OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Severneftegazprom:

We have audited the accompanying financial statements of OJSC Severneftegazprom (the "Company"), which comprise the statement of financial position as at 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

ZAO PricewaterhouseCoopers Audit

30 March 2015
Moscow, Russian Federation

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OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014
(In thousands of Russian Roubles)

	Notes	31 December 2014	31 December 2013
Assets			
Current assets			
Cash and cash equivalents	7	13,842,559	14,412,576
Trade and other receivables	8	4,886,516	4,087,887
Current income tax prepayments		806,286	-
Inventories	9	615,749	655,941
Total current assets		**20,151,110**	**19,156,404**
Non-current assets			
Property, plant and equipment	11	65,120,697	64,363,557
Long-term accounts receivables	10	19,318	152,654
Other non-current assets	12	9,852,806	7,439,136
Total non-current assets		**74,992,821**	**71,955,347**
Total assets		**95,143,931**	**91,111,751**
Liabilities and equity			
Current liabilities			
Trade and other payables	13	1,207,497	715,816
Other taxes payable	14	4,315,257	2,989,944
Current income tax payable		-	31,400
Short-term loans and current portion of long-term debt	15	5,197,996	5,642,159
Total current liabilities		**10,720,750**	**9,379,319**
Non-current liabilities			
Long-term debt	16	23,981,873	19,600,753
Provisions for liabilities and charges	17	1,906,918	2,395,084
Deferred income tax liabilities	14	7,090,094	7,251,237
Total non-current liabilities		**32,978,885**	**29,247,074**
Total liabilities		**43,699,635**	**38,626,393**
Equity			
Share capital	18	40,000	40,000
Share premium	18	25,099,045	25,099,045
Other reserves	18	873,253	873,253
Retained earnings		25,431,998	26,473,060
Total equity		**51,444,296**	**52,485,358**
Total liabilities and equity		**95,143,931**	**91,111,751**

Approved for issue and signed on 30 March 2015 by the following members of management:

S.E. Tsygankov
General Director

Y.V. Sukhanova
Deputy director on economics and finance

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	19	37,214,140	34,501,203
Cost of sales	20	(27,057,464)	(21,805,181)
Gross profit		**10,156,676**	**12,696,022**
General and administrative expenses	21	(964,232)	(919,295)
Research and development costs		(72,861)	(557,940)
Other operating income	22	346,356	196,712
Other operating expenses	23	(758,222)	(243,290)
Operating profit		**8,707,717**	**11,172,209**
Finance income	24	7,057,622	2,791,019
Finance costs	25	(13,653,857)	(4,593,643)
Profit before income tax		**2,111,482**	**9,369,585**
Income tax	14	(189,700)	(1,885,207)
Profit for the year		**1,921,782**	**7,484,378**
Other comprehensive income:			
Items that will be reclassified to profit or loss		**-**	**-**
Items that will not be reclassified to profit or loss		**-**	**-**
Income tax expense/(benefit) related to other comprehensive income		-	-
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**1,921,782**	**7,484,378**

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax		**2,111,482**	**9,369,585**
Adjustments for:			
Finance income	24	(1,104,657)	(1,020,064)
Finance costs	25	970,641	1,244,138
Depreciation	20	3,953,199	2,787,628
(Gain)/loss on disposal of property, plant and equipment	22, 23	(2,595)	16,199
Provision for revegetation	23	13,923	32,297
Net unrealised foreign exchange (gain)/loss	24, 25	6,730,252	1,578,550
Provision for accounts receivables	23	342	5,126
Impairment of inventory	23	30,662	5,107
Reversal of inventory impairment	22	(53,946)	(33,219)
Adjustments for non-cash investing activity		26,675	19,722
Operating cash flows before changes in working capital		**12,675,978**	**14,005,069**
Decrease /(increase) in inventories	9	63,475	21,073
(Increase)/decrease in trade and other receivables, excluding dividends receivable		(638,960)	239,014
Increase/(Decrease) in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		1,864,940	(111,246)
(Decrease) / increase in accounts payable for exploration and evaluation service		(70,420)	(8,998)
Income taxes paid		(1,188,529)	(1,319,059)
Net cash inflows from operating activities		**12,706,484**	**12,825,853**
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,846,479)	(2,829,392)
Proceeds from sales of property, plant and equipment		2,595	33,837
Interest received		1,079,588	992,414
Net cash outflow from investing activities		**(3,764,296)**	**(1,803,141)**
Cash flows from financing activities			
Repayment of borrowings		(6,996,096)	(7,366,342)
Interest paid		(873,513)	(991,656)
Dividends paid	18	(2,962,844)	(3,143,251)
Net cash outflow from financing activities		**(10,832,453)**	**(11,501,249)**
Net (decrease)/increase in cash and cash equivalents		**(1,890,265)**	**(478,537)**
Effect of exchange rate changes on cash and cash equivalents		1,320,248	39,005
Cash and cash equivalents at the beginning of the year		**14,412,576**	**14,852,108**
Cash and cash equivalents at the end of the year	7	**13,842,559**	**14,412,576**

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013		**533,330**	**40,000**	**25,099,045**	**873,253**	**22,131,933**	**48,144,231**
Profit for the year		-	-	-	-	7,484,378	**7,484,378**
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	**7,484,378**	**7,484,378**
Dividends	18	-	-	-	-	(3,143,251)	**(3,143,251)**
Balance at 31 December 2013		**533,330**	**40,000**	**25,099,045**	**873,253**	**26,473,060**	**52,485,358**
Profit for the year		-	-	-	-	1,921,782	**1,921,782**
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	**1,921,782**	**1,921,782**
Dividends	18	-	-	-	-	(2,962,844)	**(2,962,844)**
Balance at 31 December 2014		**533,330**	**40,000**	**25,099,045**	**873,253**	**25,431,998**	**51,444,296**

1. ACTIVITIES

The core activities of Open Joint Stock Company Severneftegazprom ("the Company") are exploration and development of the Yuzhno-Russkoye oil and gas field, production and sales of gas.

The Company was established in 2001 as a result of reorganization of limited liability company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 31 December 2014 shareholders of the Company were represented by OJSC Gazprom which holds 50 per cent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 per cent of ordinary shares minus 3 ordinary shares plus 2 class A and 1 class C preference shares and E.ON E&P GmbH which holds 25 per cent of ordinary shares minus 3 ordinary shares plus 3 class B preference shares. E.ON E&P GmbH received ownership of shares of the Company as a result of swap transaction with the Gazprom group in 2009.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

Registered address and place of business. 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT OF THE COMPANY

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 (Note 26). During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the Central Bank of the Russian Federation ("CBRF") exchange rate fluctuated between RR 32.6587 and RR 67.7851 per USD, between RR 44.9699 and RR 84.5890 per EUR;
- the CBRF key rate increased from 5.5% p.a. to 17.0% p.a. including an overnight increase from 10.5% p.a. to 17.0% p.a. on 17 December 2014;
- the RTS stock exchange index declined from 1443 on 1 January 2014 to 791 on 31 December 2014;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RR 56.2584 and RR 69.6640 per USD; between RR 64.0504 and 77.5690 per EUR;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+ and in February Moody's Investors Service downgraded it to Ba1, putting it below investment grade for the first time in a decade. and Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook, meaning further downgrades are possible.
- the RTS stock exchange index increased from 791 on 31 December 2014 to 858 on 24 March 2015;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBRF key rate decreased from 17.0% p.a. to 14.0 % p.a.

These events may have a further significant impact on the Company's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Company's operations may differ from management's current expectations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"); it's functional and presentation currency is the Russian Rouble ("RR").

The official US dollar to RR exchange rates as determined by the CBRF were 56.26 and 32.73 as at 31 December 2014 and 31 December 2013, respectively.

The official Euro to RR exchange rates, as determined by the CBRF, were 68.34 and 44.97 as at 31 December 2014 and 31 December 2013, respectively.

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Property, plant and equipment include the cost of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount (refer to Note 11).

Oil and gas exploration assets

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

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

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

(In thousands of Russian Roubles, unless otherwise stated)

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

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved developed reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.
The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	**Other assets**
Buildings	Units of production	5- 30 years
Pipeline	Units of production	-
Machinery and equipment	Units of production	1-15 years
Wells	Units of production	-
Roads	Units of production	-
Other	-	1-20 years

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 6.161 per cent in the year ended 31 December 2014 (year ended 31 December 2013: 4.095 per cent).

The increase in depreciation rate is primarily attributable to the application of the unit of production method based on proved developed reserves rather than total proved reserves as in prior year.

(c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting period and are included in the financial statements at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment". This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company's uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are valued at the lower of the weighted average cost and net realisable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(g) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(h) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the 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. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(i) Financial assets and liabilities

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables, cash and cash equivalents, restricted cash and other non-current assets. These assets are carried at amortized costs and are classified as loans and receivables.
Financial liabilities consist of trade payables, other payables, loans and borrowings and are carried at amortised costs.

All financial assets and liabilities are initially recognised at fair value.

(j) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:
Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Company, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Company, Level 2 inputs include observable market value measures applied to available for sale

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

Cash and cash equivalents are included into Level 1 of fair value hierarchy, all other financial instruments - Level 3 of fair value hierarchy.

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(k) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(l) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Company has the following financial instruments that are incurred at amortised cost: trade and other accounts receivables, long-term accounts receivables, trade and other accounts payables, borrowings.

The carrying amounts of these items are a reasonable approximation of their fair value.

(m) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The accounts receivable impairment provision is created on the base of the management assessment of collectability of customers' accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

(n) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

Capitalisation of borrowing costs.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.
The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

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

(o) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves" (refer to Note 18).

(p) Pension liabilities

In the normal course of business the Company 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 wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

During 2009 the Company has started implementation of the non-State pension program. All the employees of the Company have the right to receive pension benefits from the non-State pension fund by achieving the pension age. The contributions to the non-State pension plan, which is a defined contribution plan, are expensed when incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the Russian Federation State pension fund and non-State pension program.

(q) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.
Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(r) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(s) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

(t) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

(u) Equity

Share capital

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(v) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(w) Mineral extraction tax.

Mineral extraction tax (MET) on natural gas is defined monthly as the amount of volume produced per tax rate. During the first half of 2014 the tax rate for natural gas was fixed and equalled 700 RR per $1000m^3$.

Starting from 1 July 2014 the MET rate was changed from a fixed to a flexible amount which is calculated using a formula as prescribed in the Tax Code. In accordance with the formula the base tax rate of 35 RR per 1000m3 is adjusted for the base value of the unit of conventional fuel and coefficient, indicating the amount of transportation expenses.

Average MET rate for the second half of 2014 was approximately 834 RR per $1000m^3$ for the Senoman field and 175 RR per $1000m^3$ for the Turon field. MET is recorded within Cost of sales in the "Statement of Profit and Loss and Other Comprehensive Income."

(x) Employee Benefits

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. In the normal course of business the Company contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

(y) Income taxes

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. The Company considers that the initial recognition exemption should be applied for decommissioning liabilities and therefore deferred taxes are not recorded for differences related to decommission liabilities.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(z) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(aa)New Accounting Developments

Adoption of new or Revised Standards and Interpretations

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2014 or later periods and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2014

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying 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) the event of default and (iii) the event of insolvency or bankruptcy. The application of this standard is not expected to materially affect the Company's financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The application of this standard is not expected to materially affect the Company's financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The application of this standard is not expected to materially affect the Company's financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The application of this standard is not expected to materially affect the Company's financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The application of this standard is not expected to materially affect the Company's financial statements.

(b) Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Company.

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.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

IFRS 15 – "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). 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 Company is currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Company is currently assessing the impact of the amendments on its financial statements.

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). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Company is currently assessing the impact of the amendments on its financial statements.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Company is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company is currently assessing the impact of the amendments on its separate financial statements.

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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

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

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

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Company is currently assessing the impact of the amendments on its financial statements.

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements. The Company doesn't plan an early adoption of new standards and interpretations.

(In thousands of Russian Roubles, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (refer to Note 26).

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

Classification of production licenses. Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statement.

Site restoration and environmental costs. Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss on units of production basis. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

For details of discounting rates used refer to Note 17. Sensitivity analysis for changes in rates and other estimates:

	Change in	**31 December 2014**	**31 December 2013**
Discount rate	+1%	(433,824)	(522,806)
	-1%	567,314	675,744

Reserves estimation. Unit-of-production depreciation charges are principally measured based on Company's estimates of proved developed reserves. 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 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 Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related exploration drilling costs. Information about the carrying amounts of production assets and the amounts of depreciation charged to the profit or loss as well as sensitivity analysis for estimation of gas reserves is presented in Note 11.

5. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on minimising potential adverse effects on the financial performance of the Company.

(a) Market risk

(i) Currency risk. The Company has a substantial amount of foreign currency denominated borrowings and thus, is exposed to foreign exchange risk arising from various exposures with respect to the US dollar and to the Euro. Foreign currency denominated assets and liabilities give rise to foreign exchange risk exposure.

In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly.

The table below summarized the Company's exposure to foreign currency exchange rate risk at the end of the reporting period. Financial assets and liabilities in foreign currencies, denominated in thousands of RR:

31 December 2014

	USD	**Euro**
Assets		
Cash and cash equivalents	3,268,049	2,370,916
Other receivables	1,193	1,065
Other non-current assets	3,362,538	2,945,494
Liabilities		
Long-term debt	(14,314,525)	(12,542,708)
Interest payable	(30,608)	(25,316)
Net position	**(7,713,353)**	**(7,250,549)**

31 December 2013

	USD	**Euro**
Assets		
Cash and cash equivalents	4,107	14,043
Other receivables	1,110	1,461
Other non-current assets	1,956,209	1,938,152
Liabilities		
Long-term debt	(11,119,329)	(11,020,673)
Trade and other payables	(22,548)	(22,296)
Net position	**(9,180,451)**	**(9,089,313)**

As at 31 December 2014, if the Russian Rouble had weakened by 30 per cent against the US dollar with all other variables held constant, profit before tax would have been lower by RR 2,314,006 thousand (as at 31 December 2013 profit before tax would be lower by RR 2,754,135 thousand), mainly as a result of foreign exchange losses on translation of US dollar denominated borrowings and foreign exchange gains on translation of US dollar denominated cash and cash equivalents. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As at 31 December 2014, if the Russian Rouble had weakened by 30 per cent against the Euro with all other variables held constant, profit before tax would have been lower by RR 2,175,165 thousand (as at 31 December 2013 profit before tax would be lower by RR 2,726,794 thousand), mainly as a result of foreign exchange losses on translation of Euro denominated borrowings and foreign exchange gains on translation of Euro denominated cash and cash equivalents. The effect of a corresponding strengthening of the Russian Rouble against the Euro is approximately equal and opposite.

(ii) Cash flow and fair value interest rate risk. The Company's principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

To mitigate this risk, the Company performs periodic analysis of the current interest rate environment. Financial decisions of management may include re-financing and prolongation of loan agreements as well as other methods of financing.

The Company does not hedge its cash flow and fair value against interest rate risk.

As at 31 December 2014, if interest rates on US dollar denominated borrowings at these dates had been by 5 per cent higher (for example: 5 per cent would become 5.25 per cent) with all other variables held constant, profit before tax would have been lower by RR 18,480 thousand (as at 31 December 2013 profit before tax would have been lower by RR 14,395 thousand), mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2014, if interest rates on Euro denominated borrowings at these dates had increased by 5 per cent (for example: 5 per cent would become 5.25 per cent) with all other variables held constant, profit before tax would have been lower by RR 17,150 thousand (as at 31 December 2013 profit before tax would have been lower by RR 14,239 thousand), mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2014, interest rate on RR-denominated borrowings was fixed. As at 31 December 2013, interest rate on RR-denominated borrowings was fixed.

b) Credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposures to customers, including outstanding trade receivables. The banks with which the Company places funds have insignificant risk of default since the Company places its funds in highly rated leading foreign banks and Russian banks with state participation which minimizes the risk of default. As the main debtors of the Company are the Gazprom Group entities, management believes that the credit risk is low. Receivables from related parties relate to sales performed in 2014 and the Company has no past due nor impaired receivables as at 31 December 2014 and defaults are historically rare.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position (refer to notes 7, 8, 10, 12).

c) Credit risks concentration. The Company is exposed to concentrations of credit risk. As at 31 December 2014 the Company had three counterparties (2014: three counterparties) with the total aggregate amount of these balances RR 4,445,122 thousand (2013: RR 4,063,503 thousand) or 91% of the gross amount of trade and other receivables (2013: 96 %).

In 2014 the Company’s bank deposits were held in several bank accounts with different banks. In 2013 the Company’s bank deposits were held in several bank accounts with different banks (refer to Note 7 cash and cash equivalents for credit ratings).

d) Commodity price risk. Commodity price risk is the risk or uncertainty arising from possible movements in prices for gas, and their impact on the Company’s future performance and results of the Company’s operations. A decline in the prices could result in a decrease in net income and cash flows. The Company’s overall strategy in production and sales of gas is centrally managed.

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

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

e) Liquidity risk. The Company’s liquidity management objective involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and maintaining debt financing plans.

The table below analyses the Company’s liabilities into relevant maturity grouping based on the remaining period in the statement of financial position date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include future interest payments. These amounts will not reconcile to the amounts disclosed on statement of financial position for borrowings, as these amounts are measured at amortised cost.

(In thousands of Russian Roubles, unless otherwise stated)

31 December 2014	Notes	within 1 year	from 1 to 5 years	over 5 years
Borrowings	16	5,207,648	24,120,761	-
Interest payments	13	897,379	1,416,560	-
Trade payables	13	768,802	-	-
Payables to related parties	13	12,216	-	-
Other payables	13	22,606	-	-
		6,908,651	**25,537,321**	**-**

31 December 2013	Notes	within 1 year	from 1 to 5 years	over 5 years
Borrowings	16	5,661,588	19,747,536	-
Interest payments	13	950,750	2,210,569	34,599
Trade payables	13	231,681	-	-
Payables to related parties	13	73,426	-	-
Other payables	13	23,561	-	-
		6,941,006	**21,958,105**	**34,599**

f) Capital management. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

The gearing ratios as at 31 December 2014 and 31 December 2013 were as follows:

	Notes	31 December 2014	31 December 2013
Total borrowings	16	29,179,870	25,242,912
Less: cash and cash equivalents	7	(13,842,559)	(14,412,576)
Less: other non-current assets	12	(9,852,806)	(7,439,136)
Net debt		**5,484,505**	**3,391,200**
Total equity		51,444,296	52,485,358
Total capital		**56,928,801**	**55,876,558**
Gearing ratio		**10%**	**6%**

6. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	31 December 2014	31 December 2013
Current assets			
Cash and cash equivalents	7	13,842,559	14,412,576
Receivables from related parties	8	4,447,751	3,948,924
Other short-term receivables	8	281,606	73,255
Non-current assets			
Long-term receivables from related parties	10	-	118,374
Long-term other receivables	10	19,318	34,280
Other non-current assets	12	9,852,806	7,439,136
		28,444,040	**26,026,545**

Liabilities at amortized cost	Notes	31 December 2014	31 December 2013
Current liabilities			
Short-term borrowings and current portion of long-term debt	16	5,197,996	5,642,159
Trade payables	13	768,802	231,681
Interest payable	13	76,597	72,492
Payables to related parties	13	12,216	73,426
Other payables	13	22,606	23,561
Long-term liabilities			
Long-term borrowings	16	23,981,873	19,600,753
		30,060,090	**25,644,072**

(In thousands of Russian Roubles, unless otherwise stated)

7. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Current accounts	12,282,549	13,085,911
Deposit accounts	1,560,010	1,326,665
Total cash and cash equivalents	**13,842,559**	**14,412,576**

As at 31 December 2014 cash in the amount of RR 1,560,010 thousand was placed on deposit accounts in Vneshprombank.

As at 31 December 2013 cash in the amount of RR 1,326,665 thousand was placed on deposit accounts in Vneshprombank.

As at 31 December 2014 the weighted average interest rate on the deposit accounts of the Company was 22.00 per cent for RR (at 31 December 2013 - 6.50 per cent for RR).

The fair value of cash and cash equivalents as at 31 December 2014 and 31 December 2013 approximates their carrying value.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents:

				31 December 2014	31 December 2013
	Rating	**Rating agency**	**Credit limit for one bank**	**Balance**	**Balance**
Vneshprombank	B2	Moody's	Not set	1,560,012	1,326,665
Credit Agricole	Not set	Moody's	Not set	12,279,800	13,084,563
Gazprombank	Ba1	Moody's	Not set	2,670	1,251
Rosbank	Ba1	Moody's	Not set	77	97
				13,842,559	**14,412,576**

The table below shows analysis of restricted cash (Note 12):

				31 December 2014	31 December 2013
	Rating	**Rating agency**	**Credit limit for one bank**	**Balance**	**Balance**
ING bank N.V.	A2	Moody's	Not set	6,308,031	3,894,361
Credit Agricole	Not set	Moody's	Not set	3,544,775	3,544,775
				9,852,806	**7,439,136**

8. TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013
Financial assets		
Receivables from related parties (refer to Note 27)	4,447,751	3,948,924
Other receivables	286,646	77,952
Impairment provision for other receivables	(5,040)	(4,697)
Total financial assets	**4,729,357**	**4,022,179**
Non-financial assets		
Advances to suppliers	59,723	14,543
Impairment for advances to supplies	(454)	(493)
VAT recoverable	87,648	43,978
Prepaid taxes, other than income tax	10,242	7,680
Total non-financial assets	**157,159**	**65,708**
Total trade and other receivables	**4,886,516**	**4,087,887**

(In thousands of Russian Roubles, unless otherwise stated)

The aging analysis of past due and impaired trade and other receivables are as follows:

Aging from the due date

	31 December 2014	31 December 2013
From 1 to 3 years overdue	(5,106)	(4,763)
More than 3 years overdue	(388)	(427)
	(5,494)	**(5,190)**

Movements of the provision for impairment of other accounts receivable and advances to supplies are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Provision for impairment at the beginning of the year	(5,190)	(49,132)
Provision for impairment (accrued)/reversed	(324)	43,942
Provision for impairment at the end of the year	**(5,514)**	**(5,190)**

All receivables that are past due are fully provided against as at 31 December 2014 and 31 December 2013.

As the principal debtors of the Company are related parties, the Company believes that the default risk is low and, therefore, does not establish provision for impairment of these receivables. No receivables from related parties were past due or impaired as at 31 December 2014 and at 31 December 2013.

The fair value of accounts receivable as at 31 December 2014 and 31 December 2013 approximates their carrying value.

9. INVENTORIES

	31 December 2014	31 December 2013
Materials and supplies	833,076	889,665
Other materials	15,049	21,936
Impairment of materials	(232,376)	(255,660)
Total inventories	**615,749**	**655,941**

As at 31 December 2014 an amount of RR 2,894 thousand was transferred from property, plant and equipment to inventories. As at 31 December 2013 – RR 2,865 thousand was transferred from property, plant and equipment to inventories.

10. LONG-TERM ACCOUNTS RECEIVABLES

	31 December 2014	31 December 2013
Financial assets		
Receivables from related parties (refer to Note 27)	-	118,374
Other receivables	19,318	34,280
Total long-term accounts receivables	**19,318**	**152,654**

Long-term accounts receivable are initially recognized at fair value. The difference between the fair value of the long-term accounts receivable and the amount of cash received was recorded in the profit or loss. As at 31 December 2013 receivables from related parties in the amount of RR 118,374 represent receivables from OJSC “Gazprom” in relation to compensation of losses caused by default in its contractual obligation to purchase a set volume of gas in 2009, to be paid in equal amounts over 5 years starting from December 2011.

The fair value of long-term accounts receivable as at 31 December 2013 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost at 1 January 2013	**9,491,326**	**9,587,238**	**32,212,938**	**9,508,847**	**13,684,925**	**111,770**	**1,027,601**	**75,624,645**
Addition	-	-	-	122,035	-	16,317	2,691,040	**2,829,392**
Change in component for decommissioning and site restoration obligation (Note 17)	(83,138)	(69,743)	(247,494)	(34,859)	-	-	-	**(435,234)**
Disposal	-	-	(62,928)	(9,945)	-	(2,146)	-	**(75 019)**
Transfer to inventories	-	-	-	-	-	-	(2,865)	**(2,865)**
Transfer	-	-	141,862	102,588	-	10,805	(255,255)	-
Cost at 31 December 2013	**9,408,188**	**9,517,495**	**32,044,378**	**9,688,666**	**13,684,925**	**136,746**	**3,460,521**	**77,940,919**
Addition	-	-	1,272	55,351	-	2,969	5,384,500	**5,444,092**
Change in component for decommissioning and site restoration obligation (Note 17)	(159,339)	(132,445)	(474,465)	(66,757)	-	-	-	**(833,006)**
Disposal	-	-	-	(13,956)	-	(2,395)	-	**(16,351)**
Transfer to inventories	-	-	-	-	-	-	(2,894)	**(2,894)**
Transfer	-	-	705,655	426,130	-	-	(1,131,785)	-
Cost at 31 December 2014	**9,248,849**	**9,385,050**	**32,276,840**	**10,089,434**	**13,684,925**	**137,320**	**7,710,342**	**82,532,760**
Accumulated depreciation at 1 January 2013	**(1,416,934)**	**(1,372,676)**	**(4,369,197)**	**(1,890,972)**	**(1,758,767)**	**(54,899)**	**-**	**(10,863,445)**
Charged for the year	(330,670)	(336,411)	(1,142,529)	(484,951)	(488,412)	(21,742)	-	**(2,804,715)**
Change in component for decommissioning and site restoration obligation (Note 17)	12,918	10,391	36,876	5,401	-	-	-	**65,586**
Impairment	-	-	228	-	-	-	-	**228**
Disposal	-	-	12,893	9,945	-	2,146	-	**24,984**
Accumulated depreciation at 31 December 2013	**(1,734,686)**	**(1,698,696)**	**(5,461,729)**	**(2,360,577)**	**(2,247,179)**	**(74,495)**	**-**	**(13,577,362)**
Charged for the year	(472,755)	(481,707)	(1,666,415)	(628,531)	(704,666)	(22,908)	-	**(3,976,982)**
Change in component for decommissioning and site restoration obligation (Note 17)	24,758	19,916	70,905	10,351	-	-	-	**125,930**
Disposal	-	-	-	13,956	-	2,395	-	**16,351**
Accumulated depreciation at 31 December 2014	**(2,182,683)**	**(2,160,487)**	**(7,057,239)**	**(2,964,802)**	**(2,951,845)**	**(95,008)**	**-**	**(17,412,063)**
Net book value at 31 December 2013	**7,673,502**	**7,818,799**	**26,582,649**	**7,328,089**	**11,437,746**	**62,251**	**3,460,521**	**64,363,557**
Net book value at 31 December 2014	**7,066,166**	**7,224,563**	**25,219,601**	**7,124,633**	**10,733,080**	**42,312**	**7,710,342**	**65,120,697**

As at 31 December 2014 borrowing costs and foreign exchange costs totaling RR 597,613 thousand were capitalized in property, plant and equipment. For the year ended 31 December 2014 the capitalization rate applied to qualifying assets was 11,4% per cent.

As at 31 December 2013 borrowing costs totaling RR 44,408 thousand were capitalized in property, plant and equipment. For the year ended 31 December 2013 the capitalization rate applied to qualifying assets was 3.67 per cent.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 31 December 2013 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at those dates.

There was no impairment recognized for the year ended 31 December 2014. In assessing whether the property, plant and equipment of Yuzhno-Russkoye oil and gas field have been impaired, the recoverable amounts for the assets have been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of three years.

(In thousands of Russian Roubles, unless otherwise stated)

Cash inflows have been calculated based on planned amount of gas extraction, multiplied by the gas price which was calculated using the formula prescribed in the sales contracts with customers.

The cash outflows were calculated using cash flow projections based on financial budgets approved by management covering a period of three years. Cash outflows for years 2017-2043 have been inflated at an average rate of 4.48% as an approximation of expected prices growth.

The growth rates applied do not exceed the long-term average growth rate for the business in which the Company operates. The discount rate used reflects the Company's pre-tax nominal weighted average cost of capital and is equal to is 16.68% for 2015-2016 years with subsequent decrease to 14.51% for the years 2017 and after.

Management's assessment of plant and equipment of Yuzhno-Russkoye oil and gas field value in use materially exceeds its carrying value, therefore any significant changes to assumptions used in management's assessment will not result in impairment.

As of 31 December 2014 property, plant and equipment included 2,468,244 thousand of prepayments (1,845,882 thousand as of 31 December 2013).

Construction in progress consists mainly of the construction of a booster compressor station, an administrative facility and producing and exploration wells.

As at 31 December 2014 the Company has properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 24,043,717 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipelines	**Wells**	**Buildings and facilities**	**Machinery and equipment**	**Roads**	**Total**
Cost at 31 December 2014	9,248,693	7,936,778	8,968,774	4,560,073	129,657	**30,843,975**
Accumulated depreciation at 31 December 2014	2,174,359	1,842,212	1,891,991	862,447	29,249	**6,800,258**
Net book value at 31 December 2014	**7,074,334**	**6,094,566**	**7,076,783**	**3,697,626**	**100,408**	**24,043,717**

As at 31 December 2013 the Company had properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 24,614,268 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	**Wells**	**Buildings and facilities**	**Machinery and equipment**	**Roads**	**Total**
Cost at 31 December 2013	9,248,693	7,936,778	8,267,033	4,277,274	129,657	**29,859,435**
Accumulated depreciation at 31 December 2013	1,709,903	1,442,081	1,439,772	630,754	22,657	**5,245,167**
Net book value at 31 December 2013	**7,538,790**	**6,494,697**	**6,827,261**	**3,646,520**	**107,000**	**24,614,268**

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Estimates of proved developed reserves are also used in determination of impairment charges and reversals. Proved developed reserves are estimated by independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Estimates of gas reserves are inherently imprecise, require the application of judgments 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 Company's estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of mineral rights and gas properties.

(In thousands of Russian Roubles, unless otherwise stated)

Were the estimated proved developed reserves to differ by 10% from management's estimates, the impact on depreciation would be as follows:

	Effect on profit before tax for the year ended	
Increase/decrease in reserves estimation	**31 December 2014**	**31 December 2013**
+ 10%	337,137	234,962
- 10%	(412,056)	(287,177)

12. OTHER NON-CURRENT ASSETS

Financial assets	**31 December 2014**	**31 December 2013**
Debt service reserve accounts	6,852,806	4,439,136
Expenditure reserve accounts	3,000,000	3,000,000
	9,852,806	**7,439,136**

In accordance with the long-term project financing agreement finalized in 2011, certain cash is required to be set aside and can only be used in restricted circumstances until 2018.
The fair value of other non-current assets as at 31 December 2014 and 31 December 2013 approximates their carrying value.

As at 31 December 2014 cash balances of the Company on debt service reserve accounts were RR 2,945,493 thousand (Euro 43,098.88 thousand), RR 3,362,538 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

As at 31 December 2013 cash balances of the Company on debt service reserve accounts were RR 1,938,152 thousand (Euro 43,098.88 thousand), RR 1,956,209 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

13. TRADE AND OTHER PAYABLES

	31 December 2014	**31 December 2013**
Financial liabilities		
Trade payables	768,802	231,681
Interest payable	76,597	72,492
Payables to related parties (refer to Note 27)	12,216	73,426
Other payables	22,605	23,561
Total financial liabilities	**880,220**	**401,160**
Non-financial liabilities		
Accrued employee benefit costs	296,489	261,661
Provision for revegetation	30,000	36,500
Provision for reclamation of property, plant and equipment	-	14,269
Wages and salaries	788	2,226
Total non-financial liabilities	**327,277**	**314,656**
Total trade and other payables	**1,207,497**	**715,816**

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision was recognised in the financial statement in respect of revegetation works to be performed in 2015.

(In thousands of Russian Roubles, unless otherwise stated)

14. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	31 December 2014	31 December 2013
Extraction tax	2,159,168	1,447,530
Value added tax (VAT)	1,468,916	1,260,690
Property tax	581,072	207,406
Insurance contributions for employees	105,263	73,165
Personal income tax	68	591
Other taxes and accruals	770	562
Total income tax and other taxes payable	**4,315,257**	**2,989,944**

Extraction tax has increased due to the increase of tax rate in 2014.

Income tax expense comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax expense	350,843	1,271,827
Deferred tax expense	(161,143)	613,380
	189,700	**1,885,207**

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	**2,111,482**	**9,369,585**
Theoretical tax expense at statutory rate 20 %	(422,296)	(1,873,917)
Effects related to the change in provision for decommissioning and site restoration	97,633	30,443
Effects related to the reduced income tax rate per the profit tax relief	100,694	-
Tax effect of expenses and losses not deductible for income tax purposes	34,269	(41,733)
Income tax expense for the year	**(189,700)**	**(1,885,207)**

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20 per cent.

	31 December 2014	Tax effect of movement in temporary differences	31 December 2013	Tax effect of movement in temporary differences	31 December 2012
Tax effect of taxable temporary differences:					
Property, plant and equipment	(7,139,271)	183,422	(7,322,693)	(611,393)	(6,711,300)
Discounting of borrowings	(29,708)	3,534	(33,242)	16,996	(50,238)
	(7,168,979)	**186,956**	**(7,355,935)**	**(594,397)**	**(6,761,538)**
Tax effect of deductible temporary differences:					
Inventories	42,797	14,899	27,898	4,379	23,519
Other deductible temporary differences	36,088	(40,712)	76,800	(23,362)	100,162
Total net deferred tax liability	**(7,090,094)**	**161,143**	**(7,251,237)**	**(613,380)**	**(6,637,857)**

Non-current portion of deferred taxes is expected to be recovered or settled after more than 12 months. The Company has no significant current portion of deferred assets and liabilities.

(In thousands of Russian Roubles, unless otherwise stated)

According to the Law of the Yamal-Nenets Autonomous District dated 24.12.2012 No. 146-ZAO “On amending the Law of the Yamal-Nenets Autonomous District “On the list of organizations implementing priority investment projects in the Yamal-Nenets Autonomous District”, the Company is entitled to profit tax relief for the period of 2013-2017. In the territory of Yamalo-Nenets Autonomous District the reduced income tax rate is applied at the level of 13,5%.

Management of the Company expects that in 2015 the criteria for applying of reduced income tax rate will be fulfilled. The right for applying the rate of 13,5% into the regional budget will remain till 2017.

As at 31 December 2014 all deferred tax assets and liabilities of the Company, related to the period from 2015 to 2017, are recalculated at the tax income rate of 15,5% (including 2% into federal budget).

Based on the amount of proved gas reserves and contracted sales management believes that the Company will generate sufficient taxable profits in the future periods against which the deductible temporary differences will be reversed.

15. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2014	**31 December 2013**
Long-term debt, current portion (refer to Note 16) including:		
US$ denominated floating rate:	2,550,394	2,486,562
Euro denominated floating rate:	2,234,230	2,463,866
RR denominated fixed rate:	413,372	691,731
Total short-term loans and current portion of long-term debt	**5,197,996**	**5,642,159**

The average effective and market interest rates for each class of short-term debt at the end of the reporting period were as follows:

	31 December 2014		**31 December 2013**	
	Average effective interest rates	**Market interest rates**	**Average effective interest rates**	**Market interest rates**
US$ denominated floating rate	2.69	2.69	2.62	2.62
Euro denominated floating rate	2.69	2.69	2.55	2.55
RR denominated fixed rate	11.40	18.34	11.4	11.24

The average effective interest rates for US denominated and Euro denominated short-term debt at the end of the reporting periods were equal to the market interest rates.

The fair value of short-term loans and current portion of short-term debt as at 31 December 2014 and 31 December 2013 approximates it’s carrying value.

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

16. LONG-TERM DEBT

	31 December 2014	**31 December 2013**
Banks:		
UniCredit Bank AG		
US$ denominated floating rate:	14,314,525	11,119,329
Euro denominated floating rate:	12,542,709	11,020,673
RR denominated fixed rate:	2,322,635	3,102,910
	29,179,869	**25,242,912**
Less: current portion of long-term debt (refer to Note 15)	(5,197,996)	(5,642,159)
Total long-term debt	**23,981,873**	**19,600,753**

(In thousands of Russian Roubles, unless otherwise stated)

At 31 December 2014 long-term loans had the following maturity profile (based on the undiscounted contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3years	3 to 4years	4 years and thereafter	Total
Banks:						
UniCredit Bank AG						
US$ denominated floating rate:	2,555,291	3,852,852	4,595,856	3,386,877	-	**14,390,876**
Euro denominated floating rate:	2,238,367	3,374,996	4,025,848	2,966,814	-	**12,606,024**
RR denominated fixed rate:	413,990	624,212	744,589	548,718	-	**2,331,509**
Total	**5,207,648**	**7,852,060**	**9,366,293**	**6,902,409**	**-**	**29,328,409**

At 31 December 2013 long-term loans had the following maturity profile (based on the contractual cash flows):

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and thereafter	Total
Banks:						
UniCredit Bank AG						
US$ denominated floating rate:	2,494,911	1,266,329	2,791,804	2,673,711	1,970,367	**11,197,122**
Euro denominated floating rate:	2,471,882	1,254,641	2,766,034	2,649,032	1,952,181	**11,093,770**
RR denominated fixed rate:	694,795	352,654	777,476	744,589	548,718	**3,118,232**
Total	**5,661,588**	**2,873,624**	**6,335,314**	**6,067,332**	**4,471,266**	**25,409,124**

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling Euro 474,088 thousand, US dollar 657,465 thousand and RUB 5,992,523 thousand. Unicredit Bank AG is acting as Facility Agent for a group of international financial institutions. Final repayment of this project financing is due in December 2018. In May 2011 the project financing was received.

This loan is collateralized by a mortgage in respect of the gas pipeline, certain immovable assets and certain gas wells, land lease rights and a pledge of rights under the gas sale agreements (Note 11).

Interest rates for the Euro- and US dollar-denominated parts of the loan are EURIBOR/LIBOR +235 basis points per annum from the date of the agreement to 31 March 2014, EURIBOR/LIBOR +250 basis points per annum from 1 April 2014 to 31 March 2017, EURIBOR/LIBOR +275 basis points per annum from 1 April 2017 to the final repayment date. A fixed interest rate for the RUB-denominated part of the loan is 11.4 % per annum.

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

	31 December 2014		31 December 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Banks:				
UniCredit Bank AG				
US$ denominated floating rate	11,764,132	11,764,132	8,632,767	8,632,767
Euro denominated floating rate	10,308,478	10,308,478	8,556,807	8,556,807
RR denominated fixed rate	1,909,263	1,655,049	2,411,179	2,215,500

17. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2014	31 December 2013
Provision for decommissioning and site restoration	1,906,918	2,395,084
Total provisions for liabilities and charges	**1,906,918**	**2,395,084**

(In thousands of Russian Roubles, unless otherwise stated)

Provision for decommissioning and site restoration

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
At the beginning of the year		**2,395,084**	**2,547,298**
Change in estimate of provision		(707,077)	(369,649)
Unwinding of discount	25	218,911	217,435
At the end of the year		**1,906,918**	**2,395,084**

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development and accordingly a provision for decommissioning and site restoration was recognized in the financial statement for the period ended 31 December 2014 and for the year ended 31 December 2013 with a corresponding asset recognised within property, plant and equipment (refer to Note 11). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 31 December 2014 was 11.85 per cent (31 December 2013 - 9.14 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

18. EQUITY

Share capital

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type «A») with the nominal value of RR 2,462 thousand, 3 preference shares (type «B») with the nominal value of RR 667 thousand per share and 1 preference share (type «C») with the nominal value of RR 1,077 thousand. Total amount of share capital amounts to RR 40,000 thousand.

As at 31 December 2014 according to the project facility agreement all the shares (533,324 ordinary shares, 2 preference shares (type «A») , 3 preference shares (type «B») 1 preference share (type «C») are pledged to ING BANK N.V., London Branch until all the obligations, under the Project Facility Agreement are fulfilled.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand. Total amount of share capital was RR 667 thousand.

In fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RR 1,639,449 thousand was recorded in equity as share premium.

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand. Total amount of share capital was RR 616 thousand.

As at 31 December 2014 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type «A») are calculated as 12.308 per cent of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type «B») as 5 per cent of the allocated profit for dividends; preference shares (type «C») as 2.692 per cent of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

The basis for distribution is defined by legislation as the current year net profit as calculated in accordance with the Russian accounting rules. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial statement.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount of received funds totalling RR 1,810,635 thousand, net of respective deferred tax effect of RR 571,799 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loan and the amount of received funds totalling RR 4,585,301 thousand, net of respective deferred tax effect of RR 1,447,990 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company early repaid part of the loans to its shareholder. The fair value effect from early redemption of these loans totalling RR 1,323,746 thousand, net of respective deferred tax effect of RR 418,025 thousand, was recognized as a reduction in Other reserves.

In the year ended 31 December 2008 the Company redeemed all the loans for which Other reserves were recognized. The fair value effect from early redemption in the amount of RR 4,198,937 thousand, net of respective deferred tax effect of RR 1,325,954 thousand, was recognized as a reduction in Other reserves.

Dividends

The Annual General Shareholders' Meeting of the Company held on May 27, 2014 decided to pay dividends RR 2,962,844 thousand for the year ended December 31, 2013.

The Annual General Shareholders' Meeting of the Company held on June 28, 2013 decided to pay dividends RR 3,143,251 thousand for the year ended December 31, 2012.

Dividends declared and paid during the year were as follows:

	2014		2013	
In thousands of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January			-	-
Dividends declared during the year	2,370,275	592,569	2,514,601	628,650
Dividends paid during the year	(2,370,275)	(592,569)	(2,514,601)	(628,650)
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year	**4.44**	**98,761.47**	**4.71**	**104,775.03**

In 2014 Company accrued dividends in the amount of RR 2,962,844 thousand. Amount of dividends paid was RR 2,767,295 thousand net of withholding tax.

In 2013 Company accrued dividends in the amount of RR 3,143,251 thousand. Amount of dividends paid was RR 2,935,795 thousand net of withholding tax.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

(In thousands of Russian Roubles, unless otherwise stated)

19. REVENUE

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from gas sales	37,214,140	34,501,203
Total revenue	**37,214,140**	**34,501,203**

All customers of the Company represent related parties. Please refer to Note 27.

20. COST OF SALES

	Year ended 31 December 2014	Year ended 31 December 2013
Extraction tax	19,220,573	15,123,723
Depreciation	3,953,199	2,787,628
Wages, salaries and other staff costs	1,358,597	1,230,893
Property tax	859,356	934,345
Services	763,274	774,088
Contributions to the State pension fund	236,553	217,142
Materials	226,728	243,339
Insurance	157,086	152,725
Transportation services	72,978	75,341
Contributions to the non-State pension fund	51,272	64,955
Fuel and energy	41,111	43,910
Other	116,736	157,092
Total cost of sales	**27,057,464**	**21,805,181**

Depreciation in the amount of RR 23,784 thousand for the year ended 31 December 2014 was capitalized (for the year ended 31 December 2013– RR 17,085 thousand).

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Wages, salaries and other staff costs	530,958	509,196
Contributions to the State and non-State pension funds	107,078	98,331
Services and other administrative expenses	326,196	311,768
Total general and administrative expenses	**964,232**	**919,295**

22. OTHER OPERATING INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Reimbursement of the road maintenance costs	119,050	126,867
Gain on sale of foreign currency	115,453	10,603
Reversal of impairment of inventories	53,946	33,219
Gain on disposal of property, plant and equipment	2,595	-
Other	55,312	20,023
Total operating income	**346,356**	**196,712**

(In thousands of Russian Roubles, unless otherwise stated)

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Additional charge of property tax, penalties and interest	531,491	-
Social costs	99,403	87,653
Impairment of inventory	30,662	5,107
Loss on disposal of materials	27,856	20,079
Provision for revegetation	13,923	32,297
Non-refundable VAT	5,440	7,184
Loss on disposal of property, plant and equipment	-	16,199
Other	49,447	74,771
Total operating expenses	**758,222**	**243,290**

24. FINANCE INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	1,104,657	1,020,064
Foreign currency exchange gains	5,952,965	1,770,955
Total finance income	**7,057,622**	**2,791,019**

25. FINANCE COSTS

	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense:		
Bank loans	751,729	1,026,703
Foreign currency exchange losses	12,683,217	3,349,505
Unwinding of discount of provisions (refer to Note 17)	218,911	217,435
Total finance costs	**13,653,857**	**4,593,643**

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was introduced from 1999 and was amended with 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 Organisation for Economic Cooperation and Development (OECD). 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 believes that its pricing policy used in 2014 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given the specifics of TP rules, the impact of any challenge of the Company’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Company.

(In thousands of Russian Roubles, unless otherwise stated)

(b) Legal proceedings

The Company is subject of, or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial statement.

(c) Capital commitments

At 31 December 2014, the Company had contractual commitments for capital expenditures of approximately RR 4,789,536 thousand (31 December 2013 – RR 6,359,636 thousand).

(d) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

27. RELATED PARTY TRANSACTIONS

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 over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Transactions with shareholders

The Company is under the control of OJSC Gazprom and is included in the Gazprom Group. OJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and E.ON E&P GmbH, which is part of the E.ON Group have significant influence on the Company (refer to Note 1).

Transactions of the Company with its shareholders for the years ended 31 December 2014 and 31 December 2013 are presented below:

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Sales of gas to OJSC Gazprom	19	14,885,656	13,800,481
Sales of gas to CJSC Gazprom YRGM Trading	19	13,024,949	12,075,421
Sales of gas to CJSC Gazprom YRGM Development	19	9,303,535	8,625,301
Purchases of goods and services from Gazprom Group		326,752	288,672

All operations with Gazprom Group, BASF SE Group and E.ON Group were performed in accordance with signed agreements and on general market conditions.

(In thousands of Russian Roubles, unless otherwise stated)

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	**Notes**	**31 December 2014**	**31 December 2013**
Trade and other receivables from OJSC Gazprom	8	1,938,920	1,655,139
Trade and other receivables from CJSC Gazprom YRGM Trading	8	1,461,951	1,335,888
Trade and other receivables from CJSC Gazprom Development	8	1,044,251	954,102
Other receivables from Gazprom Group	8	2,629	3,795
		4,447,751	**3,948,924**
Long-term accounts receivable			
Trade receivables from OJSC Gazprom	10	-	118,374
		-	**118,374**

As at 31 December 2014 and 31 December 2013 short-term and long-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

Accounts payable	**Notes**	**31 December 2014**	**31 December 2013**
Payables to the Gazprom Group	13	12,216	73,426
		12,216	**73,426**

Transactions with Key Management Personnel

Management of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

Key management benefits	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Short-term benefits	147,265	166,813
Other long-term benefits	21,089	32,096
	168,354	**198,909**

The Shareholder’s meeting, held on May, 2014 decided to pay compensation to the members of the Board of directors amounting to RR 4,803 thousand.

The Shareholder’s meeting, held on June, 2013 decided to pay compensation to the members of the Board of directors amounting to RR 4,548 thousand.

Transactions with parties under control of the Government

The Company does not have transactions with parties under the control of the Government except for the Gazprom Group.

28. SUBSEQUENT EVENTS

In March 2015 according to the project facility agreement the Company ahead of schedule has paid the amount totaling Euro 32,752 thousand, US dollar 45,421 thousand and RUB 413,990 thousand.