OAO GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

pwc

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2014 and the consolidated statements of comprehensive income, cash flows and changes in equity for 2014, 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 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

28 April 2015

Moscow, Russian Federation

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

Audited entity: OAO Gazprom

State registration certificate № 022.726, issued by the Moscow Registration Chamber on 25 February 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 August 2002 under registration № 1027700070518

Russian Federation, 117997, Moscow, Nametkina St., 16

Independent auditor: ZAO 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

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2014
(In millions of Russian Roubles)

Notes		31 December 2014	31 December 2013
	Assets		
	Current assets		
8	Cash and cash equivalents	1,038,191	689,130
	Restricted cash	2,085	401
9	Short-term financial assets	10,735	24,502
10	Accounts receivable and prepayments	1,045,936	1,032,026
11	Inventories	671,916	569,724
	VAT recoverable	289,287	341,315
12	Other current assets	403,005	205,572
		3,461,155	**2,862,670**
	Non-current assets		
13	Property, plant and equipment	9,950,209	8,940,088
14	Goodwill	104,221	151,189
15	Investments in associated undertakings and joint ventures	677,216	549,684
16	Long-term accounts receivable and prepayments	436,468	437,349
17	Available-for-sale long-term financial assets	201,824	168,904
12	Other non-current assets	346,377	326,352
		11,716,315	**10,573,566**
	Total assets	**15,177,470**	**13,436,236**
	Liabilities and equity		
	Current liabilities		
18	Accounts payable and accrued charges	1,217,141	895,694
	Current profit tax payable	8,402	17,750
19	Other taxes payable	165,622	146,095
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	464,782	331,926
		1,855,947	**1,391,465**
	Non-current liabilities		
21	Long-term borrowings and promissory notes	2,224,042	1,470,002
24	Provisions for liabilities and charges	297,106	330,580
22	Deferred tax liabilities	594,098	558,869
	Other non-current liabilities	86,256	50,966
		3,201,502	**2,410,417**
	Total liabilities	**5,057,449**	**3,801,882**
	Equity		
25	Share capital	325,194	325,194
25	Treasury shares	(103,919)	(103,919)
25	Retained earnings and other reserves	9,595,283	9,098,315
		9,816,558	**9,319,590**
33	Non-controlling interest	303,463	314,764
	Total equity	**10,120,021**	**9,634,354**
	Total liabilities and equity	**15,177,470**	**13,436,236**

A.B. Miller
Chairman of the Management Committee
28 April 2015

E.A. Vasilieva
Chief Accountant
28 April 2015

The accompanying notes on pages 6 to 64 are an integral part of these consolidated financial statements.

(In millions of Russian Roubles)

Notes		Year ended 31 December 2014	2013
26	Sales	5,589,811	5,249,965
	Net (loss) gain from trading activity	(22,510)	5,850
27	Operating expenses	(3,943,669)	(3,600,908)
27	Charge for impairment and other provisions, net	(313,208)	(67,698)
	Operating profit	**1,310,424**	**1,587,209**
28	Finance income	389,804	129,523
28	Finance expense	(1,438,541)	(284,107)
15	Share of net income of associated undertakings and joint ventures	46,051	56,670
	Losses on disposal of available-for-sale financial assets	(915)	(3,212)
	Profit before profit tax	**306,823**	**1,486,083**
	Current profit tax expense	(121,343)	(201,872)
	Deferred profit tax expense	(28,288)	(118,506)
22	Profit tax expense	(149,631)	(320,378)
	Profit for the year	**157,192**	**1,165,705**
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	34,438	55,424
	Total items that will not be reclassified to profit or loss	**34,438**	**55,424**
	Items that will be reclassified to profit or loss:		
	(Losses) gains arising from change in fair value of available-for-sale financial assets, net of tax	(2,933)	12,578
	Share of other comprehensive (loss) income of associated undertakings and joint ventures	(14,769)	10,100
	Translation differences	570,402	56,847
	Losses from cash flow hedges, net of tax	(60,550)	(2,305)
	Total items that will be reclassified to profit or loss	**492,150**	**77,220**
	Other comprehensive income for the year, net of tax	**526,588**	**132,644**
	Total comprehensive income for the year	**683,780**	**1,298,349**
	Profit (loss) attributable to:		
	Owners of OAO Gazprom	159,004	1,139,261
33	Non-controlling interest	(1,812)	26,444
		157,192	**1,165,705**
	Total comprehensive income attributable to:		
	Owners of OAO Gazprom	667,609	1,267,383
	Non-controlling interest	16,171	30,966
		683,780	**1,298,349**
30	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**6.93**	**49.64**

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(In millions of Russian Roubles)

Notes		Year ended 31 December 2014	2013
	Cash flows from operating activities		
31	**Net cash from operating activities**	**1,915,769**	**1,741,804**
	Cash flows from investing activities		
13	Capital expenditures	(1,262,140)	(1,397,195)
	Net change in loans issued	(50,780)	(4,043)
	Interest received	51,825	31,565
13, 28	Interest paid and capitalised	(94,016)	(64,148)
34, 35	Acquisition of subsidiaries, net of cash acquired	(77,496)	(124,380)
15	Investments in associated undertakings and joint ventures	(84,570)	(14,679)
15	Proceeds from associated undertakings and joint ventures	99,679	103,636
	Change in available-for-sale long-term financial assets	(3,257)	(1,693)
	Placement of long-term bank deposits	(20,467)	(547)
	Repayment of long-term bank deposits	771	6,059
	Change in other long-term financial assets	(854)	(1,087)
	Net cash used in investing activities	**(1,441,305)**	**(1,466,512)**
	Cash flows from financing activities		
21	Proceeds from long-term borrowings	293,940	506,172
21	Repayment of long-term borrowings (including current portion)	(352,885)	(332,814)
20	Proceeds from short-term borrowings	69,885	61,313
20	Repayment of short-term borrowings	(54,190)	(105,230)
25	Dividends paid	(178,947)	(137,227)
28	Interest paid	(27,803)	(27,876)
	Acquisition of non-controlling interest in subsidiaries	(10,903)	(2,904)
25	Sales of treasury shares	-	175
	Change in restricted cash	(1,684)	5,129
	Net cash used in financing activities	**(262,587)**	**(33,262)**
	Effect of foreign exchange rate changes on cash and cash equivalents	137,184	21,380
	Increase in cash and cash equivalents	**349,061**	**263,410**
8	Cash and cash equivalents at the beginning of the reporting year	689,130	425,720
8	**Cash and cash equivalents at the end of the reporting year**	**1,038,191**	**689,130**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to owners of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2012	22.9	325,194	(104,094)	7,949,633	8,170,733	309,212	8,479,945
	Profit for the year		-	-	1,139,261	1,139,261	26,444	1,165,705
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations		-	-	55,296	55,296	128	55,424
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	12,578	12,578	-	12,578
	Share of other comprehensive income of associated undertakings and joint ventures		-	-	10,100	10,100	-	10,100
25, 33	Translation differences		-	-	52,314	52,314	4,533	56,847
33	Losses from cash flow hedges, net of tax		-	-	(2,166)	(2,166)	(139)	(2,305)
	Total comprehensive income for the year ended 31 December 2013		-	-	**1,267,383**	**1,267,383**	**30,966**	**1,298,349**
33	Changes in non-controlling interest in subsidiaries		-	-	(597)	(597)	4,905	4,308
25	Return of social assets to governmental authorities		-	-	(240)	(240)	-	(240)
25	Net treasury shares transactions	0.1	-	175	-	175	-	175
25, 33	Dividends declared		-	-	(137,464)	(137,464)	(10,719)	(148,183)
33	Acquisition of shares in subsidiaries		-	-	19,600	19,600	(19,600)	-
	Balance as of 31 December 2013	**23.0**	**325,194**	**(103,919)**	**9,098,315**	**9,319,590**	**314,764**	**9,634,354**
	Profit (loss) for the year		-	-	159,004	159,004	(1,812)	157,192
	Other comprehensive income (loss):		-	-				
24, 33	Remeasurements of post-employment benefit obligations		-	-	34,272	34,272	166	34,438
33	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(2,927)	(2,927)	(6)	(2,933)
	Share of other comprehensive loss of associated undertakings and joint ventures		-	-	(14,769)	(14,769)	-	(14,769)
25, 33	Translation differences		-	-	550,191	550,191	20,211	570,402
33	Losses from cash flow hedges, net of tax		-	-	(58,162)	(58,162)	(2,388)	(60,550)
	Total comprehensive income for the year ended 31 December 2014		-	-	**667,609**	**667,609**	**16,171**	**683,780**
33	Changes in non-controlling interest in subsidiaries		-	-	(5,300)	(5,300)	(16,028)	(21,328)
25	Return of social assets to governmental authorities		-	-	(94)	(94)	-	(94)
25, 33	Dividends declared		-	-	(165,247)	(165,247)	(11,444)	(176,691)
	Balance as of 31 December 2014	**23.0**	**325,194**	**(103,919)**	**9,595,283**	**9,816,558**	**303,463**	**10,120,021**

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1 NATURE OF OPERATIONS

OAO Gazprom and its subsidiaries (the "Group") operate one of the largest gas pipeline systems in the world and are responsible for the major part of gas production and high pressure gas transportation in the Russian Federation. The Group is also a major supplier of gas to European countries. The Group is engaged in oil production, refining activities, electric and heat energy generation. The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Sales of gas within Russian Federation and abroad;
- Gas storage;
- Production of crude oil and gas condensate;
- Processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

Other activities primarily include production of other goods, works and services.

The weighted average number of employees during 2014 and 2013 was 450 thousand and 429 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (see Note 38).

The political and economic instability, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and commodities markets and other risks have had and may continue to have effects on the Russian economy. During 2014 the official Russian Rouble to US dollar and Euro foreign exchange rates depreciated and fluctuated between 32.73 and 56.26 Russian Roubles and 44.97 and 68.34 Russian Roubles per US dollar and Euro, respectively. In addition during 2014 the key interest rate determined by the Central Bank of the Russian Federation increased to 17% and actual inflation increased to 11.4%.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014 Russia's credit rating was downgraded by Fitch Ratings in January 2015 from BBB to BBB-, whilst Standard & Poor's cut it from BBB- to BB+. At the same time as of date of issuance of these consolidated financial statements the key interest rate determined by the Central Bank of the Russian Federation decreased from 17% to 14% and the official Russian Rouble to US dollar and Euro foreign exchange rates were 51.47 and 55.87, respectively.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and 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. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IFRS") and effective in the reporting period.

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4 SCOPE OF CONSOLIDATION

As described in Note 5, these consolidated financial statements include consolidated subsidiaries, associated undertakings and joint arrangements of the Group. Significant changes in the Group's structure in 2013 and 2014 are described below.

In December 2014 the Group became the owner of 100% of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V. for Euro 883 million paid in cash. As a result of the acquisition, the Group obtained control over South Stream Transport B.V. (see Note 34).

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77% (see Note 35).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below.

5.1 Group accounting

Subsidiary undertakings

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

All inter-company transactions, balances and unrealized gains and losses on transactions between group companies have been eliminated. Separate disclosure is made for non-controlling interests.

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability which relate to measurement period adjustments are adjusted against goodwill. Changes which arise due to events occurring after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

Goodwill and non-controlling interest

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 group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash-generating units or groups of cash-generating units, as appropriate.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. The Group treats transactions with non-controlling interests as transactions with equity owners of the group. In accordance with IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associated undertaking is carried in the consolidated balance sheet at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

5.2 Financial instruments

Financial instruments carried on the consolidated balance sheet include cash and cash equivalent balances, financial assets, accounts receivable, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

Accounting for financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value disclosure

The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrower at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the last trading price on the reporting date.

5.3 Derivative financial instruments

As part of trading activities the Group is also a party to derivative financial instruments including forward and options contracts for foreign exchange rate, commodities and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the profit and loss of the consolidated statement of comprehensive income. The fair value of derivative financial instruments is determined using actual market information data and valuation techniques based on prevailing market interest rate for similar instruments as appropriate.

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfil contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement" ("IAS 39").

Sale and purchase transactions of gas, oil, oil products and other goods, which are not physically settled in accordance with the Group's expected operating activity or can be net settled under the terms of the respective contracts, are accounted for as derivative financial instruments in accordance with IAS 39. These instruments are considered as held for trading and related gains or losses are recorded within the profit and loss section of the consolidated statement of comprehensive income.

Derivative contracts embedded into sales and purchase contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

5.4 Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument. The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any ineffective portion is ultimately recognised in profit and loss. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge item is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss;

(b) available-for-sale financial assets; and

(c) loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation, which determines the method for measuring financial assets at subsequent balance sheet date: amortised cost or fair value.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months after the balance sheet date. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2014 and 2013.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

Available-for-sale financial assets are measured at fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for at fair value. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with the same instrument or based on a valuation technique whose variables include only data from observable markets. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income and shown net of income tax in the consolidated statement of comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of comprehensive income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments, calculated using the effective interest method, is recognized within the profit and loss section of the consolidated statement of comprehensive income.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether 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 recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the receivable. The amount of the provision is recognized in the consolidated statement of comprehensive income within operating expenses.

5.6 Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are carried at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included within the profit and loss section of the consolidated statement of comprehensive income.

5.7 Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term financial assets which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

5.8 Value added tax

In the Russian Federation 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 could 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. Input VAT related to export sales is recoverable. A limited list of goods, works and services are not subject to VAT. Input VAT related to non-VATable supply of goods, works and services generally is not recoverable and is included in the value of acquired goods, works and services.

VAT related to purchases (input VAT) and also VAT prepayments are recognised in the consolidated balance sheet within other current assets, while VAT related to sales (output VAT) is disclosed separately as a current liability. VAT, presented within other non-current assets relates to assets under construction, which is expected to be recovered more than 12 months after the balance sheet date.

5.9 Natural resources production tax

Natural resources production tax (NRPT) on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted.

In the Russian Federation NRPT for natural gas and gas condensate is defined as an amount of volume produced per fixed tax rate: for natural gas – RR 700 per mcm from 1 January 2014 to 30 June 2014 and RR 35 per mcm (the tax rate is multiplied by the base amount of hard coal equivalent and by the rate reflecting the complexity of producing gas and/or gas condensate in a raw hydrocarbon deposit, the obtained amount should be summarised with the indicator of expenses for transporting gas) from 1 July 2014 to 31 December 2014 (RR 622 per mcm effective since 1 July 2013, RR 582 per mcm from 1 January 2013 to 30 June 2013); for gas condensate – RR 647 per ton from 1 January 2014 to 30 June 2014 and RR 42 per ton (the tax rate is multiplied by the base amount of hard coal equivalent and by the rate reflecting the complexity of producing gas and/or gas condensate in a raw hydrocarbon deposit) from 1 July 2014 to 31 December 2014 (RR 590 per ton in 2013). Significant changes of tax rates are related to enforcement of Russian Federal Law #263-FZ dated 30 September 2013, which stipulate that starting 1 July 2014 a new formula to calculate NRPT for natural gas and gas condensate.

In the Russian Federation NRPT for crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 493 per ton effective since 1 January 2014 and RR 470 per ton in 2013) adjusted for coefficients that take into account volatility of crude oil prices on the global market, relative size of the field and degree of depletion of the specific field. Since 1 September 2013 in accordance with Federal Law No. 213-FZ dated 23 July 2013 NRPT for crude oil shall also take account of coefficients that reduce the tax rate in respect to hard-to-recover reserves. Also a 0% tax rate is applied to oil extracted in a number of regions of the Russian Federation shall the specific criteria determined by respective tax legislation be fulfilled.

Natural resources production tax is accrued as a tax on production and recorded within operating expenses.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas.

According to the Federal Law No.239-FZ dated 3 December 2012, starting from 1 April 2013 under the Resolution of the Russian Government No. 276 dated 29 March 2013 export customs duty calculation methodology for oil and oil products was established based on which the Ministry of Economic Development of the Russian Federation determines export customs duty rates for the following calendar month.

Revenues are recognized net of the amount of custom duties.

5.11 Excise tax on oil products

Excise tax is applicable to certain transactions with oil products. Currently only gasoline, motor oil and diesel are subject to excise tax. Oil, gas condensate and natural gas are excluded. Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owning the product. The Group considers the excise tax on refining of oil products on a tolling basis as an operating expense. These taxes are not netted from revenue presented in the consolidated statement of comprehensive income.

5.12 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5.13 Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of development and successful exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included within the profit and loss section of the consolidated statement of comprehensive income as incurred.

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

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines set by Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, and were estimated by independent reservoir engineers.

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of assets (other than production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Years
Pipelines	25-33
Wells	7-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its consolidated balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

5.14 Impairment of non-current non-financial assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount which is the higher of fair value less costs to sell and value in use. Individual assets are grouped for impairment assessment purposes into the cash-generating units at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication that impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating units (or groups of cash-generating units) to which goodwill relates. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit.

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded within the profit and loss section of the consolidated statement of comprehensive income in the period in which the reduction is identified. Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Impairment losses recognized for goodwill are not reversed in subsequent reporting periods.

5.15 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.16 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associated undertakings and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.17 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Russian Roubles, which is the Group's presentation currency.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

The balance sheets of foreign subsidiaries, associated undertakings and joint arrangements are translated into Roubles at the official exchange rate prevailing at the reporting date. Statements of comprehensive income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and recorded directly in equity.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 56.26 and 32.73 as of 31 December 2014 and 2013, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 68.34 and 44.97 as of 31 December 2014 and 2013, respectively.

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

5.18 Provisions for liabilities and charges

Provisions, including provisions for post-employment benefit obligations and for decommissioning and site restoration costs, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

5.19 Equity

Treasury shares

When the Group companies purchase the equity share capital of OAO Gazprom, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost. Gains (losses) arising from treasury shares transactions are recognised directly in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability and deducted from equity in the period when it recommended by the Board of Directors and approved at the General Meeting of Shareholders.

5.20 Revenue recognition

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

Sales, including gas, refined products, crude oil and gas condensate and electric and heat energy, are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT and other similar compulsory payments. Gas transportation sales are recognized when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are generally indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in various ways including using formulas, similar to those used in contracts with European customers.

Trading activity

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognized at fair value and associated gains or losses are recorded as Net gain (loss) from trading activity. These contracts are derivatives in the scope of IAS 39 for both measurement and disclosure.

The financial result generated by trading activities is reported as a net figure. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd., a subsidiary of the Group, and relate partly to gas trading and power and emission rights trading activities.

5.21 Interest

Interest income and expense are recognised within the profit and loss section of the consolidated statement of comprehensive income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

5.22 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

5.23 Employee benefits

Pension and other post-retirement benefits

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 (revised) “Employee Benefits” (“IAS 19 (revised)”). Defined benefit plan covers the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is accrued and charged to staff expense within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. (see Note 24).

Past service costs are recognised immediately though profit or loss when they occur, in the period of a plan amendment.

Plan assets are measured at fair value and are subject to certain limitations (see Note 24). 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 plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the profit and losses of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of comprehensive income.

5.24 Recent accounting pronouncements

Application of new IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after 1 January 2014 and have been endorsed for application in the Russian Federation:

- Amendments to IAS 32 “Financial Instruments: Presentation” regarding offsetting rules.
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other entities” and IAS 27 “Separate Financial Statements” in respect of investment entities.
- Amendments to IAS 36 “Impairment of Assets” regarding additional disclosure.
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) regarding novation of derivatives and hedge accounting.
- IFRIC 21 “Levies”, Annual improvements 2013.

The Group has applied amended standards and new IFRIC while preparing these consolidated financial statements. It has no significant impact on the Group’s consolidated financial statements.

Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group

Certain new standards and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2015. In particular the Group has not early adopted the following standards and amendments:

a) that have been endorsed for application in the Russian Federation:

- The amendments to IFRS 11 “Joint Arrangements” (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- The amendment to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognized as an asset and amortized over the period when the benefits of the contract are consumed.

b) that have not been endorsed for application in the Russian Federation:

- Disclosure Initiative Amendments to IAS 1 “Presentation of Financial Statements” (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The standard also provides new guidance on subtotals in financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 9 "Financial Instruments" ("IFRS 9") (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply IAS 39 to all hedging instruments because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the amendments on its financial position and results of operation.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from our estimates, and our estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognized 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 are reported below.

6.1 Consolidation of subsidiaries

Management judgment is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements taken into account voting rights and contractual arrangements with other shareholders.

6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 38).

The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than profit tax are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10).

Impairment of Property, plant and equipment and Goodwill

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on gas, oil, oil products, electrical power, operating costs, capital investment, hydrocarbon reserves estimates, and macroeconomic factors such as inflation and discount rates.

In addition, judgement is applied in determining the cash-generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash-generating unit and monitors associated goodwill at this level. The pipelines that are part of the Gas cash-generating unit are utilized primarily for the Group activities and represent the only transit route for the gas produced. Operationally, the gas produced is transported through the Group's Russian

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

and Belorussian pipelines and distributed to meet demands of customers in Russia and then in the Former Soviet Union and Europe and underground storage facilities. The interrelationship of these activities forming the Gas cash-generating unit provides the basis for capturing the benefits from synergies.

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future.

Impairment charges are disclosed in Notes 13, 14 and 27.

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's operating cycle, the year end carrying values are assessed in light of forward looking plans finalised on or around year end. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

6.4 Site restoration and environmental costs

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be an increase by RR 51,940 or a decrease by RR 42,497 (2013: increase by RR 46,462 or decrease by RR 38,014).

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. Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 40).

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

6.7 Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions as disclosed in Note 24. Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF Gazfund are estimated using the fair value estimation techniques. Management makes judgments with respect to the selection of valuation model applied, the amount and timing of cash flows forecasts or other assumptions such as discount rates. The recognition of plan assets is limited by the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 (revised) is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

6.9 Joint Arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in OAO Tomskneft VNK, Salym Petroleum Development N.V. and Blue Stream Pipeline company B.V., which were determined to be joint operations.

7 SEGMENT INFORMATION

The Group operates as a vertically integrated business with substantially all external gas sales generated by the Distribution segment.

The Board of Directors and Management Committee of OAO Gazprom (chief operating decision maker (CODM)) provide general management of the Group, an assessment of the operating results and allocate resources using different internal financial information. Based on that the following reportable segments within the Group were determined:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

Other activities have been included within "All other segments" column.

The inter-segment sales mainly consist of:

- Production of gas – sales of gas to the Distribution and Refining segments;
- Transport – rendering transportation services to the Distribution segment;
- Distribution – sales of gas to the Transport segment for own needs and to the Electric and heat energy generation and sales segment;
- Gas storage – sales of gas storage services to the Distribution segment;
- Production of crude oil and gas condensate – sales of oil and gas condensate to the Refining segment for further processing; and
- Refining – sales of refined hydrocarbon products to other segments.

Internal transfer prices, mostly for Production of gas, Transport and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment.

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

The CODM assesses the performance, assets and liabilities of the operating segments based on the internal financial reporting. The effects of certain non-recurring transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information to IFRS consolidated financial statements are not included within the operating segments which are reviewed by the CODM on a central basis. Gains and losses on available-for-sale financial assets, and financial income and expenses are also not allocated to the operating segments.

	Production of gas	Trans-port	Distribu-tion	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2014									
Total segment revenues	**701,406**	**965,057**	**3,203,357**	**44,264**	**706,311**	**1,629,779**	**426,951**	**209,632**	**7,886,757**
Inter-segment sales	682,338	792,215	237,040	41,461	497,077	10,565	-	-	2,260,696
External sales	19,068	172,842	2,966,317	2,803	209,234	1,619,214	426,951	209,632	5,626,061
Segment result	**47,193**	**43,327**	**727,604**	**6,314**	**75,720**	**246,647**	**(14,752)**	**(18,774)**	**1,113,279**
Depreciation	141,544	381,004	14,592	18,962	81,905	35,425	37,343	24,937	735,712
Share of net (loss) income of associated undertakings and joint ventures	(22,277)	9,895	10,934	(2,724)	55,396	602	(14)	(5,761)	46,051
Year ended 31 December 2013									
Total segment revenues	**662,593**	**949,287**	**3,210,204**	**37,640**	**698,535**	**1,362,414**	**375,589**	**234,037**	**7,530,299**
Inter-segment sales	653,921	786,022	247,053	35,679	488,319	10,701	-	-	2,221,695
External sales	8,672	163,265	2,963,151	1,961	210,216	1,351,713	375,589	234,037	5,308,604
Segment result	**62,594**	**55,109**	**917,896**	**4,882**	**109,581**	**149,994**	**39,218**	**12,059**	**1,351,333**
Depreciation	132,185	366,861	14,241	15,220	75,872	34,696	26,409	19,384	684,868
Share of net income (loss) of associated undertakings and joint ventures	852	2,446	12,442	374	28,271	(937)	(9)	13,231	56,670

A reconciliation of total reportable segments' results to total profit before profit tax in the consolidated statement of comprehensive income is provided as follows:

Notes		For the year ended 31 December 2014	2013
	Segment result for reportable segments	1,132,053	1,339,274
	Other segments' result	(18,774)	12,059
	Total segment result	**1,113,279**	**1,351,333**
	Difference in depreciation*	263,561	265,849
	Expenses associated with pension obligations	(3,387)	(28,063)
28	Net finance expense	(1,048,737)	(154,584)
	Losses on disposal of available-for-sale financial assets	(915)	(3,212)
15	Share of net income of associated undertakings and joint ventures	46,051	56,670
27	Derivatives (losses) gains	(7,141)	8,512
14, 27	Impairment of goodwill	(47,620)	-
	Other	(8,268)	(10,422)
	Profit before profit tax	**306,823**	**1,486,083**

*The difference in depreciation relates to adjustments of statutory fixed assets to comply with IFRS, such as reversal of revaluation of fixed assets recorded under Russian statutory accounting or accounting for historical hyperinflation which is not recorded under statutory accounting.

A reconciliation of reportable segments' external sales to sales in the consolidated statement of comprehensive income is provided as follows:

	For the year ended 31 December 2014	2013
External sales for reportable segments	5,416,429	5,074,567
External sales for other segments	209,632	234,037
Total external segment sales	**5,626,061**	**5,308,604**
Differences in external sales*	(36,250)	(58,639)
Total sales per the consolidated statement of comprehensive income	**5,589,811**	**5,249,965**

* The difference in external sales relates to adjustments of statutory sales to comply with IFRS, such as netting of sales of materials to subcontractors recorded under Russian statutory accounting and other adjustments.

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

Substantially all of the Group's operating assets are located in the Russian Federation. Segment assets consist primarily of property, plant and equipment, accounts receivable and prepayments, investments in associated undertakings and joint ventures, and inventories. Cash and cash equivalents, restricted cash, VAT recoverable, goodwill, financial assets and other current and non-current assets are not considered to be segment assets but rather are managed on a central basis.

	Production of gas	Trans-port	Distribu-tion	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2014									
Segment assets	2,276,369	6,088,335	1,454,300	280,762	1,896,609	1,378,295	799,914	661,507	14,836,091
Investments in associated undertakings and joint ventures	13,178	123,594	54,083	7,017	346,373	20,063	414	112,494	677,216
Capital additions	254,881	434,433	23,709	15,530	227,421	135,158	82,019	48,177	1,221,328
31 December 2013									
Segment assets	2,051,204	5,271,761	1,394,112	242,198	1,585,429	1,121,301	798,781	669,682	13,134,468
Investments in associated undertakings and joint ventures	31,032	74,292	73,339	6,090	228,612	17,575	439	118,305	549,684
Capital additions	257,407	380,547	36,085	23,524	223,557	113,254	77,191	102,285	1,213,850

Reportable segments' assets are reconciled to total assets in the consolidated balance sheet as follows:

Notes		31 December 2014	31 December 2013
	Segment assets for reportable segments	14,174,584	12,464,786
	Other segments' assets	661,507	669,682
	Total segment assets	**14,836,091**	**13,134,468**
	Differences in property, plant and equipment, net*	(2,070,873)	(1,600,509)
13	Loan interest capitalized	467,373	378,792
	Decommissioning costs	47,287	75,886
8	Cash and cash equivalents	1,038,191	689,130
	Restricted cash	2,085	401
9	Short-term financial assets	10,735	24,502
	VAT recoverable	289,287	341,315
	Other current assets	403,005	205,572
17	Available-for-sale long-term financial assets	201,824	168,904
14	Goodwill	104,221	151,189
	Other non-current assets	346,377	326,352
	Inter-segment assets	(757,684)	(671,612)
	Other	259,551	211,846
	Total assets per the consolidated balance sheet	**15,177,470**	**13,436,236**

* The difference in property, plant and equipment relates to adjustments of statutory fixed assets to comply with IFRS, such as reversal of revaluation of fixed assets recorded under Russian statutory accounting or accounting for historical hyperinflation which is not recorded under statutory accounting.

Segment liabilities mainly comprise operating liabilities. Profit tax payable, deferred tax liabilities, provisions for liabilities and charges, short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

	Production of gas	Trans-port	Distri-bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Segment liabilities									
31 December 2014	146,755	351,566	686,824	18,352	323,068	247,737	78,438	130,044	1,982,784
31 December 2013	155,578	290,678	534,370	9,599	225,777	287,677	49,088	125,339	1,678,106

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

Reportable segments' liabilities are reconciled to total liabilities in the consolidated balance sheet as follows:

Notes		31 December 2014	31 December 2013
	Segment liabilities for reportable segments	1,852,740	1,552,767
	Other segments' liabilities	130,044	125,339
	Total segments liabilities	**1,982,784**	**1,678,106**
	Current profit tax payable	8,402	17,750
20	Short-term borrowings, promissory notes and current portion of long- term borrowings	464,782	331,926
21	Long-term borrowings and promissory notes	2,224,042	1,470,002
24	Provisions for liabilities and charges	297,106	330,580
22	Deferred tax liabilities	594,098	558,869
	Other non-current liabilities	86,256	50,966
	Dividends	4,759	3,791
	Inter-segment liabilities	(757,684)	(671,612)
	Other	152,904	31,504
	Total liabilities per the consolidated balance sheet	**5,057,449**	**3,801,882**

8 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks and term deposits with original maturity of three months or less.

	31 December 2014	31 December 2013
Cash on hand and bank balances payable on demand	969,440	568,663
Term deposits with original maturity of three months or less	68,751	120,467
	1,038,191	**689,130**

The table below analyses credit quality of banks by external credit ratings at which the Group holds cash and cash equivalents. The ratings are shown under Standard & Poor's classification:

	31 December 2014	31 December 2013
Cash on hand	852	570
External credit rating of A-3 and above	129,630	592,621
External credit rating of B	810,478	8,061
No external credit rating	97,231	87,878
Total cash and cash equivalents	**1,038,191**	**689,130**

The sovereign credit ratings of the Russian Federation published by Standard & Poor's are BBB- (negative outlook) and BBB (stable outlook) as of 31 December 2014 and 2013, respectively.

9 SHORT-TERM FINANCIAL ASSETS

	31 December 2014	31 December 2013
Financial assets held for trading:	**6,718**	**22,355**
Bonds	6,498	5,681
Equity securities	220	16,674
Available-for-sale financial assets:	**4,017**	**2,147**
Equity securities	2,863	-
Promissory notes	1,154	2,147
Total short-term financial assets	**10,735**	**24,502**

Information about credit quality of short-term financial assets (excluding equity securities) is presented in the table below with reference to external credit ratings of related counterparties or instruments. The ratings are shown under Standard & Poor's classification:

	31 December 2014	31 December 2013
External credit rating of A-3 and above	5,123	4,725
External credit rating of B	1,778	2,296
No external credit rating	751	807
	7,652	**7,828**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2014	31 December 2013
Financial assets		
Trade receivables (net of impairment provision of RR 616,919 and RR 315,332 as of 31 December 2014 and 2013, respectively)	683,967	751,219
Short-term loans (net of impairment provision of RR 1,250 and RR nil as of 31 December 2014 and 2013, respectively)	121,063	79,082
Other receivables (net of impairment provision of RR 26,837 and RR 18,139 as of 31 December 2014 and 2013, respectively)	108,429	95,984
	913,459	926,285
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 1,116 and RR 670 as of 31 December 2014 and 2013, respectively)	132,477	105,741
Total accounts receivable and prepayments	**1,045,936**	**1,032,026**

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

Other receivables are mainly represented by accounts receivable from Russian customers for various types of goods, works, and services.

Accounts receivable due from NAK Naftogaz Ukraine in relation to gas sales are RR nil and RR 90,267 net of impairment provision of RR 123,874 and nil as of 31 December 2014 and 2013, respectively.

	31 December 2014	31 December 2013
Short-term trade accounts receivable neither past due nor impaired	604,199	687,407
Short-term trade accounts receivable impaired and provided for	647,006	340,576
Impairment provision at the end of the year	(616,919)	(315,332)
Short-term trade accounts receivable past due but not impaired	49,681	38,568
Total short-term trade accounts receivable	**683,967**	**751,219**

Management's experience indicates customer payment histories in respect of trade accounts receivable neither past due nor impaired vary by geography. The credit quality of these assets can be analysed as follows:

	31 December 2014	31 December 2013
Europe and other countries gas, crude oil, gas condensate and refined products debtors	338,363	326,093
Domestic gas, crude oil, gas condensate and refined products debtors	129,375	126,183
Former Soviet Union countries (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	30,255	157,360
Electricity and heat sales debtors	45,943	36,850
Transportation services debtors	3,953	1,687
Other trade debtors	56,310	39,234
Total trade receivables neither past due nor impaired	**604,199**	**687,407**

As of 31 December 2014 and 2013, the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Provision 31 December		Net book value 31 December	
	2014	2013	2014	2013	2014	2013
Up to 6 months	124,549	53,956	(104,788)	(38,077)	19,761	15,879
From 6 to 12 months	123,951	29,322	(121,310)	(25,279)	2,641	4,043
From 1 to 3 years	146,053	108,828	(139,017)	(103,687)	7,036	5,141
More than 3 years	252,453	148,470	(251,804)	(148,289)	649	181
	647,006	**340,576**	**(616,919)**	**(315,332)**	**30,087**	**25,244**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Movements of the Group's provision for impairment of trade and other receivables are as follows:

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Impairment provision at the beginning of the year	315,332	256,334	18,139	16,664
Impairment provision accrued*	287,720	75,263	11,545	6,351
Write-off of receivables during the year**	(6,320)	(1,302)	(755)	(4,326)
Release of previously created provision*	(172,607)	(12,547)	(2,092)	(550)
Foreign exchange rate differences	192,794	(2,416)	-	-
Impairment provision at the end of the year	**616,919**	**315,332**	**26,837**	**18,139**

* The accrual and release of provision for impaired receivables have been included in Charge for impairment and other provisions in the consolidated statement of comprehensive income.

** If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that provision.

Trade accounts receivable past due but not impaired mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2014	2013
Up to 6 months	30,324	24,835
From 6 to 12 months	16,266	8,471
From 1 to 3 years	2,868	5,004
More than 3 years	223	258
	49,681	**38,568**

11 INVENTORIES

	31 December	
	2014	2013
Gas in pipelines and storage	429,062	350,537
Materials and supplies (net of an obsolescence provision of RR 5,414 and RR 4,306 as of 31 December 2014 and 2013, respectively)	132,322	110,323
Goods for resale (net of an obsolescence provision of RR 1,474 and RR 589 as of 31 December 2014 and 2013, respectively)	27,233	24,693
Crude oil and refined products	83,299	84,171
	671,916	**569,724**

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RR 117,012 and RR 103,805 and profit tax in the amount of RR 92,122 and RR 12,089 as of 31 December 2014 and 2013, respectively.

Included within other non-current assets is VAT recoverable related to assets under construction totaling RR 49,543 and RR 74,711 as of 31 December 2014 and 2013, respectively.

Other non-current assets include net pension assets in the amount of RR 111,742 and RR 111,160 as of 31 December 2014 and 2013 respectively (see Note 24).

(In millions of Russian Roubles)

13 PROPERTY, PLANT AND EQUIPMENT

Notes		Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
	As of 31 December 2012								
	Cost	2,978,567	1,183,507	2,767,829	2,402,697	456,046	93,181	1,578,379	11,460,206
	Accumulated depreciation	(1,082,253)	(415,780)	(1,066,682)	(742,849)	(171,294)	(32,178)	-	(3,511,036)
	Net book value as of 31 December 2012	**1,896,314**	**767,727**	**1,701,147**	**1,659,848**	**284,752**	**61,003**	**1,578,379**	**7,949,170**
	Depreciation	(76,672)	(46,717)	(183,432)	(87,682)	(21,037)	(2,616)	-	(418,156)
	Additions	358	45,611	10,045	3,242	41,202	410	1,212,280	1,313,148
	Acquisition of subsidiaries	19	21	98,418	13,655	-	-	18,960	131,073
	Translation differences	799	3,595	4,692	5,583	2,590	2	1,455	18,716
	Transfers	109,193	132,309	364,491	359,766	609	2,691	(969,059)	-
	Disposals and other	(613)	(19,029)	(5,275)	(7,417)	(2,048)	(260)	(19,175)	(53,817)
27	Charge for impairment provision	-	-	-	-	-	-	(46)	(46)
	Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
	As of 31 December 2013								
	Cost	3,089,096	1,344,235	3,233,208	2,777,460	498,399	94,737	1,822,794	12,859,929
	Accumulated depreciation	(1,159,698)	(460,718)	(1,243,122)	(830,465)	(192,331)	(33,507)	-	(3,919,841)
	Net book value as of 31 December 2013	**1,929,398**	**883,517**	**1,990,086**	**1,946,995**	**306,068**	**61,230**	**1,822,794**	**8,940,088**
	Depreciation	(79,240)	(54,714)	(215,927)	(99,840)	(15,121)	(2,620)	-	(467,462)
	Additions	917	371	49,689	32,990	48,328	1,364	1,220,432	1,354,091
	Acquisition of subsidiaries	-	-	1,115	15,243	-	-	128,117	144,475
	Translation differences	8,556	64,279	33,578	29,482	24,820	22	18,246	178,983
	Transfers	307,472	161,030	374,276	208,858	-	1,496	(1,053,132)	-
	Disposals and other	(383)	(72,673)	(11,079)	(9,955)	(2,286)	(2,123)	(25,003)	(123,502)
27	Charge for impairment provision	-	(18,702)	(35,207)	(19,167)	(2,356)	-	(1,032)	(76,464)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**
	As of 31 December 2014								
	Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
	Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	-	(4,405,925)
	Net book value as of 31 December 2014	**2,166,720**	**963,108**	**2,186,531**	**2,104,606**	**359,453**	**59,369**	**2,110,422**	**9,950,209**

Operating assets are shown net of provision for impairment of RR 129,479 and RR 54,047 as of 31 December 2014 and 2013, respectively.

Assets under construction are presented net of a provision for impairment of RR 43,788 and RR 42,873 as of 31 December 2014 and 2013, respectively. Charges for impairment provision of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefit.

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. As of 31 December 2014 the Group determined indicators of impairment. The impairment was primarily triggered by changes in the Russian economy (see Note 2), which unfavorably affected discount rates applied by the Group.

The Group conducted impairment tests assessing whether the carrying amount of each cash-generating unit is compared with the recoverable amount of the respective cash-generating unit. The recoverable amount used in the impairment tests has been determined on the basis of the values in use of such assets. The values in use of cash-generating units have been calculated as the present values of projected future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 12.5% to 17.5%. Cash flows are projected based on actual operating results, business plans and investment programs. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets and investment programs. Based on the results of the impairment test the Group recognized in 2014 an impairment loss of RR 42,630 for power generating assets and RR 33,752 for oil production assets. The impairments were primarily due to increases in discount rates. Impairment of property, plant and equipment is sensitive to the key valuation inputs used to

(In millions of Russian Roubles)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

calculate the present value of projected future cash flows of cash-generating units. For certain oil production assets the increase in discount rate by 1% could result in an additional impairment of approximately RR 30 billion. For certain refining assets the change in key assumptions (such as increase in discount rate and decrease in EBITDA margin) by 1-2% could result in an additional impairment of approximately RR 30 billion to RR 40 billion. For certain electricity and heat generation assets the change in key assumptions (such as increase in discount rate by 1% and decrease in tariffs by 5%) could result in an additional impairment of approximately RR 20 billion to RR 40 billion.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 336 and RR 463 as of 31 December 2014 and 2013, respectively.

Included in additions above are capitalized borrowing costs of RR 119,364 and RR 66,357 for the years ended 31 December 2014 and 2013, respectively. Capitalization rates of 6.16% and 6.09% were used representing the weighted average borrowing cost for the years ended 31 December 2014 and 2013, respectively.

The information regarding Group's exploration and evaluation assets (included within production licenses and assets under construction) is presented below:

	Year ended 31 December	
	2014	**2013**
Balance at the beginning of the year	184,372	111,290
Additions	115,703	75,718
Translation differences	14,355	3,074
Transfers	(17,230)	-
Disposals	(20,350)	(5,710)
Balance at the end of the year	**276,850**	**184,372**

14 GOODWILL

Movements of the Group's goodwill on subsidiaries are as follows:

Note		Year ended 31 December	
	Movements in goodwill on subsidiaries	**2014**	**2013**
	Balance at the beginning of the year	151,189	146,587
	Additions	3,735	4,602
27	Charge for impairment	(47,620)	-
	Disposals	(3,083)	-
	Balance at the end of the year	**104,221**	**151,189**

Goodwill acquired through business combinations has been allocated to the related cash-generating units and segments within the following operations:

	31 December	
	2014	**2013**
Gas production, transportation and distribution	70,475	70,638
Refining	-	43,469
Production of crude oil and gas condensate	31,299	27,564
Electric and heat energy generation and sales	2,447	9,518
Total goodwill on subsidiaries	**104,221**	**151,189**

In assessing whether goodwill has been impaired, the carrying values of the cash-generating units (including goodwill) were compared with their estimated value in use. Value in use is calculated as the present values of projected future cash flows discounted by the rates reflecting the time value of money as at 31 December 2014 and the risks specific to the particular cash-generated units, for which the future cash flow estimates have not been adjusted. The Group applied discount rates ranging from 12.5% to 17.5%.

The estimates of future cash flows are based on the Group's managerial information, including forecast of commodity prices and expected production volumes, and available market information, and cover periods commensurate with the expected lives of the respective assets. The Group applied either steady or declining growth rates to cash flows beyond the explicit period of the forecast for related cash-generating units.

Based on the results of the impairment test conducted as at 31 December 2014 the Group recognized an impairment loss in relation to goodwill in refining and electric and heat energy generation and sale segments in the amount of RR 47,620.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES

Notes			Carrying value as of 31 December		Share of the income (loss) of associated undertakings and joint ventures for the year ended 31 December	
			2014	**2013**	**2014**	**2013**
36, 37	Sakhalin Energy Investment Company Ltd.	Associate	153,418	67,868	58,888	41,338
36	OAO NGK Slavneft and its subsidiaries	Joint venture	113,676	126,976	(7,534)	(18,949)
36	Gazprombank Group	Associate	95,999	100,612	(6,145)	11,997
36	OOO Yamal razvitie and its subsidiaries	Joint venture	60,215	24,165	(1,809)	(130)
36, 37	Nord Stream AG	Joint venture	52,944	43,851	8,888	2,538
36	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries*	Associate	39,139	-	4,876	-
36,37	SGT EuRoPol GAZ S.A.	Associate	27,857	18,802	188	(240)
36	TOO KazRosGaz	Joint venture	19,215	9,819	6,268	4,659
36	Wintershall AG	Associate	17,640	11,528	186	1,492
36	ZAO Achimgaz	Joint venture	16,844	9,956	6,888	4,023
36	AO Latvijas Gaze	Associate	7,611	4,959	594	470
36	AO Gasum	Associate	6,915	4,515	229	369
36	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	Associate	6,249	40,302	2,320	4,809
36	ZAO Nortgaz	Joint venture	4,730	2,258	4,322	1,130
	Shtokman Development AG**	Joint venture	-	23,216	(27,888)	(248)
34	South Stream Transport B.V. and its subsidiaries***	Joint venture	-	7,081	(4,237)	-
36	AO Lietuvos dujos****	Associate	-	1,359	491	281
	AO Amber Grid****	Associate	-	1,206	60	25
	Other (net of provision for impairment of RR 1,929 as of 31 December 2014 and 2013)		54,764	51,211	(534)	3,106
			677,216	**549,684**	**46,051**	**56,670**

* In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.

** As of 31 December 2014 an impairment provision was created for investment in Shtokman Development AG in the amount of RR 27,378. Respective expense is included in share of net income of associated undertakings and joint ventures in the consolidated statement of comprehensive income for the year ended 31 December 2014.

*** In December 2014 the Group became the owner of 100% interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V. (see Note 34).

**** In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AO Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AO Amber Grid, an associate of the Group. In June 2014 the Group sold its 37% interests in associates, AO Lietuvos dujos and AO Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.

The Group's share of income of associated undertakings and joint ventures for the year ended 31 December 2013 includes additional expense of RR 25,961 recognized for OAO NGK Slavneft and its subsidiaries as a result of a one-time adjustment in the first quarter of 2013 to correct the prior understatement of depreciation on the basis difference for property, plant and equipment since the Group's acquisition of interest in OAO NGK Slavneft.

Movements in the carrying amount of the Group's investment in associated undertakings and joint ventures are as follows:

	Year ended 31 December	
	2014	**2013**
Balance at the beginning of the reporting year	**549,684**	**541,113**
Share of net income of associated undertakings and joint ventures	73,429	56,670
Impairment of investment in Shtokman Development AG	(27,378)	-
Distributions from associated undertakings and joint ventures	(86,907)	(95,574)
Share of other comprehensive (loss) income of associated undertakings and joint ventures	(14,769)	10,100
Translation differences	150,871	15,879
Other acquisitions and disposals	32,286	21,496
Balance at the end of the reporting year	**677,216**	**549,684**

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

The estimated fair values of investments in associated undertakings and joint ventures for which there are published price quotations were as follows:

	31 December 2014	31 December 2013
AO Latvijas Gaze	8,479	5,702
AO Lietuvos dujos	-	3,065
AO Amber Grid	-	2,170

Significant associated undertakings and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	% of ordinary shares held as of 31 December* 2014	2013
ZAO Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
AO Amber Grid	Lithuania	Lithuania	Gas transportation	-	37
Bosphorus Gaz Corporation A.S.**	Turkey	Turkey	Gas distribution	71	71
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	Germany	Germany	Gas distribution	50	50
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Germany	Germany	Gas transportation	50	-
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	37	37
AO Gasum	Finland	Finland	Gas distribution	25	25
SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
TOO KazRosGaz	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Lithuania	Gas distribution	-	37
AO Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG**	Russia, Germany	Switzerland	Construction, gas transportation	51	51
ZAO Nortgaz	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
AO Overgaz Inc.	Bulgaria	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
RosUkrEnergo AG	Ukraine	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OAO NGK Slavneft	Russia	Russia	Production of oil, sales of oil and refined products	50	50
AO Turusgaz	Turkey	Turkey	Gas distribution	45	45
Shtokman Development AG**	Russia	Switzerland	Exploration and production of gas	75	75
OOO Yamal razvitie***	Russia	Russia	Investment activities, assets management	50	50

*Cumulative share of Group companies in charter capital of investees.

** Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

*** OOO Yamal razvitie is a holder of 51% share in OOO SeverEnergiya. Artic Russia B.V. owns the remaining 49% interest in OOO SeverEnergiya. In March 2014 OOO Yamal razvitie acquired additional 20% interest in Artic Russia B.V. for USD 980 million. As a result of the transaction, the Group's effective interest in OOO SeverEnergiya increased from 38.46% to 43.15%. In April 2014 the Group provided loans to OOO Yamal razvitie in the amount of USD 980 million to finance this acquisition. The loans will form the Group's contribution in equity of OOO Yamal razvitie upon completion of the restructuring of this joint venture.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

Summarised financial information on the Group's significant associated undertakings and joint ventures is presented in tables below.

The values, disclosed in the tables, represent total assets, liabilities, revenues, income (loss) of the Group's significant associated undertakings and joint ventures and not the Group's share.

The financial information may be different from information in the financial statements of the associated company or joint venture prepared and presented in accordance with IFRS, due to adjustments required in application of equity method of accounting, such as fair value adjustments on identifiable assets and liabilities at the date of acquisition and adjustments on differences in accounting policies.

	OAO NGK Slavneft and its subsidiaries	Gazprom-bank Group*	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2014			
Cash and cash equivalents	13,709	870,857	28,115
Other current assets (excluding cash and cash equivalents)	17,568	2,061,271	161,437
Non-current assets	368,437	1,714,631	972,798
Total assets	**399,714**	**4,646,759**	**1,162,350**
Current financial liabilities (excluding trade payables)	44,221	2,942,067	136,283
Other current liabilities (including trade payables)	44,855	152,126	184,803
Non-current financial liabilities	46,592	1,204,013	269,108
Other non-current liabilities	44,727	31,331	295,207
Total liabilities	**180,395**	**4,329,537**	**885,401**
Net assets (including non-controlling interest)	**219,319**	**317,222**	**276,949**
Percent of ordinary shares held	50%	37%	50%
Carrying value	**113,676**	**95,999**	**153,418**
Revenue	197,453	172,438	308,384
Depreciation	(35,571)	(35,831)	(65,012)
Interest income	1,472	269,623	523
Interest expense	(1,530)	(173,004)	(10,050)
Profit tax income (expense)	1,999	(9,906)	(84,095)
(Loss) profit for the year	**(15,216)**	**(16,546)**	**117,776**
Other comprehensive income for the year	**406**	**8,362**	**514**
Total comprehensive (loss) income for the year	**(14,810)**	**(8,184)**	**118,290**
Dividends received from associated undertakings and joint ventures	**(5,901)**	**(2,354)**	**(50,045)**
As of and for the year ended 31 December 2013			
Cash and cash equivalents	28,208	555,362	2,320
Other current assets (excluding cash and cash equivalents)	18,630	1,642,781	99,143
Non-current assets	340,358	1,325,951	561,909
Total assets	**387,196**	**3,524,094**	**663,372**
Current financial liabilities (excluding trade payables)	24,010	2,486,052	94,222
Other current liabilities (including trade payables)	40,365	85,117	83,675
Non-current financial liabilities	33,271	646,366	181,573
Other non-current liabilities	44,804	26,380	153,014
Total liabilities	**142,450**	**3,243,915**	**512,484**
Net assets (including non-controlling interest)	**244,746**	**280,179**	**150,888**
Percent of ordinary shares held	50%	37%	50%
Carrying value	**126,976**	**100,612**	**67,868**
Revenue	193,038	154,537	238,294
Depreciation	(83,110)	(28,823)	(52,852)
Interest income	1,623	213,196	412
Interest expense	(1,478)	(128,476)	(9,852)
Profit tax expense	(4,731)	(10,539)	(64,423)
(Loss) profit for the year	**(40,001)**	**32,062**	**82,675**
Other comprehensive income for the year	**-**	**791**	**3,493**
Total comprehensive (loss) income for the year	**(40,001)**	**32,853**	**86,168**
Dividends received from associated undertakings and joint ventures	**(3,354)**	**(2,197)**	**(62,236)**

* Presented revenue of Gazprombank Group includes revenue of media business, machinery business and other non-banking companies.

(In millions of Russian Roubles)

15 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT VENTURES (continued)

	Assets	**Liabilities**	**Revenues**	**Profit (loss)**
As of and for the year ended 31 December 2014				
Nord Stream AG	489,767	383,935	54,646	17,567
OOO Yamal razvitie and its subsidiaries	379,613	290,004	32,110	(4,341)
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	241,203	162,894	17,145	3,231
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	208,835	188,070	657,725	8,916
AO Gasum	110,791	79,333	55,385	(237)
SGT EuRoPol GAZ S.A.	71,910	13,873	14,436	395
Wintershall AG	69,833	42,455	10,802	380
ZAO Nortgaz	57,564	46,456	28,125	8,643
ZAO Achimgaz	47,850	13,050	20,513	13,773
TOO KazRosGaz	41,268	2,838	37,199	12,536
AO Latvijas Gaze	38,905	9,417	26,108	1,748
AO Lietuvos dujos	-	-	8,917	1,325
AO Amber Grid	-	-	1,059	163
South Stream Transport B.V. and its subsidiaries	-	-	13	(5,581)
Shtokman Development AG	-	-	-	(680)
As of and for the year ended 31 December 2013				
Nord Stream AG	347,736	259,696	36,829	5,080
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	278,127	197,070	539,801	19,934
OOO Yamal razvitie and its subsidiaries	228,280	168,198	15,832	(501)
SGT EuRoPol GAZ S.A.	49,122	9,952	11,259	(107)
Wintershall AG	45,700	24,533	54,395	3,045
ZAO Nortgaz	42,691	36,527	11,360	2,424
AO Gasum	34,563	16,501	48,240	1,416
Shtokman Development AG	33,773	1,997	-	(330)
ZAO Achimgaz	31,917	10,891	12,757	8,257
AO Latvijas Gaze	31,087	11,686	24,123	1,382
TOO KazRosGaz	21,361	1,722	29,436	9,318
AO Amber Grid	12,705	7,043	944	65
AO Lietuvos dujos	10,434	4,555	18,694	759

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2014	**2013**
Long-term accounts receivable and prepayments (net of impairment provision of RR 29,147 and RR 14,083 as of 31 December 2014 and 2013, respectively)	182,817	160,957
Advances for assets under construction (net of impairment provision of RR 3,868 and RR 587 as of 31 December 2014 and 2013, respectively)	253,651	276,392
	436,468	**437,349**

As of 31 December 2014 and 2013, long-term accounts receivable and prepayments with carrying value RR 182,817 and RR 160,957 have an estimated fair value RR 169 979 and RR 146,648, respectively.

	31 December	
	2014	**2013**
Long-term accounts receivable neither past due nor impaired	152,870	120,834
Long-term accounts receivable impaired and provided for	59,072	54,185
Impairment provision at the end of the year	(29,147)	(14,083)
Long-term accounts receivable past due but not impaired	22	21
Total long-term accounts receivable and prepayments	**182,817**	**160,957**

	31 December	
	2014	**2013**
Long-term loans	96,043	66,808
Long-term trade receivables	9,912	8,133
Other long-term receivables*	46,915	45,893
Total long-term accounts receivable neither past due nor impaired	**152,870**	**120,834**

*Long-term accounts receivable and prepayments include prepayments in amount of RR 1,567 and RR 2,450 as of 31 December 2014 and 2013, respectively.

(In millions of Russian Roubles)

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Management experience indicates that long-term loans granted mainly for capital construction purposes are of strong credit quality.

Movements of the Group's provision for impairment of long-term accounts receivable and prepayments are as follows:

	Year ended 31 December	
	2014	**2013**
Impairment provision at the beginning of the year	14,083	12,797
Impairment provision accrued*	15,979	2,833
Release of previously created provision*	(915)	(1,547)
Impairment provision at the end of the year	**29,147**	**14,083**

* The accrual and release of provision for impaired receivables have been included in Charge for impairment and other provisions in the consolidated statement of comprehensive income.

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2014	**2013**
Equity securities*	200,987	167,985
Debt instruments	837	919
	201,824	**168,904**

* As of 31 December 2014 and 2013 equity securities include OAO NOVATEK shares in the amount of RR 133,787 and RR 135,910, respectively.

Available-for-sale long-term financial assets in total amount of RR 201,824 and RR 168,904 are shown net of provision for impairment of RR 1,797 and RR 1,629 as of 31 December 2014 and 2013, respectively.

Debt instruments include mainly governmental bonds, corporate bonds and promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movements in long-term available-for-sale financial assets are as follows:

	Year ended 31 December	
	2014	**2013**
Balance at the beginning of the year	168,904	161,704
(Decrease) increase in fair value of long-term available-for-sale financial assets	(8,811)	6,991
Purchased long-term available-for-sale financial assets	47,393	10,033
Disposal of long-term available-for-sale financial assets	(5,494)	(10,254)
Impairment (charge) release of long-term available-for-sale financial assets	(168)	430
Balance at the end of the year	**201,824**	**168,904**

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

(In millions of Russian Roubles)

18 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2014	**2013**
Financial liabilities		
Trade payables	362,931	282,285
Accounts payable for acquisition of property, plant and equipment	347,379	315,511
Derivative financial instruments	66,820	10,361
Provision under financial guarantees*	47,407	-
Other payables**	239,054	151,831
	1,063,591	759,988
Non-financial liabilities		
Advances received	152,122	133,411
Accruals and deferred income	1,428	2,295
	153,550	135,706
	1,217,141	**895,694**

* As of 31 December 2014 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Notes 27 and 37).
** As of 31 December 2014 and 2013 other payables include RR 58,164 and RR 8,430 of accruals for probable price adjustments related to natural gas deliveries made from 2012 to 2014, respectively (see Note 26).

Fair values of these liabilities approximate the carrying values.

19 OTHER TAXES PAYABLE

	31 December	
	2014	**2013**
VAT	63,731	58,411
Natural resources production tax	52,203	49,625
Property tax	21,537	17,724
Excise tax	13,241	8,866
Other taxes	14,910	11,469
	165,622	**146,095**

20 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December	
	2014	**2013**
Short-term borrowings and promissory notes:		
RR-denominated borrowings and promissory notes	14,718	25,742
Foreign currency denominated borrowings	38,202	13,843
	52,920	39,585
Current portion of long-term borrowings (see Note 21)	411,862	292,341
	464,782	**331,926**

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2014	**2013**
Fixed rate RR-denominated short-term borrowings	14.19%	8.39%
Fixed rate foreign currency denominated short-term borrowings	7.78%	4.08%
Variable rate RR-denominated short-term borrowings	7.23%	6.01%
Variable rate foreign currency denominated short-term borrowings	3.10%	1.58%

Fair values of these liabilities approximate the carrying values.

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final maturity	31 December 2014	2013
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[2]	US dollar	2019	128,793	74,927
Mizuho Bank Ltd.[1]	US dollar	2019	121,037	-
Loan participation notes issued in July 2012[2]	Euro	2017	98,554	64,849
Loan participation notes issued in October 2007[2]	Euro	2018	86,790	57,108
Loan participation notes issued in September 2012[7]	US dollar	2022	85,424	49,697
Loan participation notes issued in November 2013[7]	US dollar	2023	84,851	49,364
Loan participation notes issued in November 2006[2]	US dollar	2016	76,460	44,482
Loan participation notes issued in March 2007[2]	US dollar	2022	74,644	43,425
Loan participation notes issued in August 2007[2]	US dollar	2037	72,245	42,030
Loan participation notes issued in May 2005[2]	Euro	2015	70,685	46,511
Loan participation notes issued in March 2013[2]	Euro	2020	70,164	46,164
Loan participation notes issued in April 2004[2]	US dollar	2034	68,528	39,868
Loan participation notes issued in April 2008[2]	US dollar	2018	63,004	36,654
Loan participation notes issued in July 2013[2]	Euro	2018	62,506	41,129
Loan participation notes issued in July 2009[2]	Euro	2015	62,372	41,041
Loan participation notes issued in July 2012[2]	US dollar	2022	57,512	33,458
Loan participation notes issued in November 2011[2]	US dollar	2016	56,552	32,900
Loan participation notes issued in November 2010[2]	US dollar	2015	56,513	32,877
Loan participation notes issued in February 2014[2]	Euro	2021	52,819	-
Loan participation notes issued in April 2013[7]	Euro	2018	52,277	34,398
Loan participation notes issued in February 2013[2]	US dollar	2028	51,642	30,044
Loan participation notes issued in February 2013[2]	US dollar	2020	45,705	26,589
Loan participation notes issued in September 2013[2]	GBP	2020	41,334	27,198
Loan participation notes issued in November 2014[2]	US dollar	2015	39,621	-
ZAO Mizuho Corporate Bank (Moscow)[1]	US dollar	2016	39,396	28,606
Commerzbank International S.A.[10]	US dollar	2018	39,381	23,026
Loan participation notes issued in November 2006[2]	Euro	2017	35,542	23,387
Loan participation notes issued in March 2013[2]	Euro	2025	35,340	23,254
Loan participation notes issued in November 2011[2]	US dollar	2021	34,644	20,155
Loan participation notes issued in March 2007[2]	Euro	2017	34,477	22,686
Loan participation notes issued in October 2013[2]	CHF	2019	28,637	18,444
The Royal Bank of Scotland AG[1]	US dollar	2015	26,939	16,339
Deutsche Bank AG	US dollar	2016	22,901	13,327
Alfa-Bank (Joint-stock Company)[12]	US dollar	2016	22,513	-
BNP Paribas SA[1]	Euro	2022	22,352	16,550
Bank of Tokyo-Mitsubishi UFJ Ltd.[1]	US dollar	2016	21,232	18,528
OAO Sberbank of Russia	Rouble	2017	19,802	-
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	18,056	10,504
Banc of America Securities Limited	US dollar	2018	17,005	9,894
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	16,970	9,874
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	16,896	9,830
Credit Agricole CIB	Euro	2015	16,431	10,813
OAO Sberbank of Russia	Euro	2017	15,416	10,145
Russian bonds issued in February 2013[9]	Rouble	2016	15,407	15,404
Russian bonds issued in November 2013[3]	Rouble	2043	15,134	15,102
Russian bonds issued in November 2013[3]	Rouble	2043	15,134	15,102
UniCredit Bank AG[1,6]	US dollar	2018	14,421	11,220
HSBC Bank plc	Euro	2022	14,108	10,443
Russian bonds issued in October 2014[3]	Rouble	2044	13,821	-
Citibank International plc[1]	US dollar	2021	13,436	9,020
UniCredit Bank AG[1,6]	Euro	2018	12,631	11,116
OAO Sberbank of Russia	Rouble	2016	12,400	7,400
Bank of America Securities Limited	Euro	2017	12,372	8,143
UniCredit Bank AG	US dollar	2018	11,253	6,548
Gazprombank (Joint-stock Company)[11]	US dollar	2016	11,252	-
Russian bonds issued in February 2011[7]	Rouble	2021	10,361	10,358
Russian bonds issued in February 2011[7]	Rouble	2021	10,345	10,342
Russian bonds issued in February 2011[7]	Rouble	2016	10,345	10,342
Russian bonds issued in February 2012[7]	Rouble	2022	10,335	10,332
Russian bonds issued in February 2013[9]	Rouble	2017	10,273	10,271
Russian bonds issued in April 2009[7]	Rouble	2019	10,175	10,173
Banc of America Securities Limited	US dollar	2016	10,132	5,895

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2014	31 December 2013
Russian bonds issued in December 2012[7]	Rouble	2022	10,068	10,065
OAO Rosselkhozbank	Rouble	2019	10,010	-
OAO Sberbank of Russia	Rouble	2019	10,010	-
Gazprombank (Joint-stock Company)[11]	Rouble	2018	10,000	10,000
Gazprombank (Joint-stock Company)[11]	Rouble	2017	10,000	10,000
Gazprombank (Joint-stock Company)[11]	US dollar	2015	9,620	-
OAO VTB Bank	US dollar	2016	9,307	-
GK Vnesheconombank	Rouble	2025	8,979	14,698
OAO Sberbank of Russia	US dollar	2018	8,449	4,915
BNP Paribas SA[1]	Euro	2023	8,384	6,536
OAO Sberbank of Russia	Rouble	2016	8,300	-
OAO VTB Bank	Rouble	2018	8,250	3,750
OAO Sberbank of Russia	Rouble	2015	5,504	-
Russian bonds issued in February 2013[9]	Rouble	2018	5,136	5,126
Sberbank Serbia a.d.	US dollar	2019	5,071	-
OAO Bank ROSSIYA	Rouble	2016	5,000	5,000
OAO Bank ROSSIYA	Rouble	2017	5,000	-
Sberbank Serbia a.d.	US dollar	2017	4,231	-
Gazprombank (Joint-stock Company)[11]	US dollar	2015	3,584	2,085
UniCredit Bank AG[1,6]	Rouble	2018	2,352	3,145
White Nights Finance B.V.	US dollar	2014	-	42,682
Loan participation notes issued in July 2009[2]	US dollar	2014	-	42,297
Loan participation notes issued in October 2006[2]	Euro	2014	-	36,575
Loan participation notes issued in June 2007[2]	Euro	2014	-	31,766
Natixis SA[1]	US dollar	2014	-	23,933
OAO VTB Bank	US dollar	2014	-	22,974
Deutsche Bank AG	US dollar	2014	-	9,899
Deutsche Bank AG	US dollar	2014	-	6,566
Russian bonds issued in February 2007[3]	Rouble	2014	-	5,138
Russian bonds issued in December 2009[5]	Rouble	2014	-	5,038
Russian bonds issued in June 2009[3]	Rouble	2014	-	5,013
Eurofert Trading Limited llc[4]	Rouble	2014	-	3,600
Deutsche Bank AG	US dollar	2014	-	2,346
OAO VTB Bank	Rouble	2014	-	708
Russian bonds issued in July 2009[8]	Rouble	2014	-	126
Other long-term borrowings and promissory notes	Various	Various	91,352	91,076
Total long-term borrowings and promissory notes			**2,635,904**	**1,762,343**
Less: current portion of long-term borrowings			(411,862)	(292,341)
			2,224,042	**1,470,002**

[1] Loans received from syndicate of banks, named lender is the bank-agent.
[2] Issuer of these bonds is Gaz Capital S.A.
[3] Issuer of these bonds is OAO Gazprom.
[4] Issuer of these notes is OAO WGC-2.
[5] Issuer of these bonds is OAO Mosenergo.
[6] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[7] Issuer of these bonds is OAO Gazprom neft.
[8] Issuer of these bonds is OAO TGC-1.
[9] Issuer of these bonds is OOO Gazprom capital.
[10] In October 2014 Commerzbank International S.A. was appointed as successor agent by Commerzbank AG under facilities agreement.
[11] In December 2014 OAO Gazprombank was renamed into Gazprombank (Joint-stock Company).
[12] In January 2015 OAO Alfa-Bank was renamed into Alfa-Bank (Joint-stock Company).

	31 December 2014	31 December 2013
RR-denominated borrowings and promissory notes (including current portion of RR 26,252 and RR 45,730 as of 31 December 2014 and 2013, respectively)	289,984	245,463
Foreign currency denominated borrowings and promissory notes (including current portion of RR 385,610 and RR 246,611 as of 31 December 2014 and 2013, respectively)	2,345,920	1,516,880
	2,635,904	**1,762,343**

(In millions of Russian Roubles)

21 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	31 December	
Due for repayment:	**2014**	**2013**
Between one and two years	404,096	242,531
Between two and five years	970,608	640,741
More than five years	849,338	586,730
	2,224,042	**1,470,002**

Long-term borrowings include fixed rate loans with a carrying value of RR 2,044,351 and RR 1,427,690 and fair value of RR 1,893,394 and RR 1,500,542 as of 31 December 2014 and 2013, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR and a carrying value of RR 591,553 and fair value of RR 534,708 as of 31 December 2014. The difference between carrying value of these liabilities and their fair value as of 31 December 2013 is not significant.

In 2014 and 2013 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2014	**2013**
Fixed rate RR-denominated long-term borrowings	9.85%	8.56%
Fixed rate foreign currency denominated long-term borrowings	5.65%	5.91%
Variable rate RR-denominated long-term borrowings	9.75%	7.30%
Variable rate foreign currency denominated long-term borrowings	2.43%	2.54%

As of 31 December 2014 and 2013 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with the pledge value of RR 16,968 and fixed assets with the pledge value of RR 26,210 were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 31 December 2014 and 2013 carrying amount of these fixed assets is RR 24,044 and RR 24,614, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in December 2012 due in 2022 bondholders can execute the right of early redemption in December 2017 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2012 due in 2022 bondholders executed the right of early redemption in February 2015 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2016 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2018 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in April 2009 due in 2019 bondholders can execute the right of early redemption in April 2018 at par, including interest accrued.

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

(In millions of Russian Roubles)

22 PROFIT TAX

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes		Year ended 31 December 2014	2013
	Profit before profit tax	306,823	1,486,083
	Theoretical tax charge calculated at applicable tax rates	(61,365)	(297,217)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses, including:		
	Tax losses for which no deferred tax asset was recognised	(30,459)	(6,312)
27	Provision for accounts receivable	(26,645)	(12,890)
14, 27	Impairment of goodwill	(9,524)	-
27	Provision under financial guarantees	(9,481)	-
24, 27	Provision for post-employment benefit obligations	(6,263)	(11,563)
	Other non-deductible expenses	(26,952)	(21,093)
15	Non-taxable profits of associated undertakings and joint ventures	9,210	11,334
	Other non-taxable income	11,848	17,363
	Profit tax expense	**(149,631)**	**(320,378)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20% in the Russian Federation.

Tax effects of taxable and deductible temporary differences:

	Property, plant and equipment	Financial assets	Inven-tories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	Total net deferred tax liabilities
31 December 2012	**(465,498)**	**(9,993)**	**143**	**208**	**23,051**	**8,285**	**(443,804)**
Differences recognition and reversals recognised in profit or loss	(99,231)	(1,447)	(5,764)	8,041	(18,339)	(1,766)	(118,506)
Differences recognition and reversals recognised in other comprehensive income	-	1,885	-	-	-	(626)	1,259
Acquisition of subsidiaries	(1,254)	(118)	9	2,452	-	1,093	2,182
31 December 2013	**(565,983)**	**(9,673)**	**(5,612)**	**10,701**	**4,712**	**6,986**	**(558,869)**
Differences recognition and reversals recognised in profit or loss	(54,771)	7,833	(2,765)	9,420	6,959	5,036	(28,288)
Differences recognition and reversals recognised in other comprehensive income	-	(5,488)	-	-	-	(1,453)	(6,941)
31 December 2014	**(620,754)**	**(7,328)**	**(8,377)**	**20,121**	**11,671**	**10,569**	**(594,098)**

Taxable temporary differences recognized for the year ended 31 December 2014 and 2013 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognized in the amount of RR 28,540 and RR 66,812, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the year ended 31 December 2014 and 2013.

The temporary differences associated with undistributed earnings of subsidiaries and associated undertakings amount to RR 591,795 and RR 725,876 as of 31 December 2014 and 2013, respectively. A deferred tax liability on these temporary differences was not recognized, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

Effective 1 January 2012, 55 major Russian subsidiaries of OAO Gazprom formed a consolidated group of taxpayers (CGT) with OAO Gazprom acting as the responsible tax payer. During 2013, an additional nine Russian subsidiaries of OAO Gazprom joined the CGT. During 2014, four Russian subsidiaries of OAO Gazprom left the CGT. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognized for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognized on losses prior to the formation of the CGT are written off.

(In millions of Russian Roubles)

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	**31 December**	
	2014	**2013**
Assets		
Commodity contracts	58,099	17,672
Foreign currency derivatives	6,568	1,629
Other derivatives	591	342
	65,258	**19,643**
Liabilities		
Commodity contracts	72,186	13,922
Foreign currency derivatives	62,116	3,885
Other derivatives	137	-
	134,439	**17,807**

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

As of 31 December 2014 and 2013 the Group had outstanding foreign currency hedge contracts for a total notional value of USD 1,642 million and USD 1,769 million, respectively.

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2014	**2013**
Provision for post-employment benefit obligations	171,275	198,202
Provision for decommissioning and site restoration costs	104,168	120,782
Other	21,663	11,596
	297,106	**330,580**

Provision for decommissioning and site restoration costs decreased due to increase in discount rate from 8.1% to 13.2% as of 31 December 2013 and 2014, respectively.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 (revised). Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "Gazfund" (hereinafter referred to as the "NPF"), lump sum payment upon retirement, financial aid provided to pensioners, financial aid and compensation to cover funeral expenses in the event of an employee's or pensioner's death.

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions used:

	31 December	
	2014	**2013**
Discount rate (nominal)	12.5%	8.0%
Future salary and pension increases (nominal)	8.0%	6.0%
Retirement ages	females 54, males 58	
Turnover ratio p.a.	Age-related curve, 3.8% pa on average	

Weighted-average duration of obligations is around 13 years. The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 29.5 years for a 54 year old woman in 2014 and 2013.

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts associated with post-employment benefit obligations recognized in the consolidated balance sheet are as follows:

	31 December 2014		31 December 2013	
	Funded benefits - provided through NPF Gazfund	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF Gazfund**	**Unfunded liabilities – other benefits**
Present value of benefit obligations	(279,485)	(171,275)	(318,208)	(198,202)
Fair value of plan assets	391,227	-	429,368	-
Net balance asset (liability)	**111,742**	**(171,275)**	**111,160**	**(198,202)**

The net pension assets related to benefits provided by the pension plan NPF Gazfund in amount of RR 111,742 and RR 111,160 as of 31 December 2014 and 2013, respectively, are included within other non-current assets. Future economic benefit was determined based on expected contribution reductions allowing for the requirement to fund benefits for new entrants.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2014 and 2013 are as follows:

	Funded benefits - provided through NPF Gazfund	**Plan asset**	**Net liability (asset) –funded benefits**	**Unfunded liabilities – other benefits**
Opening balance at 31 December 2013	**318,208**	**(429,368)**	**(111,160)**	**198,202**
Current service cost	12,796	-	12,796	11,693
Past service cost	34	-	34	11
Net interest expense (income)	25,430	(34,349)	(8,919)	15,702
Total expenses included in staff cost	**38,260**	**(34,349)**	**3,911**	**27,406**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(69,125)	-	(69,125)	(43,318)
Actuarial gains arising from changes in demographic assumptions	-	-	-	(99)
Actuarial losses - Experience	3,089	-	3,089	1,256
Return on assets excluding amounts included in net interest expense	-	73,759	73,759	-
Total recognized in other comprehensive (income) loss	**(66,036)**	**73,759**	**7,723**	**(42,161)**
Benefits paid	(10,947)	10,947	-	(12,118)
Contributions by employer	-	(12,216)	(12,216)	-
Business combinations	-	-	-	(54)
Closing balance at 31 December 2014	**279,485**	**(391,227)**	**(111,742)**	**171,275**
Opening balance at 31 December 2012	**323,133**	**(407,512)**	**(84,379)**	**198,256**
Current service cost	13,973	-	13,973	12,480
Past service cost	14,365	-	14,365	8,614
Net interest expense (income)	22,628	(28,520)	(5,892)	14,275
Total expenses included in staff cost	**50,966**	**(28,520)**	**22,446**	**35,369**
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(35,763)	-	(35,763)	(22,937)
Actuarial losses arising from changes in demographic assumptions	-	-	-	96
Actuarial (gains) losses - Experience	(10,965)	-	(10,965)	4,670
Return on assets excluding amounts included in net interest expense	-	9,475	9,475	-
Total recognized in other comprehensive (income) loss	**(46,728)**	**9,475**	**(37,253)**	**(18,171)**
Benefits paid	(9,163)	9,163	-	(17,663)
Contributions by employer	-	(11,974)	(11,974)	-
Business combinations	-	-	-	411
Closing balance at 31 December 2013	**318,208**	**(429,368)**	**(111,160)**	**198,202**

(In millions of Russian Roubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2014		31 December 2013	
	Fair value	Percentage, %	Fair value	Percentage, %
Quoted plan asset, including	**124,194**	**31.7%**	**103,942**	**24.2%**
Mutual funds	40,692	10.4%	42,326	9.9%
Bonds	27,895	7.1%	31,051	7.2%
Shares	55,607	14.2%	28,501	6.6%
Other securities	-	-	2,064	0.5%
Unquoted plan asset, including	**267,033**	**68.3%**	**325,426**	**75.8%**
Shares	186,609	47.7%	239,503	55.8%
Mutual funds	49,310	12.6%	52,011	12.1%
Deposits	31,114	8.0%	28,579	6.7%
Other securities	-	-	5,333	1.2%
Total plan assets	**391,227**	**100%**	**429,368**	**100%**

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprises RR 21,338 and RR 12,004 as of 31 December 2014 and 2013, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2014 and 2013 actual return on plan assets was a loss of RR 39,410 and income RR 19,045 primarily caused by the change of the fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2014 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20%	15,653	3.5%
Mortality rates higher by 20%	(13,343)	(3.0%)
Discount rate lower by 1 pp	40,141	9.0%
Discount rate higher by 1 pp	(34,552)	(7.7%)
Benefit growth lower by 1 pp	(36,197)	(8.1%)
Benefit growth higher by 1 pp	41,535	9.3%
Staff turnover lower by 1 pp for all ages	19,473	4.4%
Staff turnover higher by 1 pp for all ages	(17,248)	(3.9%)
Retirement ages lower by 1 year	23,839	5.3%
Retirement ages higher by 1 year	(23,371)	(5.2%)

The Group expects to contribute RR 24,600 to the defined benefit plans in 2015.

Retirement benefit plan parameters and related risks

As a rule, the above benefits are increase in line with inflation rate or salary growth for benefits that are fixed in monetary terms or depend on salary level respectively, excluding the retirement benefits payable through NPF. Increase in pensions, payable through NPF to current pensioners, depends on amount of investment return on plan assets.

All retirement benefit plans of the Group are exposed to inflation risk. In addition to the inflation risk, the Group is exposed to mortality risk under life pension payable through NPF.

25 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2014 and 2013 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Roubles.

Dividends

In 2014 OAO Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Roubles per share for the year ended 31 December 2013. In 2013 OAO Gazprom declared and paid dividends in the nominal amount of 5.99 Russian Roubles per share for the year ended 31 December 2012.

Treasury shares

As of 31 December 2014 and 2013 subsidiaries of OAO Gazprom held 723 million of the ordinary shares of OAO Gazprom. Shares of the Group held by the subsidiaries represent 3.1% of OAO Gazprom shares as of 31 December 2014 and 2013. The Group management controls the voting rights of these shares.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 "Financial Reporting in Hyperinflation Economies". Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and joint arrangements in the amount of RR 628,321 and RR 78,130 as of 31 December 2014 and 2013, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 94 and RR 240 have been transferred to governmental authorities during the years ended 31 December 2014 and 2013, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2014 the statutory profit of the parent company was RR 188,980. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

(In millions of Russian Roubles)

26 SALES

	Year ended 31 December	
	2014	**2013**
Gas sales gross of custom duties to customers in:		
Russian Federation	820,567	794,349
Former Soviet Union (excluding Russian Federation)	486,079	504,681
Europe and other countries	2,149,976	2,115,748
	3,456,622	3,414,778
Customs duties	(472,186)	(517,348)
Retroactive gas price adjustments*	949	74,393
Total sales of gas	2,985,385	2,971,823
Sales of refined products to customers in:		
Russian Federation	953,136	821,487
Former Soviet Union (excluding Russian Federation)	79,874	80,557
Europe and other countries	586,204	449,669
Total sales of refined products	1,619,214	1,351,713
Sales of crude oil and gas condensate to customers in:		
Russian Federation	51,603	32,094
Former Soviet Union (excluding Russian Federation)	16,013	50,115
Europe and other countries	141,618	128,007
Total sales of crude oil and gas condensate	209,234	210,216
Electricity and heat sales:		
Russian Federation	409,087	362,415
Former Soviet Union (excluding Russian Federation)	2,481	2,191
Europe and other countries	15,383	10,983
Total electric and heat energy sales	426,951	375,589
Gas transportation sales:		
Russian Federation	171,147	161,825
Former Soviet Union (excluding Russian Federation)	1,687	1,434
Europe and other countries	8	6
Total gas transportation sales	172,842	163,265
Other revenues:		
Russian Federation	152,459	144,529
Former Soviet Union (excluding Russian Federation)	4,757	4,992
Europe and other countries	18,969	27,838
Total other revenues	176,185	177,359
Total sales	**5,589,811**	**5,249,965**

* Retroactive gas price adjustments relate to gas deliveries in 2010 - 2013 for which a discount has been agreed or is in the process of negotiations and where it is probable that a discount will be provided. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended 31 December 2014 and 2013 was a credit of RR 949 and RR 74,393, respectively, reflecting a decrease in a related accruals following estimates made and agreements reached prior to the issuance of respective consolidated financial statements.

(In millions of Russian Roubles)

27 OPERATING EXPENSES

Note		Year ended 31 December 2014	2013
	Purchased oil and gas	792,723	753,829
	Taxes other than profit tax	775,826	706,667
	Staff costs	516,778	497,852
	Depreciation	472,151	419,019
	Transit of gas, oil and refined products	399,561	358,829
	Cost of goods for resale including refined products	292,150	136,776
	Materials	267,552	236,354
	Repairs and maintenance	172,395	200,621
	Electricity and heating expenses	87,228	87,242
	Social expenses	46,429	34,970
	Transportation services	33,431	29,909
	Rental expenses	33,292	27,167
	Insurance expenses	29,096	25,052
	Research and development expenses	19,653	16,738
	Processing services	18,121	14,423
	Derivatives losses (gains)	7,141	(8,512)
	Heat transmission	180	5,075
	Foreign exchange rate differences on operating items	(243,438)	(45,050)
	Other	300,099	233,795
		4,020,368	**3,730,756**
	Changes in inventories of finished goods, work in progress and other effects	(76,699)	(129,848)
	Total operating expenses	**3,943,669**	**3,600,908**

Gas purchase expenses included within purchased oil and gas amounted to RR 575,639 and RR 538,551 for the years ended 31 December 2014 and 2013, respectively.

Staff costs include RR 31,317 and RR 57,815 of expenses associated with post-employment benefit obligations for the years ended 31 December 2014 and 2013, respectively (see Note 24).

Significant foreign exchange rate differences for the year ended 31 December 2014 are primarily related to operating items such as accounts receivable and accounts payable.

Taxes other than profit tax consist of:

	Year ended 31 December 2014	2013
Natural resources production tax	563,404	512,885
Excise tax	112,533	104,568
Property tax	89,010	75,468
Other taxes	10,879	13,746
	775,826	**706,667**

The amount recognized in the consolidated statement of comprehensive income related to net impairment charges for impairment and other provisions are as follows:

Notes		Year ended 31 December 2014	2013
	Charge for provision for accounts receivable	133,225	64,451
13	Charge for provision for impairment of property, plant and equipment	76,464	46
14	Charge for impairment of goodwill	47,620	-
18, 37	Charge for provision under financial guarantees	47,407	-
	Charge for provision for investments	6,499	2,782
11	Charge for provision for inventory obsolescence	1,993	419
		313,208	**67,698**

(In millions of Russian Roubles)

28 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2014	**2013**
Foreign exchange gains	322,821	96,125
Interest income	66,983	33,398
Total finance income	**389,804**	**129,523**
Foreign exchange losses	1,393,792	241,339
Interest expense	44,749	42,768
Total finance expenses	**1,438,541**	**284,107**

Total interest paid amounted to RR 121,819 and RR 92,024 for the years ended 31 December 2014 and 2013, respectively.

Significant foreign exchange gains and losses for year ended 31 December 2014 are primarily related to non-operating items such as foreign denominated borrowings.

29 RECONCILIATION OF (LOSS) PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF FINANCIAL RESULTS, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2014	**2013**
RAR net (loss) profit for the year per consolidated statutory accounts	**(124,704)**	**838,878**
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	8,859	(8,949)
Difference in share of net income of associated undertakings and joint ventures	(15,942)	(16,565)
Differences in depreciation of property, plant and equipment	287,212	269,730
Reversal of goodwill amortization	62,218	58,518
Loan interest and foreign exchange losses capitalized	88,581	55,312
Impairment and other provisions, including provision for pension obligations and unused vacations	(154,441)	(31,311)
Accounting for finance leases	10,850	13,087
Write-off of research and development expenses capitalized for RAR purposes	(6,509)	(4,707)
Fair value adjustment on derivatives	(7,141)	8,512
Differences in fixed assets disposal	1,920	4,952
Other effects	6,289	(21,752)
IFRS profit for the year	**157,192**	**1,165,705**

30 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF OAO GAZPROM

Earnings per share have been calculated by dividing the profit, attributable to owners of OAO Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 23.0 billion and 22.9 billion weighted average shares outstanding for the years ended 31 December 2014 and 2013, respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

31 NET CASH PROVIDED BY OPERATING ACTIVITIES

Notes		Year ended 31 December 2014	2013
	Profit before profit tax	**306,823**	**1,486,083**
	Adjustments to profit before profit tax for:		
27	Depreciation	472,151	419,019
28	Net finance expense	1,048,737	154,584
15	Share of net income of associated undertakings and joint ventures	(46,051)	(56,670)
27	Charge for provisions	344,525	125,513
27	Derivatives losses (gains)	7,141	(8,512)
	Losses on disposal of available-for-sale financial assets	915	3,212
	Other	5,147	(24,905)
	Total effect of adjustments	1,832,565	612,241
	Cash flows from operating activities before working capital changes	2,139,388	2,098,324
	(Increase) decrease in non-current assets	(4,379)	4,320
	Increase (decrease) in non-current liabilities	5,221	(3,372)
		2,140,230	2,099,272
	Changes in working capital:		
	Increase in accounts receivable and prepayments	(84,076)	(110,748)
	Increase in inventories	(108,161)	(101,823)
	Decrease (increase) in other current assets	149,672	(47,045)
	Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(3,331)	(211,246)
	Settlements on taxes payable (other than profit tax)	17,552	318,390
	Decrease (increase) in available-for-sale financial assets and financial assets held for trading	16,557	(5,539)
	Total effect of working capital changes	(11,787)	(158,011)
	Profit tax paid	(212,674)	(199,457)
	Net cash from operating activities	**1,915,769**	**1,741,804**

Total taxes and other similar payments paid in cash for the years 2014 and 2013:

	Year ended 31 December 2014	2013
Customs duties	803,929	744,933
Natural resources production tax	561,402	503,229
Profit tax	212,674	199,457
Excise	147,586	130,522
VAT	98,250	22,291
Property tax	85,904	72,805
Insurance contributions to non-budget funds	74,686	77,071
Personal income tax	53,050	48,488
Other	25,512	21,776
Total taxes paid	**2,062,993**	**1,820,572**

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS

Significant subsidiaries Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2014	2013
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
OAO Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
ZAO Gazprom Armenia**	Armenia	100	80
OOO Gazprom VNIIGAZ	Russia	100	100
OAO Gazprom gazoraspredelenie	Russia	100	100
OAO Gazprom gazoraspredelenie Sever***	Russia	96	91
OOO Gazprom geologorazvedka	Russia	100	100
OOO Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
OOO Gazprom dobycha Astrakhan	Russia	100	100
OOO Gazprom dobycha Krasnodar	Russia	100	100
OOO Gazprom dobycha Nadym	Russia	100	100
OOO Gazprom dobycha Noyabrsk	Russia	100	100
OOO Gazprom dobycha Orenburg	Russia	100	100
OOO Gazprom dobycha Urengoy	Russia	100	100
OOO Gazprom dobycha shelf Yuzhno-Sakhalinsk (OOO Gazprom dobycha shelf)****	Russia	100	100
OOO Gazprom dobycha Yamburg	Russia	100	100
OOO Gazprom invest	Russia	100	100
OOO Gazprom invest Vostok	Russia	100	100
OOO Gazprom invest RGK (ZAO Gazprom invest RGK)****	Russia	100	100
ZAO Gazprom invest Yug	Russia	100	100
OOO Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
OOO Gazprom inform	Russia	100	100
OOO Gazprom komplektatciya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OOO Gazprom mezhregiongaz	Russia	100	100
OAO Gazprom neftekhim Salavat	Russia	100	100
OAO Gazprom neft	Russia	96	96
ZAO Gazprom neft Orenburg*****	Russia	100	100
Gazprom Neft Trading GmbH*****	Austria	100	100
OOO Gazprom neft shelf*****	Russia	100	100
OOO Gazprom pererabotka	Russia	100	100
OOO Gazprom podzemremont Orenburg	Russia	100	100
OOO Gazprom podzemremont Urengoy	Russia	100	100
OOO Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OOO Gazprom torgservis	Russia	100	100
OAO Gazprom transgaz Belarus	Belorussia	100	100
OOO Gazprom transgaz Volgograd	Russia	100	100
OOO Gazprom transgaz Ekaterinburg	Russia	100	100
OOO Gazprom transgaz Kazan	Russia	100	100
OOO Gazprom transgaz Krasnodar	Russia	100	100
OOO Gazprom transgaz Makhachkala	Russia	100	100
OOO Gazprom transgaz Moskva	Russia	100	100
OOO Gazprom transgaz Nizhny Novgorod	Russia	100	100
OOO Gazprom transgaz Samara	Russia	100	100
OOO Gazprom transgaz St. Petersburg	Russia	100	100
OOO Gazprom transgaz Saratov	Russia	100	100
OOO Gazprom transgaz Stavropol	Russia	100	100
OOO Gazprom transgaz Surgut	Russia	100	100
OOO Gazprom transgaz Tomsk	Russia	100	100

(In millions of Russian Roubles)

32 SUBSIDIARY UNDERTAKINGS (continued)

Significant subsidiaries Subsidiary undertaking	Country of primary operation	% of share capital as of 31 December* 2014	2013
OOO Gazprom transgaz Ufa	Russia	100	100
OOO Gazprom transgaz Ukhta	Russia	100	100
OOO Gazprom transgaz Tchaikovsky	Russia	100	100
OOO Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo	Russia	100	100
OOO Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
OOO Gazpromneft-Vostok*****	Russia	100	100
ZAO Gazpromneft-Kuzbass*****	Russia	100	100
OAO Gazpromneft-MNPZ******	Russia	100	96
OAO Gazpromneft-Noyabrskneftegaz*****	Russia	100	100
OAO Gazpromneft-Omsk*****	Russia	100	100
OAO Gazpromneft-Omskiy NPZ*****	Russia	100	100
ZAO Gazpromneft-Severo-Zapad*****	Russia	100	100
OOO Gazpromneft-Khantos*****	Russia	100	100
OOO Gazpromneft-Centr*****	Russia	100	100
OOO Gazpromneftfinans*****	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazprom flot (OOO Gazflot)****	Russia	100	100
OAO Daltransgaz	Russia	100	100
OOO Zapolyarneft*****	Russia	100	100
OAO Krasnoyarskgazprom	Russia	75	75
OAO MIPC	Russia	90	90
OAO Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d.*****	Serbia	56	56
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2	Russia	77	77
ZAO Purgaz	Russia	51	51
OAO Regiongazholding	Russia	57	57
ZAO Rosshelf	Russia	57	57
South Stream Transport B.V.*******	Russia, Bulgaria	100	-
OAO Severneftegazprom ********	Russia	50	50
Sibir Energy Ltd. *****	United Kingdom	100	100
OOO Sibmetakhim	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Teploset Sankt-Peterburga	Russia	75	75
OAO Tomskgazprom	Russia	100	100
OOO Faktoring-Finance	Russia	90	90
OAO Tsentrgaz	Russia	100	100
OAO Tsentrenergogaz	Russia	66	66
OAO Yuzhuralneftegaz*****	Russia	88	88
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investees.

** In January 2014 the Group acquired additional 20% interest in ZAO Gazprom Armenia for the amount of USD 155 million as a settlement of accounts receivable for gas supply. As a result of the transaction, the Group's interest in ZAO Gazprom Armenia increased from 80% to 100%.

*** In May 2014 OAO Sibirskie gazovie seti was reorganized in the form of a merger with OAO Gazprom gazoraspredelenie Sever. As a result of the transaction, the Group's interest in OAO Gazprom gazoraspredelenie Sever increased from 91% to 96%.

**** The indicated subsidiaries were renamed (former name is put in the brackets).

***** Subsidiaries of OAO Gazprom neft.

****** In August 2014 the Group acquired an additional 4% interest in the ordinary shares of OAO Gazpromneft-MNPZ increasing its interest to 100%.

******* In December 2014 the Group acquired additional 50% interest in South Stream Transport B.V. for cash consideration of EUR 883 million. As a result of the transaction, the Group's interest in South Stream Transport B.V. increased from 50% to 100%.

******** Group's portion of voting shares.

(In millions of Russian Roubles)

33 NON-CONTROLLING INTEREST

	Year ended 31 December 2014	2013
Non-controlling interest at the beginning of the year	**314,764**	**309,212**
Non-controlling interest share of net profit of subsidiary undertakings*	(1,812)	26,444
Acquisition of the additional interest in OOO Gazprom Resurs Nortgaz	(8,110)	-
Acquisition of the additional interest in ZAO Gazprom Armenia	(3,467)	-
Acquisition of the additional interest in OAO Gazpromneft-MNPZ and its subsidiaries	(2,440)	(344)
Acquisition of additional interest in OAO WGC-2	(2,750)	(19,600)
Changes in the non-controlling interest as a result of other acquisitions and disposals	739	5,249
Losses from cash flow hedges	(2,388)	(139)
Losses arising from change in fair value of available-for-sale financial assets	(6)	-
Remeasurements of post-employment benefit obligations	166	128
Dividends	(11,444)	(10,719)
Translation differences	20,211	4,533
Non-controlling interest at the end of the year	**303,463**	**314,764**

* Non-controlling interest share of net profit of subsidiary undertakings includes share in impairment of assets in the amount of RR 18,312 and RR nil for the years ended 31 December 2014 and 2013, respectively.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Country of primary operation	% of share capital held by non-controlling interest*	Profit (loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2014					
Gazprom neft Group**	Russia	4%	8,609	92,473	4,578
Naftna Industrija Srbije a.d. Group	Serbia	46%	5,081	61,775	2,314
Mosenergo Group	Russia	46%	(1,817)	77,693	734
TGC-1 Group	Russia	48%	(9,912)	55,936	310
WGC-2 Group	Russia	19%	(690)	29,246	-
As of and for the year ended 31 December 2013					
Gazprom neft Group**	Russia	4%	14,276	72,278	5,973
Naftna Industrija Srbije a.d. Group	Serbia	46%	7,734	40,739	2,028
Mosenergo Group	Russia	46%	3,471	80,212	550
TGC-1 Group	Russia	48%	3,505	66,100	226
WGC-2 Group	Russia	21%	886	32,610	-

* Effective share held by non-controlling interest in charter capital of investments.
**Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2014					
Current assets	463,429	62,066	60,702	20,017	33,171
Non-current assets	1,869,660	192,646	207,771	144,572	186,013
Current liabilities	216,750	42,726	22,812	16,866	18,675
Non-current liabilities	789,078	62,027	59,318	36,023	60,158
Revenue	1,409,010	153,706	164,018	69,064	116,265
Profit (loss) for the year	99,969	11,053	6,179	(23,026)	9,604
Total comprehensive income (loss) for the year	122,310	11,053	6,249	(22,912)	9,997
Net cash from (used in):					
operating activities	373,055	22,715	13,686	11,775	14,643
investing activities	(484,912)	(19,314)	(22,463)	(5,837)	(16,576)
financing activities	42,361	(2,338)	15,738	(3,948)	9,233

(In millions of Russian Roubles)

33 NON-CONTROLLING INTEREST (continued)

	Gazprom neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2013					
Current assets	426,166	47,418	46,728	18,812	31,347
Non-current assets	1,430,482	128,163	195,000	175,922	173,548
Current liabilities	182,987	42,811	21,154	20,443	9,476
Non-current liabilities	414,815	44,715	33,112	42,478	54,436
Revenue	1,267,603	136,450	156,730	70,362	112,175
Profit for the year	158,901	16,733	10,633	8,379	1,929
Total comprehensive income for the year	166,944	16,733	10,633	8,402	2,487
Net cash from (used in):					
operating activities	207,114	28,632	12,407	11,364	12,530
investing activities	(237,772)	(24,391)	(26,912)	(7,218)	(19,765)
financing activities	39,671	(5,089)	4,513	(4,618)	9,231

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiary undertakings.

34 ACQUISITION OF THE CONTROLLING INTEREST IN SOUTH STREAM TRANSPORT B.V.

In December 2014 the Group became the owner of 100% of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project. Until 29 December 2014, South Stream Transport B.V. was a joint project held by the Group (50%), ENI International B.V. (20%), EDF International S.A.S. (15%) and Wintershall Holding GmbH (15%). On 29 December 2014, the Group acquired the remaining 50% of the shares of South Stream Transport B.V. from the minority shareholders for consideration of Euro 883 million paid in cash. South Stream Transport B.V. was established for the planning, construction, and subsequent operation of the offshore pipeline through the Black Sea and had no notable operating activities up to and as of the purchase date other than the management of construction. Accordingly, this acquisition is outside the definition of business as defined in IFRS 3 “Business Combinations” and was considered by the Group as an acquisition of assets. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of pipeline under construction), and liabilities acquired. Assets under construction in the amount of RR 127,778 are included in the line “acquisition of subsidiaries” as disclosed in Note 13. Capital expenditure commitments for the construction of the pipeline contracted as of 31 December 2014, but not yet incurred amounts to EUR 4.4 billion.

On 1 December 2014 a decision was announced that the South Stream project would be cancelled and that an alternative pipeline through the Black Sea to Turkey would be pursued ("Turkish Stream"). On 1 December 2014 the Group and Turkish company Botas Petroleum Pipeline Corporation signed a Memorandum of Understanding on constructing Turkish Stream. Assets under construction related to the South Stream project are expected to be utilised for Turkish Stream.

(In millions of Russian Roubles)

35 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSCOW INTEGRATED POWER COMPANY (OAO MIPC)

In September 2013 the Group acquired 89.98% interest in the ordinary shares of OAO Moscow Integrated Power Company (OAO MIPC) and heat assets from the Moscow Government for cash consideration of RR 99,866 including VAT in the amount of RR 1,246 related to acquired heat assets. As a result of the acquisition, the Group obtained control over OAO MIPC. Considering treasury shares of OAO MIPC, the Group's effective interest is 98.77%. The primary business activity of OAO MIPC is generation, purchase and supply of heat energy in the form of heating and hot water to commercial and residential customers in the City of Moscow. As of 31 December 2014 the title on the assets acquired in the amount of RR 6,746 excluding VAT was not transferred to the Group.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their provisional fair values at the date when control of OAO MIPC was obtained. As of 31 December 2014 the Group finalized their assessment of the estimated fair values of assets and liabilities acquired in accordance with IFRS 3 "Business Combinations".

Final fair values of the assets acquired and liabilities assumed are as follows:

	Fair value
Cash and cash equivalents	3,276
Short-term financial assets	2,762
Accounts receivable and prepayments	18,234
Inventories	2,273
VAT recoverable	102
Other current assets	6,026
Current assets	**32,673**
Property, plant and equipment	124,993
Long-term accounts receivable and prepayments	4,477
Available-for-sale long-term financial assets	3,117
Other non-current assets	4,175
Non-current assets	**136,762**
Total assets	**169,435**
Accounts payable and accrued charges	29,112
Other taxes payable	601
Short-term borrowings, promissory notes and current portion of long-term borrowings	30,235
Current liabilities	**59,948**
Long-term borrowings and promissory notes	7,400
Deferred tax liability	196
Provisions for liabilities and charges	372
Other non-current liabilities	444
Non-current liabilities	**8,412**
Total liabilities	**68,360**
Net assets at acquisition date	**101,075**
Non-controlling interest at acquisition date measured at the proportionate share of the net assets	1,209
Purchase consideration	**99,866**

The comparative financial information of consolidated balance sheet as of 31 December 2013 and consolidated statement of comprehensive income for 2013 were not restated due to immaterial difference between provisional and final fair values of assets and liabilities of OAO MIPC. All changes in fair values were recorded in these consolidated financial statements for the year ended 31 December 2014.

If the acquisition had occurred on 1 January 2013, the Group's sales and the Group's profit for the year ended 31 December 2013 would have been RR 5,291,256 and RR 1,160,092, respectively.

(In millions of Russian Roubles)

36 RELATED PARTIES

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Government of the Russian Federation

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

As of 31 December 2014 38.373% of OAO Gazprom's issued shares were directly owned by the Government. Another 11.859% were owned by Government controlled entities. The Government does not prepare consolidated financial statements. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service ("FTS"). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with the applicable statutory rules.

As of and for the years ended 31 December 2014 and 2013, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2014		Year ended 31 December 2014	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	74,744	3,926	-	112,613
Insurance contributions to non-budget funds	621	5,649	-	98,097
VAT recoverable/payable	451,406	57,058	-	-
Customs duties	85,432	-	-	-
Other taxes	4,788	91,569	-	772,972
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	70,072	-
Electricity and heating sales	-	-	231,208	-
Gas transportation sales	-	-	34,296	-
Other services sales	-	-	2,780	-
Accounts receivable	46,630	-	-	-
Oil and refined products transportation expenses	-	-	-	99,102
Accounts payable	-	14,442	-	-
Loans	-	140,168	-	-
Interest expense	-	-	-	8,768
Short-term financial assets	7,444	-	-	-
Available-for-sale long-term financial assets	5,308	-	-	-

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	As of 31 December 2013		Year ended 31 December 2013	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	9,884	14,554	-	194,723
Insurance contributions to non-budget funds	534	5,354	-	84,963
VAT recoverable/payable	518,192	51,638	-	-
Customs duties	57,511	-	-	-
Other taxes	2,698	78,457	-	669,187
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	62,796	-
Electricity and heating sales	-	-	220,160	-
Gas transportation sales	-	-	30,038	-
Other services sales	-	-	2,850	-
Accounts receivable	54,970	-	-	-
Oil and refined products transportation expenses	-	-	-	99,662
Accounts payable	-	11,290	-	-
Loans	-	111,434	-	-
Interest expense	-	-	-	4,781
Short-term financial assets	4,334	-	-	-
Available-for-sale long-term financial assets	13,376	-	-	-

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable included in the table above are related to major state-controlled companies.

In the normal course of business the Group incurs electricity and heating expenses (see Note 27). A part of these expenses relates to purchases from the entities under Government control. Due to specifics of electricity market in the Russian Federation, these purchases cannot be accurately separated from the purchases from private companies.

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2014 and 2013. See Note 13 for net book values as of December 2014 and 2013 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 4,393 and RR 2,992 for the years ended 31 December 2014 and 2013, respectively. Such amounts include personal income tax and insurance contributions to non-budget funds. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of the Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits after retirement.

The Group provided medical insurance and liability insurance for key management personnel.

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

Associated undertakings and joint ventures

For the years ended 31 December 2014 and 2013 and as of 31 December 2014 and 2013 the Group had the following significant transactions with associated undertakings and joint ventures:

	Year ended 31 December	
	2014	2013
	Revenues	
Gas sales		
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	132,773	133,070
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	130,533	107,558
ZAO Panrusgaz	56,523	61,392
AO Moldovagaz	32,421	20,502
AO Gazum	29,987	29,030
Bosphorus Gaz Corporation A.S.	23,097	17,730
ZAO Gazprom YRGM Trading**	13,025	12,075
ZAO Gazprom YRGM Development**	9,304	8,625
AO Latvijas Gaze	8,715	9,490
SGT EuRoPol GAZ S.A.	4,684	3,911
AO Lietuvos dujos***	4,152	7,608
AO Overgaz Inc.	3,932	3,310
Wintershall Erdgas Handelshaus Zug AG (WIEE)****	3,861	13,586
Russian-Serbian Trading Corporation a.d.	-	7,168
Gas transportation sales		
ZAO Gazprom YRGM Trading**	21,878	21,188
ZAO Gazprom YRGM Development**	15,627	15,135
TOO KazRosGaz	1,682	1,421
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	29,263	26,063
ZAO SOVEKS	5,631	5,535
OOO Gazpromneft – Aero Sheremetyevo*****	3,022	12,263
Operator services sales		
ZAO Messoyakhaneftegas	9,960	5,980
Gas refining services sales		
TOO KazRosGaz	5,712	5,247
	Expenses	
Purchased gas		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	66,575	73,071
ZAO Gazprom YRGM Trading**	59,151	58,527
ZAO Gazprom YRGM Development**	42,265	41,810
TOO KazRosGaz	28,428	22,724
OOO SeverEnergiya and its subsidiaries	16,486	9,858
Sakhalin Energy Investment Company Ltd.	14,838	5,715
ZAO Nortgaz	8,515	2,222
Purchased transit of gas		
Nord Stream AG	55,471	37,058
SGT EuRoPol GAZ S.A.	13,143	9,757
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries*	11,306	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries*	7,949	13,586
Purchased crude oil		
OAO NGK Slavneft and its subsidiaries	83,225	84,091
Sakhalin Energy Investment Company Ltd.	19,243	13,396
Purchased services of gas and gas condensate extraction		
ZAO Achimgaz	20,513	12,757
Purchased processing services		
OAO NGK Slavneft and its subsidiaries	12,838	11,853

* In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associated undertakings.

** ZAO Gazprom YRGM Trading and ZAO Gazprom YRGM Development are not associated undertakings and joint ventures.

*** In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AO Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AO Amber Grid, an associate of the Group. In June 2014 the Group sold its 37% interests in associates, AO Lietuvos dujos and AO Amber Grid, to companies controlled by the Republic of Lithuania for Euro 121 million.

**** Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH).

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

***** In March 2014 the Group acquired 100% share in OOO Aero TO the only asset of which is 50% share in OOO Gazpromneft – Aero Sheremetyevo. As a result the Group's effective share in OOO Gazpromneft – Aero Sheremetyevo increased from 47.84% to 95.68% and the Group obtained control over OOO Gazpromneft – Aero Sheremetyevo.

Gas is sold to and purchased from associated undertakings in the Russian Federation mainly at the rates established by the FTS. Gas is sold and purchased outside the Russian Federation mainly under long-term contracts at prices indexed mainly to world energy product prices. The Group sells to and purchases oil from related parties in the ordinary course of business at prices close to average market prices.

	As of 31 December			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	20,739	-	20,501	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	17,448	-	8,452	-
OAO NGK Slavneft and its subsidiaries	10,701	-	4,512	-
AO Overgaz Inc.	9,246	-	8,011	-
AO Gasum	5,353	-	4,157	-
ZAO Panrusgaz	3,523	-	5,774	-
Wintershall AG	2,567	-	-	-
Gazprombank Group	2,125	-	8,974	-
ZAO Gazprom YRGM Trading	2,082	-	1,377	-
ZAO Nortgaz	1,952	-	88	-
ZAO Messoyakhaneftegas	1,869	-	2,944	-
ZAO Gazprom YRGM Development	1,492	-	976	-
Bosphorus Gaz Corporation A.S.	1,349	-	2,731	-
AO Moldovagaz*	1,281	-	-	-
OOO Yamal razvitie	1,272	-	-	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	1,081	-	1,290	-
TOO KazRosGaz	759	-	676	-
Sakhalin Energy Investment Company Ltd.	493	-	84	-
AO Latvijas Gaze	60	-	227	-
AO Lietuvos dujos	-	-	2,000	-
Russian-Serbian Trading Corporation a.d.	-	-	660	-
Short-term promissory notes				
Gazprombank Group	857	-	1,059	-
Cash balances				
Gazprombank Group	637,788	-	366,421	-
Long-term accounts receivable and prepayments				
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	26,161	-	17,214	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,663	-	-	-
ZAO Messoyakhaneftegas	10,672	-	2,838	-
OOO Yamal razvitie	10,395	-	2,200	-
Etzel Kavernenbetriebsgesellschaft mbH & Co. KG	5,293	-	3,811	-
Gazprombank Group	4,119	-	330	-
Erdgasspeicher Peissen GmbH	3,745	-	2,060	-
Gas Project Development Central Asia AG	788	-	1,826	-
Long-term promissory notes				
Gazprombank Group	122	-	431	-
Short-term accounts payable				
ZAO Gazprom YRGM Trading	-	7,988	-	8,723
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	6,464	-	4,715
Nord Stream AG	-	6,098	-	4,179
ZAO Gazprom YRGM Development	-	5,260	-	5,786
ZAO Achimgaz	-	3,188	-	1,998
TOO KazRosGaz	-	2,925	-	2,992
SGT EuRoPol GAZ S.A.	-	2,272	-	7,702
OAO NGK Slavneft and its subsidiaries	-	1,926	-	2,466
Sakhalin Energy Investment Company Ltd.	-	1,440	-	657
ZAO Nortgaz	-	381	-	501
AO Latvijas Gaze	-	214	-	66
Gazprombank Group	-	48	-	42
AO Lietuvos dujos	-	-	-	3,188

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

	As of 31 December			
	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities				
ZAO Gazprom YRGM Trading	-	-	-	797
ZAO Gazprom YRGM Development	-	-	-	124
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank Group	-	24,397	-	13,614
Long-term borrowings				
Gazprombank Group	-	36,490	-	26,195

* Net of impairment provision on accounts receivable in the amount of RR 273,143 and RR 142,592 as of 31 December 2014 and 2013.

Investments in associated undertakings and joint ventures are disclosed in Note 15.

See Note 37 for financial guarantees issued by the Group for the associated undertakings and joint ventures.

37 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes		31 December 2014	31 December 2013
	Outstanding guarantees issued for:		
	Sakhalin Energy Investment Company Ltd.	136,490	89,825
18, 27	Ostchem Holding Limited	47,407	-
	Blackrock Capital Investments Limited	7,675	4,804
	OOO Production Company VIS	7,016	8,164
	EM Interfinance Limited	3,065	3,668
	Nord Stream AG	-	50,830
	Other	75,104	43,752
		276,757	**201,043**

In 2014 and 2013 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in USD of USD 3,814 million and USD 3,404 million as of 31 December 2014 and 2013, respectively, as well as amounts denominated in Euro of Euro 356 million and Euro 1,493 million as of 31 December 2014 and 2013, respectively.

In June 2008 the Group issued a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. for Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2014 and 2013 the above guarantee amounted to RR 136,490 (USD 2,426 million) and RR 89,825 (USD 2,744 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2014 the above guarantee amounted to RR 47,407 (USD 843 million) and was fully provided (see Notes 18 and 27).

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. As a result as of 31 December 2014 and 2013 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 10,740 (USD 191 million) and RR 8,472 (USD 259 million), respectively.

In July 2012 the Group issued a guarantee to OAO Sberbank of Russia for OOO Production company VIS as a security of credit facility for financing of construction projects for Gazprom Group. As of 31 December 2014 and 2013 the above guarantee amounted to RR 7,016 and RR 8,164, respectively.

In March 2011 the Group issued a guarantee to Societe Generale for Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 2 construction completion. According to guarantee agreements

37 COMMITMENTS AND CONTINGENCIES (continued)

the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream AG toward the Societe Generale in the event that Nord Stream AG fails to repay those amounts. As of 31 December 2013 the above guarantee amounted to RR 50,830 (Euro 1,130 million). As of 31 December 2014 the debt liabilities were redeemed.

Other

The Group has transportation agreements with certain of its associated undertakings and joint ventures (see Note 36).

Capital commitments

The total investment program related to gas, oil and power assets for 2015 is RR 1,608 billion.

Operating lease commitments

As of 31 December 2014 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2014 no loss is expected to result from these long-term commitments.

38 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic direction of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Legal proceedings

On 16 June 2014, OAO Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NAK Naftogaz Ukraine to recover more than USD 4,500 million unpaid debt for gas supplies and related interest charged.

On 16 June 2014, NAK Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce against OAO Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011, which according to the claim amounted to not less than USD 6,000 million and cancellation of the contractual prohibition on reexport of natural gas.

On 1 July 2014 OAO Gazprom and NAK Naftogaz Ukraine filed its responses to the requests of arbitration. On 21 July 2014, both cases were consolidated; oral hearings will start not earlier than in February-March 2016.

On 13 October 2014 NAK Naftogaz Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against OAO Gazprom, seeking (1) to acknowledge that rights and obligations of NAK Naftogaz Ukraine under Contract on volumes and terms of gas transportation contract through Ukraine in 2009-2019 years should be transferred to PAO Ukrtransgaz; (2) to acknowledge that certain provisions of Contract, that will be subsequently updated, are invalid and/or inoperative and should be supplemented with or substituted by provisions that will be updated in line with the energy and anti- monopoly legislation of Ukraine and EU; (3) to oblige OAO Gazprom to pay a compensation of USD 3,200 million (and related interest) to NAK Naftogaz Ukraine for the failure to provide gas for transit; (4) to acknowledge that the transit tariff stipulated in Contract should be revised in such a way as provided in further written statements of NAK Naftogaz Ukraine in line with key principles of the Swedish contractual law. The claim amounts to approximately USD 6,200 million. On 28 November 2014 OAO Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. Verbal hearing of the case is expected late September 2016 and decision of the arbitration panel is expected by the end of January 2017.

38 OPERATING RISKS (continued)

The Group is also a party to certain other legal proceedings arising in the ordinary course of business and subject to various environmental laws regarding handling, storage, and disposal of certain products, regulation by various governmental authorities. Management believes, there are no such current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Group.

Sanctions

In September 2014 the U.S., the EU and certain other countries imposed additional sanctions on the Russian energy sector that partially apply to the Group.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from (1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, including OAO Gazprom Neft, and (2) from providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies, including OAO Gazprom and OAO Gazprom neft. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions prohibit (1) provision of drilling, well testing, logging and completion services and supply of specialized floating vessels necessary for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia, and (2) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities and money-market instruments with a maturity exceeding (a) 90 days issued after 1 August 2014 to 12 September 2014 or (b) 30 days, issued after 12 September 2014 by certain Russian companies such as OAO Gazprom neft (including subsidiaries of OAO Gazprom neft or any legal person, entity or body acting on behalf or at the direction of OAO Gazprom neft).

Sanctions imposed by the EU also prohibit EU persons from directly or indirectly making or being part of any arrangement to make new loans or credit with a maturity exceeding 30 days to a number of Russian companies (including OAO Gazprom neft), after 12 September 2014 except for loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and Russia or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal persons established in the EU, whose proprietary rights are owned for more than 50% by any entity referred to above.

The Group continues to assess and monitor the impact of the ongoing sanctions but currently does not believe they have a significant impact on the financial position and results of operations of the Group.

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. As of 31 December 2014 interpretation of the relevant legislation is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

The Russian Law “On Transfer pricing” grants the right to a taxpayer to validate compliance with arm's length principle in respect of prices in controlled transactions through preparation of documentation for tax purposes.

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures were introduced to comply with tax legislative requirements on transfer pricing. Currently the new regulation practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably, however they can have significant impact on financial results and activities of the Group.

The Controlled Foreign Company (CFC) rules introduce Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC undistributed profits should be subject to a 20% tax rate. The management is aware about new legislation and is analyzing the impact on the Group and required actions.

38 OPERATING RISKS (continued)

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets. The future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

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

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations mainly in the northern regions of the Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

39 FINANCIAL RISK FACTORS

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

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange 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 carrying amounts of the Group's financial instruments are denominated in the following currencies:

Notes		Russian Rouble	US dollar	Euro	Other	Total
	31 December 2014					
	Financial assets					
	Current					
8	Cash and cash equivalents	655,021	278,278	63,910	40,982	1,038,191
9	Short-term financial assets (excluding equity securities)	7,364	281	-	7	7,652
10	Trade and other accounts receivable	331,765	335,635	157,876	88,183	913,459
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	170,652	2,914	6,946	738	181,250
17	Available-for-sale long-term financial assets (excluding equity securities)	727	110	-	-	837
	Total financial assets	**1,165,529**	**617,218**	**228,732**	**129,910**	**2,141,389**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	624,890	189,329	134,432	48,120	996,771
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	40,970	219,498	203,729	585	464,782
	Non-current					
21	Long-term borrowings and promissory notes	263,732	1,279,396	652,233	28,681	2,224,042
	Total financial liabilities	**929,592**	**1,688,223**	**990,394**	**77,386**	**3,685,595**
	31 December 2013					
	Financial assets					
	Current					
8	Cash and cash equivalents	511,438	141,980	24,857	10,855	689,130
9	Short-term financial assets (excluding equity securities)	7,741	-	-	87	7,828
10	Trade and other accounts receivable	409,825	336,963	113,792	65,705	926,285
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	135,563	22,034	527	383	158,507
17	Available-for-sale long-term financial assets (excluding equity securities)	870	-	-	49	919
	Total financial assets	**1,065,437**	**500,977**	**139,176**	**77,079**	**1,782,669**
	Financial liabilities					
	Current					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	564,344	115,798	39,167	30,318	749,627
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	71,472	165,812	93,242	1,400	331,926
	Non-current					
21	Long-term borrowings and promissory notes	199,733	757,308	494,479	18,482	1,470,002
	Total financial liabilities	**835,549**	**1,038,918**	**626,888**	**50,200**	**2,551,555**

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

As of 31 December 2014, if the Russian Rouble had weakened by 20% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 214,201, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2013, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 53,794, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables.

The effect of related Russian Rouble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2014, if the Russian Rouble had weakened by 20% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 152,332, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2013, if the Russian Rouble had weakened by 10% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 48,771, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Rouble strengthening against the Euro would have been approximately the same amount with opposite impact.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Long-term borrowings and promissory notes	**31 December**	
	2014	**2013**
At fixed rate	2,044,351	1,427,690
At variable rate	591,553	334,653
	2,635,904	**1,762,343**

The Group does not have a formal policy of determining how much 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 obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During years ended 31 December 2014 and 2013 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2014, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 5% higher with all other variables held constant, profit before profit tax would have been lower by RR 29,578 for 2014, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2013, if benchmark interest rates on US dollar- and Euro-denominated borrowings at these dates had been 2% higher with all other variables held constant, profit before profit tax would have been lower by RR 6,692 for 2013, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

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

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Europe and other countries are sold under long-term contracts. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2014, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 216,481 for 2014. As of 31 December 2013, if the average gas prices related to the export market had decreased by 10% with all other variables held constant, profit before profit tax would have been lower by RR 217,747 for 2013.

The Russian gas tariffs are regulated by the Federal Tariffs Service and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of 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.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2014 and 2013, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 20% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RR 41,970 and RR 44,006 lower, respectively.

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF Gazfund (see Note 24).

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 maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable, including promissory notes. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates 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.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

	31 December	
	2014	**2013**
Cash and cash equivalents	1,038,191	689,130
Debt securities	8,489	8,747
Long-term and short-term trade and other accounts receivable	1,096,276	1,087,242
Financial guarantees	276,757	201,043
Total maximum exposure to credit risk	**2,419,713**	**1,986,162**

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2014					
Short-term and long-term loans and borrowings and promissory notes	304,667	293,712	521,201	1,206,995	1,215,224
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	861,135	88,229	-	-	-
Derivative financial instruments:	46,478	20,342	31,589	34,201	1,829
including foreign currency hedge contracts	8,576	1,345	16,751	29,811	1,829
Financial guarantees	60,276	3,886	4,856	51,939	155,800
As of 31 December 2013					
Short-term and long-term loans and borrowings and promissory notes	208,730	213,566	314,105	783,855	811,962
Accounts payable and accrued charges (excluding derivative financial instruments)	596,128	153,499	-	-	-
Derivative financial instruments:	7,102	3,259	3,540	3,716	190
including foreign currency hedge contracts	17	29	336	2,606	189
Financial guarantees	5,711	9,451	31,349	71,408	83,124

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance.

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40%.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

(In millions of Russian Roubles)

39 FINANCIAL RISK FACTORS (continued)

The net debt to adjusted EBITDA ratios at 31 December 2014 and 2013 were as follows:

	31 December	
	2014	**2013**
Total debt	2,688,824	1,801,928
Less: cash and cash equivalents	(1,038,191)	(689,130)
Net debt	1,650,633	1,112,798
Adjusted EBITDA	1,962,558	2,009,475
Net debt/Adjusted EBITDA ratio	**0.84**	**0.55**

OAO Gazprom has an investment grade credit rating of BBB- (negative outlook) by Standard & Poor's and BBB (negative outlook) by Fitch Ratings as of 31 December 2014.

40 FAIR VALUE MEASUREMENTS

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

a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

c) Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3.

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

As of 31 December 2014 and 2013 the Group had the following assets and liabilities that are measured at fair value:

Notes		31 December 2014			
		Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Total**
9	**Financial assets held for trading:**				
	Equity securities	220	-	-	220
	Bonds	6,498	-	-	6,498
	Available-for-sale financial assets:				
	Equity securities	2,863	-	-	2,863
	Promissory notes	-	1,154	-	1,154
	Total short-term financial assets	**9,581**	**1,154**	**-**	**10,735**
17	**Available-for-sale financial assets:**				
	Equity securities	139,108	55,155	6,724	200,987
	Bonds	110	-	-	110
	Promissory notes	-	727	-	727
	Total available-for-sale long-term financial assets	**139,218**	**55,882**	**6,724**	**201,824**
23	Derivative financial instruments	7,833	56,478	947	65,258
	Total assets	**156,632**	**113,514**	**7,671**	**277,817**
23	Derivative financial instruments	11,185	122,871	383	134,439
	Total liabilities	**11,185**	**122,871**	**383**	**134,439**

(In millions of Russian Roubles)

40 FAIR VALUE MEASUREMENTS (continued)

Notes		31 December 2013 Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	**Financial assets held for trading:**				
	Equity securities	2,200	14,474	-	16,674
	Bonds	5,681	-	-	5,681
	Available-for-sale financial assets:				
	Promissory notes	-	2,147	-	2,147
	Total short-term financial assets	**7,881**	**16,621**	**-**	**24,502**
17	**Available-for-sale financial assets:**				
	Equity securities	150,632	11,395	5,958	167,985
	Bonds	49	-	-	49
	Promissory notes	-	870	-	870
	Total available-for-sale long-term financial assets	**150,681**	**12,265**	**5,958**	**168,904**
23	Derivative financial instruments	527	18,525	591	19,643
	Total assets	**159,089**	**47,411**	**6,549**	**213,049**
23	Derivative financial instruments	439	16,931	437	17,807
	Total liabilities	**439**	**16,931**	**437**	**17,807**

The derivatives include natural gas contracts and are categorised in levels 1, 2 and 3 of the fair value hierarchy. The contracts in level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in level 2 are valued using internally developed models that include inputs such as quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in level 3.

Foreign currency hedge contracts are categorised in level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting period.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2014 and 2013 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RR 4,489 and RR 1,492, respectively.

Financial assets held for trading primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

41 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

(In millions of Russian Roubles)

41 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
31 December 2014				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,109,964	15,255	1,094,709	40,023
Derivative financial instruments	321,568	256,310	65,258	49,150
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,012,026	15,255	996,771	40,023
Derivative financial instruments	390,749	256,310	134,439	49,150
31 December 2013				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,101,062	16,270	1,084,792	-
Derivative financial instruments	58,998	39,355	19,643	30,942
Financial liabilities				
Accounts payable and accrued charges (excluding derivative financial instruments)	765,897	16,270	749,627	-
Derivative financial instruments	57,162	39,355	17,807	30,942

42 POST BALANCE SHEET EVENTS

Borrowings and loans

In January 2015 the Group obtained a long-term loan from Intesa Sanpaolo S.P.A. bank in the amount of EUR 350 million at an interest rate of EURIBOR + 2.75% due in 2016.

In January and February 2015 the Group obtained long-term loans from OAO Sberbank of Russia in the amount of RR 10,000 and RR 2,500, respectively, at an interest rate of 13.48% due in 2019.

In January and March 2015 the Group obtained loans from a consortium of banks in the amount of EUR 230 million and EUR 130 million at interest rates of EURIBOR + 1.3% and EURIBOR + 1.75%, respectively, due in 2016. Deutsche Bank AG was appointed as bank agent.

In March 2015 the Group obtained a long-term loan from OAO Sberbank of Russia in the amount of RR 12,500 at an interest rate of 13.58% due in 2019.

In March 2015 the Group signed an agreement to obtain a long-term loan from PAO Promsvyazbank in the amount of USD 350 million at an interest rate of 5.4% due in 2018.

In April 2015 the Group obtained a long-term loan from a consortium of banks in the amount of USD 500 million at an interest rate of LIBOR + 3.25% due in 2018. JP Morgan Europe Limited was appointed as bank agent.

Investigation of the European Commission

In August 2012 the European Commission initiated an investigation into a potential breach of European Union antimonopoly law by OAO Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of OAO Gazprom activity in the European Union. The adoption of the Statement of Objections is just one of the stages of the antitrust investigation and does not imply holding OAO Gazprom liable for any violation of the European Union antitrust legislation. OAO Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission.

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28 April 2015

68 (sixty eight) pages are numbered, bound and sealed