

OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERIM CONDENSED FINANCIAL INFORMATION

(UNAUDITED)

30 JUNE 2015

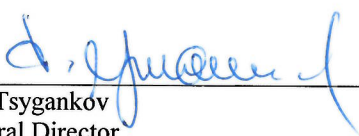
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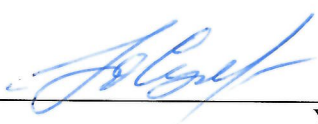
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OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2015
(UNAUDITED)
(In thousands of Russian Roubles)

	Notes	30 June 2015	31 December 2014
Assets			
Current assets			
Cash and cash equivalents	6	9,423,474	13,842,559
Trade and other receivables	7	7,469,286	4,886,516
Inventories	8	583,759	615,749
Current income tax prepayments		-	806,286
Total current assets		17,476,519	20,151,110
Non-current assets			
Property, plant and equipment	10	65,938,992	65,120,697
Long-term accounts receivables	9	13,708	19,318
Other non-current assets	11	8,092,657	9,852,806
Total non-current assets		74,045,357	74,992,821
Total assets		91,521,876	95,143,931
Liabilities and equity			
Current liabilities			
Trade and other payables	12	1,527,355	1,207,497
Current income tax payable		237,127	-
Other taxes payable	13	2,779,079	4,315,257
Short-term loans and current portion of long-term debt	14	1,360,223	5,197,996
Dividends payable	17	2,361,937	-
Total current liabilities		8,265,721	10,720,750
Non-current liabilities			
Long-term debt	15	20,046,715	23,981,873
Provisions for liabilities and charges	16	2,019,903	1,906,918
Deferred income tax liabilities		7,171,100	7,090,094
Total non-current liabilities		29,237,718	32,978,885
Total liabilities		37,503,439	43,699,635
Equity			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	873,253	873,253
Retained earnings		28,006,139	25,431,998
Total equity		54,018,437	51,444,296
Total liabilities and equity		91,521,876	95,143,931

Approved for issue and signed on 31 July 2015 by the following members of management:


S.E. Tsygankov
General Director


Y.V. Sukhanova
Deputy director on economics and finance

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED INFORMATION OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Revenue	18	20,193,126	18,545,901
Cost of sales	19	(14,593,655)	(12,256,197)
Gross profit		5,599,471	6,289,704
General and administrative expenses	20	(448,653)	(478,924)
Research and development costs		(43,942)	(11,474)
Other operating income	21	145,766	189,035
Other operating expenses	22	(44,867)	(47,409)
Operating profit		5,207,775	5,940,932
Finance income	23	11,435,758	2,453,978
Finance costs	24	(10,646,037)	(3,383,744)
Profit before income tax		5,997,496	5,011,166
Income tax	13	(1,061,418)	(864,871)
Profit for the period		4,936,078	4,146,295
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 period		-	-
Total comprehensive income for the period		4,936,078	4,146,295

OJSC SEVERNEFTEGAZPROM
IFRS INTERIM CONDENSED INFORMATION OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)
(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Profit before income tax		5,997,496	5,011,166
Adjustments for:			
Finance income	23	(754,760)	(519,185)
Finance costs	24	434,383	488,695
Depreciation	19	1,928,967	1,406,132
Gain on disposal of property, plant and equipment	21, 22	(37)	(2,341)
Net unrealised foreign exchange (gain)/loss	23, 24	(469,344)	960,256
Impairment of inventory	22	17,973	-
Change in reversal of inventory impairment	21	(1,195)	(20,361)
Adjustments for non-cash investing activity		25,192	11,798
Operating cash flows before changes in working capital		7,178,675	7,336,160
Decrease in inventories	8	15,213	123,704
Increase in trade and other receivables, excluding dividends receivable, other non-current assets		(751,240)	(3,480,609)
(Decrease)/increase in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		(1,005,787)	436,266
Decrease in accounts payable for exploration and evaluation service		(45,029)	(9,109)
Income taxes received/(paid)		63,000	(540,463)
Net cash inflows from operating activities		5,454,832	3,865,949
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,772,454)	(2,435,355)
Proceeds from sales of property, plant and equipment		37	4,555
Interest received		721,352	499,443
Net cash outflow from investing activities		(2,051,065)	(1,931,357)
Cash flows from financing activities			
Repayment of borrowings		(7,113,067)	(6,996,096)
Interest paid		(439,105)	(438,720)
Net cash outflow from financing activities		(7,552,172)	(7,434,816)
Net (decrease)/increase in cash and cash equivalents		(4,148,405)	(5,500,224)
Effect of exchange rate changes on cash and cash equivalents		(270,680)	(82,635)
Cash and cash equivalents at the beginning of the year		13,842,559	14,412,576
Cash and cash equivalents at the end of the period	6	9,423,474	8,829,717

OJSC SEVERNEFTEGAZPROM
**IFRS INTERIM CONDENSED INFORMATION OF CHANGES IN EQUITY FOR THE SIX MONTHS
ENDED 30 JUNE 2015 (UNAUDITED)**

(In thousands of Russian Roubles, unless otherwise stated)

	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2014	533,330	40,000	25,099,045	873,253	26,473,060	52,485,358
Profit for the period	-	-	-	-	4,146,295	4,146,295
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	4,146,295	4,146,295
Dividends	-	-	-	-	(2,962,844)	(2,962,844)
Balance at 30 June 2014	533,330	40,000	25,099,045	873,253	27,656,511	53,668,809
Balance at 1 January 2015	533,330	40,000	25,099,045	873,253	25,431,998	51,444,296
Profit for the period	-	-	-	-	4,936,078	4,936,078
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	4,936,078	4,936,078
Dividends	-	-	-	-	(2,361,937)	(2,361,937)
Balance at 30 June 2015	533,330	40,000	25,099,045	873,253	28,006,139	54,018,437

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 30 June 2015 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.

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 interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 “Interim financial reporting” (IAS 34). This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards (“IFRS”).

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”); its functional and presentation currency is the Russian Rouble (“RR”).

The official US dollar to RR exchange rates as determined by the CBRF were 55.52 and 56.26 as at 30 June 2015 and 31 December 2014, respectively.

The official Euro to RR exchange rates, as determined by the CBRF, were 61.52 and 68.34 as at 30 June 2015 and 31 December 2014, 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 10).

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.

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.

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NOTES TO IFRS INTERIM CODENSED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED
30 JUNE 2015 (UNAUDITED)
(In thousands of Russian Roubles, unless otherwise stated)

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 relevant organizations.

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 3.317 per cent for the period ended 30 June 2015 (for the period ended 30 June 2014: 2.172 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 installment 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 17).

(p) Pension liabilities

In the normal course of business the Company contributes to the Russian Federation pension plan on behalf of its employees. Mandatory contributions to the 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, that meet the requirements of the Company regulations for private pension provisions, 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 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 the nominal value of the shares of the Company acquired by shareholders.

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 1000m³.

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 1000m³ for the Cenomanian field and 175 RR per 1000m³ for the Turonian field. MET is recorded within Cost of sales in the "Statement of Profit and Loss and Other Comprehensive Income."

Average MET rate for the first semester of 2015 was approximately 861 RR per 1000m³ for the Cenomanian field and 181 RR per 1000m³ for the Turonian field.

(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 Bank of Russia (“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 2015 or later periods and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2015

“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 or 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.

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 25).

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.

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 10.

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NOTES TO IFRS INTERIM CONDENSED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED
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5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	30 June 2015	31 December 2014
Current assets			
Cash and cash equivalents	6	9,423,474	13,842,559
Receivables from related parties	7	6,804,824	4,447,751
Other short-term receivables	7	405,643	281,606
Non-current assets			
Long-term other receivables	9	13,708	19,318
Other non-current assets	11	8,092,657	9,852,806
		24,740,306	28,444,040
Liabilities at amortized cost	Notes	30 June 2015	31 December 2014
Current liabilities			
Short-term borrowings and current portion of long-term debt	14	1,360,223	5,197,996
Trade payables	12	1,156,866	768,802
Interest payable	12	55,092	76,597
Payables to related parties	12	18,168	12,216
Other payables	12	6,920	22,606
Long-term liabilities			
Long-term borrowings	15	20,046,715	23,981,873
		22,643,983	30,060,090

6. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Current accounts	5,328,169	12,282,549
Deposit accounts	4,095,305	1,560,010
Total cash and cash equivalents	9,423,474	13,842,559

As at 30 June 2015 cash in the amount of RR 4,095,305 thousand was placed on deposit accounts in Vnesheprombank.

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

As at 30 June 2015 the weighted average interest rate on the deposit accounts of the Company was 11.10 per cent for RR (at 31 December 2014 – 22.00 per cent for RR).

The fair value of cash and cash equivalents as at 30 June 2015 and 31 December 2014 approximates their carrying value.

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

				30 June 2015	31 December 2014
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
Vnesheprombank	B2	Moody's	Not set	4,095,305	1,560,012
Credit Agricole	Not set	Moody's	Not set	5,325,750	12,279,800
Gazprombank	Ba2	Moody's	Not set	2,351	2,670
Rosbank	Ba2	Moody's	Not set	67	77
				9,423,474	13,842,559

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The table below shows analysis of restricted cash (Note 11):

				30 June 2015	31 December 2014
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
ING bank N.V.	A1	Moody's	Not set	4,588,007	6,308,031
Credit Agricole	Not set	Moody's	Not set	3,504,651	3,544,775
				8,092,657	9,852,806

7. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
Financial assets		
Receivables from related parties (refer to Note 26)	6,804,824	4,447,751
Other receivables	410,683	286,646
Impairment provision for other receivables	(5,040)	(5,040)
Total financial assets	7,210,467	4,729,357
Non-financial assets		
Advances to suppliers	29,930	59,723
Impairment for advances to supplies	(427)	(454)
VAT recoverable	122,020	87,648
Prepaid taxes, other than income tax	107,296	10,242
Total non-financial assets	258,819	157,159
Total trade and other receivables	7,469,286	4,886,516

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

Aging from the due date

	30 June 2015	31 December 2014
From 1 to 3 years overdue	(4,786)	(5,106)
More than 3 years overdue	(681)	(388)
	(5,467)	(5,494)

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

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Provision for impairment at the beginning of the year	(5,494)	(49,132)
Provision for impairment (accrued)/reversed	27	(3,867)
Provision for impairment at the end of the year	(5,467)	(52 999)

All receivables that are past due are fully provided against as at 30 June 2015 and 31 December 2014.

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 30 June 2015 and at 31 December 2014.

The fair value of accounts receivable as at 30 June 2015 and 31 December 2014 approximates their carrying value.

8. INVENTORIES

	30 June 2015	31 December 2014
Materials and supplies	821,233	833,076
Other materials	11,680	15,049
Impairment of materials	(249,154)	(232,376)
Total inventories	583,759	615,749

As at 30 June 2015 – RR 5,017 thousand was transferred from property, plant and equipment to inventories.

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

9. LONG-TERM ACCOUNTS RECEIVABLES

	30 June 2015	31 December 2014
Financial assets		
Other receivables	13,708	19,318
Total long-term accounts receivables	13,708	19,318

The fair value of long-term accounts receivable as at 30 June 2015 and at 31 December 2014 approximates their carrying value.

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NOTES TO IFRS INTERIM CODENSED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED
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10. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost at 1 January 2014	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 16)	(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
Addition	-	-	370	8,804	-	1,129	2,762,151	2,772,454
Disposal	-	-	-	(460)	-	-	-	(460)
Transfer to inventories	-	-	-	-	-	-	(5,017)	(5,017)
Transfer	-	-	1,033	822	-	-	(1,855)	-
Cost at 30 June 2015	9,248,849	9,385,050	32,278,243	10,098,600	13,684,925	138,449	10,465,621	85,299,737
Accumulated depreciation at 1 January 2014	(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 16)	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)	(2,964,801)	(2,951,845)	(95,008)	-	(17,412,063)
Charged for the period	(226,395)	(232,892)	(814,782)	(309,152)	(356,068)	(9,853)	-	(1,949,142)
Disposal	-	-	-	460	-	-	-	460
Accumulated depreciation at 30 June 2015	(2,409,078)	(2,393,379)	(7,872,021)	(3,273,493)	(3,307,913)	(104,861)	-	(19,360,745)
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
Net book value at 30 June 2015	6,839,771	6,991,671	24,406,222	6,825,107	10,377,012	33,588	10,465,621	65,938,992

As at 30 June 2015 borrowing costs and foreign exchange costs totaling RR 175,324 thousand were capitalized in property, plant and equipment. For the period ended 30 June 2015 the capitalization rate applied to qualifying assets was 3.43 per cent.

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.

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 2014 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.

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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 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 30 June 2015 property, plant and equipment included RR 1,039,874 thousand of prepayments (RR 2,468,244 thousand as of 31 December 2014).

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

As at 30 June 2015 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 22,383,514 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 30 June 2015	9,248,693	7,936,778	8,324,605	4,277,274	129,657	29,917,007
Accumulated depreciation at 30 June 2015	2,409,049	2,044,398	2,078,534	968,932	32,580	7,533,493
Net book value at 30 June 2015	6,839,644	5,892,380	6,246,071	3,308,342	97,077	22,383,514

As at 31 December 2014 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 24,043,717 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

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.

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11. OTHER NON-CURRENT ASSETS

Financial assets	30 June 2015	31 December 2014
Debt service reserve accounts	5,092,657	6,852,806
Expenditure reserve accounts	3,000,000	3,000,000
	8,092,657	9,852,806

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 30 June 2015 and 31 December 2014 approximates their carrying value.

As at 30 June 2015 cash balances of the Company on debt service reserve accounts were RR 2,022,796 thousand (Euro 32,879.99 thousand), RR 2,565,210 thousand (US dollar 46,200.03 thousand) and RR 504,651 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 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.

12. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Financial liabilities		
Trade payables	1,156,866	768,802
Interest payable	55,092	76,597
Payables to related parties (refer to Note 26)	18,168	12,216
Other payables	6,920	22,605
Total financial liabilities	1,237,046	880,220
Non-financial liabilities		
Accrued employee benefit costs	191,883	296,489
Provision for revegetation	30,000	30,000
Wages and salaries	68,426	788
Total non-financial liabilities	290,309	327,277
Total trade and other payables	1,527,355	1,207,497

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.

13. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	30 June 2015	31 December 2014
Extraction tax	1,326,806	2,159,168
Value added tax (VAT)	1,337,850	1,468,916
Property tax	14,396	581,072
Insurance contributions for employees	86,812	105,263
Personal income tax	12,864	68
Other taxes and accruals	351	770
Total income tax and other taxes payable	2,779,079	4,315,257

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Income tax expense comprises the following:

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Current tax expense	980,413	610,132
Deferred tax expense	81,005	254,739
	1,061,418	864,871

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

	30 June 2015	31 December 2014
Long-term debt, current portion (refer to Note 15) including:		
US\$ denominated floating rate	663,911	2,550,394
Euro denominated floating rate	503,877	2,234,230
RR denominated fixed rate	192,435	413,372
Total short-term loans and current portion of long-term debt	1,360,223	5,197,996

15. LONG-TERM DEBT

	30 June 2015	31 December 2014
Banks: UniCredit Bank AG		
US\$ denominated floating rate	10,873,231	14,314,525
Euro denominated floating rate	8,663,017	12,542,709
RR denominated fixed rate	1,870,690	2,322,635
	21,406,938	29,179,869
Less: current portion of long-term debt (refer to Note 14)	(1,360,223)	(5,197,996)
Total long-term debt	20,046,715	23,981,873

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 10).

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 average effective interest rates at the end of reporting period were as follows:

	30 June 2015	31 December 2014
Banks:		
US\$ denominated floating rate	2.75	2.69
Euro denominated floating rate	2.55	2.69
RR denominated fixed rate	11.4	11.4

As at 30 June 2015 and 31 December 2014 the carrying amounts of long-term loans approximate their fair values.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2015	31 December 2014
Provision for decommissioning and site restoration	2,019,903	1,906,918
Total provisions for liabilities and charges	2,019,903	1,906,918

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Provision for decommissioning and site restoration

	Notes	For the six months ended 30 June 2015	Year ended 31 December 2014
At the beginning of the period		1,906,918	2,395,084
Change in estimate of provision		-	(707,077)
Unwinding of discount	24	112,985	218,911
At the end of the period		2,019,903	1,906,918

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 30 June 2015 and for the year ended 31 December 2014 with a corresponding asset recognised within property, plant and equipment (refer to Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 June 2015 was 11.85 per cent (31 December 2014 – 11.85 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

17. 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 30 June 2015 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 30 June 2015 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 June 30, 2015 decided to pay dividends RR 2,361,937 thousand for the year ended December 31, 2014.

The Annual General Shareholders' Meeting of the Company held on June 30, 2014 decided to pay dividends RR 2,962,844 thousand for the year ended December 31, 2013.

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.

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18. REVENUE

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Revenue from gas sales	20,193,126	18,545,901
Total revenue	20,193,126	18,545,901

All customers of the Company represent related parties. Please refer to Note 26.

19. COST OF SALES

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Extraction tax	10,903,610	8,949,156
Depreciation	1,928,967	1,406,132
Wages, salaries and other staff costs	625,728	671,899
Property tax	420,330	437,786
Services	232,726	298,505
Contributions to the State pension fund	159,191	154,198
Materials	92,936	111,797
Insurance	74,385	77,574
Transportation services	31,762	40,572
Contributions to the non-State pension fund	46,061	25,012
Fuel and energy	17,923	21,297
Other	60,036	62,269
Total cost of sales	14,593,655	12,256,197

Depreciation in the amount of RR 20,175 thousand for the period ended 30 June 2015 was capitalized (for the period ended 30 June 2014– RR 11,796 thousand).

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Wages, salaries and other staff costs	231,548	258,805
Contributions to the State and non-State pension funds	69,446	64,988
Services and other administrative expenses	147,659	155,131
Total general and administrative expenses	448,653	478,924

21. OTHER OPERATING INCOME

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Gain on sale of foreign currency	81,740	-
Insurance payout	22,085	-
Reimbursement of the road maintenance costs	5,123	116,295
Reversal of impairment of inventories	1,195	20,361
Gain on disposal of property, plant and equipment	37	2,341
Other	35,586	20,724
Total operating income	145,766	189,035

22. OTHER OPERATING EXPENSES

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Provision for impairment of materials	17,973	-
Social costs	4,574	17,370
Non-refundable VAT	2,804	2,079
Loss on disposal of materials	83	13,249
Other	19,433	14,711
Total operating expenses	44,867	47,409

23. FINANCE INCOME

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Interest income	754,760	519,185
Foreign currency exchange gains	10,680,998	1,934,793
Total finance income	11,435,758	2,453,978

24. FINANCE COSTS

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Interest expense:		
Bank loans	321,398	379,240
Foreign currency exchange losses	10,211,654	2,895,049
Unwinding of discount of provisions (refer to Note 16)	112,985	109,455
Total finance costs	10,646,037	3,383,744

25. 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 noncompliant 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.

(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) 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.

26. 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 30 June 2015 and 31 December 2014 are presented below:

	Notes	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Sales of gas to OJSC Gazprom	18	8,077,251	7,418,361
Sales of gas to CJSC Gazprom YRGM Trading	18	7,067,594	6,491,065
Sales of gas to CJSC Gazprom YRGM Development	18	5,048,282	4,636,475
Purchases of goods and services from Gazprom Group		76,672	123,513

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

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	Notes	30 June 2015	31 December 2014
Trade and other receivables from OJSC Gazprom	7	3,189,655	1,938,920
Trade and other receivables from CJSC Gazprom YRGM Trading	7	2,673,703	1,461,951
Trade and other receivables from CJSC Gazprom YRGM Development	7	939,461	1,044,251
Other receivables from Gazprom Group	7	2,005	2,629
		6,804,824	4,447,751

As at 30 June 2015 and 31 December 2014 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.

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Accounts payable	Notes	30 June 2015	31 December 2014
Payables to the Gazprom Group	12	18,168	12,216
		18,168	12,216

Transactions with Key Management Personnel

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

Key management compensation is presented below:

	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Key management benefits		
Short-term benefits	115,415	77,870
Other long-term benefits	-	15,783
	115,415	93,653

The Shareholder's meeting, held on May, 2015 decided to pay compensation to the members of the Board of directors amounting to RR 5,126 thousand.

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.

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.

27. SUBSEQUENT EVENTS

There are no subsequent events to disclose.