Tatneft Group

IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2015

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of PJSC Tatneft

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

AO PricewaterhouseCoopers Audit

31 March 2016

Moscow, Russian Federation

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

Audited entity: PJSC Tatneft

State registration certificate № 632, issued by Ministry of Finance of the Republic of Tatarstan on 21 January 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 July 2002 under registration № 1021601623702

75, Lenina St., Almetyevsk, Tatarstan, Russia, 423400

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

TATNEFT
Consolidated Statement of Financial Position
(In millions of Russian Roubles)

	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	6	24,600	41,548
Restricted cash		318	1,635
Accounts receivable, net	7	60,151	46,059
Short-term financial assets	8	13,055	25,323
Inventories	9	32,042	32,462
Prepaid expenses and other current assets	10	48,033	31,157
Prepaid income tax		1,030	2,418
Total current assets		179,229	180,602
Long-term accounts receivable, net	7	2,248	1,364
Long-term financial assets	11	48,469	29,893
Investments in associates and joint ventures	12	5,632	7,212
Property, plant and equipment, net	13	557,778	507,586
Deferred income tax assets	18	2,535	2,982
Other long-term assets	14	2,800	3,295
Total non-current assets		619,462	552,332
Total assets		798,691	732,934
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	15	5,281	15,859
Accounts payable and accrued liabilities	16	43,488	37,999
Taxes payable	18	18,202	14,440
Income tax payable		1,940	166
Total current liabilities		68,911	68,464
Long-term debt, net of current portion	15	12,880	12,888
Other long-term liabilities	17	4,119	2,960
Decommissioning provision, net of current portion	13	33,352	44,779
Deferred income tax liability	18	21,771	21,599
Total non-current liabilities		72,122	82,226
Total liabilities		141,033	150,690
Shareholders' equity			
Preferred shares (authorized and issued at 31 December 2015 and 2014 – 147,508,500 shares; nominal value at 31 December 2015 and 2014 – RR1.00)	19	746	746
Common shares (authorized and issued at 31 December 2015 and 2014 – 2,178,690,700 shares; nominal value at 31 December 2015 and 2014 – RR1.00)	19	11,021	11,021
Additional paid-in capital		85,170	87,482
Accumulated other comprehensive income		1,639	1,888
Retained earnings		532,821	457,915
Less: Common shares held in treasury, at cost (55,491,000 shares and 55,514,000 shares at 31 December 2015 and 2014, respectively)		(3,083)	(3,087)
Total Group shareholders' equity		628,314	555,965
Non-controlling interest	19	29,344	26,279
Total shareholders' equity		657,658	582,244
Total liabilities and equity		798,691	732,934

Approved for issue and signed on behalf of the Board of Directors on 31 March 2016.

Maganov N.U.
CEO

Voskoboinikov V.A.
Director of International Reporting

The accompanying notes are an integral part of these consolidated financial statements.

TATNEFT
Consolidated Statements of Profit or Loss and Other Comprehensive Income
(In millions of Russian Roubles)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Sales and other operating revenues, net	22	**552,712**	**476,360**
Costs and other deductions			
Operating	20	(108,294)	(102,614)
Purchased oil and refined products		(59,913)	(54,478)
Exploration	13	(1,856)	(2,100)
Transportation		(30,149)	(23,209)
Selling, general and administrative	20	(48,871)	(43,355)
Depreciation, depletion and amortization	13	(25,052)	(21,121)
Loss on disposals of property, plant and equipment, investments and impairments		(6,031)	(1,799)
Taxes other than income taxes	18	(137,380)	(117,060)
Maintenance of social infrastructure and transfer of social assets	13	(4,665)	(4,091)
Total costs and other deductions		**(422,211)**	**(369,827)**
Other income/(expenses)			
Foreign exchange gain, net		2,283	14,876
Interest income	21	11,023	6,944
Interest expense, net of amounts capitalized	21	(7,691)	(5,482)
Loss from equity investments	12	(2,172)	(313)
Other income, net		3,684	1,415
Total other income		**7,127**	**17,440**
Profit before income tax		**137,628**	**123,973**
Income tax			
Current income tax expense		(30,954)	(21,376)
Deferred income tax expense		(902)	(4,920)
Total income tax expense	18	**(31,856)**	**(26,296)**
Profit for the year		**105,772**	**97,677**
Other comprehensive income/(expenses):			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		318	649
Unrealized holding gains/(losses) on available-for-sale securities		222	(270)
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on employee benefit plans		(789)	620
Other comprehensive (loss)/income		**(249)**	**999**
Total comprehensive income for the year		**105,523**	**98,676**
Profit attributable to:			
- Group shareholders		98,930	92,227
- Non-controlling interest		6,842	5,450
		105,772	**97,677**
Total comprehensive income is attributable to:			
- Group shareholders		98,681	93,226
- Non-controlling interest		6,842	5,450
		105,523	**98,676**
Basic and diluted earnings per share (RR)			
Common	19	43.56	40.61
Preferred		43.53	40.58
Weighted average shares outstanding (millions of shares)			
Common	19	2,123	2,123
Preferred		148	148

TATNEFT
Consolidated Statement of Changes in Equity
(In millions of Russian Roubles)

	Attributable to Group shareholders									Non-con-trolling interest	Total equity
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial (losses)/gains on employee benefit plans	Foreign currency translation adjustments	Unrealized holding gains/(losses) on available-for-sale securities	Retained earnings	Total shareholders' equity		
Balance at 1 January 2014	**2,270,607**	**11,767**	**87,482**	**(3,102)**	**(818)**	**1,284**	**423**	**384,376**	**481,412**	**22,570**	**503,982**
Profit for the year	-	-	-	-	-	-	-	92,227	92,227	5,450	97,677
Other comprehensive income/(loss) for the year	-	-	-	-	620	649	(270)	-	999	-	999
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**-**	**620**	**649**	**(270)**	**92,227**	**93,226**	**5,450**	**98,676**
Treasury shares	78	-	-	15	-	-	-	-	15	-	15
- Acquisitions	(302)	-	-	(63)	-	-	-	-	(63)	-	(63)
- Disposals	380	-	-	78	-	-	-	-	78	-	78
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	78	78
Dividends declared	-	-	-	-	-	-	-	(18,688)	(18,688)	(1,819)	(20,507)
Balance at 31 December 2014	**2,270,685**	**11,767**	**87,482**	**(3,087)**	**(198)**	**1,933**	**153**	**457,915**	**555,965**	**26,279**	**582,244**
Profit for the year	-	-	-	-	-	-	-	98,930	98,930	6,842	105,772
Other comprehensive (loss)/income for the year	-	-	-	-	(789)	318	222	-	(249)	-	(249)
Total comprehensive (loss)/income for the year	**-**	**-**	**-**	**-**	**(789)**	**318**	**222**	**98,930**	**98,681**	**6,842**	**105,523**
Treasury shares	23	-	-	4	-	-	-	-	4	-	4
- Acquisitions	(21)	-	-	(5)	-	-	-	-	(5)	-	(5)
- Disposals	44	-	-	9	-	-	-	-	9	-	9
Acquisition of non-controlling interest in subsidiaries		-	(2,312)	-	-	-	-	-	(2,312)	1,220	(1,092)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(2,963)	(2,963)
Dividends declared	-	-	-	-	-	-	-	(24,024)	(24,024)	(2,034)	(26,058)
Balance at 31 December 2015	**2,270,708**	**11,767**	**85,170**	**(3,083)**	**(987)**	**2,251**	**375**	**532,821**	**628,314**	**29,344**	**657,658**

The accompanying notes are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Operating activities			
Profit for the year		105,772	97,677
Adjustments:			
Depreciation, depletion and amortization		25,052	21,121
Income tax expense		31,856	26,296
Loss on disposals of property, plant and equipment, investments and impairments		6,031	1,799
Effects of foreign exchange		1,501	10,036
Equity investments loss/(gain) net of dividends received		2,172	313
Change in provision for impairment of financial assets		1,862	(165)
Change in fair value of trading securities		(30)	(283)
Interest income		(11,023)	(6,944)
Interest expense		7,691	5,482
Other		(4,912)	32
Changes in operational working capital, excluding cash:			
Accounts receivable		(16,608)	7,456
Inventories		(776)	(4,054)
Prepaid expenses and other current assets		2,771	(9,206)
Trading securities		1,303	1,294
Accounts payable and accrued liabilities		885	6,423
Taxes payable		3,999	(2,094)
Notes payable		(1)	(2)
Other non-current assets		333	205
Net cash provided by operating activities before income tax and interest		**157,878**	**155,386**
Income taxes paid		(27,792)	(24,012)
Interest paid		(1,032)	(1,378)
Interest received		11,462	6,487
Net cash provided by operating activities		**140,516**	**136,483**
Investing activities			
Additions to property, plant and equipment		(92,872)	(62,574)
Proceeds from disposal of property, plant and equipment		895	1,248
Proceeds from disposal of investments		-	77
Purchase of investments	26,27	(42,072)	(117)
Proceeds from/(purchase of) certificates of deposit, net	8,11	13,517	(7,598)
Issuance of loans and notes receivable, net	8,11	(543)	(2,176)
Change in restricted cash		1,317	(718)
Net cash used in investing activities		**(119,758)**	**(71,858)**
Financing activities			
Proceeds from issuance of debt		12,072	16,742
Repayment of debt		(24,914)	(50,501)
Dividends paid to shareholders		(24,008)	(18,674)
Dividends paid to non-controlling shareholders		(2,034)	(1,819)
Purchase of treasury shares		(5)	(37)
Proceeds from sale of treasury shares		9	37
Proceeds from issuance of shares by subsidiaries		57	60
Net cash used in financing activities		**(38,823)**	**(54,192)**
Net change in cash and cash equivalents		**(18,065)**	**10,433**
Effect of foreign exchange on cash and cash equivalents		1,117	1,580
Cash and cash equivalents at the beginning of the period		41,548	29,535
Cash and cash equivalents at the end of the period		**24,600**	**41,548**

Note 1: Organisation

PJSC Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 22).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 31 December 2015 and 31 December 2014 the government of Tatarstan, including through its wholly owned company JSC Svyazinvestnefteknim, controls approximately 36% of the Company's voting stock. These shares were contributed to JSC Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through JSC Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almet'evsk, Tatarstan Republic, Russian Federation.

Note 2: Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group first adopted IFRS for the fiscal year ended 31 December 2012, with a date of transition to IFRS on 1 January 2011.

These consolidated financial statements have been prepared on a historical cost basis, except for initial recognition of financial instruments based on fair value, revaluation of available-for-sale financial assets and financial instruments categorized at fair value through profit or loss.

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Note 2: Basis of presentation (continued)

Reclassifications. Certain reclassifications have been made to previously reported balances to conform to the current year presentation; such reclassifications had no effect on net income profit for the year, shareholders' equity or cash flows.

Note 3: Summary of Significant Accounting Policies

Functional and Presentation Currency. The presentation currency of the Group is the Russian rouble.

Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Rouble because the majority of their revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are recognized in the profit or loss for the year.

For operations of major subsidiaries located outside of the Russian Federation, that primarily use US Dollar as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders' equity entitled foreign currency translation adjustments. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at 31 December 2015 and 2014 was RR 72.88 and RR 56.26 to US $, respectively. Average rate of exchange for the years ended 31 December 2015 and 2014 were RR 60.96 and RR 38.42 per US $, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has the power to direct relevant activities of the investee that significantly affect their returns, exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition – related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets or at fair value.

Note 3: Summary of Significant Accounting Policies (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss for the year.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered.

Associates and joint ventures. Associates and joint ventures are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group’s share of net assets of an associate and joint ventures are recognised as follows: (i) the Group’s share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

However, when the Group’s share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

Current/Non-current presentation. Group presents current and non-current assets, and current and non-current liabilities, as separate classifications in its Consolidated Statement of Financial Position.

Group discloses for each asset and liability line item that combines amounts expected to be recovered or settled in period no more than 12 months after the reporting period are disclosed as current; and more than 12 months after the reporting period as non-current.

Cash and cash equivalents. Cash represents cash on hand and in bank accounts, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are recognized based on the cost of acquisition which approximates fair value.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the consolidated statement of cash flows and disclosed separately.

Financial assets. All financial assets are initially recognised when an entity becomes a party to the contract, they recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group‘s financial assets include cash and cash equivalents, deposits, securities, trade and other receivables, loans issued.
Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss.

Loans and receivables. Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year.

Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates require the exercise of judgment and the use of assumptions.

The losses arising from impairment are recognized as selling, general and administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

Note 3: Summary of Significant Accounting Policies (continued)

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit and loss for the year.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

Financial liabilities. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings.

Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

The Group does not use derivative financial instruments.

The Group does not offset assets and liabilities unless required or permitted to by an IFRS.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Prepaid expenses. Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

Note 3: Summary of significant accounting policies (continued)

Mineral extraction tax. Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 766 and RR 493 per ton in 2015 and 2014, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US $ exchange rate for the preceding month. The base tax rate formula for MET is modified by benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. Tax benefit is calculated using tax rate of RR 530 per ton (в 2014: RR 493 per ton).

The ultimate amount of the MET on crude oil depends also on geographic location of the oil field (for certain regions zero tax rate may be applied depending on the volume of crude oil produced and period of field development). Also a zero MET tax rate applies to the production of highly viscous crude oil with viscosity of more than 10,000 Megapascal second in reservoir conditions. MET for production of highly viscous crude oil with viscosity between 200 and 10,000 Megapascal second is eligible to tax benefit calculated using tax rate of RR 530 per ton (2014: RR 493 per ton).

MET is recorded within Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

Value added tax. Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

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

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

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

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

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs to sell and value-in-use.

Note 3: Summary of significant accounting policies (continued)

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in Gain/(loss) on disposals of property, plant and equipment, investments and impairments in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

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

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

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

Employee benefits, post-employment and other long-term benefits. Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

Note 3: Summary of significant accounting policies (continued)

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Remeasurements of the net defined benefit liability arose as the actuarial gains or losses from changes in assumptions and from experience adjustments with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs are recognised as an expense immediately.

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

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

Stock-based compensation. The Company has a share-based compensation plan (the "Plan") for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards ("Awards") are issued on an annual basis to the Company's directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company's common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Exchange MICEX-RTS (MOEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company's Management Committee approval.

The liability at 31 December 2015 and 2014 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

Decommissioning provisions. The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

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

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Note 3: Summary of significant accounting policies (continued)

Income taxes. Effective 1 January 2012, the Company has established the Consolidated Taxpayer Group which currently includes 4 companies of the Group. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognised for all deductable or taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and Taxes payable in the Consolidated Statement of Financial Position, respectively. Income tax interest expense and payable are included in Interest expense in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and other accounts payable and accrued expenses in the Consolidated Statement of Financial Position, respectively.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders' meeting. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Treasury shares. Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when risks and rewards of ownership are transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory which are of a similar nature and value with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the Consolidated Statements of Profit or Loss and Other Comprehensive Income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Note 3: Summary of significant accounting policies (continued)

Transportation expenses. Transportation expenses recognised in the consolidated statements of profit or loss and other comprehensive income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in Selling, General and administrative expenses.

Interest income. Interest income is recognised on a time-proportion basis using the effective interest method.

Note 4: Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of long-lived assets;
- Consolidation.

Estimation of oil and gas reserves. Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

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

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

Useful life of property, plant and equipment. Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

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

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.

(in millions of Russian Roubles)

Note 4: Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Decommissioning provisions. Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Sensitivity analysis for changes in rates, and other estimates:

		Impact on decommissioning provision	
	Change in	**At 31 December 2015**	**At 31 December 2014**
Discount rate	+1%	(7,892)	(9,890)
	-1%	10,534	13,103

Information about decommissioning provision is presented in Note 13.

Impairment of long-lived assets. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and refining margins appropriate to the local circumstances and environment. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

At 31 December 2015 management assessed whether there is any indication of impairment of long-lived assets. Management believes that there is no any impairment loss that should be recognized at 31 December 2015.

Consolidation. The Company made significant judgements related to significant subsidiaries which are controlled by the Group, even though the Group holds less than half of the voting rights of these subsidiaries.

The Company considers that the Group has control over several entities even though it has less than 50% of the voting rights. This is because the Company has power over the investee, has rights to variable returns of the investee, and has the power to affect variable returns.

Additional information is disclosed in Note 25.

Note 5: Adoption of new or revised standards and interpretations

A number of amendments to current IFRS and annual improvements also approved for application in Russia Federation became effective for the periods beginning on or after 1 January 2015 and but did not have any significant impact on the Group's consolidated financial statements:

- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014.

Note 5: Adoption of New or Revised Standards and Interpretations (continued)

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

Certain new standards, amendments to standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). The standard reflects all phases of the financial instruments project and replaces all previous of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

The Group is currently assessing the impact of new standards on its consolidated financial statements.

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

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

All above new standards, amendments to standards and interpretations are approved for application in Russian Federation except for Amendments to IFRS 10 and IAS 28 and those of them issued in 2016.

(in millions of Russian Roubles)

Note 6: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31 December 2015	At 31 December 2014
Cash on hand and in banks	12,273	8,077
Term deposits with original maturity of less than three months	12,327	33,471
Total cash and cash equivalents	**24,600**	**41,548**

As of 31 December 2015 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries, Sberbank, Svyaz-bank and The Ural Bank for Reconstruction and Development. As of 31 December 2014 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries, Sberbank, Raiffeisenbank, VTB and Ak Bars Bank. Bank deposits represent deposits with original maturities of less than three months. The fair value of cash and term deposits approximates their carrying value.

The credit quality of cash and cash equivalents balances may be summarised as follows:

	At 31 December 2015		At 31 December 2014	
	Cash on hand and in banks	Term deposits	Cash on hand and in banks	Term deposits
Investment grade rating	1,758	-	287	-
Non-investment grade rating	9,053	4,758	6,486	33,264
No external rating	1,462	7,569	1,304	207
Total	**12,273**	**12,327**	**8,077**	**33,471**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody’s Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB for Standard and Poor’s Rating, respectively.

Note 7: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	At 31 December 2015	At 31 December 2014
Short-term accounts receivable:		
Trade receivables	58,170	61,591
Other financial receivables	3,891	4,748
Less provision for impairment	(1,910)	(20,280)
Total short-term accounts receivable	**60,151**	**46,059**
Long-term accounts receivable:		
Trade receivables	1,512	650
Other financial receivables	794	761
Less provision for impairment	(58)	(47)
Total long-term accounts receivable	**2,248**	**1,364**
Total financial assets within trade and other receivables	**62,399**	**47,423**

The estimated fair value of short-term and long-term accounts receivable approximates their carrying value.

(in millions of Russian Roubles)

Note 7: Accounts receivable (continued)

Analysis by credit quality of trade and other receivables is as follows:

	At 31 December 2015		At 31 December 2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Not over due and not impaired	**56,896**	**4,059**	**40,784**	**4,803**
Past due but not impaired				
- less than 90 days overdue	852	60	1,333	134
- 91 to 180 days overdue	417	59	246	40
- over 180 days overdue	-	56	-	83
Total past due but not impaired	**1,269**	**175**	**1,579**	**257**
Individually determined to be impaired (gross)				
- less than 90 days overdue	-	-	-	-
- 91 to 180 days overdue	-	-	-	-
- over 180 days overdue	1,517	451	19,880	447
Total individually impaired	**1,517**	**451**	**19,880**	**447**
Less provision for impairment	(1,517)	(451)	(19,880)	(447)
Total	**58,165**	**4,234**	**42,363**	**5,060**

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

	2015		2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**(19,880)**	**(447)**	**(12,110)**	**(517)**
(Provision for impairment)/recovery during the year	(498)	(4)	(4)	58
Amounts written off during the year as uncollectible	18,111	-	9	6
Foreign exchange gain/(loss)	750	-	(7,813)	-
Change in Group structure	-	-	38	6
Provision for impairment at 31 December	**(1,517)**	**(451)**	**(19,880)**	**(447)**

As of 31 December 2014 the Group had receivables from ChMPKP Avto of US $334 million, relating to the sale of crude oil to Ukraine (Kremenchug refinery), which had been fully provided for (Note 24). During the year ended 31 December 2015 the receivables were written off against the provision due to bankruptcy and subsequent liquidation of the debtor (intermediary in the crude oil sales transaction).

(in millions of Russian Roubles)

Note 8: Short-term financial assets

Short-term financial assets comprise the following:

	At 31 December 2015	At 31 December 2014
Loans and receivables:		
Notes receivable	5,596	3,536
Other loans (net of provision for impairment of RR 23 million and RR 50 million as of 31 December 2015 and 2014)	3,617	3,156
Certificates of deposit	2,594	16,111
Financial assets at fair value through profit or loss:		
Held-for-trading	1,248	2,520
Total short-term financial assets	**13,055**	**25,323**

During the year ended 31 December 2015 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 91,851 million and RR 112,368 million, respectively.

During the year ended 31 December 2014 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 78,425 million and RR 71,287 million, respectively.

During the year ended 31 December 2015 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 4,149 million and RR 7,190 million, respectively.

During the year ended 31 December 2014 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 5,185 million and RR 6,485 million, respectively.

The estimated fair value of loans and receivables approximates their carrying value.

Financial assets at fair value through profit and loss comprise the following:

	At 31 December 2015	At 31 December 2014
Held-for-trading:		
Russian government debt securities	85	152
Corporate debt securities	562	1,705
Equity securities	601	663
Total financial assets at fair value through profit and loss	**1,248**	**2,520**

Information on trading securities issued by related parties is disclosed in Note 23.

(in millions of Russian Roubles)

Note 9: Inventories

	At 31 December 2015	At 31 December 2014
Materials and supplies	11,861	10,924
Crude oil	6,436	8,799
Refined oil products	7,586	7,634
Petrochemical supplies and finished goods	6,159	5,105
Total inventories	**32,042**	**32,462**

Note 10: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 31 December 2015	At 31 December 2014
Prepaid export duties	6,678	14,177
VAT recoverable	9,473	5,788
Advances (Note 27)	28,985	7,289
Prepaid transportation expenses	1,192	1,621
Other	1,705	2,282
Prepaid expenses and other current assets	**48,033**	**31,157**

Note 11: Long-term financial assets

Long-term financial assets comprise the following:

	At 31 December 2015	At 31 December 2014
Loans and receivables:		
Notes receivable (net of provision for impairment of RR 318 million as of 31 December 2015 and 2014)	4,181	3,571
Loans to employees (net of provision for impairment of RR 1,414 million as of 31 December 2015)	1,262	2,636
Other loans	1,963	2,353
Certificates of deposit	17,774	16,581
Available-for-sale investments (Note 26)	23,289	4,752
Total long-term financial assets	**48,469**	**29,893**

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

	Carrying amounts		Fair values	
	At 31 December 2015	At 31 December 2014	At 31 December 2015	At 31 December 2014
Notes receivable	4,181	3,571	3,872	3,292
Loans to employees	1,262	2,636	1,262	2,636
Other loans	1,963	2,353	1,545	1,852
Certificates of deposit	17,774	16,581	17,567	11,578
Total long-term financial assets	**25,180**	**25,141**	**24,246**	**19,358**

During the year ended 31 December 2015 purchases of long-term certificates of deposit were RR 7,000 million.

During the year ended 31 December 2014 purchases of long-term certificates of deposit were RR 460 million.

(in millions of Russian Roubles)

Note 11: Long-term financial assets (continued)

During the year ended 31 December 2015 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 4,142 million and RR 558 million, respectively.

During the year ended 31 December 2014 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 5,235 million and RR 1,759 million, respectively.

Note 12: Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of an investee	Ownership percentage at 31 December		Net book value as 31 December		Group's share of profit/(loss) for	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Associates and joint ventures:						
Bank Zenit	25	25	5,246	7,131	(2,111)	402
Other	20-75	20-75	386	81	(61)	(715)
Total			**5,632**	**7,212**	**(2,172)**	**(313)**

The country of incorporation or registration is also their principal place of business. For all major associates and joint ventures the country of incorporation is the Russian Federation.

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures:

	2015	**2014**
Net book value at 1 January	**7,212**	**7,778**
Share of result of associates and joint ventures	(2,172)	(313)
Share of other comprehensive income/(loss) of associates and joint ventures	222	(270)
Reclassification on loss of control/disposal of associates (reclassification on obtaining control)	-	(14)
Others	370	31
Net book value at 31 December	**5,632**	**7,212**

The condensed financial information of the Group's equity basis investments is as follows:

	Year ended 31 December 2015		**Year ended 31 December 2014**	
	Bank Zenit	Other	Bank Zenit	Other
Sales/interest income	32,318	3,496	26,617	6,513
Net (loss)/income	(9,498)	(139)	1,636	(722)
Other comprehensive income/(loss)	902	-	(1,098)	-
Total comprehensive (loss)/income	(8,596)	(139)	538	(722)
Total assets	314,817	6,502	335,097	6,406
Total liabilities	293,771	6,138	305,447	6,074

(in millions of Russian Roubles)

Note 13: Property, plant and equipment

	Oil and gas properties	Buildings and constructions	Machinery and equipment	Construc-tion in progress	Total
Cost					
As of 31 December 2013	**340,725**	**153,770**	**118,514**	**106,809**	**719,818**
Additions	38	-	825	64,912	65,775
Disposals	(3,199)	(1,723)	(1,355)	(3,313)	(9,590)
Changes in Group structure	-	(6)	(2)	(7)	(15)
Transfers	23,882	27,525	26,615	(78,022)	-
Changes in decommissioning provision	(12,988)	-	-	-	(12,988)
As of 31 December 2014	**348,458**	**179,566**	**144,597**	**90,379**	**763,000**
Depreciation, depletion and amortisation					
As of 31 December 2013	**158,527**	**23,659**	**55,749**	**-**	**237,935**
Depreciation charge	8,928	4,570	8,394	-	21,892
Disposals	(2,975)	(309)	(1,127)	-	(4,411)
Changes in Group structure	-	(2)	-	-	(2)
As of 31 December 2014	**164,480**	**27,918**	**63,016**	**-**	**255,414**
Net book value					
As of 31 December 2013	**182,198**	**130,111**	**62,765**	**106,809**	**481,883**
As of 31 December 2014	**183,978**	**151,648**	**81,581**	**90,379**	**507,586**
Cost					
As of 31 December 2014	**348,458**	**179,566**	**144,597**	**90,379**	**763,000**
Additions	41	-	1	101,884	101,926
Disposals	(2,912)	(467)	(1,166)	(4,553)	(9,098)
Changes in Group structure	-	(345)	(8,007)	(1)	(8,353)
Transfers	31,945	7,494	12,547	(51,986)	-
Changes in decommissioning provision	(17,631)	-	-	-	(17,631)
As of 31 December 2015	**359,901**	**186,248**	**147,972**	**135,723**	**829,844**
Depreciation, depletion and amortisation					
As of 31 December 2014	**164,480**	**27,918**	**63,016**	**-**	**255,414**
Depreciation charge	9,589	4,744	10,734	-	25,067
Disposals	(2,703)	(310)	(692)	-	(3,705)
Changes in Group structure	-	(158)	(4,552)	-	(4,710)
As of 31 December 2015	**171,366**	**32,194**	**68,506**	**-**	**272,066**
Net book value					
As of 31 December 2014	**183,978**	**151,648**	**81,581**	**90,379**	**507,586**
As of 31 December 2015	**188,535**	**154,054**	**79,466**	**135,723**	**557,778**

Advances for construction of RR 12,326 million and RR 11,841 million at 31 December 2015 and 2014, respectively are included within construction in progress.

(in millions of Russian Roubles)

Note 13: Property, plant and equipment (continued)

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2018 and 2044. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 1 January 2014	**12,230**
Additions	904
Reclassification to development assets	(823)
Charged to expense	(988)
At 31 December 2014	**11,323**
Additions	430
Reclassification to development assets	(150)
Charged to expense	(4,558)
At 31 December 2015	**7,045**

For the years ended 31 December 2015 and 2014, operating and investing cash flows used for exploration and evaluation activities amounted to RR 1,856 million and RR 430 million and RR 2,100 million and RR 904 million, respectively.

Social assets. During the years ended 31 December 2015 and 2014 the Group transferred social assets with a net book value of RR 22 million and RR 1 million, respectively, to local authorities. At 31 December 2015 and 2014 the Group held social assets with a net book value of RR 5,459 million and RR 5,442 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 4,643 million and RR 4,090 million for the years ended 31 December 2015 and 2014, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

(in millions of Russian Roubles)

Note 13: Property, plant and equipment (continued)

Decommissioning provisions.

The following tables summarize the Group's decommissioning provisions and decommissioning costs activities:

	2015	2014
Balance, beginning of period	**45,738**	**55,037**
Unwinding discount	5,337	4,397
New obligations	502	328
Release of existing obligations	(27)	(708)
Changes in estimates	(18,133)	(13,316)
Balance, end of period	**33,417**	**45,738**
Less: current portion of decommissioning provisions (Note 16)	(65)	(959)
Long-term balance, end of period	**33,352**	**44,779**

In 2015 the Group recorded the change in estimate for oil and gas properties decommissioning due to the change in discount rate, estimated cost per well and expected long-term inflation rate.

Key assumptions used for evaluation of decommissioning provision were as follows:

	At 31 December 2015	At 31 December 2014
Discount rate	9.75%	11.67%
Inflation rate	5.85%	7.75%

Note 14: Other long-term assets

Other long-term assets are as follows:

	At 31 December 2015	At 31 December 2014
Prepaid computer programs	1,521	1,985
Prepaid license agreements	59	90
Other long-term assets	1,220	1,220
Total other long-term assets	**2,800**	**3,295**

(in millions of Russian Roubles)

Note 15: Debt

	At 31 December 2015	At 31 December 2014
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	3,937	11,887
Other foreign currency denominated debt	299	382
Rouble denominated debt		
Current portion of long-term debt	31	75
Other rouble denominated debt	1,014	3,515
Total short-term debt	**5,281**	**15,859**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	3,144	10,779
US $75 mln 2011 credit facility	2,952	2,573
US $144.5 mln 2011 credit facility	4,921	4,273
EUR 55 mln 2013 credit facility	4,038	3,521
Other foreign currency denominated debt	1,069	2,830
Rouble denominated debt		
Other rouble denominated debt	724	874
Total long-term debt	**16,848**	**24,850**
Less: current portion of long-term debt	(3,968)	(11,962)
Total long-term debt, net of current portion	**12,880**	**12,888**

Foreign currency debts are primarily denominated in US Dollars.

Long-term debt had the following maturity profile (based on the discounted contractual cash flows):

	At 31 December 2015	At 31 December 2014
Due for repayment:		
Between one and two years	2,665	2,848
Between two and five years	6,714	5,021
After five years	3,501	5,019
Total long-term debt, net of current portion	**12,880**	**12,888**

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 1,014 million and RR 3,515 million bear contractual interest rates of 12.5% to 13.7% per annum as of 31 December 2015 and 8% to 14.85% per annum as of 31 December 2014.

(in millions of Russian Roubles)

Note 15: Debt (continued)

Long-term foreign currency denominated debt. In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to US $2 billion arranged by Barclays Bank PLC, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ LTD, Citibank N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tons of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The 7-year tranche bears the interest of LIBOR plus 5%. The 3-year and 5-year tranches were fully repaid.

In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In November 2011, TANECO entered into a US $144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios.

Management believes that for the year ended 31 December 2015 and 2014 the Group was in compliance with all covenants required by the above loan agreements.

The carrying amounts and fair-values of long-term debt are as follows:

	Carrying amounts		**Fair values**	
	At 31 December 2015	**At 31 December 2014**	**At 31 December 2015**	**At 31 December 2014**
US$ denominated fixed rate	1,069	2,830	1,069	2,830
US$ denominated floating rate	11,017	17,625	10,383	13,910
EUR denominated floating rate	4,038	3,521	3,361	2,015
RR denominated fixed rate	724	874	724	874
Total long-term debt	**16,848**	**24,850**	**15,537**	**19,629**

The fair value of long-term debts was determined based on future cash flows discounted at the market interest rate available to the Group at the end of the reporting period.

(in millions of Russian Roubles)

Note 16: Accounts payable and accrued liabilities

	At 31 December 2015	At 31 December 2014
Trade payables	27,816	17,269
Dividends payable	133	117
Other payables	580	1,347
Total financial liabilities within trade and other payables	**28,529**	**18,733**
Salaries and wages payable	4,746	4,187
Advances received from customers	2,847	6,883
Current portion of decommissioning provisions (Note 13)	65	959
Other accounts payable and accrued liabilities	7,301	7,237
Total non-financial liabilities	**14,959**	**19,266**
Accounts payable and accrued liabilities	**43,488**	**37,999**

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2015 and 2014 approximates their carrying value.

Note 17: Other long-term liabilities

Other long-term liabilities are as follows:

	At 31 December 2015	At 31 December 2014
Pension liability	3,871	2,749
Other long-term liabilities	248	211
Total other long-term liabilities	**4,119**	**2,960**

Pension liabilities

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the “Statement of Organization of Non-Governmental Pension Benefits for PJSC Tatneft Employees” and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization “National Non-Governmental Pension Fund”. In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions are as follows:

	At 31 December 2015	At 31 December 2014
Discount rate	9.7%	12.75%
Rate of increase in salary levels	6.27%	7.5%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.69%	30.47%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognized in the consolidated statement of financial position.

(in millions of Russian Roubles)

Note 17: Other long-term liabilities (continued)

Amounts recognized in the consolidated statement of financial position:

	At 31 December 2015	At 31 December 2014
Present value of defined benefit obligation	5,834	4,379
Less: Fair value of plan assets	(1,963)	(1,630)
Net defined benefit liability	**3,871**	**2,749**

Change in the defined benefit obligation amount:

	2015	2014
Defined benefit obligation at beginning year	4,379	5,598
Effect of exchange rate changes	48	50
Current service cost	140	189
Interest cost	558	448
Benefits paid	(677)	(531)
Remeasurement losses/(gains):		
Actuarial losses/(gains) arising from changes in financial assumptions	643	(1,510)
Actuarial losses arising from changes in demographic assumptions	38	30
Actuarial losses - Experience	640	56
Past service cost	65	101
Other	-	(52)
Defined benefit obligation at the end of the year	**5,834**	**4,379**

The amounts recognized in profit or loss are as follows:

	2015	2014
Service cost	205	272
Net interest expense	350	301
Remeasurement losses/(gains):		
Actuarial losses/(gain) arising from changes in financial assumptions	143	(323)
Actuarial losses arising from changes in demographic assumptions	13	10
Actuarial losses/(gains) – Experience	153	(100)
Other	-	(52)
Total included in ‘employee benefits expense’	**864**	**108**

The amounts recognized in other comprehensive income are as follows:

	2015	2014
Remeasurement losses/(gains):		
Actuarial losses/(gains) arising from changes in financial assumptions	229	(845)
Actuarial losses arising from changes in demographic assumptions	25	20
Actuarial losses – Experience	487	155
Effect of exchange rate changes	48	50
Total included in other comprehensive income	**789**	**(620)**

Reconciliation of the opening and closing balances of plan assets’ fair value:

	2015	2014
Plan assets at beginning of year	1,630	1,830
Interest income	208	146
Contributions	193	229
Benefits paid	(340)	(232)
Actuarial gain/(loss)	272	(342)
Other	-	(1)
Plan assets at year end	**1,963**	**1,630**

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

(in millions of Russian Roubles)

Note 17: Other long-term liabilities (continued)

Plan assets structure:

	At 31 December 2015	At 31 December 2014
Russian corporate bonds and equity securities of Russian issuers	32.61%	34.61%
Russian government and regions bonds	11.6%	8.51%
Bank deposits	33.86%	33.84%
Foreign government securities	6.9%	10.11%
Other	15.03%	12.93%
Total plan assets	**100%**	**100%**

Expected contributions to be paid during the next annual reporting period are RR 625 million.

Note 18: Taxes

Income tax expense comprises the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax expense	(30,954)	(21,376)
Deferred income tax expense	(902)	(4,920)
Income tax expense for the year	**(31,856)**	**(26,296)**

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% (for the year ended 31 December 2014: 20%) to income before income taxes:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before income taxes and non-controlling interest	137,628	123,973
Theoretical income tax expense at statutory rate	(27,526)	(24,795)
Increase due to:		
Non-deductible expenses, net	(3,150)	(2,545)
Other	(1,180)	1,044
Income tax expense	**(31,856)**	**(26,296)**

No provision has been made for additional income taxes on RR 31,159 million of undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 1,964 million if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	At 31 December 2015	At 31 December 2014
Tax loss carry forward	4,220	4,508
Decommissioning provision	6,670	8,956
Other	814	778
Deferred income tax assets	**11,704**	**14,242**
Property, plant and equipment	(29,449)	(27,458)
Inventories	(980)	(2,370)
Accounts receivable	(57)	(319)
Long-term investments	217	(94)
Other liabilities	(671)	(2,618)
Deferred income tax liabilities	**(30,940)**	**(32,859)**
Net deferred tax liability	**(19,236)**	**(18,617)**

(in millions of Russian Roubles)

Note 18: Taxes (continued)

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	At 31 December 2015	At 31 December 2014
Deferred income tax asset	2,535	2,982
Deferred income tax liability	(21,771)	(21,599)
Net deferred tax liability	**(19,236)**	**(18,617)**

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

Tax losses carry forward. At 31 December 2015, the Group had recognized deferred income tax assets of RR 4,220 million (RR 4,508 million at 31 December 2014) in respect of unused tax loss carry forwards of RR 21,102 million (RR 22,541 million at 31 December 2014). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Mineral extraction tax	129,608	110,416
Property tax	5,888	5,161
Penalties and interest	86	53
Other	1,798	1,430
Total taxes other than income taxes	**137,380**	**117,060**

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a benefit of approximately RR 22.1 billion and RR 29.7 billion for the years ended 31 December 2015 and 2014, respectively.

At 31 December 2015 and 2014 taxes payable were as follows:

	At 31 December 2015	At 31 December 2014
Mineral extraction tax	7,401	7,300
Value Added Tax on goods sold	3,909	2,694
Export duties	2,534	596
Property tax	1,360	1,419
Other	2,998	2,431
Total taxes payable	**18,202**	**14,440**

Note 19: Shareholders' equity

Authorized share capital. At 31 December 2015 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

Golden share. JSC Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of 31 December 2015 and 2014 holds approximately 33.59% of the Company's capital stock (approximately 36% of voting stock). These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law.

(in millions of Russian Roubles)

Note 19: Shareholders' equity (continued)

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers (see also Note 1).

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2015 and 2014, the Company had a statutory current profit of RR 85,009 million and RR 82,061 million, respectively.

In June 2015 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2014 in amount of RR 10.58 per preference and ordinary share. In June 2014 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2013 in amount of RR 8.23 per preference and ordinary share.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	Year ended 31 December 2015	**Year ended 31 December2014**
Profit attributable to Group shareholders	98,930	92,227
Common share dividends	(22,463)	(17,474)
Preferred share dividends	(1,561)	(1,214)
Income available to common and preferred shareholders, net of dividends	**74,906**	**73,539**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,123	2,123
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,271	2,271
Basic and diluted earnings per share (RR)		
Common	43.56	40.61
Preferred	43.53	40.58

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 2,034 million and RR 1,819 million at 31 December 2015 and 2014, respectively.

(in millions of Russian Roubles)

Note 20: Employee benefit expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	39,018	35,144
Statutory insurance contributions	11,438	10,197
Bonus certificates granted to directors and employees	1,257	1,235
Pension costs – defined benefit plans (Note 17)	864	108
Other employee benefits	2,055	2,467
Total employee benefit expense	**54,632**	**49,151**

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and Maintenance of social infrastructure and transfer of social assets and other expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

Note 21: Interest income and interest expense

Interest income comprises the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Interest income from loans and receivables	10,873	6,852
Unwinding of the present value discount of long-term financial assets	150	92
Total interest income	**11,023**	**6,944**

Interest expense comprises the following:

	Year ended 31 December 2015	Year ended 31 December 2014
Bank loans	1,082	1,660
Unwinding of the present value discount of decommissioning provision	5,337	4,123
Unwinding of the present value discount of long-term financial assets and liabilities	1,272	45
Total interest expense	**7,691**	**5,828**
Less capitalised interest costs	-	(346)
Total interest costs recognised in profit or loss	**7,691**	**5,482**

Note 22: Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through three main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of transfer of crude oil to refinery and other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income taxes and non-controlling interest not including interest income, expense, and gains from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2015, revenues of RR 68,833 million or 12% of the Group's total sales and operating revenues is derived from one external customer.

For the year ended 31 December 2014, revenues of RR 61,719 million or 13% of the Group's total sales and operating revenues is derived from one external customer.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment.

Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 22: Segment information (continued)

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Year ended 31 December 2015	Year ended 31 December 2014
Exploration and production		
Domestic own crude oil	73,486	75,601
CIS own crude oil	19,328	8,825
Non-CIS own crude oil	150,295	105,411
Other	5,864	4,263
Intersegment sales	117,088	109,215
Total exploration and production	**366,061**	**303,315**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	15,735	12,218
Refined products	127,592	126,967
Total Domestic sales	143,327	139,185
CIS sales		
Refined products	15,411	12,087
Total CIS sales(1)	15,411	12,087
Non-CIS sales		
Crude oil purchased for resale	10,374	10,083
Refined products	72,155	62,329
Total non-CIS sales(2)	82,529	72,412
Other	5,882	5,105
Intersegment sales	3,305	3,399
Total refining and marketing	**250,454**	**232,188**
Petrochemicals		
Tires – domestic sales	27,641	25,027
Tires – CIS sales	6,802	6,579
Tires – non-CIS sales	1,999	1,486
Petrochemical products and other	2,385	2,794
Intersegment sales	1,142	933
Total petrochemicals	**39,969**	**36,819**
Total segment sales	**656,484**	**572,322**
Corporate and other sales	17,763	17,585
Elimination of intersegment sales	(121,535)	(113,547)
Total sales and other operating revenues	**552,712**	**476,360**

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
(2) - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders and Poland based refineries.

(in millions of Russian Roubles)

Note 22: Segment information (continued)

Segment earnings.

	Year ended 31 December 2015	Year ended 31 December 2014
Segment earnings		
Exploration and production	122,657	94,932
Refining and marketing	16,617	16,892
Petrochemicals	1,482	320
Total segment earnings	**140,756**	**112,144**
Corporate and other	(10,255)	(5,611)
Other income	7,127	17,440
Profit before income tax	**137,628**	**123,973**

Segment assets.

	At 31 December 2015	At 31 December 2014
Assets		
Exploration and production	297,517	280,081
Refining and marketing	338,852	294,658
Petrochemicals	31,674	30,094
Corporate and other	130,648	128,101
Total assets	**798,691**	**732,934**

As of 31 December 2015 and 2014 corporate and other segment comprised RR 5,632 million and RR 7,212 million, respectively, investments in associates and joint ventures.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

Segment depreciation, depletion and amortisation and additions to property, plant and equipment.

	Year ended 31 December 2015	Year ended 31 December 2014
Depreciation, depletion and amortization		
Exploration and production	13,340	11,633
Refining and marketing	7,137	5,516
Petrochemicals	1,995	1,741
Corporate and other	2,580	2,231
Total segment depreciation, depletion and amortization	**25,052**	**21,121**
Additions to property, plant and equipment		
Exploration and production	19,809	12,186
Refining and marketing	58,163	32,633
Petrochemicals	1,027	1,254
Corporate and other	5,531	6,714
Total additions to property, plant and equipment	**84,530**	**52,787**

For the years ended 31 December 2015 and 2014 additions to property, plant and equipment of exploration and production segment are shown net of RR 17,631 million and RR 12,988 million, respectively, associated with changes in the decommissioning provision.

Note 23: Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in millions of Russian Roubles)

Note 23: Related party transactions (continued)

Transactions are entered into in the normal course of business with associates, joint ventures, government related companies, key management personnel and other related parties. These transactions include sales and purchases of refined products, purchases of electricity, transportation services and banking transactions.

Associates, joint ventures and other related parties

The amounts of transactions for each period with associates, joint ventures and other related parties are as follows:

	Year ended 31 December 2015	**Year ended 31 December 2014**
Revenues and income		
Sales of refined products	15	15
Other sales	294	324
Interest income	3,622	2,530
Costs and expenses		
Purchases of crude oil	103	148
Other services	1,575	527
Other purchases	597	1,644

For the years ended 31 December 2015 and 2014, the Group sold crude oil on a commission basis from related parties for RR 103 million and RR 148 million, respectively.

At 31 December 2015 and 2014 the outstanding balances with associates, joint ventures and other related parties were as follows:

	At 31 December 2015	**At 31 December 2014**
Assets		
Cash and cash equivalents	9,392	6,258
Restricted cash	211	1,554
Accounts receivable	373	421
Notes receivable	5,085	3,459
Short-term certificates of deposit	-	4,394
Trading securities	7	176
Loans receivable	428	515
Prepaid expenses and other current assets	325	189
Due from related parties short-term	**15,821**	**16,966**
Long-term accounts receivable	14	6
Long-term certificates of deposit	17,199	16,006
Long-term notes receivable	4,156	3,360
Long-term loans receivable	1,715	1,614
Due from related parties long-term	**23,084**	**20,986**
Liabilities		
Accounts payable and accrued liabilities	(42)	(45)
Short-term debt	(814)	(1,744)
Due to related parties short-term	**(856)**	**(1,789)**

As of 31 December 2015 and 2014, the Group had RR 10,142 million and RR 7,719 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2016 and 2022, bearing interest between 2.23% and 9.99%. As of 31 December 2015 and 2014, the Group has short and long-term certificates of deposit of RR 17,199 million and RR 20,400 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

In March 2009 the Group placed a long-term deposit with Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%. In February 2014 an additional agreement was signed, as result of which this deposit will be payable in 15 years with a new interest rate of 9.35% per annum.

The Group entered into a subordinated deposit agreement with Bank Zenit in January 2013 in the amount of RR 3,600 million bearing interest of 9% per annum. In October 2015 interest rate was increased to 15% per annum.

(in millions of Russian Roubles)

Note 23: Related party transactions (continued)

Russian Government bodies and state organizations

The amounts of transactions for each period with Government bodies and state organizations are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Sales of crude oil	-	1,292
Sales of refined products	11,439	2,841
Other sales	1,841	330
Interest income	2,865	1,653
Purchases of crude oil	841	-
Purchases of refined products	19,141	18,821
Purchases of electricity	11,507	11,037
Purchases of transportation services	20,005	15,061
Other services	3,867	3,287
Other purchases	7,750	204

Compensation to key management personnel

As of 31 December 2015 and 2014 total remuneration, including pension cost, for key management personnel was RR 1,797 million and RR 1,582 million, respectively.

For the year ended 31 December 2015, the Company issued 6,261,500 Awards to senior management and directors, all of which are expected to be settled at a price of RR 200.76 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July-September 2016. For the year ended 31 December 2014, the Company issued 9,264,850 Awards to senior management and directors, all of which are expected to be settled at a price of RR 133.28 per Award. The amount of related compensation expense recognized in Selling, General and administrative expenses of the Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2015 and 2014 was RR 1,257 million and RR 1,235 million, respectively.

Note 24: Contingencies and commitments

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is sometimes subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

During 2015 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tensions.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Capital commitments. As of 31 December 2015 and 31 December 2014 the Group has outstanding capital commitments of approximately RR 59,294 million and RR 36,977 million, respectively, mainly for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2016 and 2018.

Management believes the Group's current and long-term capital expenditures program can be funded through cash flows generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 15).

Note 24: Contingencies and commitments (continued)

Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Taxation. The Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of the legislation, as applied to the transactions and activities, may be challenged by the tax authorities. The tax authorities may take a different position in their interpretation of the legislation, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

New transfer pricing rules were incorporated in the Russian tax legislation as of 1 January 2012. These transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), as compared to rules applied earlier. The current legislation allows the Russian Federal Tax Service (hereinafter FTS) to impose additional taxes in respect of controllable transactions (transactions with related parties and certain transactions with unrelated parties), provided that the transaction price is not arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the outcome of any disputes with FTS over applied prices cannot be estimated reliably. Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation. The Group believes that its interpretation of the new legislation is appropriate and the Group's tax position will be sustained.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and the Group's policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

Legal contingencies. The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Social commitments. The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Guarantees. The Group has no outstanding guarantees at 31 December 2015 and 2014.

Transportation of crude oil. The Group benefits from the blending of its crude oil in the Transneft pipeline system since the Group's crude oil production is generally of a lower quality than that produced by some other regions of the Russian Federation (mainly Western Siberia) which supply through the same pipeline system. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme is not determinable at present. However, if this practice were to change, the Group's business could be materially and adversely affected.

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest.

(in millions of Russian Roubles)

Note 24: Contingencies and commitments (continued)

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this report. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

As of 31 December 2015 the Group had approximately RR 5,745 million of assets associated with its Libyan operations of which RR 5,524 million is related to capitalized exploration costs, RR 210 million of inventories and RR 11 million of cash. As of 31 December 2014 the Group had approximately RR 5,731 million of assets associated with its Libyan operations of which RR 5,503 million is related to capitalized exploration costs, RR 210 million of inventories and RR 18 million of cash.

Note 25: Principal subsidiaries

Set out below are the Group's principal subsidiaries at 31 December 2015. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

		At 31 December 2015		At 31 December 2014	
Name of entity	**Principal activity**	**% of ownership Interest held by the Group**	**% of ownership Interest held by the NCI**	**% of ownership Interest held by the Group**	**% of ownership Interest held by the NCI**
Tatneft Europe AG	Export oil sales	100	-	100	-
Taneco JSC	Oil refinery	91	9	91	9
TMS group OOO	Oil lifting services	-	100	-	100
Burenie OOO	Drilling services	-	-	-	100
Nizhnekamskshina PJSC	Tires production	73	27	58	42
Nizhnekamskiy zavod shin CMK OOO	Tires production	100	-	100	-
Trade House Kama OOO	Tires sales	100	-	100	-
Tatneft AZS-Centr OOO	Oil products sales	100	-	100	-
Tatneft AZS-Zapad OOO	Oil products sales	100	-	100	-

The total non-controlling interest for the year ended 31 December 2015 is RR 6,842 million, of which RR 2,677 million is attributed to TMS group OOO and Burenie OOO. The total non-controlling interest for the year ended 31 December 2014 is RR 5,450 million, of which RR 1,560 million is attributed to TMS group OOO and Burenie OOO. As of 31 December 2015 accumulated non-controlling interest in TMS group OOO was RR 8,699 million and as of 31 December 2014 accumulated non-controlling interest in TMS group OOO and Burenie OOO was RR 9,527 million.

(in millions of Russian Roubles)

Note 25: Principal subsidiaries (continued)

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (Loss)
Year ended 31 December 2015						
Taneco JSC	10,690	181,959	25,622	155,253	38,508	6,520
TMS group OOO	1,278	30,147	585	4,751	33,435	1,977
Nizhnekamskshina PJSC	2,411	3,004	3,709	2,972	15,344	199
Burenie OOO	-	-	-	-	11,182	797
Total	**14,379**	**215,110**	**29,916**	**162,976**	**98,469**	**9,493**
Year ended 31 December 2014						
Taneco JSC	14,628	183,403	179,424	13,352	37,488	6,786
TMS group OOO	1,380	29,344	1,450	4,902	26,866	2,012
Nizhnekamskshina PJSC	963	3,276	4,935	504	13,596	(131)
Burenie OOO	456	970	1,426	-	14,472	(113)
Total	**17,427**	**216,993**	**187,235**	**18,758**	**92,422**	**8,554**

Note 26: Financial risk management

Financial risk management objectives and policies.

The accounting policies for financial instruments, as described in Note 3, have been applied to the financial statements line items below:

	Note	At 31 December 2015	At 31 December 2014
Financial assets			
Current			
Cash and cash equivalents	6	24,600	41,548
Restricted cash		318	1,635
Accounts receivable	7	60,151	46,059
Short-term financial assets	8	13,055	25,323
Non-current			
Long-term accounts receivable	7	2,248	1,364
Long-term financial assets	11	48,469	29,893
Total financial assets		**148,841**	**145,822**
Financial liabilities			
Current			
Trade and other payable	16	(28,529)	(18,733)
Short-term debt and current portion of long-term debt	15	(5,281)	(15,859)
Non-current			
Long-term debt, net of current portion	15	(12,880)	(12,888)
Total financial liabilities		**(46,690)**	**(47,480)**

The Group‘s activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group‘s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group‘s financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

At 31 December 2015	**Russian Rouble**	**US dollar**	**Other**	**Total**
Financial assets				
Current				
Cash and cash equivalents	14,721	9,761	118	24,600
Restricted cash	122	56	140	318
Accounts receivable	37,990	20,487	1,674	60,151
Short-term financial assets	8,288	4,767	-	13,055
Non-current				
Long-term accounts receivable	2,248	-	-	2,248
Long-term financial assets	41,566	6,903	-	48,469
Total financial assets	**104,935**	**41,974**	**1,932**	**148,841**
Financial liabilities				
Current				
Trade and other payable	(24,988)	(1,341)	(2,200)	(28,529)
Short-term debt and current portion of long-term debt	(1,045)	(3,713)	(523)	(5,281)
Non-current				
Long-term debt, net of current portion	(693)	(8,672)	(3,515)	(12,880)
Total financial liabilities	**(26,726)**	**(13,726)**	**(6,238)**	**(46,690)**

At 31 December 2014	**Russian Rouble**	**US dollar**	**Other**	**Total**
Financial assets				
Current				
Cash and cash equivalents	37,686	3,778	84	41,548
Restricted cash	-	127	1,508	1,635
Accounts receivable	34,974	10,242	843	46,059
Short-term financial assets	22,184	3,139	-	25,323
Non-current				
Long-term accounts receivable	1,364	-	-	1,364
Long-term financial assets	24,381	5,512	-	29,893
Total financial assets	**120,589**	**22,798**	**2,435**	**145,822**
Financial liabilities				
Current				
Trade and other payable	(15,964)	(1,661)	(1,108)	(18,733)
Short-term debt and current portion of long-term debt	(3,590)	(11,484)	(785)	(15,859)
Non-current				
Long-term debt, net of current portion	(799)	(8,971)	(3,118)	(12,888)
Total financial liabilities	**(20,353)**	**(22,116)**	**(5,011)**	**(47,480)**

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Effect on pre-tax profit	Increase/decrease in exchange rate	Year ended 31 December 2015	Year ended 31 December 2014
US $/RR loss	+10%	(2,825)	(68)
US $/RR gain	-10%	2,825	68

b) Interest rate risk.

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

Effect on pre-tax profit	Year ended 31 December 2015	Year ended 31 December 2014
Increase by 100 basis points	(188)	(264)
Decrease by 100 basis points*	70	50

* - floating rate decrease capped at zero.

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the reporting date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

c) 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. The Group's overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group's crude oil export sales to Europe are sold under long-term contracts.

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

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

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized in the Consolidated Statement of Financial Position.

Credit risk arises from cash and cash equivalents, certificates of deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash. As of 31 December 2015 and 2014 the majority of loans and receivables (Note 8, Note 11) are held in Bank Zenit which is related party to the Group (Note 23) and other non-investment grade entities with credit rating not less than BB- according to Standard and Poor's.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term debt, current portion of long-term and long-term debt	6,005	3,134	7,513	3,876	20,528
Trade and other payable	28,529	-	-	-	28,529

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Short-term debt, current portion of long-term and long-term debt	16,662	3,465	5,869	5,496	31,492
Trade and other payable	18,733	-	-	-	18,733

As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

Fair values

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

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Group has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

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

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	At 31 December 2015				**At 31 December 2014**			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Held-for-trading investments	803	-	445	**1,248**	1,160	-	1,360	**2,520**
Available-for-sale investments	-	3,504	19,785	**23,289**	-	4,752	-	**4,752**
Total	**803**	**3,504**	**20,230**	**24,537**	**1,160**	**4,752**	**1,360**	**7,272**

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2015 and 2014:

	At 31 December 2015	**At 31 December 2014**	**Valuation technique**	**Inputs used**
Available-for-sale investments	23,289	4,752	Quoted prices for similar investments in active markets, net assets valuation, comparative (market) approach	Publicly available information, comparable market prices
Total	**23,289**	**4,752**		

Available-for-sale financial assets as of 31 December 2015 and 2014 are comprised of RR 2,300 million and RR 3,585 million, respectively (8.6% and 11.7%, respectively) of investments in AK Bars Bank shares which are not quoted in any Stock Exchange and the fair value of which are measured on AK Bars Bank Group level per IFRS Financial Statements (Net assets value) and other publicly available information. Available-for-sale financial assets as at 31 December 2015 also include RR 19,785 million in Closed Mutual Investment Fund AK-BARS - Gorizont which holds investments in land. The Group does not exercise significant influence over this investment and therefore accounts for it as an available-for-sale investment.

(in millions of Russian Roubles)

Note 26: Financial risk management (continued)

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the year ended 31 December 2015 (2014: none).

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	At 31 December 2015				At 31 December 2014			
	Level 1	Level 2	Level 3	Total carrying value	Level 1	Level 2	Level 3	Total carrying value
Assets								
Cash and cash equivalents	24,600	-	-	**24,600**	41,548	-	-	**41,548**
Restricted cash	318	-	-	**318**	1,635	-	-	**1,635**
Accounts receivable	-	-	62,399	**62,399**	-	-	47,423	**47,423**
Financial assets	-	-	36,103	**36,987**	-	-	42,162	**47,944**
Total assets	**24,918**	**-**	**98,502**	**124,304**	**43,183**	**-**	**89,585**	**138,550**
Liabilities								
Debt	-	-	(16,850)	**(18,161)**	-	-	(23,526)	**(28,747)**
Trade and other payable	-	-	(28,529)	**(28,529)**	-	-	(18,733)	**(18,733)**
Total liabilities	**-**	**-**	**(45,379)**	**(46,690)**	**-**	**-**	**(42,259)**	**(47,480)**

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed and floating interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Management of Capital

The primary objective of the Group‘s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

	At 31 December 2015	At 31 December 2014
Consolidated total borrowings:	**18,421**	**29,006**
- Short-term debt and current portion of long-term debt	5,281	15,859
- Long-term debt, net of current portion	12,880	12,888
- Notes payable	260	259
Consolidated shareholders' equity	**628,314**	**555,965**
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders' equity)	**3%**	**5%**

Note 27: Subsequent events

In March 2016 the Company completed the acquisition of 24.99% ordinary shares of PJSC Nizhnekamskneftekhim and 9% ordinary shares of AO TANECO amounting to RR 20,000 million from a government related entity. As of 31 December 2015 cash paid was recognized in prepaid expenses and other current assets.

Director, AO «PricewaterhouseCoopers Audit»
M.E. Timchenko
31 March 2016

50 (fifty) pages are numbered, bound and sealed