not reflect future cash flows associated with improving or enhancing an asset's performance, whereas anticipated enhancements to assets are included in fair value less costs of disposal calculations.

Impairment losses of continuing operations, including impairment of inventories, are recognized immediately in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset/CGU in prior years. Such reversal is recognized in the statement of comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT. VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

3. Significant Accounting Policies and Estimates (continued)

Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the Consolidated Financial Statements that are proposed or declared after the reporting date but before approval of the Consolidated Financial Statements are not recognized as a liability at the reporting date in accordance with IAS 10 *Events after the Reporting Period*.

Non-controlling interest in a limited liability company

The Group controls a two subsidiaries registered as a limited liability company ("LLC"). According to the charter of LLC each participant has a right to leave LLC without approval of other participants. In this case the Group should pay out non-controlling party its share in the net assets of LLC. Management periodically evaluates potential liabilities to non-controlling parties and recognizes them as other payables in the statement of financial position. Changes in payables to non-controlling parties during the year are recognized in the statement of comprehensive income.

Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as payables, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, less directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Interest-bearing Loans and Borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss and other comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. 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. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3. Significant Accounting Policies and Estimates (continued)

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as part of finance costs in the statement of comprehensive income.

Decommissioning Liability

Decommissioning liability is recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of comprehensive income. If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount on the decommissioning provision is recognized in the statement of comprehensive income as a finance cost.

The Group recognizes neither the deferred tax asset regarding the temporary difference on the decommissioning liability nor the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

3. Significant Accounting Policies and Estimates (continued)

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue is shown net of any rebates, returns, discounts, VAT and other sales taxes.

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

Sales of Natural Gas, Crude Oil and Related Products

Revenues from sale of natural gas and crude oil are recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a pipe or other delivery mechanism.

Rendering of Services

Revenues from contracts to provide services are recognized by reference to the stage of completion of the contract.

Rental Income

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease and is included in other operating income.

Interest income

For all financial instruments measured at amortised cost interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Borrowing Costs

Borrowing costs of the Group include interest on short-term credit facilities. Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use, i.e., when they are capable of commercial production. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Employee Benefits

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social taxes, is recognized as an expense in the year to which they relate.

3. Significant Accounting Policies and Estimates (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a Lessee

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Group as a Lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences at the reporting date using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition 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 profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant Accounting Policies and Estimates (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recorded only to the extent that it is 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 utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition 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 profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax is charged or credited to the statement of comprehensive income, except when it relates to items recognized outside profit or loss, in which case the deferred tax is also recognized in the statement of comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's Consolidated Financial Statements that complies with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of consolidated financial statements. Estimates and assumptions are continuously 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Contingencies

By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

3. Significant Accounting Policies and Estimates (continued)

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Hydrocarbon Reserve and Resource Estimates

Engineering estimates of hydrocarbon reserves are inherently uncertain and are subject to future revisions. Accounting measures such as depletion charges, impairment assessments and decommissioning provision that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers ("SPE") Petroleum Resources Management Reporting System ("PRMS") framework. Proved reserves are defined as the estimated quantities of hydrocarbons which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves.

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

- the carrying value of exploration and evaluation assets, oil and gas properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows;
- depreciation and amortization charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change;
- provisions for decommissioning may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- the recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Useful Lives of Property, Plant and Equipment

The estimation of the useful life of an item of property, plant and equipment requires the use of estimates and assumptions, including the amount of recoverable reserves, estimates of future capital expenditures, estimates of technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

3. Significant Accounting Policies and Estimates (continued)

Oil and gas properties are depreciated using the units-of-production ("UOP") method over total proved developed hydrocarbon reserves. This results in a depreciation/amortization charge proportional to the depletion of the anticipated remaining production from the field. The calculation of the UOP rate of depreciation/amortization could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues. Changes in estimates are accounted for prospectively.

Based on terms included in the licenses and past experience, management believes that oil and gas production licenses will be extended past their current expiration dates at insignificant additional cost and assets are depreciated over their useful lives beyond the end of the current license terms.

The Group assesses the remaining useful lives of non-oil and gas items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of Non-financial Assets

The Group assesses each asset or cash generating unit ("CGU") each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value less costs of disposal, an appropriate valuation model is used. The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, hydrocarbon reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Decommissioning Costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

Allowance for Impairment of Advances Paid, Taxes Recoverable and Receivables

Management maintains an allowance for impairment for doubtful receivables and advances paid to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group, inability of customers to settle their debts and unrecoverable taxes. When evaluating the adequacy of an allowance for impairment of advances paid, taxes recoverable and receivables, management bases its estimates on specific analysis of the major outstanding prepayments, taxes recoverable and accounts receivable balances. If the financial condition of those suppliers or customers were to deteriorate, actual write-offs might be higher than expected.

3. Significant Accounting Policies and Estimates (continued)

Allowance for Impairment of Inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on inventory turnover report as well as based on physical inventory observation.

Current Taxes

Russian tax legislation is subject to varying interpretation and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Deferred Tax Assets

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

4. Changes in Accounting Policies and Disclosures

4.1. New and Amended Standards and Interpretations

A number of new and revised Standards and Interpretations has been adopted in these financial statements:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
- IFRIC 21 Levies
- Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36
- Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

4.2. Correction of Errors

In preparing consolidated financial statements for the year ended December 31, 2014, the Group has made correction of errors and reclassifications in the 2013 comparative numbers as followed:

Extract from consolidated statement of financial position

	Notes	31.12.2013 as reported	Correction of errors/ reclassification	31.12.2013 as corrected/ reclassified
NON-CURRENT ASSETS				
Property, plant and equipment	1, 2	35	(35)	-
Loans receivable	1, 2	241	(241)	-
Deferred tax asset	1, 2	68	84	152
		344	(192)	152
CURRENT ASSETS				
Inventories	1, 2	192	(1)	224
Trade and other receivables	1, 2	1,561	(170)	1,391
Loans receivable	1, 2	320	(81)	239
Cash	1	20	(12)	8
		2,093	(231)	1,862
TOTAL ASSETS		2,437	(423)	2,014
EQUITY				
Retained earnings	1	396	(6)	390
Effect of translation to presentation currency	1, 2	(35)	(53)	(88)
		361	(59)	302
NON-CURRENT LIABILITIES				
Long-term borrowings	1, 2	54	41	95
Deferred tax liabilities	1	-	8	8
		54	49	103
CURRENT LIABILITIES				
Short-term borrowings	1, 2	715	(384)	331
Trade and other payables	1, 2	323	(29)	294
		1,038	(413)	625
TOTAL EQUITY AND		1,453	(423)	1,030

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

LIABILITIES

Extract from consolidated statement of comprehensive income

	Notes	2013 as reported	Correction of an error	2013 as corrected
Revenue	1, 2	135	12	147
Cost of sales	1, 2	(91)	(22)	(113)
Selling, general and administrative expenses	1, 2	(24)	(8)	(32)
Other income	1, 2	2	16	18
Other expenses	1, 2	(2)	2	-
Finance income	1, 2	26	2	28
Finance costs	1, 2	(12)	(1)	(13)
Income tax	1, 2	(7)	85	78
PROFIT FOR THE YEAR		27	86	113

(1) The reporting period was changed from 01.01.2013-16.12.2013 into 01.01.2013-31.12.2013

(2) Presentation currency was changed from the Russian rouble into US dollar

4.3. Standards and Interpretations Issued, but not yet Effective

Standards & Interpretations	Effective date
IFRS 9 (as amended in 2013)	Financial Instruments 1 January 2018
IFRS 15	Revenue from Contracts with Customers 1 January 2017
IFRS 14	Regulatory Deferral Accounts 1 January 2016
Amendments to IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests 1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation 1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants 1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements 1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Defined Benefit Plans: Employee Contributions 1 January 2016
Amendments to IAS 19	Contributions 1 July 2014
Annual Improvements to IFRSs (2012-2014 Cycle)	1 July 2016
IFRS 15	Revenue from Contracts with Customers 1 July 2017
IFRS 9	The final version of IFRS 9 Financial Instruments 1 January 2018

The Group anticipates that these standards and interpretations will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015, 2016, 2017 and 2018, respectively. The application of these standards and interpretations may have impact on amounts reported in the consolidated financial statements.

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

5. Group information
Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principle activities	Country of incorporation	% equity interest	
			2014	2013
LLC UNGP Finance (Note 6)	Financial investments	Russia	62%	-
LLC Pervomaiskoe (Note 6)	Exploration and production of natural gas and crude oil	Russia	100%	-
JSC Uralneftegasprom (Note 6)	Exploration and production of natural gas and crude oil	Russia	62%	-

6. Business combination

LLC Pervomaiskoe

On November 07, 2014, the Group acquired a 62% ownership interest in LLC Pervomaiskoe, within the limits of transaction with the Controlling shareholder, a Russian limited liability company, in respect of authorized shares of PAO Petrarko worth 2,000,000 thousand Russian roubles (\$44,262 at the exchange rate as of November 07, 2014). The financial statements of the subsidiary were included in the scope of consolidation as of December 31, 2014.

The fair values of the identifiable assets and liabilities of LLC Pervomaiskoe as at the date of acquisition were:

	Fair value recognized on acquisition
Assets	
Intangible assets	4,072
Loans receivable	1
Trade and other receivables, net	92
Deferred income tax asset	138
Cash	2
Total	4,305
Liabilities	
Deferred income tax liabilities	38
Borrowings	4,254
Trade and other payables	414
Total	4,706
Total identifiable net assets	(401)
Net assets attributable to 100% ownership interest	(401)
Arising additional paid-in capital	(401)

The fair values of the identifiable assets and liabilities of LLC Pervomaiskoe was calculated in December 31, 2014 owing to the preparation of Financial Statements of LLC Pervomaiskoe.

JSC Uralneftegasprom and its subsidiary - LLC UNGP-Finance

On November 07, 2014, the Group acquired a 62% ownership interest in JSC Uralneftegasprom, within the limits of transaction with the Controlling shareholder, Russian joint stock company, and its subsidiary - LLC UNGP-Finance, in respect of authorized shares of PAO Petrarko worth 8,000,000 thousand Russian roubles (\$177,048 at the exchange rate as of November 07, 2014). The financial statements of the subsidiary were included in the scope of consolidation as of December 31, 2014.

The fair values of the identifiable assets and liabilities of JSC Uralneftegasprom and its subsidiary - LLC UNGP-Finance as at the date of acquisition were:

	Fair value recognized on acquisition
Assets	
Property, plant and equipment	29,396
Intangible assets	10
Inventories	247
Loans receivable	202,591
Trade and other receivables, net	3,095
Deferred income tax asset	504
Cash	269
Total	236,112
Liabilities	
Deferred income tax liabilities	1,999
Decommissioning provision	1,598
Borrowings	198,623
Trade and other payables	2,718
Income tax payable	5
Total	204,943
Total identifiable net assets	31,169
Non-controlling interest	(11,760)
Arising additional paid-in capital	19,409

The fair values of the identifiable assets and liabilities of JSC Uralneftegasprom was calculated in December 31, 2014 owing to the preparation of Financial Statements of JSC Uralneftegasprom.

PAO Petrarko

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

7. Property, Plant and Equipment

	Plant and equipment	Total
Cost		
At December 31, 2012	7	7
Disposals	(2)	(2)
At December 31, 2013	5	5
Accumulated Depreciation and Depletion		
At December 31, 2012	(5)	(5)
Charge for the year	(3)	(3)
Disposals	2	2
Effect of translation to presentation currency	1	1
At December 31, 2013	(5)	(5)
Net Book Value		
At December 31, 2012	2	2
At December 31, 2013	-	-

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Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

7. Property, Plant and Equipment (continued)

Cost	Oil and gas properties	Land and buildings	Other plant and equipment	Transport	Assets under construction	Total
At December 31, 2013	-	-	5	-	-	5
Disposals	-	-	(4)	-	-	(4)
Acquisition of subsidiaries	35,281	518	2,095	476	5,552	43,922
Effect of translation to presentation currency	-	-	(1)	-	-	(1)
At December 31, 2014	35,281	518	2,095	476	5,552	43,922
Accumulated Depreciation, Depletion and impairment						
At December 31, 2013	-	-	(5)	-	-	(5)
Disposals	-	-	4	-	-	4
Acquisition of subsidiaries	(12,434)	(340)	(1,369)	(383)	-	(14,527)
Effect of translation to presentation currency	-	-	1	-	-	1
At December 31, 2014	(12,434)	(340)	(1,369)	(383)	-	(14,527)
Net Book Value						
At December 31, 2013	-	-	-	-	-	-
At December 31, 2014	22,847	178	726	93	5 552	29,396

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

8. Trade and Other Receivables (current)

	2014	2013
Trade receivables	2,287	-
Receivables from related parties (Note 12)	28	21
	2,315	21
Allowance for doubtful accounts	(5)	-
	2,310	21
Advances to suppliers	113	1,365
Other receivables	367	5
Total receivables, net	2,790	1,391

For terms and conditions relating to related party receivables, refer to Note 12.

Trade and other receivables are non-interest bearing and are generally on 30 days terms. The Group regularly analyses accounts receivable turnover ratio, maturity dates and takes appropriate measures on collection of debts due.

Allowance for impairment of trade and other receivables is based on estimated irrecoverable amounts. In determining the recoverability of a trade or other receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. As at December 31, 2014 and 2013 no trade and other receivables were past due but not impaired.

9. Loans

	2014	2013
Loans provided to third parties	202,232	239
Loans provided to related parties (Note 12)	1,614	-
Total nominal amount	203,846	239
Discount on loans	(524)	-
Total amortized cost	203,322	239
Long-term loans	823	-
Short-term loans	202,499	239

Loans provided to third parties in the amount of \$200,682 are of short term with the maturity dates from August to December 2014. A long-term loan provided to third parties in the amount of \$823 with maturity on December 31, 2016. All loans are denominated in Russian roubles.

Interest on each loan is accrued annually at 4.5% on the utilized balance. Loans are accounted for at amortized cost using discount rate of 10%.

Loans are held to maturity and generate a fixed interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

10. Share Capital and Dividends

Authorized, issued and fully paid share capital of the Company comprises 30,000,000 ordinary shares with a par value of 1 Russian roubles per share. All shares have equal rights and carrying one vote each. The nominal value of share capital is 30,000 thousand Russian roubles (\$984 at the exchange rate at January 1, 2011, the date of transition to IFRS).

In November, 2014 the Company within the limits of transactions with the Controlling shareholder exchanged the aforementioned 10,000,000,000 shares into a share of LLC Pervomaiskoe and JSC Uralneftegazprom capital.

In December, 2014 Central Bank of Russian Federation suspended the registration of the results of the November 2014 issue of shares.

10. Share Capital and Dividends (continued)

The share capital of the Company was formed in Russian roubles, and the shareholders are entitled to dividends and any contributions in Russian roubles.

Pursuant to the Russian legislation, only accumulated retained earnings per the Company's statutory financial statements prepared in accordance with RAS may be distributed to the shareholders of the Company as dividends.

No dividends were proposed for the years ended December 31, 2014 and 2013.

11. Earnings per Share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no instruments that have dilutive effects on earnings.

	2014	2013
Net profit attributable to ordinary shareholders of the Company	(191)	113
Weighted average number of ordinary shares	30,000,000	30,000,000
Basic earnings per ordinary share (US dollars per share)	(0.0064)	0.0038

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

12. Related Parties Disclosures

In accordance with IAS 24 *Related Party Disclosures* parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

During the years ended December 31, 2014 (after acquisition of subsidiaries) the Group entered into a number of transactions, in the ordinary course of business, with LLC Gazprom dobycha Orenburg, the shareholder of the JSC Uralneftegazprom, LLC Gazprom podzemremont Orenburg, the entity under common control of LLC Gazprom dobycha Orenburg shareholders, LLC UNGP Management, the entities under common control of main shareholders of the Company.

In December 2014 the Group acquired six promissory notes of UNGP Holding Ltd, the Shareholder of the Parent, in the total amount of \$44,760 (at the exchange rate as of December 31, 2014), bearing interest of 10.0% per annum and payable not earlier than December 31, 2015 (Note 9).

In March 2014, the Group provided LLC UNGP Management, the entity under common control of main shareholders of the JSC Uralneftegazprom, with four unsecured Russian rouble denominated loans in the total amount of \$1,614 (at the exchange rate as of December 31, 2014), bearing interest of 10.0% per annum and maturing on December 31, 2015.

12. Related Parties Disclosures (continued)

Short-term receivables from related parties consisted of the following:

	Receivables from related parties	
	December 31, 2014	December 31, 2013
Related Parties		
Gazprom dobycha Orenburg LLC (trade receivables)	28	-
Total receivables from related parties	425	-

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

Short-term payables to related parties consisted of the following:

	Payables to related parties	
	December 31, 2014	December 31, 2013
Related Parties		
Gazprom podzemremont Orenburg LLC (trade payables)	8	-
UNGP Management LLC (other payables)	108	-
Gazprom dobycha Orenburg LLC (other payables)	714	-
Total payables to related parties	830	-

Compensation to Key Management Personnel

Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2014	2013
Salary	31	20

The Group's contributions relating to social taxes for key management personnel amounted to \$7 and \$5 during the years ended December 31, 2014 and 2013, respectively.

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(All amounts are in thousands of US dollars)

13. Income Tax

The Group's provision for income tax for the years ended December 31 is as follows:

	2014	2013
Current tax	-	-
Deferred tax	(66)	78
Total income tax expense	(66)	78

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The statutory tax rate effective in the Russian Federation was 20% in 2013 and 2014. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at statutory income tax rates to the actual expense recorded in the Group's statement of comprehensive income:

	2014	2013
Profit before income tax	(191)	113
At Russian statutory income tax rate (20%)	38	(23)
Adjustment in respect of income tax of previous years	45	77
Effect of non-deductible expenses	(149)	24
Income tax expense reported in the statement of comprehensive income	(66)	78

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2014:

	December 31, 2013	Acquisition of subsidiary	Differences recognition and reversal	Translation difference	December 31, 2014
Tax effect of deductible temporary differences					
Trade and other payables	-	43	-	-	43
Allowance for impairment of receivables and inventory	20	77	(20)	-	77
Decommissioning provision	-	217	-	-	217
Discounts on financial assets upon initial recognition	-	105	-	-	105
Loss carry forward	77	138	(32)	(1)	182
Other	55	63	(55)	-	63
Total deferred tax asset	152	643	(107)	(1)	687
Tax effect of taxable temporary differences					
Property, plant and equipment	-	(1,955)	-	-	(1,955)
Discounts on financial liabilities upon initial recognition	-	(9)	-	-	(9)
Trade and other payables	(8)	(1)	5	1	(3)
Other	-	(72)	-	-	(72)
Total deferred tax liability	(8)	(2,037)	5	1	(2,039)
Net deferred tax liability	144	(1,394)	(102)	-	(1,352)

13. Income Tax (continued)

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2013:

	December 31, 2012	Differences recognition and reversal	Translation difference	December 31, 2013
Tax effect of deductible temporary differences				
Allowance for impairment of receivables and inventory	-	23	(3)	20
Loss carry forward	74	5	(2)	77
Other	-	58	(3)	55
Total deferred tax asset	74	86	(8)	152
Tax effect of taxable temporary differences				
Trade and other payables	-	(9)	1	(8)
Total deferred tax liability	-	(9)	1	(8)
Net deferred tax asset/(liability)	(2,176)	(159)	162	144

The recognition and reversal of temporary differences, as presented in the tables above, primarily relates to the depreciation of property, plant and equipment in excess of the depreciation for tax purposes, accrued liabilities and provisions to write inventory down to net realizable value.

14. Borrowings

	Effective interest rate	Maturity	2014	2013
Bonds	10.00%	December 16, 2020	89,047	-
Bonds	10.00%	April 20, 2021	90,434	-
Other borrowings	4.5%	December 31, 2016	24	95
Total long-term borrowings			179,505	95
Promissory notes	10.00%	on demand	7,989	331
	9.00%-			
Bank loans	25%	April 14, 2016	1,769	-
	4.50%-			
Other borrowings	8.5%	June 30, 2015	9,384	-
Other borrowings	10.25%	June 01, 2015	4 298	-
Total short-term borrowings			23,440	331

On December 11, 2012, the Group issued and sold ten Russian rouble denominated promissory notes in the total amount of \$9,877 (at the exchange rate as of December 31, 2012) bearing interest of 16.00% per annum and payable at sight but not earlier than June 11, 2013. On July 31, 2013, the Group issued and sold ten Russian rouble denominated promissory notes in the total amount of \$6,111 (at the exchange rate as of December 31, 2013) bearing interest of 16.00% per annum and payable at sight but not earlier than October 15, 2013. On November 15, 2013, all promissory notes in the total amount of \$16,194 (at the exchange rate as of December 31, 2013) including interest payable were called for payment. On November 15, 2013, the Group issued forty Russian rouble denominated promissory notes in the total amount of \$16,194 (at the exchange rate as of December 31, 2013) bearing interest of 10.00% per annum and payable on demand. New promissory notes were sold to the payee on the called promissory notes. On November 15, 2013, mutual claims were offset and called promissory notes were destroyed. During 2014 21 promissory notes were met in the total amount of \$2.422 (at the exchange rate as of December 31, 2014).

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

14. Borrowings (continued)

On April 29, 2013, the Group entered into a credit facility agreement denominated in Russian rouble in the amount of \$2,994 (at the exchange rate as of December 31, 2013) bearing interest of 9.00%-9.65% per annum and maturing on April 14, 2016. Each tranche of the credit facility is provided for the period not longer than 270 days. During 2014 the credit facility was renewed with interest rate of 25%. The credit facility was secured by a pledge of fixed assets with a net book value of \$1,677 and pledged value of \$1,223. The credit facility was fully utilized as at December 31, 2014 and 2013.

15. Trade and Other Payables (current)

Trade and other payables consisted of the following as of December 31:

	2014	2013
Output VAT and other taxes payable	1,201	9
Trade creditors	506	2
Payables to related parties (Note 12)	830	-
Accrued salaries	217	4
Other liabilities	6	279
Total trade and other payables	2,760	294

For terms and conditions relating to related party payables, refer to Note 12.

Trade payables are non-interest bearing and are normally settled on 60-day terms. No interest is charged on the outstanding balance of trade and other payables during this period.

16. Revenue

Revenue for the years ended December 31 consisted of the following:

	2014	2013
Revenue from IT-services	24	140
Revenue from product sales	212	7
Total revenue	236	147

17. Cost of Sales

The following expenses were included in cost of sales for the years ended December 31:

	2014	2013
Employee benefits expense	12	83
Materials	136	3
Other	4	27
Total cost of sales	152	113

18. Selling, General and Administrative Expenses

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2014	2013
Employee benefits expense	7	9
Property tax and other taxes	6	4
Rent	1	7
Depreciation of other property, plant and equipment and amortization	-	3
Financial and legal services	33	-
Creation of servitudes	121	-
Other	37	9
Total selling, general and administrative expenses	205	32

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

19. Finance Income/Costs

The following income/costs were included in finance income/costs for the years ended December 31:

	2014	2013
Interest income	11	288
Total finance income	11	28
Interest expense	-	(13)
Total finance costs	-	(13)

20. Decommissioning Provision

Movements in the decommissioning provision were as follows:

	2014	2013
At January 1	-	-
Acquisition of subsidiaries	1,598	-
At December 31	1,598	-

The Group's decommissioning provision relates primarily to the conservation and liquidation of wells, pipelines and other oil and gas facilities and site restoration. Key assumptions used for evaluation of decommissioning provision were as follows:

	2014	2013
Discount rate	11.669%-	-
Inflation rate	9.030%	-
	11.4%	-

The Group has estimated the costs to be incurred using the cost of technology and materials that are currently available.

The Group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2035. These provisions have been created based on Company's internal estimates. Management believes that assumptions, based on the current economic environment, are a reasonable basis to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

During 2014 two licenses were recalled from the Group by the Federal Agency for Subsoil Use. The Group should decommission oil production facilities and restore sites in two years. Decommissioning provision related to these facilities was recalculated up to 2016.

21. Commitments and Contingencies**Litigation**

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position or operating results.

21. Commitments and Contingencies (continued)

Russian Federation Tax and Regulatory Environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax 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 regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, additional taxes, fines, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable.

22. Financial Risk Management Objectives and Policies

Financial instruments carried on the statement of financial position comprise trade and other payables, bank loans. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's operations. The Group has financial assets such as trade and other receivables and cash, which arise directly from its operations.

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations include those related to commodity prices, market movements in interest rates, credit risk and liquidity risk. The Group's risk management policies in relation to these risks are summarized below.

Commodity Price Risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, 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. An extended period of low prices could precipitate a decrease in development activities could impact the Group's ability to deliver products under its contractual obligations. The Group's policy is to manage these risks through the use of contract based prices with customers.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The Group does not hedge its interest rate risk.

Credit Risk

The Group is not significantly exposed to credit risk. The Group's credit risk is primarily attributed to receivables. The Group trades only with recognized, creditworthy third parties. The Group monitors receivable balances on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The carrying amount of receivables, net of allowance for impairment, represents the maximum amount exposed to credit risk.

The Group generally trades with major customers on terms of prepayment for 60-70% of monthly shipment. At December 31, 2014 and 2013 the Group had three major customers, that owed the Group \$2,645 and \$5,316 and accounted for approximately 85% and 89% of total accounts receivable, respectively. The need for impairment is analyzed at each reporting date on an individual basis for major clients.

Notes to the Consolidated Financial Statements for the year ended December 31, 2014
(All amounts are in thousands of US dollars)

22. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due. The Group monitors its risk to a shortage of funds by monitoring its debt rating and the maturity dates of existing debt. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The tables below summarize the maturity profile of the Group's financial liabilities at December 31, 2014 and 2013 based on contractual undiscounted payments.

December 31, 2014	Less than 3 months	3-12 months	More than 1 year	Total
Long-term borrowings	-	-	179,506	179,506
Short-term borrowings	111	23,261	-	23,372
Trade and other payables and income tax payable	1,930	-	-	1,930
Payables to related parties	830	-	-	830
Total	2,871	23,261	179,506	205,638

December 31, 2013	Less than 3 months	3-12 months	More than 1 year	Total
Long-term borrowings	-	-	95	95
Short-term borrowings	331	-	-	331
Trade and other payables and income tax payable	294	-	-	294
Total	625	-	95	720

Capital Management

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group includes within net debt, interest bearing loans, trade and other payables, less cash.

	December 31, 2014	December 31, 2013
Long-term borrowings	179,505	95
Short-term borrowings	23,440	331
Trade and other payables	2,760	294
Less cash	-306	-8
Net debt	205,399	712
Equity	31,483	1,286
Capital and net debt	236,882	1,998
Gearing ratio	87%	36%

Fair Value of Financial Instruments

Fair values of cash, loans and receivables, trade and other payables and short-term debts approximate their carrying amounts due to their short maturity.

23. Subsequent events

In 2015 the former major customer LLC Orensai initiated a claim to the Group to collect expectation loss in the amount of 72,389 thousand rouble (\$1,287 at the exchange rate at December 31, 2014). Management believes the case decision will be in the Group's favor.

On February 10, 2015, the Group authorised for issue thirty nine Russian rouble denominated promissory notes in the total amount of 10,000 thousand roubles (\$6,932 at the exchange rate at December 31, 2014) bearing interest of 10% per annum.