SLAVNEFT GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
31 DECEMBER 2015

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Independent Auditor's Report

To the Shareholders and Board of Directors of OAO NGK Slavneft

We have audited the accompanying consolidated financial statements of OAO NGK Slavneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

AO PricewaterhouseCoopers Audit

11 February 2016

Moscow, Russian Federation

Timchenko M.E., Director (licence no. 01-000267), AO PricewaterhouseCoopers Audit

Audited entity: OAO NGK Slavneft

State registration certificate №033.530, issued by [the Moscow Registration Bureau on 26 August 1994

Certificate of inclusion in the Unified State Register of Legal Entities №1027739026270 issued on 30 July 2002

125047, Russian Federation, Moscow, 4th Lesnoy side-street, 4

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

Slavneft Group
Consolidated Statement of Financial Position
(in million of Russian Roubles)

	Notes	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	6	275,868	257,948
Investments		313	313
Deferred income tax assets	17	8,096	7,701
Other non-current assets	7	3,800	3,705
Total non-current assets		**288,077**	**269,667**
Current assets			
Inventories	8	6,602	6,521
Accounts receivable and prepayments	9	8,062	8,880
Income tax receivables		1,135	2,152
Cash and cash equivalents	10	8,078	13,709
Other current assets		31	15
Total current assets		**23,908**	**31,277**
Total assets		**311,985**	**300,944**
Equity			
Ordinary share capital		70	70
Retained earnings		24,347	14,305
Other reserves		62	112
Additional paid-in capital		54,812	54,812
Total equity attributable to OAO NGK Slavneft's shareholders		**79,291**	**69,299**
Non-controlling interest	28	80,056	71,004
Total equity		**159,347**	**140,303**
Liabilities			
Non-current liabilities			
Non-current debt	11	54,562	46,592
Deferred income tax liabilities	17	14,287	10,521
Decommissioning and environmental liabilities	12	13,521	12,737
Other non-current liabilities	13	2,226	1,715
Total non-current liabilities		**84,596**	**71,565**
Current liabilities			
Current debt and current portion of non-current debt	11	26,986	44,221
Trade payables	14	22,699	24,553
Advances received		1,324	2,223
Dividends payable	27	63	193
Taxes payable	15	14,932	15,192
Other current liabilities	16	2,038	2,694
Total current liabilities		**68,042**	**89,076**
Total liabilities		**152,638**	**160,641**
Total equity and liabilities		**311,985**	**300,944**

Osipov M.L.
President
OAO NGK Slavneft

Karabadzhak K.S.
Acting vice-president on economics and finance
OAO NGK Slavneft

11 February 2016

(in million of Russian Roubles)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	**18**	**224,224**	**197,453**
Production expenses	**19**	(44,825)	(42,942)
Selling, general and administrative expenses	**19**	(5,873)	(6,066)
Cost of other sales	**19**	(3,514)	(3,193)
Taxes other than income tax	**20**	(100,001)	(97,958)
Depreciation, depletion and amortization	**6**	(32,169)	(30,637)
Exploration expenses		(623)	(1,157)
Impairment and loss on disposal of assets	**21**	(165)	(217)
Total operating expenses and costs		**(187,170)**	**(182,170)**
Other operating income		722	759
Operating profit		**37,776**	**16,042**
Finance income		2,074	1,472
Finance costs		(5,279)	(1,530)
Foreign exchange loss		(8,519)	(28,265)
Finance costs, net	**22**	**(11,724)**	**(28,323)**
Profit/(Loss) before income tax		**26,052**	**(12,281)**
Income tax (expense)/benefit	**17**	(6,486)	1,999
Profit/(Loss) for the year attributable to:		**19,566**	**(10,282)**
- OAO NGK Slavneft shareholders		10,274	(11,256)
- Non-controlling interest	**28**	9,292	974
Other comprehensive (loss)/income:		**(512)**	**406**
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		(50)	112
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	**13**	(462)	294
Total comprehensive income/(loss) attributable to:		**19,054**	**(9,876)**
- OAO NGK Slavneft shareholders		9,992	(10,985)
- Non-controlling interest	**28**	9,062	1,109

Slavneft Group
Consolidated Statement of Changes in Equity
(in million of Russian Roubles)

	Notes	Equity attributable to Group shareholders						
		Ordinary share capital	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2014		**70**	**54,812**	–	**36,019**	**90,901**	**69,895**	**160,796**
(Loss)/profit for the year		–	–	–	(11,256)	**(11,256)**	974	**(10,282)**
Other comprehensive income								
Currency translation differences		–	–	112	–	**112**	–	**112**
Remeasurement of post-employment benefit obligation		–	–	–	159	**159**	135	**294**
Total comprehensive income/(loss)		–	–	**112**	**(11,097)**	**(10,985)**	**1,109**	**(9,876)**
Dividends	**27**	–	–	–	(11,838)	(11,838)	–	**(11,838)**
Shareholders contribution		–	–	–	1,051	1,051	–	**1,051**
Other		–	–	–	170	170	–	**170**
At 31 December 2014		**70**	**54,812**	**112**	**14,305**	**69,299**	**71,004**	**140,303**
At 1 January 2015		**70**	**54,812**	**112**	**14,305**	**69,299**	**71,004**	**140,303**
Profit for the year		–	–	–	10,274	**10,274**	9,292	**19,566**
Other comprehensive loss		–	–					
Currency translation differences		–	–	(50)	–	**(50)**	–	**(50)**
Remeasurement of post-employment benefit obligation	**13**	–	–	–	(232)	**(232)**	(230)	**(462)**
Total comprehensive income/(loss)		–	–	**(50)**	**10,042**	**9,992**	**9,062**	**19,054**
Other		–	–	–	–	–	(10)	**(10)**
At 31 December 2015		**70**	**54,812**	**62**	**24,347**	**79,291**	**80,056**	**159,347**

Slavneft Group
Consolidated Statement of Cash Flows
(in million of Russian Roubles)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit/(Loss) for the year		**19,566**	**(10,282)**
Adjustments to reconcile profit/(loss) for the year to net cash provided by operating activities:			
Depreciation, depletion and amortization	**6**	32,169	30,637
Impairment and loss on disposal of assets	**21**	165	217
Finance income	**22**	(2,074)	(1,472)
Finance costs	**22**	5,279	1,530
Foreign exchange loss	**22**	8,519	28,265
Income tax expense/(benefit)	**17**	6,486	(1,999)
Change in provisions		(1,238)	1,694
Other		10	51
Cash flow from operating activities before working capital changes		**68,882**	**48,641**
Changes in working capital			
(Increase)/Decrease in accounts receivable and prepayments		(2,690)	2,344
Increase in inventories		(425)	(554)
Increase in other current and non-current assets		(96)	(733)
(Decrease)/Increase in accounts payable		(2,305)	5,796
Increase in other current liabilities		–	156
Decrease in other non-current liabilities		(107)	(156)
Increase/(Decrease) in taxes payable		1,261	(1,192)
Income tax paid		(3,529)	(3,088)
Net cash from operating activities		**60,991**	**51,214**
Cash flows from investing activities			
Dividends received		20	39
Proceeds from sale of property, plant and equipment		307	205
Purchases of property, plant and equipment		(45,041)	(60,885)
Interest received		1,815	1,433
Net cash from investing activities		**(42,899)**	**(59,208)**
Cash flows from financing activities			
Proceeds from issuance of current debt		250	7,333
Proceeds from issuance of non-current debt		27,050	21,964
Repayments of current debt		(11,755)	(1,280)
Repayments of non-current debt		(34,876)	(25,286)
Dividends paid	**27**	(17)	(11,911)
Shareholders contribution	**23**	–	1,051
Interest payments		(4,469)	(895)
Net cash from financing activities		**(23,817)**	**(9,024)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		**94**	**2,519**
Net decrease in cash and cash equivalents		**(5,631)**	**(14,499)**
Cash and cash equivalents at the beginning of the year	**10**	**13,709**	**28,208**
Cash and cash equivalents at the end of the year	**10**	**8,078**	**13,709**

NOTE 1. GENERAL INFORMATION

OAO NGK Slavneft (the "Company") and its subsidiaries (jointly referred to as the "Group") are engaged in oil exploration, development, production, refining and selling activities for oil in the Russian Federation.

The Company was established as an open joint-stock company in August 1994 in accordance with the Decree of the Government of the Russian Federation # 305, issued April 8, 1994, the Decree of the Council of Ministers of the Republic of Belarus # 589-r, issued June 15, 1994 and the Charter agreement from June 27, 1994. Under the provisions of the decrees and the Charter agreement, the Russian Federation transferred to the Company 60.5% of voting shares of OAO Slavneft-Megionneftegaz, currently the principal oil producing subsidiary of the Group, and 50.7% of voting shares of OAO Megionneftegazgeologiya, the Republic of Belarus transferred to the Company 17.6% of OAO Mozyrsky NPZ and another 15% of OAO Mozyrsky NPZ was transferred to the Company by a number of individuals in exchange for the Company's shares. Upon formation of the Company, 86.3% of its share capital was owned by the Russian Federation, 7.2% by the Republic of Belarus and 6.5% by a number of individuals.

The authorized capital of the Company is 4,754,238,000 common shares with a par value of RR 0.001 per share. The carrying value of share capital as at 31 December 2015 and 31 December 2014 differs from its historic value due to the effect of hyperinflation in the Russian Federation till 31 December 2002.

In a series of transactions through January 2003, including participation in privatization auctions in the Russian Federation and the Republic of Belarus, 99% of the Company's shares were ultimately acquired together by OAO Siberian Oil Company (currently known as PJSC Gazprom Neft) and TNK-BP (subsequently acquired by Rosneft Oil Company).

PJSC Gazprom Neft and Rosneft Oil Company (the "Primary Shareholders") are the Primary shareholders and jointly control the Group. On March 21, 2013, Rosneft Oil Company completed the acquisition of an aggregate 100% interest in TNK-BP Group, one of the Primary Shareholders of Slavneft Group. As a result of this acquisition, Rosneft Oil Company obtained 49.9% interest in Slavneft Group.

As the Primary shareholders are state controlled entities, the Government of the Russian Federation is the ultimate controlling party of OAO NGK Slavneft.

Registered address and place of business. The Company's registered address is 125047, Moscow, 4, 4th Lesnoy side-street, the Russian Federation. The Group's principal place of business is Russian Federation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

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

Basis of measurement

This Consolidated Financial Statements has been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

Functional and presentation currency

The Group's functional currency is the Russian Rouble ("RR"), because it reflects the economic substance of the underlying events and circumstances of the Company and its subsidiaries. These Consolidated Financial Statements are presented in Russian Roubles, and all values are rounded to the nearest million, except when otherwise indicated.

Going concern

Management prepared these Consolidated Financial Statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

The Group believes that its operating cash flows, refinancing capabilities and ability to manage the timing of settlement of transactions with Primary Shareholders provide adequate liquidity for the foreseeable future. Thus the Group continues to use the going concern basis of accounting in preparing the Consolidated Financial Statements.

Principles of consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Associates are all entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Non-controlling interests

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

In acquisitions of subsidiaries, the Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(in million of Russian Roubles, unless noted otherwise)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disposals of subsidiaries and associates

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

If the ownership interest in an associate / joint venture is reduced but significant influence / joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Foreign currency translation

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into RR at the official exchange rates of the Central Bank of the Russian Federation (CBRF) at that date. Non monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cashflows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in the profit or loss.

The following exchange rates determined by the Central Bank of the Russian Federation have been applied at 31 December 2015 and 31 December 2014 and for years ended 31 December 2015 and 2014 (in RR):

	31 December 2015	31 December 2014	Average rates for the year ended 31 December	
			2015	2014
For one currency unit to equivalent Russian Rouble				
- US dollar ("USD")	72.8827	56.2584	60.9579	38.4217
- Euro ("EUR")	79.6972	68.3427	67.7767	50.8150

Reference. Revenues, expenses and cashflows are translated into functional currency at average rates for the respective month or exchange rates prevailing on the transaction dates where practicable.

Property, plant and equipment

Basis of carrying value of property, plant and equipment

Property, plant and equipment (PPE) are stated at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment, except for property, plant and equipment acquired prior to 1 January 2003, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalized borrowing costs. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the component being written off. Subsequent expenditures are capitalized if future economic benefits will arise from the expenditure. All other expenditures are recognised in the profit or loss for the year.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the reporting period.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oilfield licenses

Oil and gas licenses include expenditures incurred in acquiring mineral and development rights. Oil and gas licenses rights are classified as property, plant and equipment. Amortization of oil and gas licenses is calculated using the unit-of-production method based upon proved developed and undeveloped reserves.

Depreciation

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties and equipment is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a “life of field” basis as the Group believes it will continue to be successful in the renewal of its oil and gas licenses.

Property, plant and equipment which is not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line method basis as follows:

Assets	Estimated useful life
Buildings and constructions	30 years
Machinery and equipment	10-25 years
Motor vehicles and other equipment	5 years

Exploration, evaluation and development of oil wells

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 “Exploration for and Evaluation of Mineral Resources”. Under this method, costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized on a “field by field” basis until the commercial viability of extracting of oil and gas could be confirmed. If the commercial viability of extracting a mineral resource is not proved, the expenditure is charged as an expense

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

When indicators of impairment are present, impairment test is performed.

Other exploration costs are charged to expense when incurred.

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

An exploration and evaluation asset shall be subject to reclassification to fixed assets when the technical feasibility and commercial viability of extracting a mineral resource are evident. Before the reclassification, these assets must be tested for impairment, and the impairment loss is written off to the income statement.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within ‘Impairment and loss on disposal of assets’ in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortization or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

Impairment

The Group reviews the carrying amounts of its non-current assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount unless it is solely related to the time value of money. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Inventories

Crude oil and petroleum products. Crude oil and petroleum products are measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Other inventories. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provision is made for obsolete, slow-moving and defective inventories.

Catalysts are consumed and amortized during 3-5 years; therefore they are presented within "Other non-current assets".

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

The Group recognises financial assets on its Consolidated Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognised initially, they are classified as following:

1. financial assets at fair value through profit or loss;
2. loans issued and accounts receivable;
3. financial assets held to maturity; or
4. financial assets available for sale, as appropriate.

The Group does not hold financial assets at fair value through profit or loss and financial assets held to maturity.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Dividends and interest income are recognised in the profit or loss on an accrual basis. The amount of accrued interest income is calculated using EIR.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less and bank overdrafts. In the Consolidated Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, shares of other companies not included in the first category are designated as available for sale. In addition, the Group may include any financial asset in this category at the initial recognition.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the EIR method and recognized in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognized in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in other comprehensive income until the investment is recognized or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Financial liabilities

The Group recognises financial liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognised initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognised initially, they are classified as following:

- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to delivery of unquoted equity instruments.

At the initial recognition, the Group may include in this category any financial liability, except equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. However, subsequent to initial recognition, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss. Other financial liabilities are carried at amortized cost.

Derecognition of financial liabilities. An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - ie when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

The Group does not hold financial liabilities held for trading. The Group does not use derivative financial instruments.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepayments

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past events; for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Decommissioning and environmental provision. The Group recognises provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives.

Provisions for the future decommissioning are recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the statement of financial position date:

- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of oil production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision due to the passage of time is recognised as finance costs in the profit or loss.

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

Gains from the expected disposal of oil and gas assets at the end of the life of field are not taken into account when determining the provision.

The estimated discounted costs of dismantling and removing these facilities are accrued on the installation of those facilities, reflecting legal obligations of the Group at that time. Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty.

Decommissioning provisions associated with downstream and petrochemical facilities are generally not provided for as such potential obligations cannot be measured given their indeterminate settlement dates.The Group performs periodic reviews of its downstream and petrochemical long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

Liabilities for environmental remediation costs (environmental provision) not related to retirements of oil and natural gas properties, and arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reliably estimated. For more information refer to Note 12.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense comprises current and deferred tax.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax balances are calculated at enacted or substantively enacted rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case deferred taxation is also recognised in equity or other comprehensive income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value added tax

Output value added tax (“VAT”) related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

Value added tax receivable and payable is recognised, respectively, as Accounts receivable and prepayments and other current assets and Taxes payable in the consolidated statement of financial position. When provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Mineral Extraction Tax and Excise Duties

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax provisions

Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in profit and loss for the period in which the change occurs.

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and 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 realise the net deferred tax assets recorded at the reporting date could be impacted.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in profit and loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Equity

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in-capital in equity.

Dividends declared

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Retained earnings

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory Financial Statements of the individual Group entities. These amounts may differ significantly from the amounts recognised in the Group’s Consolidated IFRS Financial Statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 (revised) "Employee Benefits" ("IAS 19 (revised)"). Defined benefit plan covers the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is accrued and charged to staff expense within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (Note 13).
Past service costs are recognised immediately though profit or loss when they occur, in the period of a plan amendment.

Plan assets are measured at fair value and are subject to certain limitations (Note 13). Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the profit and losses of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Revenue recognition

Revenue represents the invoiced value for crude oil and petroleum products, excluding value added tax, and is recognised when all the following conditions are satisfied:

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

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the Consolidated Statement of Profit or Loss. When the Group companies act as an agent for purchases and sales of inventory, they are also reported on a net basis. Revenue is shown net of discounts, value added tax and export duties.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating lease payments

Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit and loss in the period in which they are due on straight-line basis in accordance with the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Exchange differences arising from foreign currency borrowings are capitalised to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

NOTE 3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group.

- **Amendments to IAS 19 – "Defined benefit plans: Employee contributions"** (issued in November 2013 and effective for annual periods beginning 1 July 2014).

- **Annual Improvements to IFRSs 2012** (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

- **Annual Improvements to IFRSs 2013** (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- **IFRS 14, Regulatory deferral accounts** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

- **Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

- **Equity Method in Separate Financial Statements - Amendments to IAS 27** (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

- **Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

- **Disclosure Initiative Amendments to IAS 1** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

- **Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28** (issued in December 2014 and effective for annual periods on or after 1 January 2016).

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has made certain critical accounting judgments, estimates and assumptions that have a significant effect on the amounts recognised in these Consolidated Financial Statements.

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Significant estimates and judgments made by management in the preparation of these Consolidated Financial Statements are outlined below and in Note 2.

Estimation of oil and gas reserves

Oil and gas development and production assets are depreciated on a unit-of-production ("UOP") basis for each field at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of impairment charges and reversals. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be recognised.

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

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being recorded in profit and loss in that period.

Useful life of property, plant and equipment

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

Decommissioning and restoration 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 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 and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Contingencies

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

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated reliably, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated reliably, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Post-employment benefit obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of government securities, that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 13.

Deferred tax assets

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Impairment of non-current assets

One of the most significant impairment indicators is the reduction of production prices (oil mainly) which took place in 2015. Management of the Group measured the recoverable amount of non-current assets of each CGU according to IAS 36 "Impairment of Assets". Group's Management has adopted the following CGU by reason of the interconnection of non-current assets of the Group in certain regions:

1. Oil and gas complex in the territory of Khanty-Mansiysk Autonomous District includes the following companies of the Group:
   - OAO Slavneft-Megionneftegaz;
   - OAO Ob'Neftegazgeologiya;
   - ZAO Ob'neftegeologiya;
   - OOO Slavneft'-Nizhnevartovsk;
   - OAO Slavneft-Megionneftegazgeologiya;
   - OOO Sobol';
   - OAO NGK Slavneft (Achimovskoe oil field).
2. Refining complex in the Yaroslavl region includes the following companies of the Group:
   - OAO Slavneft Yaroslavnefteorgsinte".

IFRS (IAS) 36 "Impairment of Assets" was estimated recoverable amount, which is defined as the higher of fair value less costs of disposal and value in use. Due to geographical distance non-current assets and/or the virtual absence of a free market with independent parties, to determine the fair value less cost to sell of the CGU Group is not possible.

As a result of this CGU was calculated as the value in use based on discounted expected future cash flow model. Comparison of the carrying value and the value in use for CGU revealed no impairment of non-current assets.

The key assumptions which were used for the cash flow testing for the years ended 31 December 2015 and 31 December 2014 are presented in Note 6.

Impairment of exploration and evaluation assets

An exploration and evaluation assets are tested for impairment at the time of their transfer in the oil and gas assets or intangible assets. Impairment is recognized if the the carrying amount exceeds the recoverable amount of the assets.

The most significant facts and circumstances suggested that the Group should test exploration and evaluation assets for impairment are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The most significant part of the exploration assets are located in the Krasnoyarsk region (OOO Slavneft-Krasnoyarskneftegaz). There is no commercial oil production in OOO Slavneft-Krasnoyarskneftegaz and the required infrastructure for transporting oil to the ultimate purchaser is still under construction. The principal amount of non-current assets were exploratory wells, which can lead to increase oil and gas reserves several years after the completion of the drilling process.

At the moment, along with the development of oil and gas deposits on the shelf, the development of oil and gas in Western Siberia (mostly Krasnoyarsk District) is a priority area for the development of the energy sector of the Russian Federation. In this connection, Group’s Management assesses the mining project of OOO Slavneft-Krasnoyarskneftegaz as a perspective and confirms the current value of non-current assets. Individual exploration and evaluation assets of OOO Slavneft- Krasnoyarskneftegaz, which yielded no results are recognised as an expenses of the current period.

(in million of Russian Roubles, unless noted otherwise)

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Plant and equipment	Construction in progress	Total
Cost				
As of 1 January 2015	**300,666**	**98,909**	**32,598**	**432,173**
Additions	773	1	50,225	50,999
Transfers	39,687	5,693	(45,380)	–
Change in decommissioning liabilities	441	–	–	441
Disposals	(3,691)	(647)	(1,806)	(6,144)
As of 31 December 2015	**337,876**	**103,956**	**35,637**	**477,469**
Accumulated depreciation, depletion, amortization and impairment				
As of 1 January 2015	**(139,557)**	**(32,803)**	**(1,865)**	**(174,225)**
Depreciation, depletion and amortization	(26,900)	(5,269)	–	(32,169)
Impairment	(57)	–	(131)	(188)
Impairment disposal	58	–	1,094	1,152
Change in decommissioning liabilities	254	–	–	254
Disposals	3,105	470	–	3,575
As of 31 December 2015	**(163,097)**	**(37,602)**	**(902)**	**(201,601)**
Net book value as of 1 January 2015	**161,109**	**66,106**	**30,733**	**257,948**
Net book value as of 31 December 2015	**174,779**	**66,354**	**34,735**	**275,868**
Cost				
As of 1 January 2014	**253,933**	**84,497**	**36,124**	**374,554**
Additions	1,747	–	61,735	63,482
Transfers	48,863	15,001	(63,864)	–
Change in decommissioning liabilities	(1,144)	–	–	(1,144)
Disposals	(2,733)	(589)	(1,397)	(4,719)
As of 31 December 2014	**300,666**	**98,909**	**32,598**	**432,173**
Accumulated depreciation, depletion, amortization and impairment				
As of 1 January 2014	**(116,130)**	**(28,135)**	**(2,075)**	**(146,340)**
Depreciation, depletion and amortization	(25,642)	(4 995)	–	(30,637)
Impairment	(125)	–	(797)	(922)
Impairment disposal	–	–	1,007	1,007
Disposals	2,340	327	–	2,667
As of 31 December 2014	**(139,557)**	**(32,803)**	**(1,865)**	**(174,225)**
Net book value as of 1 January 2014	**137,803**	**56,362**	**34,049**	**228,214**
Net book value as of 31 December 2014	**161,109**	**66,106**	**30,733**	**257,948**

(in million of Russian Roubles, unless noted otherwise)

NOTE 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Despite the absence of impairment by comparing the recoverable and the carrying amount of the assets (Note 5), the Group recognized impairment of certain of the Group's upstream assets at 31 December 2015. The impairment recognized was based on the long-term development plans of the Group, in which impaired objects were not included. During the year ended 31 December 2015, impairment loss in the amount of RR 188 million was recognized in line "Impairment and loss on disposal of assets" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (during the year ended 31 December 2014 – RR 922 million).

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2015 and 31 December 2014:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Discount rate before tax (based on weighted average cost of capital)	16.90%	16.20%
Information used	Actual operating results for 2015, report on reserves and revenue and contingent resources of certain fields owned by OAO NGK Slavneft and Group's business plans for 2016–2020	Actual operating results for 2014, report on reserves and revenue and contingent resources of certain fields owned by OAO NGK Slavneft and Group's business plans for 2015–2019
Forecast period	For oil and gas equipment 25 years (for 2016- 2040); For oil refining equipment 20 years (for 2016-2035)	For oil and gas equipment 25 years (for 2015- 2039); For oil refining equipment 20 years (for 2015-2034)
Forecast of cruid oil and processing services prices	For cruide oil prices – according to Forecast of social and economic development of the Russian Federation for 2016 and for plans for 2017-2018 of the Ministry of Economic Development of the Russian Federation; For processing services prices – according to Group's business plans	For cruide oil and processing services prices – according to Group's business plans
Forecast of reserves of resources	According to report on reserves and revenue and contingent resources of certain fields owned by OAO NGK Slavneft	

The values assigned to the key assumptions represent Management's assessment of future trends in the business and are based on both external and internal sources.

The sensitivity analysis of the recoverable amounts of cash-generating units for the key assumptions as of 31 December 2015 is presened in the table below.

	Change in assumption	**Increase/(decrease) of the recoverable amounts**
Change of the discount rate	+1%	(18,742)
	-1%	20,583
Change of the prices	+10%	96,559
	-10%	(96,559)

(in million of Russian Roubles, unless noted otherwise)

NOTE 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2015 the Group assets include advances issued for capital expenditures of RR 310 million (31 December 2014 – RR 111 million).

During the year ended 31 December 2015, borrowing costs of RR 4,206 million were capitalized into Group assets and paid RR 2,507 million (during the year ended 31 December 2014 – RR 3,588 million and RR 1,146 million respectively). As at 31 December 2015 the Group has recognised the exchange losses in the amount of RR 1,793 million arising from foreign currency as a borrowing costs to the extent that they are regarded as an adjustment to interest costs (31 December 2014 – RR 2,432 million). During the year ended 31 December 2015 the borrowing costs were capitalised at the weighted average rate of its general borrowings of 12.90% (during the year ended 31 December 2014 – 10.38%).

NOTE 7. OTHER NON-CURRENT ASSETS

	31 December 2015	31 December 2014
Catalysts	2,641	2,535
Other intangible assets	1,033	1,009
Other	137	167
Allowance for impairment of non-current assets	(11)	(6)
Total other non-current assets	**3,800**	**3,705**

NOTE 8. INVENTORIES

	31 December 2015	31 December 2014
Crude oil	3,046	2,950
Materials and supplies	2,379	2,372
Petroleum products	482	490
Other	724	734
Allowance for inventory impairment	(29)	(25)
Total inventories	**6,602**	**6,521**

(in million of Russian Roubles, unless noted otherwise)

NOTE 9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2015	31 December 2014
Trade receivables (net of provision for impairment of RR 616 million and RR 631 million at 31 December 2015 and 31 December 2014)	4,976	5,436
Other accounts receivable (net of provision for impairment of RR 83 million and RR 5 million at 31 December 2015 and 31 December 2014)	360	678
Trade and other financial receivables, net	**5,336**	**6,114**
Advances to suppliers and prepayments	2,055	2,146
VAT recoverable	671	620
Tax prepayments and advances issued	**2,726**	**2,766**
Total trade and other receivables, net	**8,062**	**8,880**

The provision for impairment of trade and other receivables has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. The Group believes that the Group's subsidiaries will be able to realize the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

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

	Year ended 31 December 2015		Year ended 31 December 2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Opening balance	**631**	**5**	**618**	**4**
Charge for the year	3	76	19	3
Transfers	(4)	4	-	-
Reversal of impairment	(7)	(1)	(4)	(2)
Trade receivables written-off as uncollectable	(7)	(1)	(2)	-
Closing balance	**616**	**83**	**631**	**5**

Due to the initiated legal proceedings and based on the assessment of the Group's management, a provision for impairment of trade receivables of RR 3 million was recognised in the Consolidated Statement of Financial Position as of 31 December 2015 (31 December 2014 – RR 19 million).

As at 31 December 2015 accounts receivable of RR 27 million (31 December 2014 – RR 71 million) were past due but not impaired. These receivables relate to a number of unrelated customers without a recent history of default.

(in million of Russian Roubles, unless noted otherwise)

NOTE 10. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash held in banks – Russian Roubles	62	2 135
Cash held in banks – other currencies	539	249
Short-term deposits – Russian Roubles	6,743	3,522
Short-term deposits – other currencies	734	7,803
Total cash and cash equivalents	**8,078**	**13,709**

The table below shows analysis of the Group's cash and cash equivalents according to Fitch's and Standard & Poors long-term credit rating.

	31 December 2015		31 December 2014	
LLC Ekspobank	B+	2,709	B	–
OJSC AKB Evrofinance Mosnarbank	B+	1,938	B+	1,180
PJSC Bank Sankt Peterburg	BB–	1,001	BB–	–
PJSC Uralsib	B	804	B+	–
PJSC Idea Bank	–	749	–	–
East West United Bank S.A. (Luxembourg)	–	459	–	214
PJSC Bank BFA	B*	246	B*	
PJSC Bank Otkritie	BB–*	103	BB–*	–
JSC Alfa-Bank	BB*	12	BB+*	1,756
CJSC UniCreditbank	BB+*	2	BBB-*	2,095
CJSC ING Bank (Eurasia)	BBB–	1	BBB	4,724
PJSC AKB Absolut Bank	B+	–	B+	1,728
PJSC Bank VTB	BB+*	–	BBB-*	1,323
CJSC BNP Paribas Bank	BB+*	–	BBB*	596
Other		54		93
Total cash and cash equivalents		**8,078**		**13,709**

*****- Standard & Poors credit rating

(in million of Russian Roubles, unless noted otherwise)

NOTE 11. NON-CURRENT AND CURRENT DEBT

	Currency	31 December 2015	31 December 2014
JSC Alfa-Bank	RR	14,314	14,314
CJSC Raiffeisenbank	USD	10,100	8,446
CJSC UniCreditbank	USD	9,428	10,816
OJSC Gazprombank	RR	8,000	4,000
OJSC Credit Bank of Moscow	RR	7,713	–
PJSC Bank Sankt Petersburg	RR	7,228	649
LLC Ekspobank	RR	5,500	–
CJSC ING Bank London branch	USD	4,687	26,694
PJSC Absolutbank	RR	3,041	3,040
CJSC BNP Paribas bank	USD	2,116	3,267
PJSC Svyaz bank	RR	2,001	–
PJSC Rosbank	USD	1,944	3,001
CJSC Commerzbank (Eurasija)	USD	1,823	1,408
NATIXIS Paris	USD	1,244	–
CJSC Natixis Bank	USD	700	3,000
OJSC Uralsib	RR	650	–
OJSC Zapsibkombank	RR	551	–
CJSC Vnesheconombank	JPY	–	559
Less current portion		(26,478)	(32,602)
Total non-current debt		**54,562**	**46,592**

The interest rate for these borrowings vary from floating rate LIBOR +2.0% to LIBOR +2.47%. The interest rate of loans received in Russian Rouble is 12.5-15.0%%.

The Group's non-current debt have restrictive covenants calculated based on the Interim Condensed Consolidated Financial Information on a quarter basis and on the Consolidated Financial Statements on a year basis including, but not limited to, the requirement to maintain the following minimum ratios: Net debt/EBITDA, EBITDA/Interest expense. The Group was in compliance with these covenants based on its Consolidated Financial Statements as at the reporting date.

The Group's short-term borrowings are secured by sales and related receivables.

Current debt and current portion of non-current debt

	31 December 2015	31 December 2014
Current loans – Russian Roubles	306	46
Current portion of non-current loans – Russian Roubles	7,442	113
Current loans – other currencies	202	11,573
Current portion of non-current loans – other currencies	19,036	32,489
Total current debt and current portion of non-current debt	**26,986**	**44,221**

(in million of Russian Roubles, unless noted otherwise)

NOTE 12. DECOMMISSIONING AND ENVIRONMENTAL LIABILITIES

Decommissioning liabilities

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 2063. These provisions have been created based on Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which 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.

The expected amount of decommissioning cost is discounted to their present values using a real discount rate of 5.0% as of 31 December 2015 (31 December 2014: 6.3%). The impact of inflation is estimated annualy while determining of estimates of decommissioning cost. At the end of each reporting year, the Group revises its estimate of the inflation and discount rates.

As of 31 December 2015 and 31 December 2014, the Group has recorded decommissioning liabilities in the amount of RR 12,908 million and RR 11,629 million, respectively.

Environmental liabilities

The Group's estimated environmental liability was RR 987 million and RR 1,856 million as of 31 December 2015 and 31 December 2014 respectively. The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation, and the standards that will constitute an acceptable remediation. As additional information becomes available, management will continue to adjust its estimated provision to an appropriate level.

The table below presents movement of decommissioning and environmental provisions:

	Year ended 31 December 2015	Year ended 31 December 2014
Decommissioning and environmental provisions, opening balance (including current portion)	**13,487**	**14,309**
Additions	745	1,247
Disposal	(923)	(1,385)
Change of the cost, discount rate and the period	(138)	(1,006)
Unwinding of the present value discount	724	322
Decommissioning and environmental provisions, closing balance	**13,895**	**13,487**
Less current portion	(374)	(750)
Decommissioning and environmental provisions, non-current portion, closing balance	**13,521**	**12,737**

The sensitivity of the decommissioning and environmental provisions to changes in the weighted principal assumptions is:

		31 December 2015		31 December 2014	
	Change in assumption	**Increase/(decrease) of decommissioning and environmental provisions**			
Discount rate (real)	+ 1.0%	(2,504)	-19%	(2,300)	–18%
	– 1.0%	3,108	23%	2,837	22%
Period, year	+1	(660)	-5%	(755)	–6%
	–1	697	5%	803	6%

(in million of Russian Roubles, unless noted otherwise)

NOTE 13. OTHER NON-CURRENT LIABILITIES

	31 December 2015	31 December 2014
Provision for post-employment benefit obligations	2,225	1,478
Other non-current liabilities	1	237
Total other non-current liabilities	**2,226**	**1,715**

The Group operates post-employment benefits, which are recorded in the Consolidated Financial Statements as a defined benefit plan in accordance with IAS 19 (Revised). Defined benefit plan covers the majority of employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund “Bol’shoy” (“NPF”), lump sum payment upon retirement, financial aid provided to pensioners, and compensation in connection with the retirement of employees when they reach pension age.

The amount of benefits depends on the period of the employees’ service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

The amounts associated with post-employment benefit obligations recognized in the Consolidated Statement of Financial Position are as follows:

	31 December 2015	31 December 2014
Present value of benefit obligations	2,665	1,897
Fair value of plan assets	(440)	(419)
Net balance liability	**2,225**	**1,478**

Retirement benefit plan parameters and related risks

The Group has liabilities under retirement benefit plans in Russia.

The retirement benefit plan includes benefits of the following types:
- lump sum payment upon retirement,
- jubilee benefits paid at certain age or upon completion of a certain number of years of service,
- financial aid and compensation to cover funeral expenses in the event of an employee’s or pensioner's death,
- financial aid provided to former employees,
- pension benefits paid to former employees through the NPF.

The amount of benefits are regulated by Collective agreements and NPF s Regulations and depends on the period of the employees' service (years of service), salary level over the recent years preceding retirement or determines as a fixed amount. As a rule, the above benefits are indexed according to the inflation rate and salary growth for benefits that depend on the salary level, excluding the retirement benefits paid through NPF, which are not indexed for the inflation rate at the time the payment is made. In addition to the inflation risk, all retirement benefit plans of the Group are exposed to mortality and survival risks. Plan assets through the payment of pensions by NPF is a subject of investment risks. Group partially transfers the risks on pensions plans payments to NPF, which accepts responsibility for the payment of lifelong pensions. The Group and NPF are severally liable for plans funding, including investments decisions and the contribution schedule. The Company does not control the risk for the other aforementioned benefits and does not transfer them.

(in million of Russian Roubles, unless noted otherwise)

NOTE 13. OTHER NON-CURRENT LIABILITIES (CONTINUED)

The amounts recognized under the cost of the defined benefit pension plan in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and the movement in the defined benefit obligation are presented in the table below.

	Present value of defined benefit obligations	**Fair value of plan assets**	**Total**
As of 1 January 2015	**1,897**	**(419)**	**1,478**
Current service cost	77	-	77
Interest expense/(income)	242	(56)	186
Past service cost	31	-	31
Remeasurement effects (for other long-term benefits):			
Actuarial loss – changes in actuarial assumptions	3	-	3
Actuarial loss – experience adjustment	27	-	27
Recognised in profit or loss for the year ended 31 December 2015	**380**	**(56)**	**324**
Remeasurements (for post-employment benefits):			
Actuarial loss – change in demographic assumptions	95	-	95
Actuarial loss – change in financial assumptions	422	-	422
Actuarial loss – experience adjustments	33	28	61
Recognised in other comprehensive income for the year ended 31 December 2015 before income tax charge of RR 116 million	**550**	**28**	**578**
Contributions	-	(80)	(80)
Payments	(162)	87	(75)
As of 31 December 2015	**2,665**	**(440)**	**2,225**
As of 1 January 2014	-	-	-
Recognition of pension benefit obligation	**2,173**	**(409)**	**1,764**
Current service cost	94	-	94
Interest expense/(income)	165	(32)	133
Past service cost	11	-	11
Remeasurement effects (for other long-term benefits):			
Actuarial gain – changes in actuarial assumptions	(23)	-	(23)
Actuarial gain – experience adjustment	(1)	-	(1)
Recognised in profit or loss for the year ended 31 December 2014	**2,419**	**(441)**	**1,978**
Remeasurements (for post-employment benefits):			
Actuarial loss – change in demographic assumptions	84	-	84
Actuarial gain – change in financial assumptions	(655)	-	(655)
Actuarial loss/(gain) – experience adjustments	206	(2)	204
Recognised in other comprehensive income for the year ended 31 December 2014 before income tax charge of RR 73 million	**(365)**	**(2)**	**(367)**
Contributions	-	(60)	(60)
Payments	(157)	84	(73)
As of 31 December 2014	**1,897**	**(419)**	**1,478**

(in million of Russian Roubles, unless noted otherwise)

NOTE 13. OTHER NON-CURRENT LIABILITIES (CONTINUED)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. The significant actuarial assumptions were as follows:

	31 December 2015	31 December 2014
Discount rate	9.8%	13.3%
Inflation rate	6.0%	7.0%
Salary growth rate	8.0%	8.0%
Expected pension age:		
for man	57.5[1];59,0[2] years	57.5[1];59,0[2] years
for woman	55,0[1];56,0[2]years	55,0[1];56,0[2]years
Mortality table	Russia 2013	Russia 1986-1987, Russia 2011

As a rule, the above benefits increase in line with inflation rate or salary growth for benefits that are fixed in monetary terms or depend on salary level respectively, excluding the retirement benefits payable through NPF. Increase in pensions, payable through NPF to current pensioners, depends on amount of investment return on plan assets. All retirement benefit plans of the Group are exposed to inflation risk. In addition to the inflation risk, the Group is exposed to mortality risk under life pension payable through NPF.

The sensitivity of the defined obligation to changes in the weighted principal assumptions as at 31 December 2015 is:

	Change in assumption	31 December 2015		31 December 2014	
		Increase/(decrease) of defined benefit obligation			
Discount rate	+ 1.0%	(196)	-9%	(110)	-7%
	- 1.0%	230	10%	127	9%
Inflation	+ 1.0%	66	3%	39	3%
	- 1.0%	(55)	-2%	(33)	-2%
Salary growth rate	+ 1.0%	130	6%	71	5%
	- 1.0%	(114)	-5%	(62)	-4%
Turnover	+ 1.5%	(98)	-4%	(55)	-4%
	- 1.5%	117	5%	65	4%
Mortality rate	+10.0%	(38)	-2%	(21)	-1%
	-10.0%	41	2%	24	2%

The Group expects to contribute RR 173 million to the defined benefit plans in 2016. The weighted average duration of the defined benefit obligation of the Group is 9 years as at 31 December 2015 and 7 years as at 31 December 2014.

[1] Slavneft-Megionneftegaz Group
[2] Slavneft Yaroslavnefteorgsintez Group

(in million of Russian Roubles, unless noted otherwise)

NOTE 14. TRADE PAYABLES

	31 December 2015	31 December 2014
Trade payables (to suppliers, contractors)	11,528	12,931
Payables for purchased non-current assets	11,171	11,508
Trade and other financial payables	**22,699**	**24,439**
Other	-	114
Non-financial payables	**-**	**114**
Total trade payables	**22,699**	**24,553**

NOTE 15. TAXES PAYABLE

	31 December 2015	31 December 2014
Mineral extraction tax	5,359	6,377
Value added tax	5,902	4,735
Excise	2,025	2,466
Property tax	914	960
Social payments	482	450
Income tax	132	51
Individual Income tax	71	74
Other	47	79
Total taxes paybles	**14,932**	**15,192**

Mineral extraction tax

Under the Tax Code of the Russian Federation, the rate of the mineral extraction tax for crude oil is calculated by reference to the average market price of the Urals blend and the average RUR/USD exchange rate over the relevant tax period. Average tax rates for the year ended 31 December 2015 and 31 December 2014 were RR 6,326 per ton and RR 5,831 per ton, respectively.

NOTE 16. OTHER CURRENT LIABILITIES

	31 December 2015	31 December 2014
Accrual for vacation payments	564	632
Accrual for bonus payments	492	605
Wages and salaries	403	450
Environmental liabilities (current portion)	374	750
Accrued liabilities	21	17
Other	184	240
Total other current liabilities	**2,038**	**2,694**

(in million of Russian Roubles, unless noted otherwise)

NOTE 17. INCOME TAX

The Group is taxable in various jurisdictions within the Russian Federation. The Group is subject to a statutory tax rate of 20% in Russian.

In 2015 certain subsidiaries of the Group producing mineral resources, incurring exploration expenses and making capital investments in the territory of Khanty-Mansiysk Autonomous District applied up to 4% relief to their statutory corporate income tax rate as provided by the regional tax law. For the year ended 31 December 2015 the Group's income tax expense includes a tax benefit relating to these tax incentives of RR 252 million (for the year ended 31 December 2014 – RR 126 million).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has unrecognised deferred income tax assets relating to OOO Slavneft'-Krasnoyarskneftegaz of RR 447 million (31 December 2014 – RR 352 million) in respect of losses amounting to RR 2,235 million (for the year ended 31 December 2014 – RR 1,762 million) that cannot be carried forward against future taxable income. Losses amounting to RR 59 million and RR 75 million expire in 2016 and 2017 respectively. Also the Group has unrecognised deferred income tax assets relating to OAO NGK Slavneft of RR 725 million (for the year ended 31 December 2014 unrecognised deferred income tax) in respect of losses amounting to RR 3,625 million. Management believes that those losses can not be carried forward.

The Group recognised deferred income tax assets relating to OOO Slavneft-Krasnoyarskneftegaz of RR 2,772 million (31 December 2014 – RR 1,871 million) in respect of long-term plans of starting commercial oil production in 2020. Also the Group recognised deferred income tax assets relating to OAO Ob'Neftegazgeologiya of RR 2,712 million (31 December 2014 – RR 1,869 million). The Group recognised deferred income tax assets relating to OAO NGK Slavneft' of RR 3,087 million (31 December 2014 – RR 3,087 million).

Effective rate of income tax for the year ended 31 December 2015 – 24.90%, and for the year ended 31 December 2014 – 16.28%.

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is as follows:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Profit/(loss) before income tax	**26,052**	**(12,281)**
Theoretical income tax charge/(credit)	5,210	(2,456)
Increase/(reduction) in the income tax due to:		
– increase in unrecognized tax assets	868	-
– expenses not deductable for tax purposes	367	398
– adjustments relating to a refined declaration on income tax	149	-
– income under different rates	53	-
– deferred tax on undistributed earnings of subsidiaries	(108)	(79)
– tax exemptions	(252)	(126)
– other	199	264
Total income tax expense/(credit) for the year	**6,486**	**(1,999)**

The components of income taxes were as follows:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Current income tax expense	2,999	1,541
Deferred income tax expense/(benefit)	3,487	(3,540)
Total income tax expense/(credit)	**6,486**	**(1,999)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 17. INCOME TAX (CONTINUED)

The tax effects of temporary differences that give rise to deferred taxation (gross amounts including deferred tax on assets held for sale) are presented below:

	31 December 2014	Deffered income tax charge	Charged directly to other comprehensive income	31 December 2015
Deferred income tax assets				
Operating loss carry-forward	8 662	723	-	9 385
Asset retirement obligations	2 326	256	-	2 582
Property, plant and equipment	1 316	(22)	-	1 294
Other non-current liabilities	542	(90)	116	568
Other current liabilities	468	(123)	-	345
Accounts payable	336	(121)	-	215
Accounts receivable	127	14	-	141
Other	114	221	-	335
Deferred tax offset	(6 190)	(579)	-	(6 769)
Total deferred income tax assets less allowance	**7 701**	**279**	**116**	**8 096**
Deferred income tax liabilities				
Property, plant and equipment	(15 278)	(4 112)	-	(19 390)
Undistributed earnings of subsidiaries	(866)	(108)	-	(974)
Inventories	(405)	(2)	-	(407)
Other non-current assets	(110)	(32)	-	(142)
Other	(52)	(91)	-	(143)
Deferred tax offset	6 190	579	-	6 769
Total deferred income tax liabilities	**(10 521)**	**(3 766)**	**-**	**(14 287)**
Net deferred income tax liability	**(2 820)**	**(3 487)**	**116**	**(6 191)**

	31 December 2013	Deffered Income tax charge	Charged directly to other comprehensive income	31 December 2014
Deferred income tax assets				
Operating loss carry-forward	1 928	6 734	-	8 662
Asset retirement obligations	2 264	62	-	2 326
Property, plant and equipment	1 607	(291)	-	1 316
Other non-current liabilities	436	179	(73)	542
Other current liabilities	447	21	-	468
Accounts payable	150	186	-	336
Accounts receivable	136	(9)	-	127
Other	132	(18)	-	114
Deferred tax offset	(3 134)	(3 056)	-	(6 190)
Total deferred income tax assets less allowance	**3 966**	**3 808**	**(73)**	**7 701**
Deferred income tax liabilities		-		
Property, plant and equipment	(12 121)	(3 157)	-	(15 278)
Undistributed earnings of subsidiaries	(786)	(80)	-	(866)
Inventories	(390)	(15)	-	(405)
Other non-current assets	(83)	(27)	-	(110)
Other	(7)	(45)	-	(52)
Deferred tax offset	3 134	3 056	-	6 190
Total deferred income tax liabilities	**(10 253)**	**(268)**	**-**	**(10 521)**
Net deferred income tax liability	**(6,287)**	**3,540**	**(73)**	**(2,820)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 17. INCOME TAX (CONTINUED)

As at 31 December 2015 the Group has unrecognised the potential deferred tax liability in respect of RR 7,231 million (31 December 2014: RR 6,293 million) deductible temporary difference associated in subsidiaries as the Group believes that 0% withholding taxes on dividend distribution will be applied when such dividends are distributed.

Classification of deferred income tax assets and liabilities for information purposes is presented in the table below:

	31 December 2015	31 December 2014
Deferred income tax assets – current	245	296
Deferred income tax assets – non-current	7,851	7,405
Total deferred income tax asset	**8,096**	**7,701**
Deferred income tax liabilities – non-current	(14,287)	(10,521)
Total deferred income tax liability	**(14,287)**	**(10,521)**
Net deferred income tax liability	**(6,191)**	**(2,820)**

NOTE 18. REVENUES

	Year ended 31 December 2015	Year ended 31 December 2014
Crude oil	190,512	166,770
Processing services	28,318	25,666
Other sales (mainly oilfield services)	4,710	4,521
Oil products and associated gas	684	496
Total revenue	**224,224**	**197,453**

NOTE 19. EXPENSES

Production expenses include:

	Year ended 31 December 2015	Year ended 31 December 2014
Electricity, heating	12,551	12,390
Repairs and maintenance	11,055	8,702
Services	6,467	5,124
Materials and supplies	6,272	6,688
Payroll expenses	3,603	3,388
Transportation expenses	2,593	2,411
Security	663	652
Lease payments	644	472
Pension costs	186	1,733
Other	791	1,382
Total production expenses	**44,825**	**42,942**

Selling, general and administrative expenses also include:

	Year ended 31 December 2015	Year ended 31 December 2014
Payroll expenses	3,473	3,545
Lease	338	322
Consulting expenses	271	283
Transportation expenses	248	263
Charity	203	250
Social payments	163	176
Electricity, heating	59	60
Other	1,118	1,167
Total selling, general and administrative expenses	**5,873**	**6,066**

(in million of Russian Roubles, unless noted otherwise)

NOTE 19. EXPENSES (CONTINUED)

Cost of other sales also include:

	Year ended 31 December 2015	Year ended 31 December 2014
Raw materials	1,004	446
Cost of exploration services	960	1,321
Payroll expenses	776	592
Electricity, heating	82	65
Other	692	769
Total cost of other sales	**3,514**	**3,193**

NOTE 20. TAXES OTHER THAN INCOME TAX

Taxes other than income tax were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Mineral extraction tax	93,164	91,733
Property tax	3,922	3,666
Social payments	2,547	2,257
Other	368	302
Total taxes other than income tax	**100,001**	**97,958**

NOTE 21. IMPAIRMENT AND LOSS ON DISPOSAL OF ASSETS

	Year ended 31 December 2015	Year ended 31 December 2014
Loss/(Gain) on disposal of PPE	275	(627)
Gain of purchase and sale of tangible assets	(336)	(89)
Impairment of PPE	188	922
Loss on disposal of investments	43	3
Other	(5)	8
Total impairment and loss on disposal of assets	**165**	**217**

NOTE 22. FINANCE COSTS, NET

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income	1,815	1,433
Other income	259	39
Total finance income	**2,074**	**1,472**
Interest expense	(4,271)	(912)
Unwinding of discount on decommissioning and environmental liabilities	(724)	(322)
Expenses on pension liabilities	(186)	(133)
Bank commissions and charges	(96)	(57)
Other	(2)	(106)
Total finance costs	**(5,279)**	**(1,530)**
Foreign exchange gain	17,863	3,344
Foreign exchange loss	(26,382)	(31,609)
Total foreign exchange loss	**(8,519)**	**(28,265)**
Total finance costs, net	**(11,724)**	**(28,323)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. RELATED PARTY TRANSACTIONS

For the purposes of these Consolidated Financial Statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. Related parties may enter into transactions which would have been impossible if the parties were not related. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the year ended 31 December 2015 were the Primary Shareholders (Note 1) – Rosneft Oil Company and Gazprom Neft Group, and their related entities.

Remuneration of key management personnel of the Group (members of the Board of Directors and the Management Board of OAO NGK Slavneft, OAO Slavneft-Megionneftegaz, OAO Slavneft-Yaroslavnefteorgsintez) was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Short-term employee benefits	395	297
Long-term bonus scheme and other long-term employee benefits	70	88
Total	**465**	**385**

Sales (including other sales) to related parties were as follows:

Customer	Description	Year ended 31 December 2015	Year ended 31 December 2014
Entities related to Rosneft Oil Company	Crude oil	95,124	83,225
Entities related to Gazprom Neft Group	Crude oil	95,124	83,225
Entities related to Rosneft Oil Company	Processing services	14,159	12,833
Entities related to Gazprom Neft Group	Processing services	14,159	12,833
Other	Oil products and other	3,527	3,246
Total		**222,093**	**195,362**

For the year ended 31 December 2015 the Group incurred operating expenses with related parties representing purchases in the amount of RR 577 million (for the year ended 31 December 2014 – RR 643 million).

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities being controlled by the Russian Government. In accordance with IAS 24 "Related Party Disclosures" and as the Primary Shareholders of the Company are effectively being controlled by the Russian Government, the following disclosure was made.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the Primary shareholders are effectively being controlled by the Russian Government.

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the Federal Tariffs Service. Bank loans with related parties are provided on the basis of market rates (Note 11). Taxes are accrued and settled in accordance with Russian tax legislation (Notes 15, 17 and 20).

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable are related to major State controlled companies.

In the normal course of business the Group incurs electricity and heating expenses. A part of these expenses related to purchases from the entities under Government control. Due to specifics of the electricity market in the Russian Federation, these purchases cannot be accurately separated from the purchases from private companies.

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash and cash equivalents with banks which are the related parties were as follows:

	31 December 2015	31 December 2014
Entities related to Gazprom Neft Group	1	1
Total	**1**	**1**

Borrowings from related parties were as follows:

	31 December 2015	31 December 2014
Entities related to Gazprom Neft Group	8,000	4,000
Total	**8,000**	**4,000**

Receivables from related parties were as follows:

	31 December 2015	31 December 2014
Entities related to Rosneft Oil Company	1,481	1,645
Entities related to Gazprom Neft Group	1,330	1,692
Other	77	70
Total	**2,888**	**3,407**

Accounts payable to related parties were as follows:

	31 December 2015	31 December 2014
Entities related to Gazprom Neft Group	2,228	2,957
Entities related to Rosneft Oil Company	1,703	1,135
Other	178	196
Total	**4,109**	**4,288**

Dividends payable to Shareholders were as follows:

	31 December 2015	31 December 2014
Entities related to Gazprom Neft Group	31.5	22.5
Entities related to Rosneft Oil Company	31.5	22.5
Total	**63**	**45**

(in million of Russian Roubles, unless noted otherwise)

NOTE 24. CONTINGENCIES AND COMMITMENTS

Capital expenditure commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and its distribution network. The budgets for these projects are generally set on a 3-year basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

The Group has approved contractual capital expenditure commitments for construction and fixed assets acquisition as of 31 December 2015 in the amount of RR 6,423 million (31 December 2014 – RR 7,979 million). The increase of contractual capital expenditure commitments for construction is due to the development of oil fields.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is mostly owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2063. The decrease of minimum lease payments under non-cancellable operating leases was caused by the signing new lease agreements and the reduction of the lease on the previously signed agreements by OAO Slavneft-Yaroslavnefteorgsintez and OAO Slavneft-Megionneftegaz. Future minimum lease payments under non-cancellable operating leases are:

	31 December 2015	31 December 2014
Less than 1 year	669	588
Between 1 and 5 years	2,487	2,216
More than 5 years	9,600	8,716
Total	**12,756**	**11,520**

Social commitments

The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group's social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group's employees. Contributions are expensed in the period during which they are incurred.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

The Group has limited coverage for its mining, processing and transportation for business interruption or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

NOTE 24. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Taxation contingencies in the Russian Federation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the tax authorities.

Currently the Russian tax authorities are 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 be challenged. It is therefore possible that significant additional taxes, 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.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle such liabilities.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal procedures to be in compliance with the new transfer pricing legislation. Management believes that its pricing methodology is in compliance with the transfer pricing legislation and applied intra-Group prices are arm's length.

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

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment, potential impact to flora and fauna, and other environmental concerns.

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to upgrade technology and incur future additional material costs to meet more stringent standards.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants at 31 December 2015 and 31 December 2014.

NOTE 24. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position.

Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

(in million of Russian Roubles, unless noted otherwise)

NOTE 25. FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to these Consolidated Financial Statements line items below:

	31 December 2015	31 December 2014
Financial assets		
Current		
Cash and cash equivalents (Note 10)	8,078	13,709
Trade and other financial receivables, net (Note 9)	5,336	6,114
Loans receivable	1	2
Total carrying amount	**13,415**	**19,825**
Financial liabilities		
Non-current		
Non-current debt (Note 11)	54,562	46,592
Current		
Trade and other financial payables (Note 14)	22,699	24,439
Current debt and current portion of non-current debt (Note 11)	26,986	44,221
Total carrying amount	**104,247**	**115,252**

In the normal course of its operations, the Group is exposed to market (including foreign currency, interest rate and commodity price), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Management Board and Department of corporate finance on a monthly basis. The Management Board jointly with Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk.

Market risk

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, foreign currency exchange rates, interest rates and other indices that could adversely affect the value of the Group‘s financial assets, liabilities or expected future cash flows. The primary objective of mitigating these market risks is to manage and control risk exposure, while optimizing the return on risk.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues and costs are denominated in RR, whereas the part of the Group's finance liabilities are denominated in USD, accordingly, profit may be impacted by the changes of the RR against the USD.

In connection with the expansion by the United States of America (USA), the European Union (EU) and other countries and international organisations of the new sanctions package against the individuals and businesses from Russia (Note 24) the Company's management believes that the currency risk to which the Company will gradually decline due to the process of substitution of credit in USD to loan funds in Russian roubles.

(in million of Russian Roubles, unless noted otherwise)

NOTE 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group has the following financial assets and financial liabilities denominated in foreign currencies:

	31 December 2015						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	4,009	–	1,327	–	–	1,327	**5,336**
Cash and cash equivalents	6,805	473	51	–	749	1,273	**8,078**
Loans receivable	1	–	–	–	–	–	**1**
Non-current liabilities							
Non-current debt	(41,555)	(13,007)	–	–	–	(13,007)	**(54,562)**
Current liabilities							
Current debt	(7,748)	(19,037)	(201)	–	–	(19,238)	**(26,986)**
Trade accounts payable	(21,196)	(46)	(1,457)	–	–	(1,503)	**(22,699)**
Net exposure	**(59,684)**	**(31,617)**	**(280)**	**–**	**749**	**(31,148)**	**(90,832)**

	31 December 2014						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	4,842	1	1,270	-	1	**1,272**	**6,114**
Cash and cash equivalents	5,650	6,697	36	-	1,326	**8,059**	**13,709**
Loans receivable	2	-	-	-	-	**-**	**2**
Non-current liabilities							
Non-current debt	(21,891)	(24,701)	-	-	-	**(24,701)**	**(46,592)**
Current liabilities							
Current debt	(159)	(43,354)	(149)	(559)	-	**(44,062)**	**(44,221)**
Trade accounts payable	(23,032)	(2)	(1,400)	-	(5)	**(1,407)**	**(24,439)**
Net exposure	**(34,588)**	**(61,359)**	**(243)**	**(559)**	**1,322**	**(60,839)**	**(95,427)**

A 20% change in foreign exchange rates at the reporting date would have following effect on pre-tax profit:

	Year ended 31 December 2015				**Year ended 31 December 2014**			
	EURO	**USD**	**JPY**	**BYR**	**EURO**	**USD**	**JPY**	**BYR**
Effect on pre-tax profit	56	6,323	–	150	49	12,272	112	264

Commodity price risk

The Group's overall commercial trading strategy in crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group sells substantionally all its crude oil and related products to the Primary Shareholders.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

(in million of Russian Roubles, unless noted otherwise)

NOTE 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's interest rate risk arises primarily from non-current debt. The Group's debt at variable interest rates is primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 December 2015	31 December 2014
Bank deposits	7,477	11,325
Non-current debt	(17,372)	(21,891)
Current debt	(4,520)	(718)
Fixed rate financial instruments (net)	**(14,415)**	**(11,284)**
Non-current debt	(37,190)	(24,701)
Current debt	(22,110)	(43,504)
Variable rate financial instruments	**(59,300)**	**(68,205)**

At 31 December 2015 and 31 December 2014, the Group's risk policy does not provide for any interest risk hedging.

A 5% change in interest rates at the reporting date would have the following effect on pre-tax profit:

	Year ended 31 December 2015	Year ended 31 December 2014
Effect on pre-tax profit	3,870	4,225

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by sale on credit to customers after rigid credit approval procedures.

The Group is dependent on a limited number of customers related to Primary Shareholders. The Group's top trade debtors are entities associated with the Primary Shareholders: Rosneft Oil Company and PJSC Gazprom Neft. And so the credit quality of trade receivables not impaired at 31 December 2015 is not a significant risk as the debtors (Primary Shareholders and other than Primary Shareholders) have no history of defaults. Disclosure regarding trade receivables that are either past due or impaired is presented in Note 9.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its financial liabilities as they fall due. During the year ended 31 December 2015 and 31 December 2014, global and Russian capital markets experienced significant volatility, significant fluctuation of Russian Rouble against USD and Euro and increase in interest rates. Despite stabilization measures undertaken by various governments, markets remain volatile. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

As at 31 December 2015 net current liability position ot the Group totally was RR 44,134 (31 December 2014 – RR 57,799). As a result of 2015 operations, the Group recorded a profit before income tax of RR 26,052 (loss before income tax for 2014 – RR 12, 281). Cash flows from operations in 2015 were positive – RR 60,991 (in 2014 – RR 51,214). As at 31 December 2015 the Group has an equity to total asset ratio of 51% (31 December 2014 – 47%).

The Department of corporate finance of the Group ensures flexibility in funding by maintaining availability of credit line facilities. The unused portion of committed credit lines at 31 December 2015 was RR 4,495 million (all committed credit lines at 31 December 2014 were totally used). The unused portion of uncommitted credit lines at 31 December 2015 was RR 3,000 million (31 December 2014 – RR 5,470 million). As on 31 December 2015 the Group has to repay RR 26,986 million of short-term borrowings.

(in million of Russian Roubles, unless noted otherwise)

NOTE 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

As of the date of these financial statements, the Group has received offers from Russian banks to fund the entirety of the budgeted new/refinanced loans at market interest rates in Roubles.

The Group expects that the major sources of the Group's liquidity in 2015 will be cash generated from operations and additional financing in order to refinance the existing loans.

In order to improve the Group's financial position and fill the potential liquidity gap, the Group's management took the following actions:

- Implementation of operating efficiency increase program.
- Extending the payment terms of the group's payables. Overdue accounts payable to suppliers was fully repaid.
- Refinance the existing credit portfolio, including changing the currency of the Group's loans from USD to Russian Rouble. In 2015, it was signed 18 loan agreements, with the result that further was attracted RR 27,300 million, and the share of loans denominated in foreign currency in the total portfolio of the Group was reduced from 76% to 39%.
- Seek to access unused portion of uncommitted credit lines at the reporting date. The unused portion of committed credit lines at 31 December 2015 was RR 4,495 million (all committed credit lines at 31 December 2014 were totally used).
- Delay of the Company's dividend.
- Adjusting of the Group's investment programme.

The ultimate controlling party of the Group is the Russian State. The Group's reserves, especially those of the Kyumba project, represents a key oil project of the Russian Federation. The Group is included into the Russian Government's listing of strategically important entities issued by Government Commission on Sustainable Development of the Russian economy.

The tables below analyse the Group's financial liabilities that include financial payables (e.g. trade payables, borrowings into relevant maturity groupings based on the contractual undiscounted cash flows to maturity), including interest payments.

	31 December 2015			
	Demand and less than 1 year	**From 1 to 2 years**	**From 2 to 3 years**	**Over 3 years**
Non-current and current debt (Note 11)	33, 700	39,234	18,056	3,735
Trade payables (to suppliers, contractors) (Note 14)	11,528	–	–	–
Payables for purchased non-current assets (Note 14)	11,171	–	–	–
Dividends payable (Note 27)	63	–	–	–
Total future payments, including future principal and interest payments	**56,462**	**39,234**	**18,056**	**3,735**

	31 December 2014			
	Demand and less than 1 year	**From 1 to 2 years**	**From 2 to 3 years**	**Over 3 years**
Non-current and current debt (Note 11)	47,769	22,362	22,762	7,158
Trade payables (to suppliers, contractors) (Note 14)	12,931	-	-	-
Payables for purchased non-current assets (Note 14)	11,508	-	-	-
Dividends payable (Note 27)	193	-	-	-
Total future payments, including future principal and interest payments	**72,401**	**22,362**	**22,762**	**7,158**

(in million of Russian Roubles, unless noted otherwise)

NOTE 25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

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

The Group defines capital as shareholders' equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The Group's overall strategy for 2015 remained unchanged from prior years.

The Group has complied with all externally imposed capital requirements during the year ended 31 December 2015 and 31 December 2014. These are set out in the Group's loan agreements on various basis.

Consistent with others in industry, the Group also monitors capital on the basis of gearing ratio. This ratio is calculated as Net debt divided by the Total Group shareholders' equity plus Net debt. Net debt is calculated as total interest bearing loans and borrowings less cash and cash equivalents.

	31 December 2015	31 December 2014
Net debt	73,470	77,104
Total Group Shareholders'equity	159,347	140,303
Total Group Shareholders'equity and Net debt	232,817	217,407
Gearing ratio	**31.6%**	**35.5%**

NOTE 26. FAIR VALUE FOR FINANCIAL INSTRUMENTS

Fair Value Measurement

There were no transfers between the levels of the fair value hierarchy during the 2015 year. There are no significant assets or liabilities measured at fair value categorised within Level 1 of the fair value hierarchy. Borrowings are within Level 2 of the fair value hierarchy, accounts receivable and payable – within Level 3 of the fair value hierarchy.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable. The carrying amounts of these items are a reasonable approximation of their fair value.

Current and non-current debt. Loans under bank arrangements have variable and fixed interest rates that reflect currently available terms and conditions for a similar debt.

The fair value of current and non-current debt differs from its carrying value and amount to RR 76,900 million as at 31 December 2015 (31 December 2014 – 75,568).

NOTE 27. DIVIDENDS

During the year ended 31 December 2015 and 31 December 2014 dividends in the amount of RR 4 million and RR 11,907 million respectively were paid to the primary shareholders.

During the year ended 31 December 2015 and 31 December 2014 dividends in the amount of RR 13 million and RR 4 million respectively were paid by the subsidiaries in favour of the minority shareholders.

The Group did not declare dividends during the year ended 31 December 2015 or until the date of issuance of these Consolidated Financial Statements. The shareholders approved dividends of RR 2.49 per ordinary share in the amount of RR 11,838 million during the annual general meeting of Company's shareholders held on 30 June 2014.

(in million of Russian Roubles, unless noted otherwise)

NOTE 28. NON-CONTROLLING INTEREST

The table below presents information regarding subsidiaries that are not wholly owned by the Group (non-controlling interest – NCI) as at 31 December 2015.

Subsidiaries	Core activity	31 December 2015			Year ended 31 December 2015
		NCI share, %	NCI in the net assets	NCI in the net profit	NCI in the net comprehensive (loss)/income
OAO Slavneft-Megionneftegaz	Oil and gas development and production	43.58%	50,411	5,035	4,908
OAO Slavneft Yaroslavnefteorgsintez*	Petroleum refining	60.17%	26,660	4,281	4,179
OAO Ob'neftegazgeologiya	Oil and gas development and production	19.76%	1,717	(62)	(62)
OOO MUBR	Field survey and exploration	43.58%	1,077	100	100
OAO Slavneft-Megionneftegazgeologiya	Oil and gas development and production	5.28%	172	(61)	(61)
OOO MegionEnergoNeft'	Field survey and exploration	43.58%	123	4	4
OOO Megion Geologiya	Field survey and exploration	11.87%	(73)	3	3
OAO Sobol'	Oil and gas development and production	16.31%	(41)	(5)	(5)
Other	-	–	10	(3)	(4)
Total			**80,056**	**9,292**	**9,062**

Subsidiaries	Core activity	31 December 2014			Year ended 31 December 2014
		NCI share, %	NCI in the net assets	NCI in the net profit	NCI in the net comprehensive (loss)/income
OAO Slavneft-Megionneftegaz	Oil and gas development and production	43.58%	45,503	(1,364)	(1,254)
OAO Slavneft Yaroslavnefteorgsintez*	Petroleum refining	60.17%	22,481	3,109	3,134
OAO Ob'neftegazgeologiya	Oil and gas development and production	19.76%	1,778	(749)	(749)
OOO MUBR	Field survey and exploration	43.58%	977	78	78
OAO Slavneft-Megionneftegazgeologiya	Oil and gas development and production	5.28%	233	(42)	(42)
OOO MegionEnergoNeft'	Field survey and exploration	43.58%	120	4	4
OOO Megion Geologiya	Field survey and exploration	11.87%	(76)	62	62
OAO Sobol'	Oil and gas development and production	16.31%	(36)	(33)	(33)
Other	-	-	24	(91)	(91)
Total			**71,004**	**974**	**1,109**

NOTE 28. NON-CONTROLLING INTEREST (CONTINUED)

* - The voting rights of the Group comprise 39.83% as of 31 December 2015 and 31 December 2014. No dividends were declared by the shareholders of OAO Slavneft Yaroslavnefteorgsintez during the annual general meetings held on 20 June 2014. The similar decision was taken by the shareholders of OAO Slavneft Yaroslavnefteorgsintez on 18 June 2015. In this case, the voting rights of the Group did not change and comprise 39.83% as of 31 December 2015. The management have concluded that the Group still controls OAO Slavneft Yaroslavnefteorgsintez, even though it holds less than half of the ownership interest of this subsidiary. The Primary Shareholders who have the majority of the remaining share (together 54.97%) have confirmed to the Group that there has been no effective change, nor is one expected, in the ownership nor any change in how the subsidiary is controlled and operated.

The Group's Primary Shareholders hold financial interests in a number of the Group's subsidiaries.

The share of the Primary Shareholders in non-controlling interest of the Group comprises the following amounts: non-controlling interest in the Consolidated Financial Statements as of 31 December 2015 and 31 December 2014 includes RR 72,885 million and RR 64,574 million respectively, attributable to the Primary Shareholders' interests.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015 and 2014 comprises RR 8,310 million and RR 1,082 million as profit respectively, attributable to the Primary Shareholders' interest.

(in million of Russian Roubles, unless noted otherwise)

NOTE 28. NON-CONTROLLING INTEREST (CONTINUED)

The following table summarises the information relating to the significant Group's subsidiaries. The carrying amount of non-controlling interests of all other subsidiaries are not significant individually.

	31 December 2015				Year ended 31 December 2015		
Subsidiaries	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**(Loss)/ profit**	**Total comprehensive (loss)/income**
OAO Slavneft-Megionneftegaz	36,306	143,084	(36,669)	(23,367)	142,518	12,245	11,953
OAO Slavneft Yaroslavnefteorgsintez	4,320	65,361	(11,327)	(14,062)	28,398	7,115	6,945
OAO Ob'neftegazgeologiya	830	48,422	(7,780)	(32,185)	43,347	(495)	(495)
Total	**41,456**	**256,867**	**(55,776)**	**(69,614)**	**214,263**	**18,865**	**18,403**

	31 December 2014				Year ended 31 December 2014		
Subsidiaries	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**(Loss)/ profit**	**Total comprehensive (loss)/income**
OAO Slavneft-Megionneftegaz	38,646	132,654	(38,941)	(24,959)	125,351	(2,315)	(2,062)
OAO Slavneft Yaroslavnefteorgsintez	5,183	63,593	(19,722)	(11,706)	25,758	5,142	5,183
OAO Ob'neftegazgeologiya	4,375	48,037	(16,329)	(26,301)	37,295	(3,761)	(3,761)
Total	**48,204**	**244,284**	**(74,992)**	**(62,966)**	**188,404**	**(934)**	**(640)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 29. PRINCIPAL SUBSIDIARIES

The Consolidated Financial Statements of the Group include the following subsidiaries in addition to those, presented in Note 28:

Subsidiaries of the Company

		31 December 2015		31 December 2014	
Subsidiaries	**Core activity**	**Ownership**	**Voting rights**	**Ownership**	**Voting rights**
ZAO Ob'neftegeologiya	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'-Nizhnevartovsk	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'-Krasnoyarskneftegaz	Oil and gas development and production	100%	100%	100%	100%
OOO BNGRE	Field survey and exploration	100%	100%	100%	100%
OOO Slavneft Logistika	Transportation services	100%	100%	100%	100%

NOTE 30. EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events that can influence the Group’s financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group’s Consolidated Financial Statements for the year ended 31 December 2015 prepared in accordance with IFRS.