Bashneft Group

Consolidated financial statements for the years ended 31 December 2013, 2012 and 2011

BASHNEFT GROUP

TABLE OF CONTENTS

BASHNEFT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

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 Joint Stock Oil Company Bashneft (the "Company"), its subsidiaries and its structured entities (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as at 31 December 2013, 2012 and 2011, its financial performance, cash flows and changes in equity for the years 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 IFRS 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 legislation and accounting standards in the Russian Federation;
- 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 for the years ended 31 December 2013, 2012 and 2011 were approved by:

A.L. Korsik President	**A.Y. Lisovenko** Chief Accountant

Ufa, Russian Federation
31 March 2014

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Joint Stock Oil Company Bashneft:

We have audited the accompanying consolidated financial statements of Joint Stock Oil Company Bashneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2013, 2012 and 2011 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended 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 express an opinion on the fair presentation of these consolidated financial statements.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

© 2014 ZAO Deloitte & Touche CIS. All rights reserved

Member of Deloitte Touche Tomatsu Limited

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2013, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte + Touche

31 March 2014
Moscow, Russian Federation

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

ZAO Deloitte & Touche CIS

The Entity: Joint Stock Oil Company Bashneft

Order No 60, issued by the Administration of the Kirov District of the city of Ufa, the Republic of Bashkortostan, on 13 January 1995.

Certificate of registration in the Unified State Register of Legal Entities No 1020202555240 of 15 October 2002, issued by Inspectorate of the Russian Ministry of Taxation of the Kirov District of the city of Ufa, the Republic of Bashkortostan.

Address: 30 Bldg.1, Karl Marx Street, the city of Ufa, the Republic of Bashkortostan 450077, the Russian Federation

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011

Millions of Russian roubles, except for earnings per share data

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
CONTINUING OPERATIONS				
Revenue	6	563,296	532,502	486,328
Export tariffs and excise		(160,255)	(144,307)	(124,329)
Cost of purchased crude oil, gas and petroleum products		(126,438)	(124,857)	(117,363)
Taxes other than income tax	8	(69,405)	(66,709)	(60,302)
Production and operating expenses		(59,883)	(53,365)	(49,887)
Transportation expenses		(28,280)	(26,784)	(23,152)
Depletion and depreciation		(20,028)	(18,377)	(18,097)
Selling, general and administrative expenses		(15,063)	(16,085)	(14,549)
Other operating expenses, net		(2,523)	(1,430)	(2,847)
Operating profit		**81,421**	**80,588**	**75,802**
Impairment of investment in associate	12	(15,752)	-	-
Finance income	9	5,163	4,808	2,179
Finance costs	9	(9,460)	(11,883)	(14,926)
Foreign exchange gain/(loss), net		1,094	107	(379)
Share of profit/(loss) of associates and joint ventures, net of income tax	12	492	(361)	2,211
Profit before income tax		**62,958**	**73,259**	**64,887**
Income tax	10	(16,559)	(16,469)	(15,098)
Profit for the year from continuing operations		**46,399**	**56,790**	**49,789**
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	18	-	-	3,546
Profit for the year		**46,399**	**56,790**	**53,335**
Other comprehensive income, net of income tax				
Item that will not be reclassified subsequently to profit or loss				
Remeasurement of post-employment benefit obligation		37	(220)	(43)
Other comprehensive income/(loss), net of income tax		**37**	**(220)**	**(43)**
Total comprehensive income for the year		**46,436**	**56,570**	**53,292**
Profit for the year attributable to:				
Owners of the Company		46,170	52,291	49,886
Non-controlling interests		229	4,499	3,449
		46,399	**56,790**	**53,335**
Total comprehensive income for the year attributable to:				
Owners of the Company		46,205	52,088	49,846
Non-controlling interests		231	4,482	3,446
		46,436	**56,570**	**53,292**
EARNINGS PER SHARE				
Weighted average number of ordinary shares in issue during the year	19	157,085,505	151,224,401	152,275,527
From continuing and discontinued operations Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		242.06	285.10	266.92
From continuing operations Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		242.06	285.10	260.21

The accompanying notes on pages 9-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013, 2012 AND 2011

Millions of Russian roubles

	Notes	31 December 2013	31 December 2012	31 December 2011
ASSETS				
Non-current assets				
Property, plant and equipment	11	277,369	277,149	253,757
Advances paid for acquisition of property, plant and equipment		805	632	1,643
Intangible assets		1,981	1,830	1,516
Financial assets	13	4,019	29,318	4,981
Investments in associates and joint venture	12	18,848	28,619	35,532
Long-term inventories	14	3,022	2,351	2,006
Other non-current assets		380	1,998	105
		306,424	**341,897**	**299,540**
Current assets				
Inventories	14	21,450	23,839	24,073
Financial assets	13	5,066	18,635	34,546
Trade and other receivables	15	27,317	28,366	16,398
Advances to suppliers and prepaid expenses		5,906	5,649	5,087
Income tax prepaid		289	2,485	426
Other taxes receivable	24	25,990	22,534	28,511
Cash and cash equivalents	16	16,395	20,104	28,354
Other current assets		-	-	43
		102,413	**121,612**	**137,438**
Assets classified as held for sale	17	**38,962**	**-**	**-**
TOTAL ASSETS		**447,799**	**463,509**	**436,978**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	19	2,501	2,501	2,252
Treasury shares		(38,147)	(38,147)	(13,241)
Additional paid-in capital		72,682	83,651	34,736
Retained earnings		199,131	194,975	156,870
Equity attributable to owners of the Company		**236,167**	**242,980**	**180,617**
Non-controlling interests		155	4,928	46,312
		236,322	**247,908**	**226,929**
Non-current liabilities				
Borrowings	20	78,902	78,201	95,454
Decommissioning provision	21	6,145	7,083	9,507
Deferred tax liabilities	10	33,489	37,561	30,487
Other non-current liabilities	22	6,164	5,931	763
		124,700	**128,776**	**136,211**
Current liabilities				
Borrowings	20	11,914	32,007	13,532
Trade and other payables	23	50,372	28,942	23,383
Dividends payable	19	275	224	259
Advances received		12,066	14,156	17,084
Provisions	25	895	718	3,243
Income tax payable		32	393	1,345
Other taxes payable	24	10,340	10,385	14,992
		85,894	**86,825**	**73,838**
Liabilities directly associated with assets classified as held for sale	17	**883**	**-**	**-**
TOTAL LIABILITIES		**211,477**	**215,601**	**210,049**
TOTAL EQUITY AND LIABILITIES		**447,799**	**463,509**	**436,978**

The accompanying notes on pages 9-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
Millions of Russian roubles

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
OPERATING ACTIVITIES				
Profit before income tax from continuing and discontinued operations		**62,958**	**73,259**	**69,270**
Adjustments for[1]:				
Depletion and depreciation		20,028	18,377	19,274
Loss on disposal of property, plant and equipment		926	770	1,216
Finance income		(5,163)	(4,808)	(2,179)
Finance costs		9,460	11,883	14,954
Impairment/(impairment reversals) of property, plant and equipment	11	246	4,417	(84)
Loss/(gain) on disposal of subsidiaries		24	-	(1,174)
Share of (profit)/loss of associates and joint ventures	12	(492)	361	(2,211)
Impairment of investment in associate	12	15,752	-	-
Impairment loss recognised on trade and other receivables	15	236	202	1,161
Revaluation of previously held share in associate	4	-	-	464
Group's share of gain eliminated on transaction with joint venture		(1,174)	-	-
Impairment of financial assets		500	-	-
Loss on disposal of financial assets		109	-	-
Foreign exchange (gain)/loss, net		(924)	60	105
Change in other provisions and allowances, net		716	(2,737)	746
Other, net		773	(869)	262
Operating cash flows before working capital changes		**103,975**	**100,915**	**101,804**
Movements in working capital:				
Inventories		(1,322)	(456)	(4,834)
Trade and other receivables		(4,632)	(4,309)	(6,261)
Advances to suppliers and prepaid expenses		(556)	(1,765)	(509)
Other taxes receivable		(4,185)	5,923	(9,548)
Trade and other payables		10,887	4,875	4,172
Advances received		(1,718)	(2,927)	1,523
Other taxes payable		3,586	(4,489)	7,658
Cash generated from operations		**106,035**	**97,767**	**94,005**
Interest paid		(7,568)	(10,500)	(13,872)
Income tax paid		(15,774)	(16,126)	(14,519)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**82,693**	**71,141**	**65,614**

[1] Adjustments are presented for continuing and discontinued operations on a combined basis.

The accompanying notes on pages 9-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
Millions of Russian roubles

	Notes	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
INVESTING ACTIVITIES				
Payments for acquisition of property, plant and equipment		(30,441)	(30,789)	(25,007)
Proceeds from disposal of property, plant and equipment		964	1,441	1,860
Net cash (outflow)/inflow from disposal of subsidiaries and structured entities		(1,710)	39	83
Additional contribution to joint venture	12	(10,035)	(3,122)	-
Acquisition of subsidiaries, net of cash acquired	4	(152)	(846)	(4,192)
Cash inflows on disposal of 25.1% share in LLC Bashneft-Polyus, net	12	-	-	1,333
Payments for acquisition of intangible assets		(713)	(802)	(588)
Proceeds from disposal of investment in associate and joint venture		9,879	-	-
Payments for acquisition of financial assets		(19,671)	(70,365)	(4,489)
Proceeds from disposal of financial assets		21,257	61,622	514
Dividends received		448	-	489
Interest received		4,314	3,662	478
NET CASH USED IN INVESTING ACTIVITIES		**(25,860)**	**(39,160)**	**(29,519)**
FINANCING ACTIVITIES				
Proceeds from sale of treasury shares		2,617	-	-
Payments for acquisition of non-controlling interests		(513)	(7,964)	-
Proceeds from borrowings		50,947	25,388	111,051
Repayments of borrowings		(70,762)	(23,766)	(122,833)
Cash disposed on disposal of control over Bashkirenergo	18	-	-	(885)
Purchase of treasury shares	19	-	(15,697)	-
Dividends paid by the Company		(42,491)	(18,263)	(27,269)
Dividends paid by subsidiaries		(6)	(81)	(46)
NET CASH USED IN FINANCING ACTIVITIES		**(60,208)**	**(40,383)**	**(39,982)**
Net decrease in cash and cash equivalents		**(3,375)**	**(8,402)**	**(3,887)**
Cash and cash equivalents at beginning of the year	16	**20,104**	**28,354**	**32,516**
Cash and cash equivalents held on disposal group	17	(504)	-	-
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		170	152	(275)
Cash and cash equivalents at end of the year	16	**16,395**	**20,104**	**28,354**

The accompanying notes on pages 9-69 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2011		**2,252**	**(7,444)**	**34,736**	**131,222**	**160,766**	**82,819**	**243,585**
Profit for the year		-	-	-	49,886	**49,886**	3,449	**53,335**
Other comprehensive income		-	-	-	(40)	**(40)**	(3)	**(43)**
Total comprehensive income for the year		**-**	**-**	**-**	**49,846**	**49,846**	**3,446**	**53,292**
Result from disposal of Bashkirenergo in exchange of additional interest in Sistema-invest	4,18	-	(5,797)	-	1,122	**(4,675)**	(41,062)	**(45,737)**
Non-controlling interests arising on acquisition and establishment of subsidiaries		-	-	-	-	**-**	287	**287**
Dividends	19	-	-	-	(25,320)	**(25,320)**	(61)	**(25,381)**
Disposal of structured entities		-	-	-	-	**-**	883	**883**
Balance at 31 December 2011		**2,252**	**(13,241)**	**34,736**	**156,870**	**180,617**	**46,312**	**226,929**
Profit for the year		-	-	-	52,291	**52,291**	4,499	**56,790**
Other comprehensive income		-	-	-	(203)	**(203)**	(17)	**(220)**
Total comprehensive income for the year		**-**	**-**	**-**	**52,088**	**52,088**	**4,482**	**56,570**
Result of mandatory shares buy-back preceding Group reorganization	4	-	(11,070)	-	4,252	**(6,818)**	(12,216)	**(19,034)**
Transactions with the Controlling shareholder	4,26,19	-	2,977	67	-	**3,044**	3,472	**6,516**
Effect on reorganisation of the Group	4	249	(12,186)	48,594	-	**36,657**	(36,657)	**-**
Purchase of treasury shares		-	(4,627)	-	-	**(4,627)**	-	**(4,627)**
Dividends	19	-	-	-	(18,235)	**(18,235)**	(54)	**(18,289)**
Other equity transactions		-	-	254	-	**254**	(411)	**(157)**
Balance at 31 December 2012		**2,501**	**(38,147)**	**83,651**	**194,975**	**242,980**	**4,928**	**247,908**
Profit for the year		-	-	-	46,170	**46,170**	229	**46,399**
Other comprehensive income		-	-	-	35	**35**	2	**37**
Total comprehensive income for the year		**-**	**-**	**-**	**46,205**	**46,205**	**231**	**46,436**
Transactions with the Controlling shareholder	18	-	-	(10,455)	-	**(10,455)**	(5,004)	**(15,459)**
Acquisition of additional interests in subsidiaries		-	-	-	483	**483**	(1,017)	**(534)**
Dividends	19	-	-	-	(42,533)	**(42,533)**	(15)	**(42,548)**
Other equity transactions		-	-	(514)	1	**(513)**	1,032	**519**
Balance at 31 December 2013		**2,501**	**(38,147)**	**72,682**	**199,131**	**236,167**	**155**	**236,322**

The accompanying notes on pages 9-69 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Organisation and operations

Joint Stock Oil Company Bashneft (the "Company" or "Bashneft"), its subsidiaries and structured entities (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. 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 2013, 2012 and 2011:

		Group's effective interest		
Company	**Principal activities**	**31 December 2013**	**31 December 2012**	**31 December 2011**
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%	100%
LLC Bashneft-Udmurtia (merged with LLC Bashneft-Region)	Petroleum products trading	100%	100%	100%
LLC Bashneft-Bureniye	Construction services	*	100%	100%
OJSC Ufaorgsintez	Production of petrochemicals	**	67%	66%
OJSC Ufimsky refinery plant	Crude oil processing	***	***	66%
OJSC Novoil	Crude oil processing	***	***	72%
OJSC Ufaneftekhim	Crude oil processing	***	***	63%
OJSC Bashkirnefteproduct	Petroleum products trading	***	***	64%
OJSC Orenburgnefteproduct	Petroleum products trading	***	***	94%

* On 30 September 2013, the Group sold its 100% interest in LLC Bashneft-Service Assets ("BNSA"), which is the holding company of LLC Bashneft-Bureniye (refer to note 18).

** On 17 September 2013, the Group sold its 98% interest in OJSC United Petrochemical Company ("UPC"), which is the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez ("Ufaorgsintez"), the Group retained a residual interest in Ufaorgsintez of 15.97% (refer to note 18).

*** On 1 October 2012, the Company completed a reorganization of the Group through a merger of its subsidiaries (OJSC Ufimsky Refinery Plant ("Ufimsky refinery plant"), OJSC Novoil ("Novoil"), OJSC Ufaneftekhim ("Ufaneftekhim"), OJSC Bashkirnefteprodukt ("Bashkirnefteproduct") and OJSC Orenburgnefteproduct ("Orenburgnefteproduct")). As a result of the reorganization, the shares of the subsidiaries were converted into shares of Bashneft (refer to note 4).

At 31 December 2013, the Group had six structured entities (31 December 2012: ten structured entities, 31 December 2011: thirty one structured entities) which were established to provide supporting services to the Group and which are engaged in the supporting of production and refining of crude oil. Such structured entities have been consolidated. The Group performs the reorganization of its structured entities through purchase of controlling interest or liquidation.

JSFC "Sistema" ("Sistema") is the Controlling shareholder of Bashneft. The controlling shareholder of Sistema and the ultimate controlling party of Bashneft Group is Mr. Vladimir P. Evtushenkov.

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.

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

IAS 1 *Presentation of Financial Statements* ("IAS 1") – Amendment to revise the way other comprehensive income is presented and to introduce new terminology for the statement of comprehensive income. Under the amendment to IAS 1 the statement of comprehensive income is renamed to the statement of profit or loss and other comprehensive income. The amendment also requires items of other comprehensive income to be grouped into two categories:

- Items that will not be reclassified subsequently to profit or loss; and
- Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same bases. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 did not result in any impact on profit or loss, other comprehensive income and total comprehensive income for the Group.

IAS 19 *Employee Benefits* ("IAS 19") – Amendment regarding accounting for defined benefit plans and termination benefits. The amendment requires the recognition of changes in defined benefit obligations and the fair value of plan assets when they occur, and eliminate the corridor approach permitted under the previous version of IAS 19, thereby accelerating the recognition of past service costs. The amendment requires all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Another significant change to IAS 19 relates to the presentation of the changes in defined benefit obligations and plan assets with changes being split into three components:

- Service cost – recognised in profit or loss and includes current and past service costs as well as gains or losses on settlements;
- Net interest – recognised in profit or loss and calculated by applying the discount rate by reference to market yields at the end of the reporting period to the net defined benefit liability at the beginning of each reporting period; and
- Remeasurement – recognised in other comprehensive income and comprises actuarial gains and losses on the defined benefit obligation, the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the effect of the asset ceiling.

Millions of Russian roubles

The application of amendments to IAS 19 has resulted in the following impact on profit or loss and other comprehensive income in the consolidated financial statements:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Impact on profit for the year			
(Increase)/decrease in production and operating expenses	(46)	275	54
Decrease/(increase) in income tax	9	(55)	(11)
Impact on other comprehensive income for the year			
Increase/(decrease) in remeasurement of post-employment benefit obligation	37	(220)	(43)

The application of amendments to IAS 19 has not resulted in any material impact on earnings per share.

IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") – Amendments to modify the consolidation principles in accordance with IFRS 10 *Consolidated Financial Statements* ("IFRS 10"). The revised IAS 27 deals only with accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. The application of the amendments to IAS 27 did not result in any changes to the Group's consolidated financial statements.

IAS 28 *Investments in Associates* ("IAS 28") – Amendment to reissue as "Investments in Associates and Joint Ventures" after IFRS 11 *Joint Arrangements* ("IFRS 11") was published. The amended IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The application of the amendments to IAS 28 has not resulted in any impact on financial position, profit or loss, other comprehensive income or total comprehensive income.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") – IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. IFRS 10 includes a new definition of control that contains three elements:
(a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group assessed whether any consolidation conclusions under IFRS 10 differ from IAS 27 / SIC 12 at 1 January 2013. The adoption of this standard did not result in any change in the consolidation status of the Group's subsidiaries and structured entities.

IFRS 11 *Joint Arrangements* ("IFRS 11") – IFRS 11 was issued in May 2011 and supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non Monetary contributions by Venturers*. IFRS 11 deals with how a joint arrangement in which two or more parties have an interest should be classified. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types are distinguished by parties' rights and obligations under the arrangements. Joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting. The adoption of this standard has not resulted in any impact on financial position, profit or loss, other comprehensive income or total comprehensive income.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") – IFRS 12 was issued in May 2011 and provides disclosure requirements for interest in subsidiaries, associates, joint ventures and unconsolidated structured entities.

IFRS 13 *Fair Value Measurement* ("IFRS 13") – IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. The application of IFRS 13 did not result in any significant changes to the Group's consolidated financial statements.

Several other amendments including amended IFRS 7 *Financial Instruments: Disclosures* and amendments resulting from "Annual Improvements to IFRSs" (2009-2011 cycle) were applied in these consolidated financial statements. The application of these amendments did not result in significant changes to the Group's financial position or results of operations.

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**
IAS 32 Financial Instruments: Presentation (amended) – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (amended) – Amendments to transition disclosures	1 January 2015
IFRS 10 Consolidated Financial Statements (amended) – Amendments for investment entities	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities (amended) – Amendments for investment entities	1 January 2014
IAS 27 Separate Financial Statement (amended) – Amendments for investment entities	1 January 2014
IAS 36 Impairment of assets (amended) – Amendments on recoverable amount disclosure	1 January 2014
IAS 39 Financial instruments: Recognition and Measurement – Amendment to "Novation of derivatives"	1 January 2014
IFRIC 21 Levies (issued) – an interpretation on the accounting for levies imposed by governments	1 January 2014
IFRS 9 Financial Instruments – Amendments to simplify the mixed measurement model and to establishes two primary measurement categories for financial assets	to be determined
IAS 19 Employee Benefits – Amendments to contributions from employees or third parties	1 July 2014
Annual improvements to IFRSs 2010-2011 and 2011- 2013 Cycles	1 July 2014
IFRS 14 Regulatory Deferral Accounts (issued) - It allows first-time adopters of IFRSs that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so, on transition to IFRS	1 January 2016

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 in the consolidated financial statements.

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

Functional and presentation 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 *Financial Instruments: Recognition and Measurement* ("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 found, 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 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 factors such as the average concession term and past experience of recognising proved reserves.

Acquisition costs of proved properties are depleted using the unit-of-production method based upon total proved reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon 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 are as follows:

Buildings and constructions	2-100 years
Machinery and equipment	2-39 years
Transport	1-57 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.

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.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When the Group has previously held an investment accounted for under IAS 39 and the Group obtains significant influence over that investment, the deemed cost of the investment in the associate, accounted for under IAS 28, is the fair value of the original investment at the date that significant influence is achieved over the entity, plus any consideration paid for the additional stake. Any gains or losses arising on the reassessment to fair value of the original investment are recognized in profit or loss at the date significant influence is achieved.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when investment ceases to be an associate or when an investment is classified as held for sale.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 principle 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 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

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 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

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

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.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

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 “preferred”. The Company’s preferred shares have the same characteristics as ordinary shares and have no preference attributed to them. Accordingly, for purposes of computing earnings per share (“EPS”), preferred shares have been treated as ordinary shares.

The Group presents basic and diluted EPS data for its ordinary and preferred 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 preferred shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares. Reciprocal interests relating to OJSC Sistema-invest (“Sistema-invest”) ownership in the Company are deducted from the total outstanding shares in computing the weighted average number of outstanding 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:

- Control over structured entities;
- Accounting for share in Sistema-invest;
- Accounting for share in OJSC Bashkirian Power Grid Company;
- Classification of investment in LLC Bashneft-Polyus;
- Useful economic lives of property, plant and equipment;
- Exploration and evaluation expenditures;
- Impairment of property, plant and equipment;
- Decommissioning provision;
- Legal contingencies; and
- Taxation.

Control over structured entities

Management judgement is involved in the assessment of control and the consolidation of certain structured entities in the Group’s consolidated financial statements. The Group does not have any direct or indirect shareholdings in these structured entities and management periodically reviews the status of each of these entities to ensure the assessment is still appropriate.

A structured entity is consolidated if, based on an evaluation of the substance of its relationship with the Group and the structured entity’s risks and rewards, the Group concludes that it controls the entity. The Group’s exercises judgement in determining if the voting or similar rights within the entity are the dominant factor in deciding who controls the entity, and if, based on such judgment, the Group determines that it controls the entity despite the lack of the voting or similar rights, such entity is consolidated by the Group in its consolidated financial statements.

Accounting for Sistema-invest

Management judgement is involved in the determination of the appropriate accounting for Sistema-invest. As detailed in Note 4, Sistema-invest is a non-substantive entity, through which Sistema enacts certain transactions. The entity has no decision-making capabilities of its own, and therefore management has determined that “look-through accounting” is appropriate in order to recognise the substance of what that entity represents, namely treasury shares (i.e. a reciprocal interest in the Company), a reduction in non-controlling interests (i.e. interests held in the entities that the Group controlled and consolidated) and intercompany balances. From 2011 onwards, Sistema-invest also held an interest in OJSC Bashkirenergo (“Bashkirenergo”), which was treated as an investment held for sale at 31 December 2011 (refer to note 13). Please refer to the following paragraph “accounting for share in OJSC Bashkirian Power Grid Company (“BESK”) for the accounting treatment of investment in BESK.

On 17 December 2013, the the Board of Directors (the “Board”) approved a reorganization programme involving Sistema-invest (refer to note 17). Accordingly, at 31 December 2013 the Group has classified the assets and liabilities which were accounted for using the look-through methodology noted above as assets and liabilities held for sale.

Accounting for share in OJSC Bashkirian Power Grid Company

At 31 December 2013 the Group holds an investment in BESK through its investment in the non-substantive entity Sistema-invest. The Group’s indirect interest in this investment is 45.7%, with Sistema ultimately owning the controlling shareholding. Management has concluded, however, that equity accounting for this investment is not appropriate, because they are unable to exercise significant influence over BESK. Significant influence is defined as the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies. Management believe that the control and influence pertaining to Sistema is all-encompassing, and thus the Group is unable to influence the decision making of BESK in any way. As such, BESK is treated as an available-for-sale investment held at cost, due to the inability to compute a reliable fair value for the investment (refer to note 13). As noted in the above paragraph covering “Accounting for Sistema-invest”, BESK has been classified as held for sale at year-end.

Classification of investment in LLC Bashneft-Polyus

The Group established LLC Bashneft-Polyus (“Bashneft-Polyus”) in 2011 as an operator of the Trebs and Titov deposit. The sale of a 25.1% interest in Bashneft-Polyus in December 2011 involved a change in the governing principles of Bashneft-Polyus, pursuant to which significant equal decision making powers relating to key operational and financial decisions and the appointment of key management personnel of the entity were awarded to the holder of the 25.1% interest. Management considered these powers, and concluded that they had lost full control of Bashneft-Polyus, albeit retaining joint control. Accordingly, the Group’s 74.9% interest in Bashneft-Polyus has been accounted for as a joint venture, using the equity method of accounting (refer to note 12).

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.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Oil and gas producing assets are depreciated on a units of production basis at a rate calculated by reference to total proved developed reserves. The Group estimates its commercial reserves on 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, recover 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 exploration and evaluation assets, property, plant and equipment, 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.

Exploration and evaluation expenditures

The application of the Group’s accounting policy for exploration and evaluation expenditure requires judgment to determine whether it is likely that future economic benefits are probable, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of commercial reserves. The determination of reserves is itself an estimation process that requires varying degrees of uncertainty depending on the classification of the reserve. The capitalisation policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant amount in written off in profit or loss in the period the information becomes available.

Impairment 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.

Millions of Russian roubles

4. BUSINESS COMBINATIONS AND REORGANISATION OF THE GROUP

Business combinations in 2013 and 2012

In 2013 and 2012, the Group acquired subsidiaries in Upstream and Downstream segments for a total consideration of RUB 522 million (of which RUB 152 million was paid in cash) and RUB 846 million paid in cash, respectively. The fair value of the net assets acquired approximates the consideration transferred.

Business combinations in 2011

OJSC Orenburgnefteproduct

In April 2011, the Group acquired from OJSC Russneft a 94% stake in Orenburgnefteproduct for total cash consideration of RUB 3,393 million. Orenburgnefteproduct is a company engaged in petroleum products trading in the Orenburg region through a chain of 95 petrol stations and 16 petrol storages.

At the date of acquisition, the fair value of identifiable assets and liabilities of Orenburgnefteproduct was as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	3,370
Inventories	500
Trade and other receivables	177
Advances to suppliers and prepaid expenses	366
Cash and cash equivalents	248
	4,661
LIABILITIES	
Deferred tax liabilities	(577)
Trade and other payables	(504)
	(1,081)
Fair value of net assets acquired	**3,580**
Non-controlling interests measured at fair value	(187)
Cash consideration	**3,393**
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	3,393
Cash and cash equivalents acquired	(248)
Net cash outflow on acquisition	**3,145**

Orenburgnefteproduct contributed RUB 10,141 million of revenue, RUB 153 million of profit before tax and RUB 117 million of profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as Orenburgnefteproduct did not prepare standalone financial statements in accordance with IFRS before the acquisition.

Millions of Russian roubles

LLC BN-Nefteproduct

In July 2011, LLC Aspec, the holding company of the Aspec Group, engaged in wholesale and retail of oil products, real estate development and also owned an automotive retail business, was reorganized into two companies: LLC BN-Nefteproduct ("BN-Nefteproduct") and LLC Aspec. As a result of this reorganisation, the Group swapped its 49.99% interest in LLC Aspec to 100% interest in BN-Nefteproduct, a company, which consolidated the wholesale and retail businesses of Aspec Group. The company's production facilities includes: 50 petrol stations and 4 petroleum storage facilities.

The remeasurement to fair value of the Group's previously held 49.99% in LLC Aspec resulted in a loss of RUB 464 million, which has been recognised in other operating expenses in statement of the profit or loss and other comprehensive income.

At the date of acquisition, the fair value of identifiable assets and liabilities of BN-Nefteproduct was as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	2,521
Inventories	1,951
Trade and other receivables	336
Cash and cash equivalents	155
Other assets	346
	5,309
LIABILITIES	
Deferred tax liabilities	(347)
Trade and other payables	(2,110)
	(2,457)
Fair value of net assets acquired	**2,852**
Fair value of previously held share of investment in associate	**2,852**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	**-**
Cash inflow arising on acquisition	
Cash and cash equivalents acquired	155
Cash inflow on acquisition	**155**

BN-Nefteproduct contributed RUB 36,419 million of revenue, RUB 918 million of profit before tax and RUB 726 million of profit from the date of acquisition to 31 December 2011.

If the acquisition had taken place at the beginning of the year ended 31 December 2011 the Group's revenue would have been RUB 489,460 million, profit for the year would have been RUB 53,341 million.

LLC GP SKON

In December 2011, the Group acquired 100% of LLC GP SKON ("SKON"), for a total cash consideration of RUB 1,202 million. SKON is a company engaged in petroleum products trading in the Sverdlovsk region through a chain of 25 petrol stations and petrol storage. As a result of acquisition the Group recognised excess of Group's share in fair value of net assets acquired over consideration transferred in the amount of RUB 120 million in the consolidated statement of profit or loss and other comprehensive income.

Millions of Russian roubles

As a result of acquisition, the Group consolidated Property, Plant and Equipment in the amount of RUB 1,459 million and attributable deferred tax liability in the amount of RUB 138 million.

SKON contributed RUB nil of revenue, profit before tax and profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as SKON did not prepare standalone financial statements in accordance with IFRS before the acquisition.

OJSC Sistema-invest

Sistema-invest is a legal entity controlled by Sistema that owns equity interests in the Company, Ufaorgsintez and BESK. Prior to the reorganisation of the Group (which is explained below) Sistema-invest owned equity interests in the Company, Ufimsky Refinery Plant, Novoil, Ufaneftekhim, Ufaorgsintez and Bashkirnefteprodukt. The entity was and is a corporate vehicle used to facilitate transactions between Bashneft Group, Sistema and third parties and was and is used in part to accumulate non-controlling interests in the Company and Ufaorgsintez within the corporate vehicle. There have been no independent operations within Sistema-invest throughout any of the periods presented. It essentially holds an interest in the Company's own shares, additional interests in the aforementioned subsidiaries, and loans received from the Group and given to Sistema. Except for these items, there is no other operational or economic substance to the entity. For periods presented up to 2013, the Group therefore 'looked-through' the non-substantive legal entity and accounted for its share of interests in the assets, liabilities, equity, revenues and expenses of Sistema-invest. The Company's interest in its own shares was accounted for as treasury shares and the increase in the Company's interest in subsidiaries was accounted for as an increase in ownership in subsidiaries acquired by the Group.

On 18 December 2013, the Group announced that Sistema-Invest is to be reorganised, and ultimately disposed of to Sistema. As such, for the current year end, all assets and liabilities previously recognised using the look through treatment were classified as held for sale.

In May 2011, Sistema-invest issued an additional 28,488 shares, representing 28.49% of its own shares, in exchange for the 48.22% stake in Bashkirenergo owned by Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant. As a result of this transaction, the Group's interest in Sistema-invest increased from 27.78% to 49.41%. The excess of the additional Group's interest in Sistema-invest's net assets acquired over the disposed amount of the Group's share in Bashkirenergo's net assets was recognised in the Group's consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of RUB 5,797 million and RUB 1,122 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of RUB 41,062 million.

As a result of this transaction, the shareholding structure of Sistema-invest was as follows:

	Interest
Sistema	50.59%
Bashneft	26.73%
Ufaneftekhim	8.12%
Ufimsky refinery plant	7.28%
Novoil	7.28%
Total	**100.00%**

As a result of this transaction, the Group lost control over Bashkirenergo. The Group's effective interest in Bashkirenergo held through Sistema-invest became 23.62%, and was accounted for as investment held for sale at the lower of fair value less cost to sell and cost at 31 December 2011.

Millions of Russian roubles

At 31 December 2011, the carrying value of treasury shares held by the Company was as follows:

	1 January 2011	Treasury shares acquired on 5 May 2011	31 December 2011
Value	15,882	5,797	21,679
Excess of the Group's interest in the net assets acquired over the consideration paid attributable to treasury shares	(8,438)	-	(8,438)
Total	**7,444**	**5,797**	**13,241**

The increase in the Group's interest in the Company and its subsidiaries as a result of the acquisitions of interest in Sistema-invest was as follows:

	Effective ownership acquired on 5 May 2011
Bashneft (treasury shares)	4.52%
Ufimsky refinery plant	3.13%
Novoil	3.56%
Ufaneftekhim	2.53%
Ufaorgsintez	3.03%
Bashkirnefteproduct	2.42%

On 1 October 2012 (see below) the Group completed a reorganisation as a result of which, the shareholding structure of Sistema-invest changed as follows:

	Interest
Sistema	50.59%
Bashneft	49.41%
Total	**100.00%**

Reorganisation of the Group in 2012

On 27 April 2012, at the Extraordinary General Meeting of Shareholders of Bashneft, shareholders approved a Group reorganisation through a legal merge of its subsidiaries (namely the Ufimsky refinery plant, Novoil, Ufaneftekhim, Bashkirnefteproduct and Orenburgnefteproduct) with Bashneft.

As a result of the decision in accordance with Russian legislation the merging entities announced an obligatory buy-back of own shares, that was completed in June 2012. As the result of the buy-back program the Group acquired the treasury shares in the amount of RUB 11,070 million and shares of subsidiaries in amount RUB 7,964 million resulted in a decrease in non-controlling interests in the amount of RUB 12,216 million, the difference between consideration paid and decrease in non-controlling interest was recognized as an increase in retained earnings.

On 28 September 2012 Sistema acquired preferred shares of Ufaneftekhim, Novoil and Ufimsky refinery plant from Bashneft Group for consideration RUB 1,918 million. As the result of this transaction the Group recognised an increase in non-controlling interests in the amount of RUB 3,472 million and decrease in additional paid-in capital in the amount of RUB 1,554 million.

Millions of Russian roubles

On 1 October 2012 as part of the reorganisation of the Group, the shares of Ufimsky refinery plant, Novoil, Ufaneftekhim and Bashkirnefteproduct which were previously held by Sistema-invest were converted into shares of the Company (refer to note 19). The transaction resulted in a decrease in non-controlling interest and increase in treasury shares with a corresponding increase in the additional paid-in-capital and share capital. Sistema-invest's interest in the Company increased to 25.24%. The shares of Ufimsky refinery plant, Novoil, Ufaneftekhim, Bashkirnefteproduct and Orenburgnefteproduct owned by other shareholders were also converted into Bashneft Shares, as result non-controlling interests in these subsidiaries of the Group were derecognized with a corresponding increase in the additional paid-in-capital and share capital.

The result from the Reorganisation of the Group is summarised in the following table:

	1 October 2012
Decrease in non-controlling interest	36,657
Increase in treasury shares	12,186
Increase in share capital from additional share issue	(249)
Increase in additional paid-in capital	**48,594**

Classification as held for sale in 2013

On 31 December 2013 the Group reclassified assets and liabilities held through Sistema-Invest to assets held for sale (refer to note 17).

5. SEGMENT INFORMATION

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. During 2013, following the amendments to internal regulations, the Group has changed the structure and content of the segment information provided to the Board for review. Accordingly, the comparative segment information for the years 2012 and 2011 was restated.

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 and oil products on export and domestic markets.

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

During 2012 operational and financial management of Ufaorgsintez was transferred to management of UPC, a subsidiary of the Company. Starting from 2012 the information about operations of UPC was not included in the reports provided to the Board and as a result the operations of UPC and its subsidiaries were included in the "Reconciling item" column below until the date of its disposal on 17 September 2013 (refer to note 18).

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 other operating segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Millions of Russian roubles

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 segments for the year ended 31 December 2013 is as follows:

	Upstream	**Down-stream**	**All other segments**	**Recon-ciling item**	**Elimi-nations**	**Consoli-dated**
External revenues	2,297	541,938	5,355	13,706	-	**563,296**
Inter-segment revenues	168,281	6,833	18,149	2,317	(195,580)	**-**
External expenses	(106,896)	(352,107)	(14,768)	(8,104)	-	**(481,875)**
Inter-segment expenses	(10,417)	(170,609)	(7,679)	(6,894)	195,599	**-**
Segment EBITDA	60,786	35,788	2,573	2,283	19	**101,449**
Depletion and depreciation						**(20,028)**
Impairment of investment in associate						**(15,752)**
Finance income						**5,163**
Finance costs						**(9,460)**
Foreign exchange gain, net						**1,094**
Share of income of associate and joint venture, net of income tax						**492**
Profit before income tax						**62,958**
Income tax expense						**(16,559)**
Profit for the year						**46,399**

Information about the Group's segments for the year ended 31 December 2012 is as follows:

	Upstream	**Down-stream**	**All other segments**	**Recon-ciling item**	**Elimi-nations**	**Consoli-dated**
External revenues	1,714	510,899	7,529	12,360	-	**532,502**
Inter-segment revenues	169,648	6,957	18,646	5,545	(200,796)	**-**
External expenses	(102,465)	(323,159)	(19,028)	(7,262)	-	**(451,914)**
Inter-segment expenses	(12,085)	(172,989)	(8,308)	(7,566)	200,948	**-**
Segment EBITDA	62,243	30,759	1,284	4,527	152	**98,965**
Depletion and depreciation						**(18,377)**
Finance income						**4,808**
Finance costs						**(11,883)**
Foreign exchange gain, net						**107**
Share of loss of associate and joint ventures, net of income tax						**(361)**
Profit before income tax						**73,259**
Income tax expense						**(16,469)**
Profit for the year						**56,790**

Millions of Russian roubles

Information about the Group's segments for the year ended 31 December 2011 is as follows:

	Upstream	Down-stream	All other segments	Recon-ciling item	Elimi-nations	Consoli-dated
External revenues	1,576	479,492	4,997	263	-	**486,328**
Inter-segment revenues	154,779	4,758	17,918	8,828	(186,283)	**-**
External expenses	(84,772)	(305,490)	(13,479)	(6,785)	-	**(410,526)**
Inter-segment expenses	(14,275)	(160,377)	(10,400)	(2,152)	187,204	**-**
Segment EBITDA	63,846	27,855	(326)	1,603	921	**93,899**
Depletion and depreciation						**(18,097)**
Finance income						**2,179**
Finance costs						**(14,926)**
Foreign exchange loss, net						**(379)**
Share of profit of associate and joint venture, net of income tax						**2,211**
Profit before income tax						**64,887**
Income tax expense						**(15,098)**
Profit for the year						**49,789**

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 as follows:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Export outside the Customs Union*	309,205	263,557	243,704
Russian Federation	235,798	229,434	207,720
Export to other countries of the Customs Union*	18,293	39,511	34,904
Total	**563,296**	**532,502**	**486,328**

*the Customs Union means the customs union created between the states of Belarus, Kazakhstan and Russia. Within a single customs territory there is free movement of goods and vehicles for domestic consumption in the territory of any member of the Customs Union.

The following counterparties relating to the Downstream segment each comprise each 10% or more of the total revenue of the Group:

	Year ended 31 December 2013	
	Revenue	% of the total Revenue
Major Customer 1	102,457	18%
Major Customer 2	81,189	14%
Major Customer 3	58,917	10%

Millions of Russian roubles

	Year ended 31 December 2012	
	Revenue	% of the total Revenue
Major Customer 1	66,576	13%
Major Customer 2	54,986	10%

	Year ended 31 December 2011	
	Revenue	% of the total Revenue
Major Customer	82,695	17%

6. REVENUE

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Petroleum products	438,783	406,428	382,199
Crude oil	113,655	113,043	92,348
Other revenue	10,858	13,031	11,781
Total	**563,296**	**532,502**	**486,328**

7. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	25,532	27,130	24,944
Contributions to Pension Fund of the Russian Federation (refer to note 8)	5,237	5,162	4,795
Other social contributions (refer to note 8)	1,657	1,776	1,475
Phantom shares granted (refer to note 22)	1,166	1,091	689
Other employee benefits	493	405	175
Total	**34,085**	**35,564**	**32,078**

8. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Mineral extraction tax	60,049	57,183	51,508
Contributions to Pension Fund of the Russian Federation	5,237	5,162	4,795
Other social contributions	1,657	1,776	1,475
Property tax	1,590	1,700	1,688
Other taxes	872	888	836
Total	**69,405**	**66,709**	**60,302**

Millions of Russian roubles

9. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Finance income			
Interest income on loans, promissory notes and bonds	3,125	2,073	1,212
Interest income on cash and deposits	1,590	2,735	478
Dividend income	448	-	489
Total	**5,163**	**4,808**	**2,179**
Finance costs			
Interest expense on borrowings	8,652	10,943	12,090
Unwinding of discount	726	902	873
Other accretion expenses	82	38	38
Premium on bonds redeemed (refer to note 20)	-	-	1,925
Total	**9,460**	**11,883**	**14,926**

10. INCOME TAX

Income tax recognised in profit or loss

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Current year income tax expense	18,807	14,668	13,793
Adjustments relating to current income tax of prior years	35	(1,551)	268
Current income tax expense	**18,842**	**13,117**	**14,061**
Deferred tax (benefit)/expense	(2,283)	3,352	1,037
Income tax expense	**16,559**	**16,469**	**15,098**

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 2013	Year ended 31 December 2012	Year ended 31 December 2011
Profit before tax	**62,958**	**73,259**	**64,887**
Income tax at statutory rate 20%	12,592	14,652	12,977
Tax effect of permanent difference on sale of 25.1% ownership in Bashneft-Polyus	-	-	706
Effect of tax on intragroup dividends received	739	170	190
Other non-deductible and non-taxable items	3,193	1,652	957
Temporary difference recognized as a result of prior years' income tax correction	-	1,546	-
Adjustments relating to current income tax of prior years	35	(1,551)	268
Income tax expense	**16,559**	**16,469**	**15,098**

Millions of Russian roubles

Income tax recognised in other comprehensive income and directly in equity

During the year ended 31 December 2013 the Group recognised RUB 1,208 million of current income tax benefit relating to disposal of UPC and BNSA and RUB 213 million of deferred tax liability relating to disposal of UPC directly in the additional paid-in capital (refer to note 18).

During the year ended 31 December 2013 deferred tax in the amount of RUB 9 million expense (year ended 31 December 2012: RUB 55 million benefit, year ended 31 December 2011: RUB 11 million benefit) attributable to remeasurement of post-employment benefit obligation was recognised in other comprehensive income.

Deferred tax assets and liabilities

Movements in deferred tax (assets) and liabilities for the years ended 31 December 2013, 2012 and 2011 were as follows:

	1 January 2013	Recognised in profit or loss	Balances disposed of on disposal of subsidiaries	Other movements, including balances acquired on acquisition of subsidiaries	31 December 2013
Property, plant and equipment	34,564	512	(2,239)	(90)	32,747
Investments in associate and joint venture	3,662	(4,004)	-	-	(342)
Inventories	(461)	2,043	32	-	1,614
Trade and other receivables	540	1,012	324	-	1,876
Decommissioning provision	(1,115)	(142)	-	-	(1,257)
Provisions	(73)	72	-	9	8
Trade and other payables	418	(1,664)	172	-	(1,074)
Other	26	(112)	3	-	(83)
Total	**37,561**	**(2,283)**	**(1,708)**	**(81)**	**33,489**

	1 January 2012	Recognised in profit or loss	Transfer of Trebs and Titov oilfield license	Other movements, including balances acquired on acquisition of subsidiaries	31 December 2012
Property, plant and equipment	29,796	983	3,698	87	34,564
Investments in associates and joint ventures	3,294	368	-	-	3,662
Inventories	(442)	(19)	-	-	(461)
Trade and other receivables	1,165	(617)	-	(8)	540
Decommissioning provision	(1,945)	830	-	-	(1,115)
Provisions	(685)	667	-	(55)	(73)
Trade and other payables	(673)	1,091	-	-	418
Other	(23)	49	-	-	26
Total	**30,487**	**3,352**	**3,698**	**24**	**37,561**

Millions of Russian roubles

	1 January 2011	Recognised in profit or loss	Balances disposed of on disposal of subsidiaries	Other movements, including balances acquired on acquisition of subsidiaries	31 December 2011
Property, plant and equipment	32,225	2,288	(5,779)	1,062	29,796
Investments in associates and joint venture	2,817	439	38	-	3,294
Inventories	275	(780)	63	-	(442)
Trade and other receivables	747	51	367	-	1,165
Decommissioning provision	(1,449)	(496)	-	-	(1,945)
Provisions	(449)	(283)	58	(11)	(685)
Trade and other payables	(378)	(295)	-	-	(673)
Other	(298)	118	157	-	(23)
Total	**33,490**	**1,042**	**(5,096)**	**1,051**	**30,487**

At 31 December 2013 deferred tax assets in the amount of RUB nil (31 December 2012: RUB 225 million, 31 December 2011: RUB 240 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 the Group can utilise the benefits therefrom.

Millions of Russian roubles

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining	Marketing	Electricity properties	Total
Cost					
Balance at 1 January 2011	**118,478**	**148,435**	**11,937**	**54,499**	**333,349**
Acquisition of subsidiaries (refer to note 4)	-	-	7,350	-	**7,350**
Disposal of Bashkirenergo (refer to note 18)	-	-	-	(54,841)	**(54,841)**
Contribution to joint venture in Bashneft-Polyus (refer to note 12)	(20,384)	-	-	-	**(20,384)**
Other disposal of subsidiaries and structured entities	(79)	(91)	-	-	**(170)**
Constructions and additions	34,595	9,416	410	342	**44,763**
Disposals	(2,560)	(762)	(71)	-	**(3,393)**
Balance at 31 December 2011	**130,050**	**156,998**	**19,626**	**-**	**306,674**
Acquisition of subsidiaries	352	-	636	-	**988**
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 12)	18,490	-	-	-	**18,490**
Disposal of subsidiaries and structured entities	(109)	(10)	-	-	**(119)**
Constructions and additions	15,546	14,419	710	-	**30,675**
Disposals	(782)	(1,870)	(193)	-	**(2,845)**
Contribution to Finansoviy Alliance (refer to note 26)	-	(1,877)	(207)	-	**(2,084)**
Balance at 31 December 2012	**163,547**	**167,660**	**20,572**	**-**	**351,779**
Acquisition of subsidiaries	207	-	336	-	**543**
Disposal of subsidiaries (refer to note 18)	(9,136)	(25,462)	-	-	**(34,598)**
Constructions and additions	29,307	12,508	1,045	-	**42,860**
Disposals	(2,702)	(164)	(982)	-	**(3,848)**
Balance at 31 December 2013	**181,223**	**154,542**	**20,971**	**-**	**356,736**
Accumulated depletion, depreciation and impairment					
Balance at 1 January 2011	**(11,201)**	**(22,841)**	**(1,363)**	**(6,824)**	**(42,229)**
Disposal of Bashkirenergo (refer to note 18)	-	-	-	7,958	**7,958**
Other disposal of subsidiaries and structured entities	29	59	-	-	**88**
Charge for the year	(6,981)	(10,230)	(790)	(1,134)	**(19,135)**
Disposals	101	205	11	-	**317**
Impairment reversals/(impairment)	120	20	(56)	-	**84**
Balance at 31 December 2011	**(17,932)**	**(32,787)**	**(2,198)**	**-**	**(52,917)**
Disposal of subsidiaries and structured entities	37	4	-	-	**41**
Charge for the year	(7,811)	(9,401)	(1,205)	-	**(18,417)**
Disposals	102	501	31	-	**634**
Contribution to Finansoviy Alliance (refer to note 26)	-	415	31	-	**446**
Impairment	(1,144)	(2,352)	(921)	-	**(4,417)**
Balance at 31 December 2012	**(26,748)**	**(43,620)**	**(4,262)**	**-**	**(74,630)**
Disposal of subsidiaries	2,761	10,684	-	-	**13,445**
Charge for the year	(8,943)	(9,699)	(1,252)	-	**(19,894)**
Disposals	1,578	257	123	-	**1,958**
(Impairment)/impairment reversals	(576)	267	63	-	**(246)**
Balance at 31 December 2013	**(31,928)**	**(42,111)**	**(5,328)**	**-**	**(79,367)**
Net book value					
At 1 January 2011	**107,277**	**125,594**	**10,574**	**47,675**	**291,120**
At 31 December 2011	**112,118**	**124,211**	**17,428**	**-**	**253,757**
At 31 December 2012	**136,799**	**124,040**	**16,310**	**-**	**277,149**
At 31 December 2013	**149,295**	**112,431**	**15,643**	**-**	**277,369**

Millions of Russian roubles

At 31 December 2013, properties with a carrying amount of RUB nil (31 December 2012: RUB nil, 31 December 2011: RUB 6,142 million) are pledged as security for the Group's bank loans.

During 2012, as a result of the unfavourable market conditions giving rise to a decrease in prices of certain petrochemical products, the Group carried out a review of the recoverable amount of certain assets which are used in the production of certain petrochemical products. This review led to the recognition of an impairment loss of RUB 2,094 million, which was recognised in the consolidated statement of profit or loss and other comprehensive income within other operating expenses, net. The recoverable amount of the assets was determined on the basis of their value in use. The discount rate used in measuring value in use was 15.0% per annum. No impairment assessment was performed in 2013 and 2011 for these assets as there was no indication of impairment in either year.

During 2012 the Group performed an analysis of the recoverable amount of certain assets. As a result of this analysis an impairment loss of RUB 2,323 million was recognised in the consolidated statement of profit or loss and other comprehensive income within other operating expenses, net.

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 2011	**17**
Acquisition of exploration, evaluation and development rights	18,490
Capitalised expenditures	2
Reclassified to development assets	(13)
Transferred as a contribution into joint-venture (refer to note 12)	(18,490)
Balance at 31 December 2011	**6**
Acquisition of exploration, evaluation and development rights	4,514
Capitalised expenditures	789
Reclassified to development assets	(4)
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 12)	18,490
Balance at 31 December 2012	**23,795**
Acquisition of exploration, evaluation and development rights	1
Capitalised expenditures	11,879
Reclassified to development assets	(23,705)
Acquisition of subsidiaries	207
Balance at 31 December 2013	**12,177**

In 2012, the Group won the auction for licences on Yangareyskiy and Sabriyaginskiy subsoil blocks in the Nenets Autonomous District. Total cost of the licences acquired amounted RUB 4,514 million.

In August 2013 the Group started production at the Trebs field in the Nenets Autonomous District, and as a result part of exploration and evaluation assets in the amount of RUB 23,705 million was reclassified to development assets.

During the year ended 31 December 2013 the Group recognised exploration and evaluation expenses in the amount of RUB 3,401 million (year ended 31 December 2012: RUB 332 million, year ended 31 December 2011: RUB 467 million) within Production and operating expenses.

For the year ended 31 December 2013 payments for the acquisition of exploration and evaluation assets included in payments for acquisition of property, plant and equipment in the consolidated statement of cash flows amounted to RUB 4,712 million (year ended 31 December 2012: RUB 5,303 million, year ended 31 December 2011: RUB 301 million).

Millions of Russian roubles

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Year ended 31 December 2013		Year ended 31 December 2012		Year ended 31 December 2011	
	Investments in associates	Investments in joint ventures	Investments in associates	Investments in joint ventures	Investments in associates	Investments in joint ventures
Balance at the beginning of the year	**21,210**	**7,409**	**19,222**	**16,310**	**20,327**	**-**
Acquisition of LLC Finansoviy Alliance (refer to note 26)	-	-	-	1,620	-	-
Unrealised gain on sale of property, plant and equipment to a LLC Finansoviy Alliance (refer to note 26)	-	-	-	(343)	-	-
Group's share of gain eliminated on transaction with Bashneft-Polyus	-	1,174	-	-	-	-
Disposal of LLC Aspec	-	-	-	-	(3,316)	-
Impairment of OJSC Belkamneft	(15,752)	-	-	-	-	-
Disposal of OJSC Belkamneft to held for sale	(6,469)	-	-	-	-	-
Disposal of LLC Finansoviy Alliance (refer to note 26)	-	-	-	(1,429)	-	-
Establishment of Bashneft-Polyus, a joint venture with OJSC Lukoil	-	-	-	-	-	10,970
Additional contributions to Bashneft-Polyus	-	10,784	-	3,122	-	5,340
Decrease in the carrying amount of investment in joint venture due to the return of licence on Trebs and Titov deposit to Bashneft	-	-	-	(9,522)	-	-
Share of profit/(loss) for the year	1,011	(519)	1,988	(2,349)	2,211	-
Balance at the end of the year	**-**	**18,848**	**21,210**	**7,409**	**19,222**	**16,310**

Joint ventures

On 27 December 2011, the Group entered into an agreement with OJSC Lukoil in relation to the development of the Trebs and Titov deposit through by selling 25.1% of its shares in Bashneft-Polyus, a wholly owned subsidiary, for a cash consideration of RUB 4,768 million and entering a joint venture agreement. Although the Group has 74.9% interest in Bashneft-Polyus, this investment is classified as an investment in joint venture (refer to note 3).

As a part of the establishment of the joint venture, the Group sold exploration and evaluation assets for a cash consideration of RUB 1,874 million to Bashneft-Polyus. No gain or loss was recognised on these transactions as these assets were sold at their carrying values.

Also concurrent with the establishment of the joint venture the Group issued a loan to Bashneft-Polyus in the amount of RUB 5,340 million at 8.25% per annum. This loan was classified as an additional contribution to the joint venture as, in substance, it formed part of the Group’s investment in Bashneft-Polyus.

As of the date of reclassification of the investment from subsidiary to equity-method investee the value of the interest retained by the Group approximated the fair value.

Millions of Russian roubles

At the date on which the agreement was entered into and the 25.1% share ownership in Bashneft-Polyus was sold to OJSC Lukoil, the carrying amount of assets and liabilities in Bashneft-Polyus was as follows:

	27 December 2011
ASSETS	
Exploration and evaluation assets	1,894
Trebs and Titov oilfield license	18,490
Trade and other accounts receivable	586
Cash and cash equivalents	3,435
	24,405
LIABILITIES	
Deferred tax liabilities	(3,698)
Borrowings	(5,340)
Trade and other payables	(721)
	(9,759)
Net assets disposed of	**14,646**

The result from the sale of the ownership interest in Bashneft-Polyus is summarized in the following table:

	27 December 2011
Consideration received	4,768
Less: Carrying amount of the Group's 25.1% interest in the net assets	(3,676)
Gain on sale of ownership interest	**1,092**

This gain was recognised in other operating expenses, net in the consolidated statement of profit or loss and other comprehensive income. The Group recognised income tax expense in the amount of RUB 951 million associated with this transaction.

The following table reconciles the carrying value of Bashneft-Polyus prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method:

	27 December 2011
Carrying value of the net assets disposed of	14,646
Less: carrying amount of the Group's 25.1% interest in the net assets disposed	(3,676)
The carrying value of equity investment	**10,970**

In 2012 the Group issued additional loan to Bashneft-Polyus in the amount of RUB 3,122 million. This loan was treated as additional contribution to the joint venture as, in substance, formed part of the Group’s net investment in Bashneft-Polyus. Also in the 4th quarter 2012 the interest rate for the loan was changed to 8.0% per annum.

Millions of Russian roubles

On 18 May 2012 as a result of the Federal Agency for Subsoil Use order Trebs and Titov oilfield license was transferred to the Company. As a result of that the license with carrying value of RUB 18,490 million was recognised at Bashneft with the corresponding decrease in investment in Bashneft-Polyus. Cash consideration in the amount of RUB 4,768 million paid to the Group by OJSC Lukoil for 25.1% shares of Bashneft-Polyus was recognised in other non-current liabilities as a contingent liability with an uncertain date of set off until the Group and OJSC Lukoil can negotiate a settlement for the joint venture operation and exploitation of the license.

During the year ended 31 December 2013 the Group issued loans to Bashneft-Polyus in the amount of RUB 10,035 million at 8.0% per annum. These loans were presented as an additional contribution to the joint venture as, in substance, they formed part of the Group's investment in Bashneft-Polyus. During the year ended 31 December 2013 the Group and OJSC Lukoil also made a decision to make an additional investment in Bashneft-Polyus in the amount of RUB 1,000 million in the proportion of their interests, the payment for which remained outstanding at 31 December 2013.

At 31 December 2013 the Group's share in capital commitments of the joint venture was RUB 1,338 million (31 December 2012: RUB 950 million; 31 December 2011: RUB 470 million).

The summarised financial information below represents amounts shown in the Bashneft-Polyus' financial statements prepared in accordance with IFRSs (adjusted by the Group for equity accounting purposes).

	31 December 2013	**31 December 2012**	**31 December 2011**
Non-current assets	2,868	2,467	22,289
Current assets	24,887	8,181	2,029
Non-current liabilities	(24,702)	(11,345)	(9,049)
Current liabilities	(4,675)	(2,800)	(623)
The above amounts of assets and liabilities include the following:			
Cash and cash equivalents	9	-	44
Current financial liabilities (excluding trade and other payables and provisions)	(154)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(24,702)	(11,345)	(5,351)

	Year ended 31 December 2013	**Year ended 31 December 2012**
Total revenues	15,677	2,711
Total profit/(loss) for the year	877	(3,340)
Total comprehensive income/(loss) for the year	877	(3,340)
The above profit/(loss) for the year include the following:		
Depletion and depreciation	(208)	(7)
Interest expense	-	(690)
Interest income	1	2
Income tax expense	-	(30)

During the year ended 31 December 2013 interest expense in the amount of RUB 1,302 million was capitalised into the cost of qualifying assets within property, plant and equipment (year ended 31 December 2012: RUB nil; year ended 31 December 2011: RUB nil).

Millions of Russian roubles

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 2013	31 December 2012	31 December 2011
Net (liabilities)/assets of the joint venture	(1,622)	(3,497)	14,646
Proportion of the Group's ownership interest in the joint venture	74.9%	74.9%	74.9%
	(1,215)	**(2,619)**	**10,970**
Adjustments:			
Loans issued to Bashneft-Polyus	18,497	8,462	5,340
Effect of return of licence on Trebs and Titov deposit to Bashneft	1,566	1,566	-
Carrying amount of the Group's interest in the joint venture	**18,848**	**7,409**	**16,310**

Associates

OJSC Belkamneft

The Group held 38.5% interest in OJSC Belkamneft ("Belkamneft"), a company engaged in the production of crude oil. On 10 July 2013, the Company's Board of Directors approved a plan to dispose of its investment in Belkamneft. Accordingly, the Group's investment in Belkamneft was classified as an asset held for sale in accordance with IFRS 5. As a result, the carrying amount of the Group's investment in Belkamneft of RUB 22,221 million has been adjusted to fair value less estimated cost to sell of RUB 6,469 million, with the difference between the carrying amount and fair value less cost to sell recognised as Impairment of investment in associate. The impairment is mainly the result of changes in the ownership structure of controlling shareholder of Belkamneft that decreased the Company's ability to exercise significant influence over Belkamneft. The sale of the Group's investment in Belkamneft was completed on 30 September 2013 for a consideration of RUB 6,469 million.

The following is a summary of the financial information of Belkamneft:

	31 December 2012	31 December 2011
Non-current assets	52,390	54,781
Current assets	33,822	27,447
Non-current liabilities	(9,453)	(10,210)
Current liabilities	(3,709)	(4,133)

	Period ended 10 July 2013	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue	11,543	23,023	22,736
Profit and total comprehensive income	2,639	5,191	5,615
Group's share of profit of Belkamneft	**1,011**	**1,988**	**2,162**

Millions of Russian roubles

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

	31 December 2012	31 December 2011
Net assets of the associate	73,050	67,885
Proportion of the Group's ownership interest in Belkamneft	38.5%	38.5%
	28,124	**26,136**
Fair value adjustment on the date of obtaining significant influence	(6,914)	(6,914)
Carrying amount of the Group's interest in Belkamneft	**21,210**	**19,222**

LLC Aspec

The Group held a 49.99% interest in LLC Aspec. LLC Aspec was engaged in wholesale and retail of oil products, real estate development and also owns an automotive retail business. On 1 July 2011, as a part of reorganisation of Aspec Group, the Group swapped its 49.99% interest in LLC Aspec for a 100% interest in BN-Nefteproduct (refer to note 4).

The following is a summary of the financial information of Aspec.

	Period ended 30 June 2011
Revenue	19,046
Profit and total comprehensive income	98

13. FINANCIAL ASSETS

	31 December 2013	31 December 2012	31 December 2011
Non-current investments			
Loans given, at amortised cost	3,506	20,912	4,978
Available-for-sale investment in Ufaorgsintez held at fair value	423	-	-
Derivative financial instruments	90	-	-
Available-for-sale investments in BESK held at cost	-	7,406	-
Deposits	-	1,000	3
Total	**4,019**	**29,318**	**4,981**
Current investments			
Loans given, at amortised cost	5,020	14,491	21,504
Deposits	46	4,136	129
Investments in Bashkirenergo held for sale	-	-	12,812
Other financial assets	-	8	101
Total	**5,066**	**18,635**	**34,546**

Loans given, at amortised cost

At 31 December 2013 and 2012, non-current loans given at amortised cost included loans given and promissory notes with interest rates varying from 5.0% to 5.40% per annum and from 5.0% to 7.75% per annum, respectively.

At 31 December 2013, current loans given at amortised cost represent corporate bonds which are not quoted in an active market with interest rate at 6.0% per annum, and loans given and promissory notes with interest rates varying from 2.5% to 8.5% per annum. At 31 December 2012, current loans given at amortised cost included promissory notes and loans given with interest rates varying from 2.5% to 8.5% (31 December 2011: 3.5% to 8.3%) per annum and interest free promissory notes of OJSC INTER RAO UES ("INTER RAO") held by Sistema-invest.

Millions of Russian roubles

Held for sale and available-for-sale investments

The held for sale investment at 31 December 2011 represents the Group's investment in Bashkirenergo, recognised by looking-through the non-substantive entity Sistema-invest in order to pick up the Group's share of that entity's assets/liabilities. The held for sale investment was stated at the lower of fair value less cost to sell and carrying value at 31 December 2011.

In 2012, Bashkirenergo was reorganised and split into two entities: OJSC Bashenergoactiv ("Bashenergoactiv"), representing the power generation part of the business, and BESK, representing the power grid part of the business. Sistema-invest sold the investment in Bashenergoactiv to a third party, INTER RAO, and increased its stake in BESK. The Group therefore also retained an investment in BESK through its interest in Sistema-invest. The Group recognises this investment as an available-for-sale investment, despite its 45.7% effective ownership interest, on the basis that it has no influence over the entity, with all control and influence pertaining wholly to Sistema (refer to note 3). This available-for-sale investment is carried at cost, as a reliable fair value cannot be determined for the investment.

As described in note 18, the Group sold its 98% interest in UPC to Sistema on 17 September 2013. The Group's residual share in Ufaorgsintez (10.64% effectively held through Sistema-invest and 5.33% held through a wholly owned subsidiary of the Group) was classified as an available-for-sale investment. On 31 December 2013 the Group reclassified all assets and liabilities held through Sistema-Invest to assets held for sale (refer to note 17). As a result of this available-for-sale investments at 31 December 2013 are represent only a 5.33% interest in Ufaorgsintez held through a wholly owned subsidiary of the Group.

Deposits

At 31 December 2013, current deposits represent bank deposits which bear interest at rates varying from 7.35% to 8.30% (31 December 2012: 6.75% to 8.7%, 31 December 2011: 3.0% to 8.75%) per annum.

14. INVENTORIES

	31 December 2013	31 December 2012	31 December 2011
Inventories expected to be recovered after twelve months			
Catalytic agents	3,022	2,351	2,006
Total	**3,022**	**2,351**	**2,006**
Inventories expected to be recovered in the next twelve months			
Petroleum products	13,228	12,938	14,646
Crude oil	988	512	502
Raw materials and other inventories	7,898	11,487	9,771
Less: allowance for obsolete and slow-moving items	(664)	(1,098)	(846)
Total	**21,450**	**23,839**	**24,073**

The cost of inventories (excluding crude oil) recognised as an expense during the year ended 31 December 2013 amounted to RUB 7,496 million (year ended 31 December 2012: RUB 8,127 million, year ended 31 December 2011: RUB 7,111 million).

At 31 December 2013, 2012 and 2011, none of the Group's inventories were stated at net realisable value.

Millions of Russian roubles

15. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012	31 December 2011
Trade receivables	21,393	19,772	16,260
Other receivables	7,834	10,603	2,242
Total	**29,227**	**30,375**	**18,502**
Less: allowance for doubtful receivables	(1,910)	(2,009)	(2,104)
Total	**27,317**	**28,366**	**16,398**

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 2013, 2012 and 2011, nevertheless, penalties for late payment are prescribed by certain sales agreements. Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2013, the Group's five largest customers represent 72.1% (31 December 2012: 75.3%, 31 December 2011: 71.3%) 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 2013		31 December 2012		31 December 2011	
	Gross	Impairment provision	Gross	Impairment provision	Gross	Impairment provision
Not past due	26,375	-	27,317	-	14,705	-
Past due up to 30 days	24	(20)	69	(2)	447	(5)
Past due from 31 to 90 days	215	(13)	465	(10)	735	(24)
Past due from 91 to 180 days	461	(59)	202	(20)	274	(12)
Past due from 181 to 365 days	523	(189)	262	(48)	276	(123)
Past due over 365 days	1,629	(1,629)	2,060	(1,929)	2,065	(1,940)
Total	**29,227**	**(1,910)**	**30,375**	**(2,009)**	**18,502**	**(2,104)**

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

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the year	**2,009**	**2,104**	**2,852**
Provided during the year	236	202	1,161
Disposed on disposal of subsidiaries and structured entities	(160)	(1)	(1,067)
Amounts written-off as uncollectable	(175)	(296)	(842)
Balance at the end of the year	**1,910**	**2,009**	**2,104**

There is a specific allowance against trade and other receivables of RUB 1,296 million (31 December 2012: RUB 1,290 million, 31 December 2011: RUB 1,331 million) in respect of entities undergoing a liquidation process or that have been placed into bankruptcy, and this allowance is included in the allowance for doubtful receivables. The allowance 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.

Millions of Russian roubles

16. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012	31 December 2011
Call deposits and highly liquid investments	10,425	11,320	15,195
Bank balances	5,970	8,784	13,159
Total	**16,395**	**20,104**	**28,354**

At 31 December 2013, call deposits mostly represent overnight bank deposits which are denominated in RUB with annual interest rates varying from 4.0% to 6.85% (31 December 2012: 2.0% to 7.1%, 31 December 2011: 0.1% to 8.3%) per annum and in USD with annual interest rates varying from 0.05% to 0.06% (31 December 2012: 0.07% to 1.0%) per annum. Maturity dates for these deposits are within 3 months from the date they originated.

At 31 December 2012, highly liquid investments represent interest free promissory notes of INTER RAO of RUB 1,717 million which are denominated in RUB, held by Sistema-invest. Maturity dates for these promissory notes are within 3 months from the date they originated.

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+.

17. ASSETS CLASSIFIED AS HELD FOR SALE

On 17 December 2013, the Board of the Company approved a reorganisation programme involving the consolidation of LLC Bashneft-Invest (“Bashneft-invest”) (see below) with Bashneft and made a decision to call an Extraordinary General Shareholders’ Meeting of the Company (“EGM”) on 3 February 2014, which is required to approve the reorganisation. Bashneft-invest will be created as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest following approval at the EGM. On the date of the spinoff Bashneft-invest will obtain 38,139,925 ordinary shares of the Company previously held by Sistema-invest and will assume the liabilities that exist under the loan payable by Sistema-invest to the Company. As a result of the reorganisation the Company will no longer own any shares in Sistema-invest.

The reorganisation of the Company is expected to be completed by 1 July 2014, provided that necessary approvals are obtained from regulatory bodies. As such, for the current year end, all assets and liabilities previously recognised by Bashneft using the look through treatment (refer to note 3) were classified as held for sale. The Group has not recognised any impairment losses at the date the assets and liabilities were classified as held for sale or at 31 December 2013.

The major classes of assets and liabilities reclassified as held for sale at 31 December 2013 are as follows:

	31 December 2013
ASSETS	
Financial assets	37,312
Trade and other receivables	1,146
Cash and cash equivalents	504
Total assets classified as held for sale	**38,962**
LIABILITIES	
Borrowings	612
Trade and other payables	45
Deferred tax liabilities	213
Other taxes payable	13
Total liabilities directly associated with assets classified as held for sale	**883**

Millions of Russian roubles

18. DISPOSAL OF SUBSIDIARIES AND DISCONTINUED OPERATIONS

Disposal of subsidiaries

Disposal of OJSC United Petrochemical Company

On 17 September 2013 the Group sold its 98% interest in UPC to Sistema for cash consideration of RUB 6,200 million. UPC is the holding company of the petrochemical assets of the Group, including Ufaorgsintez. The Group recognised a loss on sale of RUB 5,749 million, net of related income taxes in the amount of RUB 564 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of a transaction with the Group's controlling shareholder. The Group's residual share in Ufaorgsintez (10.64% effectively held through Sistema-invest and 5.33% held through wholly owned subsidiary of the Group) was classified as available-for-sale investment (refer to note 13). RUB 882 million of the loss recognised is attributable to the recognition of the residual investment at its fair value. The result of transaction is set out below:

	17 September 2013
Current assets	
Cash and cash equivalents	4,509
Trade and other receivables	703
Advances to suppliers and prepaid expenses	207
Taxes receivable	542
Inventories	1,771
Financial assets	2,296
Non-current assets	
Property, plant and equipment	13,651
Advances paid for acquisition of property, plant and equipment	58
Other non-current assets	145
Current liabilities	
Trade and other payables	(2,099)
Advances received	(360)
Taxes payable	(235)
Other current liabilities	(17)
Non-current liabilities	
Deferred tax liabilities	(1,568)
Other non-current liabilities	(91)
Net assets disposed of	**19,512**
Non-controlling interests	(5,004)
	14,508
Fair value of the Group's 15.97% residual interest in Ufaorgsintez	**1,995**
Deferred tax liability recognised in respect of adjustment to fair value of residual interest in Ufaorgsintez	(213)
Income tax benefit recognised on disposal of UPC	777
Consideration receivable on disposal of UPC	**6,200**
Loss on disposal of UPC	**5,749**

Millions of Russian roubles

Disposal of LLC Bashneft-Service Assets

On 30 September 2013 the Group sold its 100% interest in BNSA to Sistema for cash consideration of RUB 4,100 million. BNSA is the oilfield service holding company which comprised 11 oilfield service companies. These companies provide services related to drilling, current and major workover of wells, the manufacture of oilfield and mechanical equipment, transport and construction. The Group recognised a loss on sale of RUB 4,706 million, net of related income taxes in the amount of RUB 431 million, within additional paid-in capital in the consolidated statement of changes in equity, being the result of a transaction with the Group's controlling shareholder. The result of transaction is set out below:

	30 September 2013
Current assets	
Cash and cash equivalents	1,125
Trade and other receivables	6,115
Advances to suppliers and prepaid expenses	70
Taxes receivable	106
Inventories	1,265
Non-current assets	
Property, plant and equipment	7,502
Other non-current assets	2
Current liabilities	
Trade and other payables	(5,451)
Advances received	(12)
Taxes payable	(735)
Other current liabilities	(49)
Non-current liabilities	
Deferred tax liabilities	(338)
Other non-current liabilities	(363)
Net assets disposed of	**9,237**
Income tax benefit recognised on disposal of BNSA	431
Consideration received on disposal of BNSA	**4,100**
Loss on disposal of BNSA	**4,706**

Discontinued operations

Disposal of Bashkirenergo

On 5 May 2011 Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant exchanged their 48.22% stake in Bashkirenergo for a 28.49% stake in Sistema-invest (refer to note 4). As a result of this transaction, the ability to exercise control over Bashkirenergo was transferred to Sistema, controlling shareholder of Sistema-invest, and the Group ceased to consolidate Bashkirenergo from that date. The Group's share in Sistema-invest's investment in Bashkirenergo was classified as an investment held for sale. See Note 13 for further discussion.

Millions of Russian roubles

The results of operations and net cash flows of Bashkirenergo are set out below:

	Period ended 5 May 2011
Revenue	30,356
Production and operating expenses	(22,837)
Depreciation	(1,177)
Selling, general and administrative expenses	(921)
Taxes other than income tax	(837)
Other operating expenses, net	(173)
Operating profit	**4,411**
Finance costs	(28)
Profit before income tax	**4,383**
Income tax	(837)
Profit for the period from discontinued operations	**3,546**
Attributable to:	
Owners of the Company	1,254
Non-controlling interests	2,292
Net cash flows for the period from discontinued operations	
Net cash generated from operating activities	1,399
Net cash used in investing activities	(996)
Net cash used in financing activities	(100)
Total	**303**

At the date of disposal, assets and liabilities of Bashkirenergo were as follows:

	5 May 2011
Current assets	
Cash and cash equivalents	885
Trade and other receivables	6,216
Advances to suppliers and prepaid expenses	419
Other taxes receivable	2,139
Inventories	1,349
Other current assets	164
Non-current assets	
Property, plant and equipment	46,883
Advances paid for acquisition of property, plant and equipment	3,926
Other non-current assets	270
Current liabilities	
Trade and other payables	(2,849)
Advances received	(1,369)
Other taxes payable	(2,045)
Other current liabilities	(292)
Non-current liabilities	
Deferred tax liabilities	(1,407)
Other non-current liabilities	(896)
Net assets disposed of	**53,393**

Millions of Russian roubles

Result of the disposal of Bashkirenergo

	5 May 2011
Net assets disposed of	(53,393)
Non-controlling interest	34,663
	(18,730)
Increase in proportionate share of interest in Treasury shares	5,797
Increase in proportionate share of interest in Company's subsidiaries	6,399
Increase in proportionate share of interest in other assets and liabilities of Sistema-invest	(5,156)
Lower of fair value less cost to sell and cost of the Group's 23.62% interest in Bashkirenergo held through Sistema-invest	**12,812**
Gain on disposal of Bashkirenergo attributable to the Excess of Group's increase in share of interest in Company's subsidiaries acquired over consideration paid, recognised in Retained earnings	**1,122**
Net cash outflow on disposal of subsidiary	**(885)**

The result of continuing operations' transactions with Bashkirenergo is set out below:

	Period ended 5 May 2011
Revenue	374
Production and operating expenses	(4,987)
Other operating expenses, net	(272)

19. SHARE CAPITAL

Authorised, issued and fully paid share capital

	31 December 2013	**31 December 2012**	**31 December 2011**
188,710,587 (31 December 2011: 170,169,754) ordinary shares with a par value of RUB 1.00	2,076	2,076	1,871
38,673,878 (31 December 2011: 34,622,686) preferred shares with a par value of RUB 1.00	425	425	381
Total	**2,501**	**2,501**	**2,252**

As a result of the Group reorganisation on 1 October 2012 (refer to note 4) the outstanding shares of merged subsidiaries were converted into newly-issued shares: 18,540,833 ordinary shares and 4,051,192 preferred shares.

Treasury shares

In May-June 2012 the Group acquired treasury shares in the amount of RUB 11,070 million as a result of the obligatory buy-back of shares of the Company and subsidiaries participated in the Group reorganization (refer to note 4).

In October-November 2012 Bashneft Middle East Limited, a subsidiary of Bashneft, acquired 2,596,805 ordinary shares and 133,640 preferred shares of the Company for RUB 4,627 million. As a result of this transaction the corresponding amount of treasury shares was recognised.

In November 2012 Bashneft sold to Sistema 2,131,226 preferred shares for RUB 2,617 million. As a result of this transaction a loss in the amount of RUB 360 million was recognised within additional paid-in capital in consolidated statement of changes in equity.

At 31 December 2013 the number of treasury shares was 36,647,659 shares (31 December 2012: 36,647,659 shares, 31 December 2011: 21,179,317 shares), including 28,354,604 shares held by Sistema-invest attributable to the Group (31 December 2012: 28,354,604 shares, 31 December 2011: 21,179,317 shares).

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

On 29 June 2011, the Company declared a dividend of RUB 131.27 per share amounting to RUB 26,883 million out of which RUB 259 million remained unpaid at 31 December 2011.

On 29 June 2012, the Company declared a dividend of RUB 99 per share amounting to RUB 20,274 million out of which RUB 224 million remained unpaid at 31 December 2012.

On 27 June 2013, the Company declared a dividend of RUB 24 per ordinary and preferred share amounting to RUB 5,324 million. A part of the dividend declared was attributable to the companies of the Group.

On 17 December 2013, the Company declared a dividend of RUB 199 per ordinary and preferred share amounting to RUB 45,250 million. At 31 December 2013 dividends payable equalled RUB 275 million. A part of the dividend declared was attributable to the companies of the Group.

The IFRS consolidated financial statements of the Group are the basis for determining profit distribution and other appropriations.

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 preferred 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 2013	Year ended 31 December 2012	Year ended 31 December 2011
	(millions of roubles, except per share data)		
Basic and diluted weighted average number of ordinary shares outstanding	157,085,505	151,224,401	152,275,527
Basic and diluted weighted average number of preferred shares outstanding	33,651,301	32,188,317	34,622,686
Basic and diluted weighted average number of shares outstanding	**190,736,806**	**183,412,718**	**186,898,213**
Profit for the year attributable to holders of ordinary shares of the Company	38,024	43,114	39,623
Profit for the year attributable to holders of preferred shares of the Company	8,146	9,177	9,009
Profit for the year from continuing operations attributable to owners of the Company	**46,170**	**52,291**	**48,632**
Profit for the year attributable to holders of ordinary shares of the Company	-	-	1,022
Profit for the year attributable to holders of preferred shares of the Company	-	-	232
Profit for the year from discontinued operations attributable to owners of the Company	**-**	**-**	**1,254**
Basic and diluted earnings per share (Russian roubles per share):			
From continuing and discontinued operations	242.06	285.10	266.92
From continuing operations	242.06	285.10	260.21

20. BORROWINGS

	31 December 2013		31 December 2012		31 December 2011	
	Rate, %	Out-standing balance	Rate, %	Out-standing balance	Rate, %	Out-standing balance
Non-current liabilities						
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,960	-	-	-	-
Unsecured fixed interest rate borrowings	8.35%-8.85%	19,984	8.9%-9.53%	59,928	7.75%-8.95%	77,364
Secured floating rate borrowings	Libor 1M+ 1.70%	13,697	Libor 1M + 1.55%	3,022	Libor 1M + 1.55%	7,989
Unsecured non-convertible bonds issued in February 2012	9.0%	9,992	9.0%	9,985	-	-
Unsecured non-convertible bonds issued in December 2009	8.35%	5,269	8.35%	5,266	-	-
Unsecured non-convertible bonds issued in December 2011	-	-	-	-	9.35%	9,980
Secured fixed interest rate borrowings	-	-	-	-	8.0%	121
Total		**78,902**		**78,201**		**95,454**
Current liabilities						
Current portion of secured floating rate borrowings	Libor 1M+ 1.55%-1.70%	8,904	Libor 1M + 1.55%	4,534	Libor 1M + 1.55%	1,610
Unsecured non-convertible bonds issued in December 2011	0.10%	3,010	9.35%	9,990	-	-
Current portion of unsecured fixed interest rate borrowings	-	-	7.75%	17,483	-	-
Unsecured non-convertible bonds issued in December 2009	-	-	-	-	12.5%	11,454
Current portion of secured fixed interest rate borrowings	-	-	-	-	8.0%	468
Total		**11,914**		**32,007**		**13,532**

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 in 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 December 2011, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in December 2014. The bonds have a coupon rate of 9.35% from issuance date to 6 December 2013 per annum, payable semi-annually. In December 2013, the Group exercised a mandatory buy-back from bondholders willing to redeem the bonds at par value, as a result of which 6,984,097 bonds were bought back at par value and a new maturity date of December 2014 was established for the remaining bonds, and the coupon rate was set at 0.1%.

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 9.00% from issuance date to February 2015 per annum payable semi-annually. Subsequent coupon rates are to be determined in February 2015 at which point bondholders have the right to redeem the bonds at par value.

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.

Secured borrowings

In August 2011, the Group entered into a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of US Dollar 300 million. The facility has a three-year maturity and is to be repaid in equal monthly instalments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.55%.

In May 2013, the Group entered into a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of US Dollar 600 million. The facility has a three-year maturity and is to be repaid in equal monthly instalments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.70%.

At 31 December 2011, secured fixed interest rate borrowings were denominated in RUB and repayable in 2012. The borrowings were secured by pledged property, plant and equipment. Loans were paid in full in 2012.

Unsecured borrowings

At 31 December 2013, unsecured fixed interest rate borrowings are denominated in RUB and were obtained from a variety of lenders. The borrowings mature from 2016 through 2019 (31 December 2012: denominated in RUB with maturity from 2013 to 2018, 31 December 2011: denominated in RUB and USD with maturity from 2013 to 2018).

Millions of Russian roubles

21. DECOMMISSIONING PROVISION

Balance at 1 January 2011	**7,052**
Unwinding of discount	873
New obligations	38
Changes in estimates of existing obligations	1,980
Property dispositions	(436)
Balance at 31 December 2011	**9,507**
Unwinding of discount	902
New obligations	14
Changes in estimates of existing obligations	(2,643)
Property dispositions	(93)
Balance at 31 December 2012	**7,687**
Unwinding of discount	726
New obligations	250
Changes in estimates of existing obligations	(1,255)
Property dispositions	(666)
Balance at 31 December 2013	**6,742**

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

	31 December 2013	**31 December 2012**	**31 December 2011**
Current portion (included in Provisions)	597	604	-
Non-current portion	6,145	7,083	9,507
Total decommissioning provision	**6,742**	**7,687**	**9,507**

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

	31 December 2013	**31 December 2012**	**31 December 2011**
Discount rate	9.93%	10.29%	9.49%
Inflation rate	1.62%-5.35%	2.02%-7.42%	2.55%-10.09%

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

Millions of Russian roubles

22. OTHER NON-CURRENT LIABILITIES

	31 December 2013	31 December 2012	31 December 2011
Constructive obligation to OJSC Lukoil (refer to note 12)	4,768	4,768	-
Defined benefit obligation	1,216	899	471
Non-current portion of phantom share plan	-	-	292
Other non-current liabilities	180	264	-
Total	**6,164**	**5,931**	**763**

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).

Phantom share plan

In 2013, the Company granted share appreciation rights to key management personnel of the Group. In accordance with the terms of the plan, the eligible employees are entitled to a cash payment during 2014 based on a number of vested phantom shares, the value of which is to be determined by an independent appraiser at the vesting date.

Prior to this, the Group also had a phantom shares plan which was effective during the period from 2010 to 2012. Liabilities under the phantom share plans were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the year	**1,128**	**904**	**395**
Granted during the year (refer to note 7)	1,166	1,091	689
Paid during the year	(1,405)	(689)	(180)
Forfeited during the year	(168)	(178)	-
Balance at the end of the year	**721**	**1,128**	**904**

Current and non-current portions of liability under phantom share plans are as follows:

	31 December 2013	31 December 2012	31 December 2011
Current portion (refer to note 23)	721	1,128	612
Non-current portion	-	-	292
Total	**721**	**1,128**	**904**

Millions of Russian roubles

23. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012	31 December 2011
Financial liabilities			
Trade payables and other payables	45,129	22,441	17,966
Interest payable	1,392	516	193
Total	**46,521**	**22,957**	**18,159**
Non-financial liabilities			
Salary payable and accrued vacation liabilities	3,130	4,857	4,612
Current portion of phantom share plan (refer to note 22)	721	1,128	612
Total	**3,851**	**5,985**	**5,224**
Total trade and other payables	**50,372**	**28,942**	**23,383**

The average credit period on purchase of the majority of inventories and services consumed is 43 days (31 December 2012: 38 days, 31 December 2011: 36 days). No interest is charged on the outstanding balance of trade and other payables during this period.

24. TAXES

	31 December 2013	31 December 2012	31 December 2011
Other taxes receivable			
VAT recoverable	11,867	9,851	11,903
Custom duties prepaid	12,511	11,866	11,197
Other taxes receivable	1,612	817	5,411
Total	**25,990**	**22,534**	**28,511**
Other taxes payable			
VAT payable	1,561	1,955	3,680
Mineral extraction tax	5,455	4,770	4,735
Excise tax	2,105	1,995	4,671
Other taxes payable	1,219	1,665	1,906
Total	**10,340**	**10,385**	**14,992**

25. PROVISIONS

Provisions at 31 December 2013 include an amount of RUB 306 million (31 December 2012: RUB 15 million, 31 December 2011: RUB 2,581 million) in relation to legal claims brought against the Group. The provision charge is recognised in other operating expenses, net. In management's opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2013.

Millions of Russian roubles

26. RELATED PARTIES

At 31 December 2013, 2012 and 2011, the Group had the following outstanding balances with related parties:

	Amount owed by related parties		
	31 December 2013	**31 December 2012**	**31 December 2011**
Sistema-invest	30,166	23,963	22,935
Other Sistema Group companies	15,754	20,825	14,722
Associates and joint venture of the Group	402	1,617	238
Total	**46,322**	**46,405**	**37,895**

	Amount owed to related parties		
	31 December 2013	**31 December 2012**	**31 December 2011**
Associates and joint venture of the Group	16,922	1,701	934
Sistema Group companies	5,290	537	617
Other related parties	655	-	-
Total	**22,867**	**2,238**	**1,551**

The amounts outstanding were unsecured and are 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.

As a result of exchange of Bashkirenergo’s stake to share in Sistema-invest which is an entity under common control (refer to note 4), transactions with Bashkirenergo were included in the table below from the date of disposal until the date of its reorganization in the form of a demerger into two entities: Bashenergoactiv and BESK. Bashenergoactiv is not a related party of the Group.

Millions of Russian roubles

The Group entered into the following transactions with related parties:

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Sistema-invest			
Dividends declared	6,475	2,160	2,788
Loans issued	16,482	11,683	-
Proceeds from repayment of loans issued	10,383	10,169	-
Dividend income	447	-	489
Interest income	1,107	794	867
Other Sistema Group companies and its affiliates			
Dividends declared	25,293	10,561	14,003
Loans issued	-	3,500	-
Sales of subsidiaries	10,392	-	-
Cash placed on bank deposits	157	24,775	-
Proceeds from repayment of bank deposits	4,111	19,691	-
Sale of goods and services	4,143	2,648	1,887
Purchase of goods and services	16,612	12,578	11,560
Purchase of property	3,348	4,277	796
Interest income	962	1,460	157
Dividend income	1	-	-
Sale of joint venture	-	3,410	-
Acquisition of subsidiaries	-	-	3,393
Associates and joint ventures of the Group			
Sale of goods and services	2,140	2,421	14,624
Purchase of property	11,893	260	-
Purchase of goods and services	2,038	2,885	70
Interest income	1,130	542	-
Other related parties			
Sale of goods and services	3	8	3,266
Purchase of goods and services	-	6	-

LLC Finansoviy Alliance

On 28 August 2012 the Group acquired 50% of LLC Finansoviy Alliance ("Finansoviy Alliance"), a Company engaged in railroad transportation, from a third party. Consideration transferred for this acquisition consisted of railroad wagons and cisterns which were transferred by the Group to Finansoviy Alliance charter capital. The carrying and fair value of the property was transferred RUB 1,638 million and RUB 3,358 million, respectively.

As a result of the acquisition of 50% interest in Finansoviy Alliance the Group recognised a loss in the amount of RUB 18 million and a deferred tax asset in the amount of RUB 348 million associated with this transaction.

In September 2012 the Group sold property to Finansoviy Alliance with a carrying amount of RUB 654 million for consideration amounting to RUB 1,341 million, and a gain of RUB 343 million was recognized net of unrealized gain.

On 27 December 2012 the Group sold its 50% interest in Finansoviy Alliance with a carrying value of RUB 1,429 million to Sistema for a cash consideration of RUB 3,410 million. The Group recognised a gain on the sale of RUB 1,981 million within additional paid-in capital in the consolidated statement of changes in equity, being the result of a transaction with the Group's parent company.

Millions of Russian roubles

Acquisition of real estate asset

In December 2012 the Group acquired a real estate asset from Sistema, for a cash consideration of RUB 3,414 million. The asset was recognized in the statement of financial position at cost.

Charity

During the year ended 31 December 2013, the Group transferred RUB 19 million (year ended 31 December 2012: RUB 603 million, year ended 31 December 2011: RUB 896 million) as a donation to Charity Fund Sistema, a related party of the Group.

Compensation of key management personnel

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

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	844	749	692
Phantom shares granted	576	356	164
Termination benefits	4	130	-
Total	**1,424**	**1,235**	**856**

At 31 December 2013, outstanding balances in respect of wages and salaries of key management personnel were RUB 574 million (31 December 2012: RUB 471 million, 31 December 2011: RUB 115 million).

27. 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 5). 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 2013	31 December 2012	31 December 2011
Total net borrowings	74,421	90,104	80,632
Segment EBITDA	101,449	98,965	93,899
Net borrowings to Segment EBITDA ratio	**0.73**	**0.91**	**0.86**

Major categories of financial instruments

	31 December 2013	31 December 2012	31 December 2011
Financial assets			
Cash and cash equivalents	16,395	20,104	28,354
Trade and other receivables	27,317	28,366	16,398
Loans given, at amortised cost	8,526	35,403	26,482
Available-for-sale investments in BESK held at cost	-	7,406	-
Available-for-sale investments in Ufaorgsintez held at fair value	423	-	-
Investments in Bashkirenergo held for sale	-	-	12,812
Derivative financial instruments	90	-	-
Other financial assets	-	8	101
Deposits	46	5,136	132
Other non-current assets	380	798	105
Total financial assets	**53,177**	**97,221**	**84,384**
Financial liabilities			
Borrowings	90,816	110,208	108,986
Trade and other payables	46,521	22,957	18,159
Dividends payable	275	224	259
Total financial liabilities	**137,612**	**133,389**	**127,404**

Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations. The Group's overall strategy in production and sales of crude oil and related products is centrally managed.

The main risks arising from the Group's financial instruments are foreign currency and liquidity risks.

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 EUR.

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 EUR.

Millions of Russian roubles

The carrying amount of the Group's US Dollar and EUR denominated monetary assets and liabilities at 31 December 2013, 2012 and 2011 were as follows:

	31 December 2013	31 December 2012	31 December 2011
Assets			
Trade and other receivables, excluding prepayments	15,846	15,078	11,102
Loans given, at amortised cost	4,969	2,953	4,978
Cash and cash equivalents	813	4,128	1,127
Total assets	**21,628**	**22,159**	**17,207**
Liabilities			
Borrowings	22,601	7,556	9,599
Trade and other payables	445	974	208
Total liabilities	**23,046**	**8,530**	**9,807**

The table below details the Group's sensitivity to the strengthening of the US Dollar and EUR against the Russian Rouble by 10%. 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 2013	Year ended 31 December 2012	Year ended 31 December 2011
(Decrease)/increase in profit before tax	(142)	1,363	740

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar and EUR 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 2013, 2012 and 2011. 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 2013	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	19,984	27,313	860	860	15,026	10,567
Secured borrowings	22,601	23,499	3,484	5,891	14,124	-
Unsecured non-convertible bonds	48,231	65,367	1,985	5,001	41,417	16,964
Dividends payable	275	275	275	-	-	-
Trade and other payables	46,521	46,521	46,521	-	-	-
Total	**137,612**	**162,975**	**53,125**	**11,752**	**70,567**	**27,531**

Millions of Russian roubles

31 December 2012	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	77,411	102,443	3,443	20,636	63,156	15,208
Secured borrowings	7,556	7,723	2,341	2,320	3,062	-
Unsecured non-convertible bonds	25,241	30,199	1,154	11,138	17,907	-
Dividends payable	224	224	224	-	-	-
Trade and other payables	22,957	22,957	22,957	-	-	-
Total	**133,389**	**163,546**	**30,119**	**34,094**	**84,125**	**15,208**

31 December 2011	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	77,364	108,311	3,364	3,348	69,403	32,196
Secured borrowings	10,188	10,639	364	1,959	8,316	-
Unsecured non-convertible bonds	21,434	24,800	1,188	12,683	10,929	-
Dividends payable	259	259	259	-	-	-
Trade and other payables	18,159	18,159	18,159	-	-	-
Total	**127,404**	**162,168**	**23,334**	**17,990**	**88,648**	**32,196**

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

	31 December 2013	31 December 2012	31 December 2011
Committed credit facilities	43,209	70,485	62,500
Less: amounts withdrawn	-	(37,500)	(39,059)
Total unused credit facilities	**43,209**	**32,985**	**23,441**

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 detail's the Group's annualised sensitivity to a change of floating LIBOR 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 2013	Year ended 31 December 2012	Year ended 31 December 2011
Profit/Loss	229	76	88

Millions of Russian roubles

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative financial instruments is based on market quotes.

At 31 December 2013, 2012 and 2011 management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds with carrying value of RUB 48,299 million and fair value RUB 48,740 million (31 December 2012: carrying value of RUB 25,283 million and fair value RUB 25,477 million, 31 December 2011: carrying value of RUB 21,504 million and fair value RUB 20,937 million).

Management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings were either obtained in 2013 or interest rate was renegotiated in 2013.

At 31 December 2013 assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy were as follows:

	Level 1	Level 2	Level 3	Total
Non-current assets				
Available-for-sale investment	-	-	423	**423**
Derivative financial instruments	-	90	-	**90**
Total	**-**	**90**	**423**	**513**

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 December 2013, contractual capital commitments of the Group amounted to RUB 8,601 million (31 December 2012: RUB 9,799 million, 31 December 2011: RUB 6,171 million). These commitments are expected to be settled during 2014-2015.

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 2062.

The amount of rental expenses for the year ended 31 December 2013 were RUB 1,488 million (year ended 31 December 2012: RUB 2,700 million, year ended 31 December 2011: RUB 1,091 million).

Millions of Russian roubles

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

	31 December 2013	31 December 2012	31 December 2011
Due in one year	936	1,371	1,046
Due from one to five years	2,972	4,461	3,308
Thereafter	11,972	19,536	15,297
Total	**15,880**	**25,368**	**19,651**

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated nil possible tax exposure at 31 December 2013 (31 December 2012: RUB nil, 31 December 2011: RUB 17,708 million).

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. At 31 December 2013, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Legal contingencies

At 31 December 2013, unresolved legal claims against the Group amounted to RUB 151 million (31 December 2012: RUB 49 million, 31 December 2011: RUB 1,298 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.

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. Until the Group obtains adequate insurance coverage, there is a risk that losses relating to such matters could have a material adverse effect on the Group's operations and financial position.

Russian Federation economic environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the country's economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, country's economy is particularly sensitive to the price of oil and gas on the world market.

30. EVENTS SUBSEQUENT TO THE REPORTING DATE

Approval of the reorganisation by the EGM

On 3 February 2014, at the Extraordinary Meeting of Shareholders the reorganisation which was previously approved by the Board on 17 December 2013 (refer to note 17) was confirmed.
On 25 March 2014 the Board of Bashneft has approved a report on the results of submission of buy-back requests by shareholders, who abstained or voted against the reorganisation at the EGM. According to the report, Bashneft will acquire 2,724,173 ordinary shares and 8,885,866 preferred shares of the Company for a total cash consideration of RUB 17,869 million due by 21 April 2014.

Acquisition of LLC Burneftegaz ("Burneftegaz")

In March 2014 the Group acquired a 100% interest in Burneftegaz, a company engaged in exploration and production of crude oil in the Tyumen District for a total cash consideration of approximately USD 1,000 million. The entity will be accounted for and consolidated in the consolidated financial statements of the Group from the effective date of acquisition. At the date of authorisation of these consolidated financial statements the Group does not have sufficiently reliable information to present summary financial information of Burneftegaz.

Bank borrowings

In March 2014 the Group obtained short-term unsecured fixed interest rate borrowings from a variety of lenders in the amount of RUB 53,700 million. The interest rate varies from 8.24% to 9.75% per annum.