Bashneft Group

Consolidated financial statements
for the year ended 31 December 2015

BASHNEFT GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

The following statement, which should be read in conjunction with the independent auditor's report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Public Joint Stock Oil Company Bashneft (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as of 31 December 2015, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved by:

A.L. Korsik,
President

Y.V. Galaydin,
Chief Accountant

Ufa, Russian Federation
11 March 2016

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Public Joint Stock Oil Company Bashneft

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of these consolidated financial statements.

Opinion

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

Deloitte & Touche

11 March 2016
Moscow, Russian Federation

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений
Россия, г. Москва, ул. Лесная, д. 5

Golovkina N.V., Partner
(certificate no.01-001193 dated 14 January 2013)

ZAO Deloitte & Touche CIS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

Millions of Russian roubles, except for earnings per share data

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	7	611,274	637,271
Export tariffs and excise		(103,644)	(199,024)
Cost of purchased crude oil, gas and petroleum products		(129,449)	(139,838)
Taxes other than income tax	9	(107,947)	(77,771)
Production and operating expenses		(81,014)	(70,833)
Transportation expenses		(38,257)	(31,257)
Depletion and depreciation		(33,512)	(23,781)
Selling, general and administrative expenses		(20,677)	(16,019)
Other operating expenses, net		(3,366)	(1,751)
Operating profit		**93,408**	**76,997**
Impairment of assets, net	10	(518)	(13,030)
Finance income	11	6,594	4,747
Finance costs	11	(18,613)	(13,058)
Foreign exchange (loss)/gain, net		(3,413)	1,299
Share of loss of joint ventures	14	(981)	(117)
Profit before income tax		**76,477**	**56,838**
Income tax	12	(16,913)	(13,817)
Profit for the year		**59,564**	**43,021**
Other comprehensive loss, net of income tax			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of post-employment benefit obligation		-	(25)
Other comprehensive loss, net of income tax		**-**	**(25)**
Total comprehensive income for the year		**59,564**	**42,996**
Profit/(loss) for the year attributable to:			
Owners of the Company		58,175	43,146
Non-controlling interests		1,389	(125)
		59,564	**43,021**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		58,175	43,121
Non-controlling interests		1,389	(125)
		59,564	**42,996**
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the year	20	144,417,602	148,586,876
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)	20	343.54	245.10

The accompanying notes on pages 9-57 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015
Millions of Russian roubles

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	400,450	369,925
Advances paid for acquisition of property, plant and equipment		872	1,617
Intangible assets		3,736	2,982
Financial assets	15	3,504	3,567
Investments in joint ventures and related financial assets	14	3,361	3,791
Long-term inventories	16	3,086	2,846
Deferred tax assets	12	1,997	1,959
Other non-current assets		2,501	1,619
		419,507	**388,306**
Current assets			
Inventories	16	22,048	26,359
Financial assets	15	5,000	1,330
Trade and other receivables	17	10,260	14,696
Advances to suppliers and prepaid expenses		6,155	8,881
Income tax prepaid		442	469
Other taxes receivable	26	23,745	30,822
Cash and cash equivalents	18	32,955	52,818
		100,605	**135,375**
TOTAL ASSETS		**520,112**	**523,681**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	1,954	1,984
Treasury shares		(12,720)	(18,122)
Additional paid-in capital		81,462	81,462
Other equity reserves	19	673	-
Retained earnings		164,121	130,494
Equity attributable to owners of the Company		**235,490**	**195,818**
Non-controlling interests		9,223	7,834
		244,713	**203,652**
Non-current liabilities			
Borrowings	21	115,899	139,232
Decommissioning provision	23	9,758	7,473
Deferred tax liabilities	12	39,524	43,038
Prepayment on oil products supply agreement	22	13,492	17,347
Other non-current liabilities	24	2,055	1,722
		180,728	**208,812**
Current liabilities			
Borrowings	21	20,108	28,553
Trade and other payables	25	40,991	37,340
Dividends payable	20	420	398
Advances received		14,191	25,614
Current portion of prepayment on oil products supply agreement	23	3,855	-
Provisions		760	824
Income tax payable		921	1,722
Other taxes payable	26	13,425	16,766
		94,671	**111,217**
TOTAL LIABILITIES		**275,399**	**320,029**
TOTAL EQUITY AND LIABILITIES		**520,112**	**523,681**

The accompanying notes on pages 9-57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
Millions of Russian roubles

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
OPERATING ACTIVITIES			
Profit before income tax		**76,477**	**56,838**
Adjustments for:			
Depletion and depreciation		33,512	23,781
Loss on disposal of property, plant and equipment		1,149	1,981
Finance income		(6,594)	(4,747)
Finance costs		18,613	13,058
Impairment of assets, net	10	518	13,030
Share of loss of joint ventures	14	981	117
Group’s share of loss eliminated on transactions with joint ventures	14	-	1,172
Foreign exchange loss/(gain), net		3,413	(1,299)
Long-term remuneration program	19	1,737	-
Change in provisions, net		(240)	47
Other, net		1,075	330
Operating cash flows before working capital changes		**130,641**	**104,308**
Movements in working capital:			
Inventories		2,181	(1,448)
Trade and other receivables		1,770	7,401
Advances to suppliers and prepaid expenses		1,725	(1,915)
Other taxes receivable		7,046	(1,376)
Trade and other payables		1,587	(7,902)
Advances received		(11,424)	12,908
Prepayment on oil products supply agreement	22	-	17,347
Other taxes payable		(3,252)	3,635
Cash generated from operations		**130,274**	**132,958**
Interest paid		(16,817)	(12,065)
Income tax paid		(21,144)	(14,834)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**92,313**	**106,059**

The accompanying notes on pages 9-57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015
Millions of Russian roubles

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(61,695)	(48,344)
Proceeds from disposal of property, plant and equipment		55	46
Investments in and loans to joint venture	14	(916)	(2,961)
Acquisition of subsidiaries, net of cash acquired	4	282	(41,283)
Payments for acquisition of intangible assets		(1,427)	(968)
Repayment of contributions and loans to joint ventures	14	190	3,133
Payments for acquisition of financial assets		(20,034)	(400)
Proceeds from disposal of financial assets		19,229	2,476
Interest received		6,210	3,126
Net cash outflow from disposal of subsidiaries and structured entities		-	(17)
Dividends received		2	-
NET CASH USED IN INVESTING ACTIVITIES		**(58,104)**	**(85,192)**
FINANCING ACTIVITIES			
Proceeds from borrowings		18,830	101,507
Repayments of borrowings		(54,064)	(44,051)
Dividends paid by the Company		(19,116)	(35,619)
Purchase of treasury shares		-	(17,869)
NET CASH (USED IN)/ GENERATED FROM FINANCING ACTIVITIES		**(54,350)**	**3,968**
Net (decrease)/increase in cash and cash equivalents		**(20,141)**	**24,835**
Cash and cash equivalents at the beginning of the year	18	**52,818**	**16,395**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		278	11,588
Cash and cash equivalents at the end of the year	18	**32,955**	**52,818**

The accompanying notes on pages 9-57 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Other equity reserves	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2014		**2,501**	**(38,147)**	**72,682**	-	**199,131**	**236,167**	**155**	**236,322**
Profit for the year		-	-	-	-	43,146	**43,146**	(125)	**43,021**
Other comprehensive loss		-	-	-	-	(25)	**(25)**	-	**(25)**
Total comprehensive income for the year		**-**	**-**	**-**	-	**43,121**	**43,121**	**(125)**	**42,996**
Transactions with the Controlling shareholder	4	-	-	7,575	-	-	**7,575**	4,205	**11,780**
Effect of reorganisation of CJSC Sistema-invest and the Group	5	(517)	20,025	-	-	(76,028)	**(56,520)**	-	**(56,520)**
Transfer of license on Trebs and Titov deposit to LLC Bashneft-Polyus		-	-	1,152	-	-	**1,152**	3,616	**4,768**
Dividends	20	-	-	-	-	(35,730)	**(35,730)**	-	**(35,730)**
Other equity transactions		-	-	53	-	-	**53**	(17)	**36**
Balance at 31 December 2014		**1,984**	**(18,122)**	**81,462**	-	**130,494**	**195,818**	**7,834**	**203,652**
Profit for the year		-	-	-	-	58,175	**58,175**	1,389	**59,564**
Total comprehensive income for the year		**-**	**-**	**-**	-	**58,175**	**58,175**	**1,389**	**59,564**
Dividends	20	-	-	-	-	(19,138)	**(19,138)**	-	**(19,138)**
Cancellation of treasury shares	20	(30)	5,402	-	-	(5,372)	**-**	-	**-**
Share-based portion of long-term remuneration program	19	-	-	-	673	-	**673**	-	**673**
Other equity transactions		-	-	-	-	(38)	**(38)**	-	**(38)**
Balance at 31 December 2015		**1,954**	**(12,720)**	**81,462**	**673**	**164,121**	**235,490**	**9,223**	**244,713**

The accompanying notes on pages 9-57 form an integral part of these consolidated financial statements.

Millions of Russian roubles

1. GENERAL INFORMATION

Organisation and operations

Public Joint Stock Oil Company Bashneft (the "Company" or "Bashneft") and its subsidiaries (together referred to as the "Group" or the "Bashneft Group") are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. The Group's oil production, refining, marketing and distribution base includes oil and gas fields, refineries and petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. In accordance with changes in the Civil Code of the Russian Federation the Company has registered changes to the Company's Charter on 5 June 2015 and changed its corporate name to Public Joint Stock Oil Company Bashneft (PJSOC Bashneft). The Company's registered office is located at 30, bldg.1, Karl Marx Street, the City of Ufa, the Republic of Bashkortostan, 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 December 2015 and 2014:

		Group's effective interest	
Company	**Principal activities**	**31 December 2015**	**31 December 2014**
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Retail Sales	Petroleum products trading	100%	100%
LLC Burneftegaz	Exploration and production of crude oil	100%	100%
LLC Bashneft-Polyus	Exploration and production of crude oil	74.9%	74.9%
PJSC Ufaorgsintez	Production of petrochemicals	76.01%	76.01%

Controlling shareholder

JSFC Sistema ("Sistema") was the controlling shareholder of Bashneft during the period ended 8 December 2014 and Mr. Vladimir P. Evtushenkov, being the controlling shareholder of Sistema was the ultimate controlling party of Bashneft.

On 9 December 2014 in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 122,971,934 ordinary and 6,192,245 preference shares of the Company representing 71.62% of the Company's charter capital previously owned by Sistema and CJSC Sistema-invest were transferred to the Russian Federal Property Management Agency. As a result of the transfer effective control over the Company passed from Sistema to the Government of the Russian Federation, that became the ultimate controlling party of the Bashneft Group from 9 December 2014.

On 3 July 2015 in accordance with the Decree of the President of the Russian Federation Mr. Vladimir V. Putin 38,128,551 ordinary shares and 6,280,076 preference shares of Bashneft (25% plus 1 share) were transferred to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations.

Going concern

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. Consequently, the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

Millions of Russian roubles

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Standards and interpretations adopted in the current year

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

Standards and interpretations issued but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were issued but not yet effective:

Standards and Interpretations	**Effective for annual periods beginning on or after**
IFRS 16 *Leases*	1 January 2019
IFRS 9 (2014) *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses* – The amendments clarify that unrealized losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.	1 January 2017
Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* – The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* ("IAS 16") and IAS 38 *Intangible assets* ("IAS 38") – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset	1 January 2016
Amendments to IAS 16 and IAS 41 *Agriculture* ("IAS 41") – The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41	1 January 2016
Amendments to IAS 27 – The amendments permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Venture* – Amendments clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture	Date to be determined by the IASB*
Annual Improvements to IFRSs 2012-2014	1 July 2016
Amendments to IAS 1 *Presentation of Financial Statements* – Amendments address perceived impediments to preparers exercising their judgement in presenting their financial reports	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 *Investments in Associates* ("IAS 28") – Amendments address issues that have arisen in the context of applying the consolidation exception for investment entities	1 January 2016
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016

* The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been completed.

The impact of adoption of the aforementioned standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for those items measured at fair value.

The Group's principal accounting policies are set out below.

Functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the majority of the Company's subsidiaries as it reflects the principal economic environment of each company's operations.

Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of subsidiaries begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Profit or loss and each component of other comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses and any unrealised profits or losses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their respective fair values at the date of acquisition except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 *Income Taxes*.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognised in profit and loss and calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income and accumulated in equity in relation to that subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of investments in an associate.

Structured entities

The Group's structured entities are the entities that are controlled by the Group and that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such a conclusion might exist when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Common control transactions

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

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

When the Group disposes of subsidiaries and transfers its ownership to an entity under common control, the Group recognises such transactions at carrying value and on a prospective basis. Any difference between the consideration received and carrying value of net assets disposed of is recognised as an adjustment to shareholders' equity.

Foreign currencies

In preparing financial information of each individual group entity, transactions in currencies other than Russian roubles ("foreign currency") are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Property, plant and equipment

Recognition and measurement

Oil and gas exploration, evaluation and development expenditure

Oil and gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration drilling and with acquisition of rights to conduct geological exploration, prospecting, surveying and production of hydrocarbons are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss at the point at which this determination is made. Capitalisation of exploration and evaluation expenditures is made within property, plant and equipment. No depreciation or amortisation is recognised during the exploration and evaluation phase as the assets are not yet in use.

All exploration and evaluation expenditures are subject to technical, commercial, and management review, and are reviewed for indicators of impairment.

Once commercial reserves are discovered, and development is sanctioned by management, exploration and evaluation assets are tested for impairment and transferred to development assets. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. Extraction assets are aggregated with exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Oil and gas properties and other property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the original estimate of the cost of decommissioning of wells, pipelines, other oil and gas facilities and site restoration.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of that asset.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

Depletion and depreciation

Property, plant and equipment related to oil and gas production activities are depreciated using the unit-of-production method. Unit-of-production rates are based on proved developed producing and proved developed non-producing reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods, and do not take into account future development costs for accessing hydrocarbons from existing well-bores, where production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well. Where individually insignificant, unproved oil and gas properties may be grouped and amortised based on the best estimates by the Company.

Acquisition costs of proved reserves properties are depleted using the unit-of-production method based upon total proved oil and gas reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydrocarbon reserves to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

Assets which are not directly associated with oil production activities are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment other than oil and gas properties, are as follows:

Buildings and constructions	1-100 years
Machinery and equipment	1-59 years
Transport	1-60 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets within *Depletion and depreciation*.

The estimated useful life for the software is 1-5 years. Amortisation methods and useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. Joint ventures are accounted for using the equity method whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group’s share of net assets of the joint venture.

When a venturer makes a non-monetary contribution to a joint venture in exchange for an equity interest in that joint venture, profit or loss is recognised only on the portion of the gain or loss that relates to the equity interests of the other venturers. When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

The interest income on loans provided to joint ventures is recognised in full within the consolidated statement of profit or loss and other comprehensive income as a Finance income.

Impairment of tangible and finite-lived intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and finite-lived intangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") investments, held-to-maturity investments and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – assets

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Listed and unlisted shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured, which are accounted at cost less any identified impairment losses at the end of each reporting period.

Fair value of AFS financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market prices.

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity. Where the investment is derecognised, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss, except for derecognition due to transactions under common control, where the respective cumulative gain or loss is reclassified within the consolidated statement of changes in equity.

Held-to-maturity investments

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any.

Interest income is recognised using the effective interest method.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Equity securities classified as AFS, a significant and prolonged decline in the fair value of the securities below its costs is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.
In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Equity instruments

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities of the Group are classified into the following specified categories: financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near term; or
- On initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and had a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liability at FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities, including trade and other payables, loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method – liabilities

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination.

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision relates primarily to the suspension and liquidation of wells, pipelines, other oil and gas facilities and site restoration. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning costs, discounted to net present value, are capitalised and a corresponding obligation is recognised as soon as a constructive obligation of the Group arises and the amount can be reliably estimated. The unwinding of the discount is recognised within finance costs. Oil and gas properties related to decommissioning are depreciated using the unit-of-production method based on proved developed reserves.

The Group records the long-term portion of the decommissioning provision as a separate line item in the consolidated statements of financial position. The current portion is recorded within current provisions.

The adequacy of the decommissioning provision is periodically reviewed in the light of current laws and regulations, and adjustments are made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and the corresponding asset.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social contribution, is recognised as an expense in the period when it is earned.

Defined contribution plan

The Company and its subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

Defined benefit retirement plans

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period and with immediate recognition of all actuarial gains and losses in other comprehensive income. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and is not reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

Other long-term employee benefits

The Group provides its employees with other long-term benefits. The entitlement to these benefits is usually conditional on the employee remaining in service up to the certain period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit retirement plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions recognised in profit or loss in the period in which they arise.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 19.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group’s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Sales of crude oil and petroleum products

Revenue from the sales of crude oil and petroleum products (“goods”) is recognised when all the following conditions are satisfied:

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

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Interest income

Interest income is recognised using the effective interest method. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing – the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Income tax

Income tax expense comprises current and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or assets realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Earnings per share

The Company has two classes of shares, "ordinary" and "preference". The Company's preference shares have the same characteristics as ordinary shares and have no preference attributed to them. Accordingly, for purposes of computing earnings per share ("EPS"), preference shares have been treated as ordinary shares.

The Group presents basic and diluted EPS data for its ordinary and preference shares, on a combined basis. Basic EPS is calculated by dividing profit or loss attributable to owners of the Company by the weighted average number of ordinary and preference shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Useful economic lives of property, plant and equipment;
- Commercial reserves estimates;
- Investment in Bashneft Polyus;
- Carrying value of property, plant and equipment;
- Decommissioning provision;
- Legal contingencies;
- Taxation; and
- Prepayment on oil products supply agreement.

Useful economic lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, 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.

Based on the terms included in the licences and past experience, management believes oil production licences will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated licence extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

Commercial reserves estimates

The Group estimates its commercial reserves using information compiled by appropriately qualified persons competent to assess the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

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

- Carrying value of property, plant and equipment related to oil and gas production activities may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in profit or loss may change where such changes are determined using the unit of production method, or where the useful life of the related assets change;
- Provisions for decommissioning may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- Recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in the estimates of the likely recovery of such assets.

Investment in Bashneft-Polyus

The Group has a 74.9% interest in Bashneft-Polyus, and is the operator at the Trebs and Titov oilfield deposit. Prior to May 2014, the Group considered that its power, and those of the holder of 25.1% interest resulted in joint control over the entity, and accordingly applied equity account as a joint venture.

On 23 May 2014, an agreement to change the participation agreement governing certain financial and operational matters of Bashneft-Polyus was reached. Management considered their powers after the revisions, and concluded that they have control over Bashneft-Polyus from the date of change of the participation agreement and throughout the year as it is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Carrying value of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit based on a cash flows projection utilising the latest budgeted information available.

Decommissioning provision

The Group’s oil and gas activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on management’s understanding of the current legal requirements in the various jurisdictions, terms of the licence agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of oil and gas reserves estimates and discount rates could affect the carrying amount of this provision.

Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated.
Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group’s results.

Taxation

Significant judgement is required in determining the provision for taxation in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Prepayment on oil supply contracts

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be a regular way sales entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

4. BUSINESS COMBINATIONS

Business combination during 2015

During the year ended 31 December 2015 the Group acquired a 49% interest in a Downstream segment joint venture in addition to the existing 51% interest. Total cash consideration paid for the acquisition was RUB 266 million. Fair value of the net assets acquired approximated the total of the consideration paid and cost of the Group’s previously held interest in joint venture. Cash and cash equivalents acquired were RUB 541 million.

Business combinations during 2014

LLC Burneftegaz

On 26 March 2014 the Group acquired a 100% interest in the outstanding charter capital of Burneftegaz, which is engaged in exploration and production of crude oil in the Tyumen District of the Russian Federation for total cash consideration of RUB 35,953 million. The acquisition of Burneftegaz followed the Group’s strategy for the upstream segment growth, which involved the expansion of the resource base of the Group by acquiring assets with considerable production potential.

Millions of Russian roubles

At the date of acquisition, the fair values of identifiable assets and liabilities of Burneftegaz were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	41,784
Advances paid for acquisition of property, plant and equipment	526
Inventories	293
Trade and other receivables	142
Advances to suppliers and prepaid expenses	110
Other taxes receivable	107
Cash and cash equivalents	208
Other assets	42
	43,212
LIABILITIES	
Deferred tax liabilities	(5,516)
Trade and other payables	(691)
Advances received	(185)
Other taxes payable	(478)
Borrowings	(363)
Other liabilities	(26)
	(7,259)
Fair value of net assets acquired	**35,953**
Cash consideration	**35,953**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	**-**
Net cash outflow arising on acquisition	
Consideration paid	35,953
Cash and cash equivalents acquired	(208)
Net cash outflow on acquisition	**35,745**

Burneftegaz contributed RUB 8,352 million of revenue, RUB 198 million of profit before tax and RUB 137 million of profit from the date of acquisition to 31 December 2014.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Burneftegaz did not prepare financial statements in accordance with IFRS before the acquisition.

LLC Bashneft-Polyus

Until 23 May 2014 Bashneft-Polyus was a joint venture between the Company and OAO LUKOIL established for the development of Trebs and Titov oil deposits. The Company holds 74.9% interest in the charter capital of Bashneft-Polyus.

On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company.

Millions of Russian roubles

At the date of acquisition of control, the fair values of identifiable assets and liabilities of Bashneft-Polyus were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	11,644
Advances paid for acquisition of property, plant and equipment	46
Inventories	846
Trade and other receivables	15,436
Advances to suppliers and prepaid expenses	412
Other taxes receivable	2,351
Cash and cash equivalents	11
Other assets	2
	30,748
LIABILITIES	
Trade and other payables	(4,606)
Advances received	(17)
Other taxes payable	(2,232)
Borrowings from OAO LUKOIL and JSOC Bashneft	(23,334)
Deferred tax liabilities	(386)
Other liabilities	(67)
	(30,642)
Fair value of net assets obtained	**106**
Fair value of previously held share of investment in joint venture, net of loans from the Group treated as additional contribution to the joint venture	**451**
Non-controlling interests' share in fair value of net assets	**27**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired, recognised in Other operating expenses, net	**372**
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	11
Net cash inflow on acquisition	**11**

Following the consolidation of Bashneft-Polyus, loans issued by the Group to Bashneft-Polyus in the amount of RUB 17,380 million at the date of acquisition, which were previously presented as an additional contribution to the joint venture, were eliminated in full as intra-group balances.

Bashneft-Polyus contributed RUB 9,350 million of revenue, RUB 2,631 million of loss before tax and RUB 2,091 million of loss from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 638,884 million, profit for the year would have been RUB 43,056 million.

Optan group

In July and August 2014 Bashneft through a series of transactions acquired 100% stakes in five legal entities which own a network of 91 petrol stations operated under the "Optan" brand ("Optan group") and 11 land plots located in 12 regions of the Russian Federation for a total cash consideration of RUB 7,715 million. The acquisition of the Optan group is part of Bashneft's strategy to expand its own retail network. Optan group's petrol stations are in high-priority regions in geographical proximity to the Group's refining complex in Ufa.

Millions of Russian roubles

At the date of acquisition, the fair values of identifiable assets and liabilities of Optan group were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	10,210
Intangible assets	277
Other assets	105
	10,592
LIABILITIES	
Deferred tax liabilities	(1,848)
Borrowings	(949)
Other liabilities	(80)
	(2,877)
Fair value of net assets acquired	**7,715**
Cash consideration	**7,715**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	**-**
Net cash outflow arising on acquisition	
Consideration paid	**7,715**
Cash and cash equivalents acquired	(8)
Net cash outflow on acquisition	**7,707**

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of Optan Group is insignificant to the Group.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as Optan group did not prepare financial statements in accordance with IFRS before the acquisition.

OJSC United Petrochemical Company

On 17 September 2013 the Group entered into agreement to sell its 98% interest in OJSC United Petrochemical Company ("UPC") to Sistema for cash consideration of RUB 6,200 million payable in one year. UPC was the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez ("Ufaorgsintez"). On 24 September 2014 this agreement was terminated and the Group re-obtained the control over UPC.

Both transactions were under common control so the assets and liabilities are recorded at their historical carrying values. As a result of the termination of the sale agreement the Group recognised a gain on acquisition of RUB 7,575 million, net of related income taxes in the amount of RUB 831 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of the transaction with the Group's controlling shareholder.

Millions of Russian roubles

The result of transaction is set out below:

	Carrying value at the acquisition date
ASSETS	
Property, plant and equipment*	13,441
Intangible assets	207
Investments in joint venture	506
Inventories	1,973
Trade and other receivables	666
Advances to suppliers and prepaid expenses	542
Taxes receivable	1,079
Financial assets	1,240
Cash and cash equivalents	3,572
Other assets	88
	23,314
LIABILITIES	
Deferred tax liabilities	(1,468)
Trade and other payables	(2,361)
Advances received	(438)
Other liabilities	(236)
	(4,503)
Net assets acquired	**18,811**
Non-controlling interests	(4,205)
	14,606
Income tax expense recognised on acquisition of UPC	(831)
Consideration receivable on disposal of UPC	**(6,200)**
Gain on acquisition of UPC	**7,575**
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	3,572
Net cash inflow on acquisition	**3,572**

* Property, plant and equipment are presented net of accumulated depreciation in the amount of RUB 11,696 million.

UPC contributed RUB 9,448 million of revenue, RUB 1,581 million of profit before tax and RUB 748 million of profit from the date of acquisition to 31 December 2014.

If the acquisition of control had taken place at the beginning of the year ended 31 December 2014, the Group's revenue would have been RUB 657,501 million and profit for the year would have been RUB 43,953 million.

LLC AKTAN

On 2 December 2014, the Group acquired 100% interest in LLC AKTAN ("AKTAN"), for a total cash consideration of RUB 1,191 million. AKTAN is a company engaged in petroleum products trading in the Samara region through a chain of 17 petrol stations. As a result of acquisition, the Group consolidated property, plant and equipment in the amount of RUB 1,320 million and attributable deferred tax liability in the amount of RUB 190 million.

The acquired petrol station network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of AKTAN is insignificant to the Group. The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2014 are not disclosed as AKTAN did not prepare standalone financial statements in accordance with IFRS before the acquisition.

Millions of Russian roubles

Other acquisitions

In 2014, the Group acquired subsidiaries in the Downstream segment for a total consideration of RUB 350 million paid in cash. The fair value of the net assets acquired approximates the consideration transferred.

5. REORGANISATION OF THE GROUP

Reorganisation of CJSC Sistema-Invest and the Group

On 3 February 2014 at an Extraordinary General Shareholders' Meeting of the Company, a reorganisation programme was approved involving establishment of CJSC Bashneft-Invest ("Bashneft-invest") through a spinoff from Sistema-invest and its consolidation with Bashneft.

In April 2014 as part of the reorganisation of the Group, the Company acquired 2,724,173 of its own ordinary shares and 8,885,866 of its own preference shares for total cash consideration of RUB 17,869 million.

Bashneft-invest was created on 5 May 2014 as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest. Sistema-invest is a legal entity controlled by Sistema that owned equity interests in the Company, Ufaorgsintez and OJSC Bashkirian Power Grid Company. Bashneft's effective interest of 49.41% in the assets and liabilities of Sistema-invest were accounted for as held for sale from 31 December 2013 . On the date of the spinoff Bashneft-invest effectively obtained 9,943,730 ordinary shares of the Company and acquired direct ownership of 28,196,195 ordinary shares previously recognised as assets effectively owned, but held by Sistema-invest. Those shares were accounted for as treasury shares in the financial statements of the Group at the date of the transaction. Additionally, Bashneft-invest assumed the liabilities that existed under the loan payable by Sistema-invest to the Company.

As a result of the reorganisation the Company no longer owns any shares in Sistema-invest.

The result from the reorganisation of Sistema-invest is presented below:

	5 May 2014
Decrease in assets classified as held for sale	(39,483)
Decrease in liabilities directly associated with assets classified as held for sale	832
Increase in treasury shares	**38,651**

On 6 May 2014 Bashneft-invest was legally merged with the Company. The reorganisation of the Group was completed on the date of the merger when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preference shares which were obtained through reorganisation of Sistema-invest and buy back transactions, respectively.

The result from the cancellation of treasury shares is presented below:

	6 May 2014
Decrease in treasury shares	(76,545)
Decrease in share capital	517
Decrease in retained earnings	**(76,028)**

Millions of Russian roubles

6. SEGMENT INFORMATION

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

- Upstream: this segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil; and
- Downstream: this segment comprises subsidiaries and business units of the Company engaged in processing and sale of crude oil, oil products and petrochemicals on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in non-core activities, none of which meets the criteria for separate reporting, is presented as All other segments.

There are varying levels of integration between the Group's operating segments. Inter-segment revenues of the Upstream segment represent oil transfer to the Downstream segment for the purpose of refining and crude oil sales and measured with a reference to market prices for crude oil. Inter-segment revenues of the Downstream segment and All other segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Information regarding the results of each reportable segment is reviewed by the Board. Segment EBITDA is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries. Segment EBITDA is determined as summation of Operating profit and Depletion and depreciation. Since Segment EBITDA is not a standard IFRS measure, the Group's definition of Segment EBITDA may differ from that of other companies. The significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

Information about the Group's reportable segments for the year ended 31 December 2015 is presented below:

	Upstream	Down-stream	All other segments	Elimi-nations	Consoli-dated
External revenues	1,518	608,782	974	-	**611,274**
Inter-segment revenues	246,592	464	10,501	(257,557)	**-**
External expenses	(173,310)	(339,313)	(5,243)	-	**(517,866)**
Inter-segment expenses	(2,869)	(248,595)	(5,966)	257,430	**-**
Segment EBITDA	89,443	36,560	1,044	(127)	126,920
Depletion and depreciation					**(33,512)**
Impairment of assets, net					**(518)**
Finance income					**6,594**
Finance costs					**(18,613)**
Foreign exchange loss, net					**(3,413)**
Share of loss of joint ventures, net of income tax					**(981)**
Profit before income tax					**76,477**
Income tax expense					**(16,913)**
Profit for the year					**59,564**

Millions of Russian roubles

Information about the Group's reportable segments for the year ended 31 December 2014 is presented below:

	Upstream	Down-stream	All other segments	Elimi-nations	Consoli-dated
External revenues	3,790	632,430	1,051	-	**637,271**
Inter-segment revenues	187,811	350	5,371	(193,532)	**-**
External expenses	(136,404)	(417,749)	(6,121)	-	**(560,274)**
Inter-segment expenses	(3,121)	(190,086)	(239)	193,446	**-**
Segment EBITDA	62,421	37,617	826	(86)	**100,778**
Depletion and depreciation					**(23,781)**
Impairment of assets, net					**(13,030)**
Finance income					**4,747**
Finance costs					**(13,058)**
Foreign exchange gain, net					**1,299**
Share of loss of joint ventures, net of income tax					**(117)**
Profit before income tax					**56,838**
Income tax expense					**(13,817)**
Profit for the year					**43,021**

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any geographical disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are immaterial.

The Group's revenue from external customers by geographical location is presented below:

	Year ended 31 December 2015	Year ended 31 December 2014
Export outside the Customs Union	313,655	353,161
Russian Federation	278,021	261,523
Export to other countries of the Customs Union	19,598	22,587
Total	**611,274**	**637,271**

The Group did not have revenues from transactions with a single external customer amounted to 10 per cent or more of consolidated revenues in 2015. The following counterparties relating to the Downstream segment each comprise 10% or more of the total revenue of the Group in 2014:

	Year ended 31 December 2014	
	Revenue	% of the total Revenue
Major Customer 1	107,749	17%
Major Customer 2	83,623	13%
Major Customer 3	61,598	10%

Millions of Russian roubles

7. REVENUE

	Year ended 31 December 2015	Year ended 31 December 2014
Petroleum and petrochemical products	436,262	471,296
Crude oil	170,518	159,488
Other revenue	4,494	6,487
Total	**611,274**	**637,271**

8. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	28,376	22,766
Contributions to Pension Fund of the Russian Federation (refer to note 9)	5,805	4,515
Other social contributions (refer to note 9)	2,166	1,405
Long-term remuneration program (refer to note 19)	1,737	-
Phantom shares granted	-	1,161
Other employee benefits	-	39
Total	**38,084**	**29,886**

9. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2015	Year ended 31 December 2014
Mineral extraction tax	95,966	69,077
Contributions to Pension Fund of the Russian Federation	5,805	4,515
Property tax	2,279	1,713
Other social contributions	2,166	1,405
Other taxes	1,731	1,061
Total	**107,947**	**77,771**

10. IMPAIRMENT OF ASSETS

	Year ended 31 December 2015	Year ended 31 December 2014
Impairment of property, plant and equipment (refer to note 13)	3,250	5,320
(Reversal of impairment)/impairment of financial assets	(2,609)	6,599
(Reversal of impairment)/impairment of accounts receivable (refer to note 17)	(60)	717
(Reversal of impairment)/impairment of investments in joint venture (refer to note 14)	(47)	297
(Reversal of other impairment)/other impairment	(16)	97
Total	**518**	**13,030**

Millions of Russian roubles

11. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2015	Year ended 31 December 2014
Finance income		
Interest income on cash and deposits	6,213	2,822
Interest income on loans, promissory notes and bonds	379	1,925
Dividend income	2	-
Total	**6,594**	**4,747**
Finance costs		
Interest expense on borrowings	17,557	12,356
Unwinding of discount (refer to note 23)	900	613
Other accretion expenses	156	89
Total	**18,613**	**13,058**

12. INCOME TAX

Income tax recognised in profit or loss

	Year ended 31 December 2015	Year ended 31 December 2014
Current year income tax expense	20,337	15,556
Adjustments related to prior years income tax	26	72
Current income tax expense	**20,363**	**15,628**
Deferred tax benefit	(3,450)	(1,811)
Income tax expense	**16,913**	**13,817**

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit before income tax differs from income tax expense recognised in profit or loss as a consequence of the following factors:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax	**76,477**	**56,838**
Income tax at statutory rate 20%	15,295	11,368
Effect of tax on foreign exchange difference on intragroup loans	1,184	1,692
Other non-deductible and non-taxable items	322	523
Effect of tax on intragroup dividends received	86	162
Adjustments relating to current income tax of prior years	26	72
Income tax expense	**16,913**	**13,817**

Income tax recognised in other comprehensive income or directly in equity

During the year ended 31 December 2014 the Group recognised RUB 831 million of income tax expense relating to the acquisition of UPC directly in the additional paid-in capital (refer to note 4).

Millions of Russian roubles

Deferred tax assets and liabilities

Movements in deferred tax liabilities/(assets) for the years ended 31 December 2015 and 2014 were as follows:

	1 January 2015	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2015
Property, plant and equipment	41,944	200	31	42,175
Investments in joint ventures	667	(191)	-	476
Inventories	1,525	(6)	3	1,522
Trade and other receivables	427	(730)	(76)	(379)
Decommissioning provision	(1,649)	(405)	-	(2,054)
Trade and other payables	428	(2,081)	(60)	(1,713)
Tax losses carried forward	(1,130)	(1,153)	-	(2,283)
Other	(1,133)	916	-	(217)
Total	**41,079**	**(3,450)**	**(102)**	**37,527**

	1 January 2014	Recognised in profit or loss	Balances acquired on acquisition of subsidiaries and other movements	31 December 2014
Property, plant and equipment	32,747	(1,215)	10,412	41,944
Investments in joint ventures	(342)	1,009	-	667
Inventories	1,614	(156)	67	1,525
Trade and other receivables	1,876	(1,604)	155	427
Decommissioning provision	(1,257)	(387)	(5)	(1,649)
Trade and other payables	(1,074)	1,506	(4)	428
Tax losses carried forward	-	4	(1,134)	(1,130)
Other	(75)	(968)	(90)	(1,133)
Total	**33,489**	**(1,811)**	**9,401**	**41,079**

At 31 December 2015 and 31 December 2014 there were no deferred tax assets that have not been recognised in respect of deductible temporary differences.

At 31 December 2015, the Group has unutilised tax losses carried forward of RUB 11,415 million, expiring in 2018-2025 (31 December 2014: RUB 5,654 million, expiring in 2018-2024). A deferred tax asset of RUB 2,283 million (31 December 2014: RUB 1,130 million) has been recognised in respect of such losses, as management believes that sufficient taxable profits will be available to utilize those losses.

Millions of Russian roubles

13. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining	Marketing	Total
Cost				
Balance at 1 January 2014	**181,223**	**154,542**	**20,971**	**356,736**
Acquisitions of subsidiaries	53,428	25,137	11,934	**90,499**
Constructions and additions	38,114	9,252	2,069	**49,435**
Disposals	(3,545)	(516)	(424)	**(4,485)**
Contribution to LLC Vostok NAO Oil Company (refer to note 14)	(4,775)	-	-	**(4,775)**
Balance at 31 December 2014	**264,445**	**188,415**	**34,550**	**487,410**
Acquisitions of subsidiaries	757	-	-	**757**
Constructions and additions	55,201	10,117	1,291	**66,609**
Disposals	(1,085)	(1,476)	(188)	**(2,749)**
Balance at 31 December 2015	**319,318**	**197,056**	**35,653**	**552,027**
Accumulated depletion, depreciation and impairment				
Balance at 1 January 2014	**(31,928)**	**(42,111)**	**(5,328)**	**(79,367)**
Acquisition of subsidiaries (refer to note 4)	-	(11,696)	-	**(11,696)**
Charge for the year	(10,954)	(11,366)	(1,240)	**(23,560)**
Disposals	2,123	210	125	**2,458**
Impairment (refer to note 10)	(5,245)	(180)	105	**(5,320)**
Balance at 31 December 2014	**(46,004)**	**(65,143)**	**(6,338)**	**(117,485)**
Charge for the period	(17,792)	(13,075)	(1,520)	**(32,387)**
Disposals	678	805	62	**1,545**
Impairment (refer to note 10)	(1,557)	(1,375)	(318)	**(3,250)**
Balance at 31 December 2015	**(64,675)**	**(78,788)**	**(8,114)**	**(151,577)**
Net book value				
At 1 January 2014	**149,295**	**112,431**	**15,643**	**277,369**
At 31 December 2014	**218,441**	**123,272**	**28,212**	**369,925**
At 31 December 2015	**254,643**	**118,268**	**27,539**	**400,450**

Impairment of property, plant and equipment

In 2015 as a result of various reasons, including the impact of continued oil price decrease, technical reserves revisions, and increases in expected decommissioning cost estimates, the Group carried out a regular review of the recoverable amount of upstream assets. No significant impairment indicators were identified for downstream assets.

Millions of Russian roubles

The recoverable amounts of upstream assets were measured based on fair value less costs of disposal ("FVLCD"), determined by discounted cash flow techniques. The key assumptions to which the calculation of FVLCD is most sensitive includes discount rate, oil price, estimates of oil and gas reserves and production profiles. The pre-tax discount rate applied in calculations for the year ended 31 December 2015 was 12.50% (year ended 31 December 2014: 13.26%) per annum. The valuations remain sensitive to oil price and further deterioration/improvements in the pricing outlook may result in additional impairments/reversals. No impairment was recognised as a result of the upstream assets impairment review in 2015.

In 2014 as a result of an impairment review a provision of RUB 5,320 million was recognised in the consolidated statement of profit or loss and other comprehensive income within *Impairment of assets*. This impairment mainly relates to exploration and evaluation assets, including exploration, evaluation and development rights on Tortasinskoye oil field.

Review of idle or unused properties in 2015 led to the recognition of an impairment loss of RUB 3,250 million, which was recognised in the consolidated statement of profit or loss and other comprehensive income within *Impairment of assets*. This mainly relates to unused production units at the refineries.

Exploration and evaluation assets

Movements in the amount of capitalised exploration and evaluation assets, included in Oil and gas properties, are presented below:

Balance at 1 January 2014	**12,177**
Capitalised expenditures	5,546
Reclassified to development assets	(13,346)
Establishment of LLC Vostok NAO Oil Company (refer to note 14)	(4,775)
Acquisition of subsidiaries	5,663
Impairment of exploration and evaluation assets	(5,265)
Balance at 31 December 2014	**-**

During the year ended 31 December 2015 the Group recognised exploration and evaluation expenses which mainly relate to seismic studies in the amount of RUB 2,787 million (year ended 31 December 2014: RUB 3,588 million) within *Production and operating expenses*. No exploration and evaluation expenses were capitalised during the year ended 31 December 2015.

14. INVESTMENTS IN JOINT VENTURES AND RELATED FINANCIAL ASSETS

Joint ventures

	Year ended 31 December 2015	**Year ended 31 December 2014**
Balance at the beginning of the year	**3,791**	**18,848**
Share of loss for the year	(981)	(117)
Obtaining of control over joint venture in Downstream segment	(277)	-
Reversal of impairment/(impairment) of investments in joint venture (refer to note 10)	47	(297)
Additional contributions to Bashneft-Polyus	-	2,012
Obtaining of control over Bashneft-Polyus (refer to note 4)	-	(17,831)
Establishment of LLC Vostok NAO Oil Company	-	4,975
Repayment of contributions from Bashneft-Polyus	-	(3,133)
Group's share of loss eliminated on transactions with joint ventures	-	(1,172)
Acquired on acquisition of UPC (refer to note 4)	-	506
Balance at the end of the year	**2,580**	**3,791**

Millions of Russian roubles

LLC Vostok NAO Oil Company

In May 2014 the Company and LLC Lukoil-Komi established a joint venture, LLC Vostok NAO Oil Company ("Vostok NAO"), to conduct geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District. The Company and LLC Lukoil-Komi have an equal interest of 50.0% in this joint venture. In July 2014 the Group transferred licenses for geological exploration, prospecting and production of hydrocarbons in the Nenets Autonomous District of RUB 4,775 million to Vostok NAO.

The summarised financial information below represents amounts disclosed in Vostok NAO's financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes):

	31 December 2015	**31 December 2014**
Non-current assets	6,835	6,652
Current assets	286	661
Non-current liabilities	(1,561)	(109)
Current liabilities	(400)	(139)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	32	3
Non-current financial liabilities (excluding trade and other payables and provisions)	(1,561)	(109)

	Year ended 31 December 2015	**Period ended 31 December 2014**
Total revenue	**-**	**-**
Loss and total comprehensive loss for the period	**(1,908)**	**(2,884)**
The above loss for the year includes the following:		
Depletion and depreciation	(2)	-
Interest expense	(81)	-
Interest income	2	84
Income tax benefit	-	34

During the year ended 31 December 2015 deferred tax assets of RUB 392 million (during the period from 23 May 2014 to 31 December 2014: RUB 549 million) have not been recognised in respect of deductible temporary differences because it is not probable that future taxable profit will be available against which Vostok NAO can utilise the benefits therefrom.

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31 December 2015	**31 December 2014**
Net assets of the joint venture	5,160	7,065
Proportion of the Group's ownership interest in the joint venture	50.0%	50.0%
Carrying amount of the Group's interest in the joint venture	**2,580**	**3,533**

Millions of Russian roubles

Bashneft-Polyus

Bashneft-Polyus was a joint venture of Bashneft and OAO LUKOIL until the date of consolidation on 23 May 2014 and is engaged in the development of the Trebs and Titov deposit. The Company held 74.9% interest in Bashneft-Polyus. On 23 May 2014 the Company and OAO LUKOIL agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company (refer to note 4).

During 2014, before the date of consolidation on 23 May 2014, the Group issued loan to the joint venture of RUB 2,012 million at 8.0% per annum. This loan was presented as an additional contribution to the joint venture as, in substance, it formed part of the Group's investment in Bashneft-Polyus. Also during the period before the date of consolidation on 23 May 2014, Bashneft-Polyus repaid the loan of RUB 3,133 million to Bashneft.

The summarised financial results of Bashneft-Polyus for the period ended 23 May 2014 are presented below:

	Period ended 23 May 2014
Total revenue	**6,289**
Profit and total comprehensive income	**140**
The above profit for the year include the following:	
Depletion and depreciation	(80)
Interest expense	(755)

Financial assets related to joint ventures

In 2015 Bashneft issued rolling loan facility of RUB 916 million to Vostok NAO to finance exploration activities of the joint venture. The amount of the loan outstanding as at 31 December 2015 was RUB 781 million.

15. FINANCIAL ASSETS

	31 December 2015	31 December 2014
Non-current investments		
Loan given, at amortised cost	3,500	3,500
Deposits and other financial assets	4	67
Total	**3,504**	**3,567**
Current investments		
Deposits	5,000	-
Loans given, at amortised cost	-	1,330
Total	**5,000**	**1,330**

Deposits

At 31 December 2015, deposits were denominated in roubles, maturing in February 2016 with an interest rate of 12.33% per annum.

Millions of Russian roubles

Loans given, at amortised cost

Non-current loan given at amortised cost bears interest rate of 8.10% per annum.

At 31 December 2015, current loans given at amortised cost of RUB 4,378 million were presented net of impairment provision of RUB 4,378 million. The provision of RUB 2,609 million (refer to note 10) accrued in the year ended 31 December 2014 was reversed during the year ended 31 December 2015 due to repayments by the borrowers.

At 31 December 2014, current loans given at amortised cost of RUB 8,808 million were presented net of impairment provision of RUB 7,478 million. The provision of RUB 6,599 million (refer to note 10) was created individually against these financial assets during the year ended 31 December 2014 following a recoverability analysis performed by management. The balance net of impairment represents promissory notes with interest rates varying from 3.50% to 5.00% per annum receivable upon demand.

16. INVENTORIES

	31 December 2015	31 December 2014
Inventories expected to be recovered after 12 months		
Catalytic agents	3,086	2,846
Total	**3,086**	**2,846**
Inventories expected to be recovered in the next 12 months		
Petroleum products	12,025	16,935
Crude oil	908	1,390
Raw materials and other inventories	9,421	8,381
Less: allowance for obsolete and slow-moving items	(306)	(347)
Total	**22,048**	**26,359**

The cost of inventories (excluding crude oil, gas and petroleum products) recognised as an expense during the year ended 31 December 2015 amounted to RUB 11,921 million (year ended 31 December 2014 amounted to RUB 8,068 million).

During 2015 RUB 614 million (2014: RUB 342 million) were recognised in respect of write-downs of inventory to net realisable value due to worsened market conditions.

Millions of Russian roubles

17. TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
Trade receivables	9,573	14,539
Other receivables	2,160	1,855
Total	**11,733**	**16,394**
Less: allowance for doubtful receivables	(1,473)	(1,698)
Total	**10,260**	**14,696**

The average credit period allowed by the Group to its customers on sales of crude oil and petrochemicals is 5-10 days. No interest was charged on the outstanding trade receivables during the years ended 31 December 2015 and 2014, nevertheless, penalties for late payment are prescribed by certain sales agreements. Before accepting any new customer, the Group uses an internal credit control system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2015, the Group's five largest customers represent 58.8% (31 December 2014: 49.7%) of the outstanding trade receivables balance. Creditworthiness of the existing customers is also periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group regularly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due.

Allowances for doubtful receivables are recognised against past due trade and other receivables, based on estimated irrecoverable amounts, determined by reference to past experience. Such allowances are regularly reassessed based on the facts and circumstances existing at each reporting date.

Ageing of trade and other receivables was as follows:

	31 December 2015		31 December 2014	
	Gross	Impairment provision	Gross	Impairment provision
Not past due	9,901	(28)	14,392	(239)
Past due up to 30 days	94	(20)	73	(27)
Past due from 31 to 90 days	108	(2)	183	(3)
Past due from 91 to 180 days	114	(53)	184	(27)
Past due from 181 to 365 days	388	(279)	493	(403)
Past due over 365 days	1,128	(1,091)	1,069	(999)
Total	**11,733**	**(1,473)**	**16,394**	**(1,698)**

Movement in the allowance for doubtful receivables in respect of trade and other receivables was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Balance at the beginning of the year	**1,698**	**1,910**
Recognised in profit or loss, net (refer to note 10)	(60)	717
Amounts written-off as uncollectable	(165)	(929)
Balance at the end of the year	**1,473**	**1,698**

Millions of Russian roubles

At 31 December 2015, there is a specific allowance against trade and other receivables of RUB 1,078 million (31 December 2014: RUB 956 million) in respect of entities undergoing a liquidation procedures or that have been placed into bankruptcy. This allowance is included in the allowance for doubtful receivables and represents the difference between the carrying amount of these receivables and the present value of expected proceeds on liquidation/bankruptcy. The Group did not hold collateral in respect of these balances.

18. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Call deposits and highly liquid investments	29,856	50,962
Bank balances	3,099	1,856
Total	**32,955**	**52,818**

At 31 December 2015, call deposits mostly represent bank deposits which are denominated in RUB with annual interest rates varying from 0.10% to 11.30% per annum (31 December 2014: 7.48% to 29.75%) and in USD with annual interest rate 0.10% per annum (31 December 2014: 0.10% to 4.14%). Maturity dates for these deposits are within 3 months from the date of origin.

As part of its cash and credit risk management function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and cash equivalents. Banking relationships are with large Russian banks with external credit ratings of at least B+ (2014: at least B+).

19. LONG TERM REMUNERATION PROGRAM FOR KEY MANAGEMENT PERSONNEL

In 2015, the Company established long-term remuneration program for key management personnel of the Group. In accordance with the terms of the program, there are two different parts: cash-settled and equity-settled in the form of preference shares. The fair value of preference shares at grant date is determined with reference to price of preference shares of the Company traded on an active capital market. The program is effective during the period from 2015-2019. Movements in the total liabilities under the remuneration program were as follows:

Balance at 1 January 2015	-
Granted during the year	1,737
Paid during the year	-
Forfeited during the year	-
Balance at 31 December 2015	**1,737**

Based on the timing and nature of settlement, various parts of the program were recognised as follows:

	31 December 2015
Other equity reserves	673
Non-current liability	206
Current liability (refer to note 25)	858
Total	**1,737**

Millions of Russian roubles

20. SHARE CAPITAL

Authorised, issued and fully paid share capital and treasury shares

	31 December 2015	31 December 2014
147,846,489 (31 December 2014: 150,570,662) ordinary shares with a par value of RUB 1.00	1,626	1,656
29,788,012 (31 December 2014: 29,788,012) preference shares with a par value of RUB 1.00	328	328
Total	**1,954**	**1,984**

Changes in treasury shares balances were as follows during 2014-2015:

	Preference shares	Ordinary shares
	(number of shares)	
Balance as of 1 January 2014	**5,022,577**	**31,625,082**
Mandatory shares buy-back preceding Group reorganization (refer to note 5)	8,885,866	2,724,173
Reorganisation of Sistema-invest	(158,409)	9,943,730
Reorganisation of the Group (refer to note 5)	(8,885,866)	(38,139,925)
Balance as of 31 December 2014	**4,864,168***	**6,153,060**
Cancellation of treasury shares	-	(2,724,173)
Balance as of 31 December 2015	**4,864,168**	**3,428,887**

* At 31 December 2014, 4,864,168 shares out of treasury shares were restricted for further sales by court decision, which was subsequently waived in 2015.

On 5 June 2015 the Company cancelled 2,724,173 ordinary shares previously held in treasury stock. As a result, the number of treasury shares decreased to 8,293,055 (31 December 2014: 11,017,228 shares). Upon cancellation of treasury shares, the Group recognised decrease in share capital of RUB 30 million representing a nominal value of shares cancelled. Difference of RUB 5,372 million between cost of treasury shares and its nominal value was recognised in Group Retained earnings.

As a result of the Group reorganisation on 6 May 2014 (refer to note 5) the Company cancelled 38,139,925 ordinary and 8,885,866 preference shares which were obtained through reorganisation of Sistema-invest and buy back transactions in 2014, respectively.

Dividends and retained earnings

The holders of the Company’s ordinary shares are entitled to one vote per share at shareholders’ meetings and a right to dividends, as declared periodically.

The holders of the Company’s preference shares receive a non-cumulative dividend at the Company’s discretion or whenever dividends to ordinary shareholders are declared. They do not have the right to vote at shareholders’ meetings if dividends are declared but, similar to ordinary shareholders’ rights, have the right to one vote per share if dividends are not declared.

Ordinary and preference shares rank equally with regard to the Company's residual assets in the event of liquidation.

On 10 June 2014, the Company declared a dividend of RUB 211 per ordinary and preference share amounting to RUB 37,481 million. A part of the dividend declared was attributable to the companies of the Group. At 31 December 2014 dividends payable equalled RUB 398 million.

On 30 June 2015, the Company declared dividend of RUB 113 per ordinary and preference share amounting to RUB 20,073 million. A part of the dividend declared was attributable to the companies of the Group. At 31 December 2015 dividends payable equaled RUB 420 million.

In October 2015, the Board of Directors of Bashneft approved a new Dividend Policy, according to which the Company plans to distribute not less than 25% of the Group's IFRS consolidated annual net profit per annum.

Earnings per share

Earnings per share ("EPS") is calculated by dividing profit for the year attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for shares purchased by the Group and held as treasury shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preference shares at a ratio of 1:1 in accordance with their participation rights as described in the Company's charter. Reciprocal interests relating to Sistema-invest's ownership in the Group are deducted from the total outstanding shares in computing the weighted average number of outstanding ordinary shares.

Basic and diluted earnings per share are calculated as follows:

	Year ended 31 December 2015	**Year ended 31 December 2014**
	(millions of roubles, except per share data)	
Weighted average number of ordinary shares outstanding	144,417,602	148,586,876
Weighted average number of preference shares outstanding	24,923,844	27,450,581
Weighted average number of shares outstanding	**169,341,446**	**176,037,457**
Profit for the year attributable to holders of ordinary shares of the Company	49,613	36,418
Profit for the year attributable to holders of preference shares of the Company	8,562	6,728
Profit for the year attributable to owners of the Company	**58,175**	**43,146**
Basic and diluted earnings per share (Russian roubles per share)	343.54	245.10

Millions of Russian roubles

21. LOANS AND BORROWINGS

	31 December 2015		31 December 2014	
	Rate, %	**Outstanding balance**	**Rate, %**	**Outstanding balance**
Non-current liabilities				
Unsecured fixed interest rate loans and borrowings	8.00%-11.00%	36,128	8.00%-10.55%	91,944
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,979	8.65%-8.85%	29,969
Unsecured floating interest rate borrowing*	Central Bank key rate + 1.00%	24,824	-	-
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured non-convertible bonds issued in June 2015	12.00%-12.10%	9,978	-	-
Unsecured non-convertible bonds issued in May 2015	12.00%	4,990	-	-
Unsecured non-convertible bonds issued in December 2009	-	-	8.35%	5,274
Secured floating rate borrowings	-	-	USD Libor 1M+ 1.70%	2,045
Total		**115,899**		**139,232**
Current liabilities				
Unsecured non-convertible bonds issued in February 2012	16.00%	9,979	9.00%	9,998
Unsecured non-convertible bonds issued in December 2009	8.35%	5,278	-	-
Current portion of secured floating rate borrowing	USD Libor 1M+1.70%	4,851	USD Libor 1M+ 1.70%	18,555
Total		**20,108**		**28,553**

* The balance of this unsecured borrowing was presented at 31 December 2014 within unsecured fixed interest rate loans and borrowings and was reclassified in 2015 as described below.

During 2014 as a result of the decision of the Moscow Commercial Court on the recovery of JSOC Bashneft's shares owned by Sistema and Sistema-invest in favour of the Russian Federation, some debt became payable on demand due to covenants in respect of changes in control. All such debt was repaid in due time or waivers were received.

Unsecured non-convertible bonds

On 22 December 2009, the Group issued 50,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds had a coupon rate of 12.5% from issuance date to 21 December 2012 per annum, payable semi-annually. In October 2011, the Group filed a voluntary buy-back offer, as a result of which 38,496,306 bonds were bought back at par value of RUB 1,050. The excess of the purchase price over the par value of bonds in the amount of RUB 1,925 million was recognised in the consolidated statement of profit or loss and other comprehensive income within *Finance costs*. In December 2012, the Group exercised a mandatory buy-back from bondholders willing to redeem the bonds at par value, as a result of which 6,220,765 bonds were bought back at par value and a new maturity date of December 2016 was established for the remaining bonds. The coupon rate was set at 8.35%.

In February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in February 2022. The bonds have a coupon rate of 16.00% from February 2015 to February 2016 per annum payable semi-annually. Subsequent coupon rates are to be determined in February 2016 at which point bondholders have the right to redeem the bonds at par value (refer to note 31).

In February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds (Series 06), 10,000,000 non-convertible RUB-denominated bonds (Series 07), 5,000,000 non-convertible RUB-denominated bonds (Series 08) and 5,000,000 non-convertible RUB-denominated bonds (Series 09) at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 bonds have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2018. The Series 07 and 09 bonds have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2020. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.

In May 2014 the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and maturity in May 2024. These bonds have a coupon rate 10.7% per annum from the date of issuance to November 2018 payable semi-annually. Subsequent coupon rates are to be determined in November 2018 at which point the bondholders have the right to redeem the bonds at par value.

In May 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 payable semi-annually. Subsequent coupon rates are to be determined in May 2020 at which point the bondholders have the right to redeem the bonds at par value.
The bonds allow early redemption at the discretion of the Company in May 2017 at par value.

In June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 payable semi-annually. Subsequent coupon rates are to be determined in May 2020 at which point the bondholders have the right to redeem the bonds at par value.
The bonds allow early redemption at the discretion of the Company in May 2017 at par value.

Further in June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in June 2025. The bonds have a coupon rate of 12.10% per annum from the issuance date to June 2021 payable semi-annually. Subsequent coupon rates are to be determined in June 2021 at which point the bondholders have the right to redeem the bonds at par value. The bonds allow early redemption at the discretion of the Company in June 2017 at par value.

Secured borrowings

At 31 December 2015 and 31 December 2014, USD secured floating interest rate borrowings comprise a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of up to USD 600 million. The loan facility matures in 2016. The facility is secured by future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.70%.

Unsecured loans and borrowings

At 31 December 2015 and 31 December 2014, unsecured fixed interest rate loans and borrowings were denominated in RUB and were obtained from a variety of lenders. The loans and borrowings mature from 2017 through 2020.

Following the increase of Central Bank key rate in late December 2014, interest rates for several borrowing facilities of the Group were increased in March-April 2015 with a further decrease in July-August 2015. In addition, during the period the interest rate for unsecured borrowing of RUB 24,824 million at 31 December 2015 was changed from a fixed rate to a floating rate of Central Bank key rate + 1.00%.

Millions of Russian roubles

22. PREPAYMENT ON OIL PRODUCTS SUPPLY AGREEMENT

In April 2014 the Company entered into a long-term oil products supply agreement and subsequently received an advance of USD 500 million (RUB 17,347 million). As of 31 December 2015 RUB 3,855 million and RUB 13,492 million were classified as short-term and long term parts of the prepayment, accordingly. The total minimum delivery volume approximates 3,150 thousand tons of oil products in the period from the date of the contract to July 2019.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of oil products.

The prepayments will be reimbursed starting from 2016. The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

The outstanding balance is subject to interest at USD Libor 1M + 1.5% per annum.

23. DECOMMISSIONING PROVISION

Balance at 1 January 2014	**6,742**
Acquired on acquisition of subsidiaries	25
Unwinding of discount (refer to note 11)	613
New obligations	219
Changes in estimates of existing obligations	996
Current period decommissioning expenses	(533)
Balance at 31 December 2014	**8,062**
Unwinding of discount (refer to note 11)	900
New obligations	977
Changes in estimates of existing obligations	712
Current period decommissioning expenses	(330)
Balance at 31 December 2015	**10,321**

Decommissioning provision represents an estimate of costs of wells liquidation, disturbed land restoring and dismantling of other oilfield assets. The amount of payments under decommissioning provision is determined on the annual basis. Depending on the economic environment the actual expenditures may vary from the budgeted amounts.

Current and non-current portions of decommissioning provision are as follows:

	31 December 2015	**31 December 2014**
Current portion (included in *Provisions*)	563	589
Non-current portion	9,758	7,473
Total decommissioning provision	**10,321**	**8,062**

Key assumptions used in the computation of the decommissioning provision were as follows:

	31 December 2015	**31 December 2014**
Discount rate	11.15%-11.59%	12.00%
Inflation rate	5.10%-12.50%	4.00%-12.50%

The Group has estimated the costs to be incurred using the cost of technology and materials that were available at each reporting date.

Millions of Russian roubles

24. OTHER NON-CURRENT LIABILITIES

	31 December 2015	31 December 2014
Defined benefit obligation	1,805	1,434
Other non-current liabilities	250	288
Total	**2,055**	**1,722**

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. In accordance with these plans, the employees are entitled to certain benefits in accordance with the terms of collective agreements (such as retirement bonus, anniversary bonus, reimbursement of funeral costs).

25. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Financial liabilities		
Trade payables and other payables	32,000	32,900
Interest payable	2,064	1,629
Total	**34,064**	**34,529**
Non-financial liabilities		
Salary payable and accrued vacation liabilities	6,069	2,811
Cash-settled portion of remuneration program (refer to note 19)	858	-
Total	**6,927**	**2,811**
Total trade and other payables	**40,991**	**37,340**

The average credit period on purchase of the majority of inventories and services consumed is 32 days (31 December 2014: 41 days). No interest is charged on the outstanding balance of trade and other payables during this period.

26. TAXES

	31 December 2015	31 December 2014
Other taxes receivable		
VAT recoverable	15,443	17,667
Custom duties prepaid	6,543	12,219
Other taxes receivable	1,759	936
Total	**23,745**	**30,822**
Other taxes payable		
VAT payable	2,563	6,875
Mineral extraction tax	5,839	5,048
Excise tax	2,754	3,669
Other taxes payable	2,269	1,174
Total	**13,425**	**16,766**

Millions of Russian roubles

27. RELATED PARTIES

Government-related entities and institutions

The Government of Russian Federation is the ultimate controlling party of Bashneft Group since 9 December 2014 and the Group has applied the exemption allowed by IAS 24 *Related Party Disclosures* not to disclose all government related transactions.

In the normal course of business the Group enters into transactions with the entities controlled by the government.

The Group had transactions during the year ended 31 December 2015 and balances outstanding as at 31 December 2015 with government-controlled banks. All transactions are carried out on market rates.

At 31 December 2015 and 31 December 2014, the Group had the following outstanding balances in government-controlled banks:

	31 December 2015	31 December 2014
Borrowings	45,479	80,314
Cash and cash equivalents	30,887	47,865
Deposits	5,000	-

For the year ended 31 December 2015 and the period starting from 9 December 2014 to 31 December 2014 the Group entered into the following transactions with the government-controlled banks:

	Year ended 31 December 2015	Period from 9 December 2014 to 31 December 2014
Repayments of borrowings	35,000	-
Cash placed on bank deposits	17,329	-
Proceeds from repayment of bank deposits	12,329	-
Interest expenses	8,321	652
Interest income	5,596	536

Dividends declared on 30 June 2015 attributable to the Russian Federation, represented by the Russian Federal Property Management Agency amounted to RUB 10,052 million. Dividends declared on 30 June 2015 attributable to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations amounted to RUB 5,018 million. As of 31 December 2015 the full amount of dividends declared on 30 June 2015 attributable to the Russian Federation and the Republic of Bashkortostan was paid.

For the year ended 31 December 2015 and the period starting from 9 December 2014 to 31 December 2014 significant transactions with government-related entities were related to transportation of oil and oil products, purchase of heat and electricity (included in production and operating expenses), purchase of crude oil, gas and petroleum products and sale of oil products, and comprised approximately the following percentages of the total amounts presented in the statement of profit or loss:

	Year ended 31 December 2015	Period from 9 December 2014 to 31 December 2014
Transportation of oil and oil products	74%	7%
Purchase of heat and electricity	7%	-
Purchase of crude oil, gas and petroleum products	2%	-
Sale of oil products	2%	-

Millions of Russian roubles

At 31 December 2015 and 31 December 2014 the most significant balances owed by and owed to government-related parties were approximately the following percentages of the total balance of trade and other receivables, advances to suppliers and advances received:

	31 December 2015	**31 December 2014**
Advances to suppliers	59%	42%
Trade and other receivables	8%	2%
Advances received	7%	1%

Joint ventures

At 31 December 2015 and 2014, the Group had the following outstanding balances with joint ventures:

	31 December 2015	**31 December 2014**
Amount owed by joint ventures	781	154
Amount owed to joint ventures	-	3

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

No expense has been recognised in the current year for bad debts in respect of amounts owed by related parties.

The Group entered into the following transactions with joint ventures of the Group:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Loans issued	916	-
Proceeds from repayment of loans issued	190	-
Sale of goods and services	85	1,624
Purchase of property and construction services	-	2,903
Purchase of goods and services	-	1,172
Proceeds from borrowing	-	1,683
Repayment of borrowing	-	1,683
Interest expense	-	42
Interest income	42	565

Millions of Russian roubles

Transactions with Sistema group companies during the period ended 9 December 2014

	Period ended 8 December 2014
Obtaining control over UPC (refer to note 4)	6,200
Sale of goods and services	10,968
Purchase of goods and services	20,455
Purchase of property and construction services	8,712
Dividends declared	28,098
Other income, net	1,394

On 9 December 2014 effective control over the Company passed from Sistema to the Government of the Russian Federation and, from that date, the Russian Federation became the ultimate controlling party of the Group. As of the same date, Sistema and businesses controlled by Sistema (collectively "Sistema group companies") ceased to be related parties of the Bashneft Group.

Compensation of key management personnel

The remuneration of directors and other key management personnel was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	704	669
Long-term remuneration program	621	-
Phantom shares granted	-	631
Termination benefits	12	4
Total	1,337	**1,304**

At 31 December 2015, outstanding balances in respect of wages and salaries of key management personnel were RUB 897 million (31 December 2014: RUB 47 million).

28. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may adjust the amount of dividends paid to shareholders and return on capital to shareholders, issue new shares or sell assets to reduce debt, maintain or adjust the capital structure.

The Board monitors the return on capital, which the Group defines as a total net borrowings divided by Segment EBITDA (refer to note 6). The Group defines total net borrowings as total borrowings less cash and cash equivalents and since it is not a standard IFRS measure, the Group's definition of total net borrowings may differ from that of other companies.

Millions of Russian roubles

The Group's gearing ratio was as follows:

	31 December 2015	31 December 2014
Total net borrowings	103,052	114,967
Segment EBITDA	126,920	100,778
Net borrowings to Segment EBITDA ratio	**0.81**	**1.14**

Major categories of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Cash and cash equivalents	32,955	52,818
Trade and other receivables	10,260	14,696
Loans given, at amortised cost	3,504	4,889
Deposits	5,000	8
Financial assets related to joint ventures, at amortised cost	781	-
Other non-current assets	2,501	1,619
Total financial assets	**55,001**	**74,030**
Financial liabilities		
Borrowings	136,007	167,785
Trade and other payables	34,064	34,529
Dividends payable	420	398
Total financial liabilities	**170,491**	**202,712**

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies and is primarily exposed to the US Dollar and Euro exchange rates changes.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Rouble, US Dollar and Euro.

The carrying amount of the Group's US Dollar and Euro denominated monetary assets and liabilities at 31 December 2015 and 2014 were as follows:

	31 December 2015	31 December 2014
Assets		
Trade and other receivables, excluding prepayments	4,765	10,535
Cash and cash equivalents	2,475	10,552
Other non-current assets	1,945	1,616
Total assets	**9,185**	**22,703**
Liabilities		
Borrowings	4,851	20,600
Trade and other payables	1,963	1,435
Total liabilities	**6,814**	**22,035**

Millions of Russian roubles

The table below details the Group's sensitivity to the strengthening of the US Dollar and Euro against the Russian Rouble by 30%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the end of the period denominated in the respective currencies.

	Year ended 31 December 2015	Year ended 31 December 2014
Increase in profit before tax	711	200

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar and Euro is approximately equal and opposite.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2015 and 2014. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

31 December 2015	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	60,952	80,090	3,114	3,257	73,719	-
Secured borrowings	4,851	4,902	4,902	-	-	-
Unsecured non-convertible bonds	70,204	90,725	11,865	8,253	65,312	5,295
Dividends payable	420	420	420	-	-	-
Trade and other payables	34,064	34,064	34,064	-	-	-
Total	**170,491**	**210,201**	**54,365**	**11,510**	**139,031**	**5,295**

31 December 2014	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	91,944	123,495	4,305	4,305	102,333	12,552
Secured borrowings	20,600	20,914	16,091	2,641	2,182	-
Unsecured non-convertible bonds	55,241	71,352	11,046	2,068	42,598	15,640
Dividends payable	398	398	398	-	-	-
Trade and other payables	34,529	34,529	34,529	-	-	-
Total	**202,712**	**250,688**	**66,369**	**9,014**	**147,113**	**28,192**

For the management of its day to day liquidity requirements the management had following unused credit facilities.

	31 December 2015	31 December 2014
Committed credit facilities	78,800	54,188
Less: amounts withdrawn	(15,473)	(11,629)
Total unused credit facilities	**63,327**	**42,559**

Millions of Russian roubles

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The table below details the Group's annualised sensitivity to a change of floating Libor rate and Central Bank key rate by 1% which would impact its operations. The analysis was applied to borrowings based on the assumption that amount of liability outstanding at the date of statements of financial position was outstanding for the whole period.

	Year ended 31 December 2015	Year ended 31 December 2014
Change in profit or loss	299	208

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

There were no financial instruments measured at fair value as at 31 December 2015 and 31 December 2014. Except for instruments presented in the table below, fair values of financial instruments approximate their carrying values according to assessment prepared by management.

The financial instruments in the table are grouped into Levels 1 to 3 based on the degree to which the inputs used to calculate the fair value are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the financial instruments; and
- Level 3 fair value measurements are those derived from inputs for the financial instruments that are not based on observable market data.

			31 December 2015		31 December 2014	
	Carried at	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans given	Amortised cost	3	3,500	2,346	3,500	2,278
			3,500	**2,346**	**3,500**	**2,278**
Financial liabilities						
Unsecured non-convertible bonds traded on active market	Amortised cost	1	55,262	53,233	55,241	48,717
Unsecured fixed interest rate loans and borrowings	Amortised cost	3	36,128	35,113	91,944	85,283
			91,390	**88,346**	**147,185**	**134,000**

There have been no transfers between levels during the years, ended 31 December 2015 and 2014.

Millions of Russian roubles

Loans given and unsecured fixed interest rate loans and borrowings are classified at Level 3. As such, their valuation requires assumptions which are not readily available. These instruments were valued using discounted cash flows model. Unobservable inputs include:

- For loans given: discount rate calculated as Group's weighted average cost of capital and forecast exchange rates for US dollars for 2016-2022;
- For unsecured fixed interest rate loans and borrowings: discount rate calculated as Group's cost of debt and forecast exchange rates for US dollars for 2016-2020.

Changing certain inputs to reasonable possible alternative assumptions does not change the fair value significantly.

30. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 December 2015, contractual capital commitments of the Group amounted to RUB 66,805 million (31 December 2014: RUB 67,430 million). These commitments are expected to be settled during 2016-2025. Included in total capital commitments is RUB 35,515 million (31 December 2014: RUB 35,858 million) of capital commitments which mainly relates to drilling services based on the Group's capital construction programme, which is re-evaluated on an annual basis.

Operating leases: Group as a lessee

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from 1 to 10 years with no renewal option at the end of the lease term. The Group's extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2064.

The amount of rental expenses for the year ended 31 December 2015 were RUB 1,997 million (year ended 31 December 2014: RUB 1,308 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 December 2015	31 December 2014
Due in one year	1,671	1,066
Due from one to five years	5,314	2,977
Thereafter	14,529	11,951
Total	**21,514**	**15,994**

Tax contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Legal contingencies

At 31 December 2015, unresolved legal claims against the Group amounted to RUB 15 million (31 December 2014: RUB 289 million). Management estimates the unfavourable outcome of the legal claims to be possible, and consequently no provision has been raised. The Group is rigorously defending itself in relation to such legal claims.

Performance guarantee

At 31 December 2015 the Group had performance guarantee issued to the South Oil Company of Iraq in connection with exploration and development services for Block 12 (Iraq) of USD 64 million (RUB 4,464 million) and performance guarantee issued to Myanma Oil and Gas Enterprise to perform exploration and development services for Block EP-4 (Mayaman Area) of USD 31 million (RUB 2,259 million).

Insurance

The Group does not have full coverage for property damage or loss, for business interruption and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. There are risks of losses and damages of assets, as well as causes of damages to third parties, which were not insured or partially insured, that could have an adverse effect on the Group's operations and financial position.

Management believes that the Group has adequate property damage coverage for its main production assets.

Russian Federation economic environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian rouble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

31. EVENTS SUBSEQUENT TO THE REPORTING DATE

Prepayment on oil products supply agreement

In January 2016 the Company received an advance of USD 500 million (RUB 39,243 million) under a new long-term oil products supply agreement. The total delivery volume approximates up to 3,780 thousand tons of oil products and/or 5,040 thousand tons of crude oil in the period from the date of the contract to March 2021.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of oil and/or petrochemical products.

The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of goods within the normal course of business.

Early repayment of loans and borrowings

In February 2016, the Company acquired under the offer 9,858,534 series 04 bonds at par value amounted to RUB 9,859 million. The new coupon rate at 9.50% was approved. Under bonds placement conditions the bondholders have the right to redeem the bonds at par value 1 year after a previous offer.

In January and February 2016, the Group fully repaid current portion of secured floating rate borrowing denominated in USD together with related interest accrued to date in the amount of RUB 5,239 million.