ALLIANCE
OIL COMPANY

Annual Report 2013

Dear Readers,

In 2013, Alliance Oil Company again extended its track record of operational and financial growth and further strengthened its positions as a leading midsize vertically integrated oil and gas company in Russia. Important milestones were reached towards the completion of significant strategic investments in the downstream segment and the Company successfully launched its first gas fields into production.

At the end of the year, Alliance Group and its affiliates acquired all outstanding shares in Alliance Oil Company not previously held. As a result, the Company's common and preferred shares were delisted from NASDAQ OMX Stockholm while the convertible notes were redeemed and delisted from the Luxembourg Stock Exchange. Consequently, Alliance Oil Company's further operations are conducted under private ownership. The Company's long term debt continues to trade in international capital markets, where Alliance Oil Company remains an active participant.

As we look ahead, we remain committed to reaching our strategic objectives and to delivering sustainable growth, value creation and profitability while further developing the Company's high standards of corporate governance and good citizenship.

Eric Forss, *Chairman of the Board*

FINANCIAL SUMMARY

	2013	2012	2011	2010	2009
Total revenue (TUSD)	3 745 555	3 445 239	3 082 660	2 195 756	1 726 438
EBITDA (TUSD)	695 734	734 096	690 345	438 391	387 858
Result for the period (TUSD)	64 595	420 770	328 290	226 332	344 996
Total assets (TUSD)	5 965 827	5 991 886	4 225 235	3 347 408	2 727 014
Total equity	2 904 433	3 033 010	1 993 433	1 805 296	1 606 758
Cash flow from operations before changes in working capital (TUSD)	753 532	761 499	694 659	443 328	393 659
Return on shareholders' equity	2%	14%	16%	13%	21%
Return on capital employed	6%	14%	16%	12%	21%
Debt/equity ratio	78%	68%	81%	58%	45%
Equity ratio	49%	51%	47%	54%	59%
Risk bearing capital	53%	55%	52%	59%	65%
Interest coverage ratio	1,35	3,29	3,49	3,19	6,39
Debt coverage ratio	2,84	3,96	4,59	4,43	5,36
Net debt/EBITDA	2,84	2,26	2,08	1,97	0,82

RESERVE AND PRODUCTION DATA

	2013	2012	2011	2010	2009
Proved and probable oil and gas reserves, thousand barrels of oil equivalent	684 646	732 636	647 854	638 264	525 927
Crude oil sales volume, barrels	21 479 107	19 273 479	17 487 537	15 826 091	16 235 674
Oil products sales volume, barrels	32 997 231	29 916 349	27 648 368	24 359 715	21 542 081

Alliance Oil Company Ltd is a leading independent oil and gas company with vertically integrated operations in Russia and Kazakhstan. Alliance Oil has substantial oil and gas reserves and downstream operations that include the Khabarovsk refinery and the leading network of gas stations and wholesale oil products terminals in the Russian Far East.

CONSOLIDATED FINANCIAL STATEMENTS 2013

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Statement of Directors' responsibilities for the preparation and approval of the Consolidated Financial Statements for the year ended 31 December 2013

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Alliance Oil Company Ltd and its subsidiaries (the "Group") as at 31 December 2013, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") .

In preparing the consolidated financial statements, the Board of Directors is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

The Board of Directors is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The Board of Directors has authorised the Audit Committee to approve and the Managing Director to sign the consolidated financial statements of the Group for the year ended 31 December 2013. The consolidated financial statements of the Group for the year ended 31 December 2013 were approved by the Audit committee on 14 March 2014.

On behalf of the Board of Directors:

Arsen E. Idrisov,
Managing Director

19 March 2014

Independent Auditor's Report

To: Shareholders and Board of Directors of Alliance Oil Company Ltd.

We have audited the accompanying consolidated financial statements of Alliance Oil Company Ltd and its subsidiaries (collectively, the "Group"), which comprise the consolidated statements of financial position as at 31 December 2013, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Director's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alliance Oil Company Ltd and its subsidiaries as at 31 December 2013, and its financial performance and cash flows for 2013 in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow, Russia
19 March 2014

Consolidated Statement of Profit or Loss

in thousands of US Dollars (TUSD)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Revenue			
Revenue from sales of crude oil and gas		580,843	602,354
Revenue from sales of oil products		3,110,699	2,787,761
Revenue from other sales		54,013	55,124
		3,745,555	**3,445,239**
Cost of sales			
Production costs of crude oil and gas	8	-400,316	-365,881
Production costs of oil products	9	-2,097,978	-1,898,780
Cost of other sales		-25,504	-24,315
Depletion and depreciation of oil and gas production and refining assets		-188,580	-173,890
(Impairment)/reversal of impairment of oil and gas, production assets	15	-95,490	58,721
Gross profit		**937,687**	**1,041,094**
Selling expenses	10	-350,114	-314,587
Administrative expenses	11	-104,454	-95,740
Depreciation and amortisation of marketing and other assets		-20,487	-18,484
Other operating expenses, net	12	-65,368	-19,485
Share of (losses)/profits of associates and joint ventures	17	-85,202	2,309
Operating income		**312,062**	**595,107**
Interest income		17,877	14,977
Finance costs	13	-166,817	-95,034
(Loss)/gain on derivatives classified as held for trading, net		-2,774	7,678
Currency exchange (loss)/gain, net		-15,820	21,688
Profit before tax		**144,528**	**544,416**
Income tax expense	14	-79,933	-123,646
Profit for the year		**64,595**	**420,770**
Attributable to:			
Owners of the Company		698	402,833
Non-controlling interests	26	63,897	17,937
		64,595	**420,770**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of US Dollars (TUSD)

	Year ended 31 December 2013	Year ended 31 December 2012
Profit for the year	**64,595**	**420,770**
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to profit or loss:		
Currency exchange differences on translating foreign operations	-18,005	7,276
Actuarial gains recognised	2,579	-
	-15,426	**7,276**
Items that may be reclassified subsequently to profit or loss:		
Currency exchange differences on intercompany loans	-77,548	48,160
Currency exchange differences on translating foreign operations	-190,425	100,001
Income tax relating to currency exchange differences on intercompany loans	13,678	-7,308
	-254,295	**140,853**
Other comprehensive (loss)/income for the year, net of income tax	-269,721	148,129
Total comprehensive (loss)/income for the year	**-205,126**	**568,899**
Attributable to:		
Owners of the Company	-251,018	543,686
Non-controlling interests	45,892	25,213

Consolidated Statement of Financial Position

in thousands of US Dollars (TUSD)

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	15	4,530,295	4,474,599
Intangible assets		671	871
Goodwill	16	18,926	20,394
Investments in associates and joint ventures	17	93,824	187,191
Deferred tax assets	14	26,804	28,531
Other assets	18	13,461	2,991
		4,683,981	**4,714,577**
Current assets			
Inventories	19	287,393	227,991
Trade and other accounts receivable	20	156,220	116,368
Value added tax and other taxes receivable	21	238,834	296,236
Income tax receivable		4,818	13,811
Advances paid and prepaid expenses	22	187,505	161,262
Other financial assets	23	114,286	49,821
Restricted cash	24	418	26,887
Cash and cash equivalents	24	292,372	384,933
		1,281,846	**1,277,309**
TOTAL ASSETS		**5,965,827**	**5,991,886**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	2	176,528
Additional paid-in capital	25	1,572,947	1,296,210
Translation reserve on intercompany loans		-193,366	-129,496
Translation reserve on foreign operations		-407,570	-217,145
Option premium on convertible bonds		-	22,271
Retained earnings		1,639,304	1,638,943
Equity attributable to owners of the Company		**2,611,317**	**2,787,311**
Non-controlling interests	26	293,116	245,699
TOTAL EQUITY		**2,904,433**	**3,033,010**
Non-current liabilities			
Loans and borrowings	27	2,089,492	1,669,014
Deferred tax liabilities	14	231,738	265,002
Provision for decommissioning and site restoration costs	28	59,982	73,195
Advances received	29	110,204	26,309
Retirement benefit obligation	30	6,497	8,728
		2,497,913	**2,042,248**
Current liabilities			
Loans and borrowings	27	179,549	401,606
Trade and other accounts payable	31	87,919	129,864
Advances received and accrued expenses	29	198,602	296,065
Income tax payable		7,426	10,199
Other taxes payable	32	89,985	72,913
Derivatives classified as held for trading		-	5,981
		563,481	**916,628**
TOTAL LIABILITIES		**3,061,394**	**2,958,876**
TOTAL EQUITY AND LIABILITIES		**5,965,827**	**5,991,886**

Consolidated Statement of Changes in Equity

in thousands of US Dollars (TUSD)

	Attributable to owners of the Company								
	Share capital	Additional paid-in capital	Translation reserve on intercom-pany loans	Translation reserve on foreign operations	Option premium on convertible bonds	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**171,528**	**1,104,355**	**-170,348**	**-332,302**	**22,271**	**1,159,946**	**1,955,450**	**37,983**	**1,993,433**
Profit for the year	-	-	-	-	-	402,833	402,833	17,937	420,770
Other comprehensive income, net of income tax	-	-	40,852	100,001	-	-	140,853	7,276	148,129
Total comprehensive income for the year	**-**	**-**	**40,852**	**100,001**	**-**	**402,833**	**543,686**	**25,213**	**568,899**
Issue of preference shares, net of issue costs (Note 25)	5,000	191,272	-	-	-	-	196,272	-	196,272
Disposal of non-controlling interests	-	-	-	15,156	-	80,265	95,421	183,572	278,993
Dividends on preference shares	-	-	-	-	-	- 5,768	- 5,768	-	-5,768
Changes in ownership of subsidiaries	-	583	-	-	-	-	583	-1,069	-486
Share option plan (Note 25)	-	-	-	-	-	1,667	1,667	-	1,667
Balance at 31 December 2012	**176,528**	**1,296,210**	**-129,496**	**-217,145**	**22,271**	**1,638,943**	**2,787,311**	**245,699**	**3,033,010**
Profit for the year	-	-	-	-	-	698	698	63,897	64,595
Other comprehensive (loss)/income, net of income tax	-	-	-63,870	-190,425	-	2,579	-251,716	-18,005	-269,721
Total comprehensive (loss)/income for the year	**-**	**-**	**-63,870**	**-190,425**	**-**	**3,277**	**-251,018**	**45,892**	**-205,126**
Issue of preference shares, net of issue costs (Note 25)	2,280	95,065	-	-	-	-	97,345	-	97,345
Amalgamation (Note 25)	-178,806	178,806	-	-	-	-	-	-	-
Convertible bonds settlement (Note 13)	-	-	-	-	-22,271	14,183	-8,088	-	-8,088
Dividends on preference shares	-	-	-	-	-	-23,929	-23,929	-	-23,929
Changes in ownership of subsidiaries	-	2,866	-	-	-	3,443	6,309	1,525	7,834
Share option plan (Note 25)	-	-	-	-	-	3,387	3,387	-	3,387
Balance at 31 December 2013	**2**	**1,572,947**	**-193,366**	**-407,570**	**-**	**1,639,304**	**2,611,317**	**293,116**	**2,904,433**

Consolidated Statement of Cash Flows

in thousands of US Dollars (TUSD)

	Year ended 31 December 2013	Year ended 31 December 2012
Operating activities		
Profit before tax	144,528	544,416
Adjustments for:		
Depreciation, depletion and amortisation	209,067	192,374
Impairment/(reversal of impairment) of oil and gas production assets (Note 15)	95,490	-58,721
Interest income	-17,877	-14,977
Finance costs	166,817	95,034
Loss/(gain) on derivatives classified as held for trading, net	2,774	-7,678
Currency exchange loss/(gain), net	15,820	-21,688
Share of losses/(profits) of associates and joint ventures	85,202	-2,309
Loss on disposal of assets	3,015	5,948
Impairment of loan receivable	8,680	-
Impairment loss recognised on slow-moving and obsolete inventory	13,790	44
Other non-cash items	26,226	29,056
Operating cash flows before changes in working capital	**753,532**	**761,499**
Movements in working capital		
Inventories	-39,281	-72,905
Accounts receivable, advances paid and prepaid expenses	-49,323	-56,235
Accounts payable, advances received and accrued expenses	9,968	115,482
Cash generated from operations	**674,896**	**747,841**
Interest paid	-110,436	-82,136
Income tax paid	-75,603	-95,829
Total cash generated from operating activities	**488,857**	**569,876**
Investing activities		
Investments in oil and gas production assets	-262,201	-359,843
Investments in refining assets	-403,869	-328,267
Investments in marketing and other assets	-40,547	-40,719
Interest capitalised and paid	-92,401	-77,751
Acquisition of controlling interest in subsidiaries, net of cash acquired (Note 33)	-	-155,758
Proceeds from disposal of assets	8,468	2,963
Interest received	16,459	8,984
Payments on settlement of swap contract, net of interest received	-6,828	-2,130
Loans provided	-44,539	-56,417
Loans repaid	14,809	57,903
Investments in promissory notes	-	-15,621
Proceeds from sale of promissory notes	-	7,209
Short-term deposits placed	-143,911	-30,320
Proceeds from deposits withdrawn	94,897	27,030
Dividends received from associate	595	-
Total cash used in investing activities	**-859,068**	**-962,737**

Consolidated Statement of Cash Flows (continued)

in thousands of US Dollars (TUSD)

	Year ended 31 December 2013	Year ended 31 December 2012
Financing activities		
Proceeds from loans and borrowings	1,530,977	758,151
Repayment of loans and borrowings	-1,319,905	-466,696
Proceeds from issue of preference shares	93,544	201,527
Proceeds from joint venture formation	3,811	116,728
Acquisition of non-controlling interests in subsidiaries	-486	-1,551
Dividends on preference shares	-28,062	-
Total cash generated from financing activities	**279,879**	**608,159**
Effect of exchange rate changes on cash balances held in foreign currencies	-258	-7,166
Translation difference	-28,440	15,887
Change in cash, cash equivalents and restricted cash	**-119,030**	**224,019**
Cash, cash equivalents and restricted cash at beginning of the year	**411,820**	**187,801**
Cash, cash equivalents and restricted cash at end of the year	**292,790**	**411,820**

Notes to the Consolidated Financial Statements

in thousands of US Dollars (TUSD) unless indicated otherwise

Note 1 Organisation

Alliance Oil Company Limited was incorporated in Bermuda on 1 September 1998 as a tax exempted limited liability private company. Alliance Oil Company Limited registered office was located at: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

On 17 December 2013, Alliance Oil Company Limited and Alford Financial Limited, a jointly-owned subsidiary of Lambros Overseas S.A. and OJSC Alliance Group (together, the "Alliance Group"), were amalgamated into a new company also named Alliance Oil Company Ltd (the "Parent company" or "Company") registered under Bermuda law (Note 25). The Company's registered office remained the same. As a result of the transaction, Alliance Group acquired all shares of the Company, and became a 100% owner of the Company.

At 31 December 2013, the principal beneficial shareholders of the Group were Mr. Musa Y. Bazhaev and family members.

The Group is an independent vertically integrated oil and gas company with upstream operations in the Russian Federation and Kazakhstan and downstream operations in the Russian Federation. The Group's upstream operations include crude oil and gas exploration, extraction and production in the Timano-Pechora, Volga-Urals and Tomsk regions of the Russian Federation and the Atyrau region of Kazakhstan. The downstream operations include oil refining, transportation, marketing and sales of oil products in the Russian Far East and Eastern Siberia.

The principal activities of the significant subsidiaries of the Company and voting power held by the Group at 31 December 2013 and 2012 were as follows:

		Voting power held by the Group, %	
Activity/ Operating entity	**Country**	**31 December 2013**	**31 December 2012**
Holding companies			
OJSC "Alliance" Oil Company	Russian Federation	100.00	100.00
Vostok Oil (Cyprus) Limited	Cyprus	100.00	100.00
Financing of subsidiaries			
O&G Credit Agency Ltd	Cyprus	100.00	100.00
Management services			
LLC "Alliance" Oil Company MC	Russian Federation	100.00	100.00
Oil and gas exploration and production			
OJSC Vostochnaya Transnationalnaya Kompaniya	Russian Federation	100.00	100.00
CJSC Khvoinoye	Russian Federation	100.00	100.00
OJSC Pechoraneft	Russian Federation	99.93	99.66
LLC Kolvinskoye	Russian Federation	100.00	100.00
LLC SN-Gasproduction	Russian Federation	100.00	100.00
LLP Potential Oil	Kazakhstan	80.00	80.00
LLC Gusikhinskoye	Russian Federation	100.00	100.00
LLC GeoInvestService	Russian Federation	100.00	100.00
CJSC Saneco	Russian Federation	51.00[1]	51.00[1]
OJSC Tatnefteotdacha	Russian Federation	50.77[1]	50.77[1]
Oil refining			
OJSC Khabarovsk Oil Refinery	Russian Federation	98.87	98.83
Marketing and sales of oil products			
CJSC Alliance Oil	Russian Federation	100.00	100.00
OJSC Khabarovsknefteproduct	Russian Federation	92.99	92.85
OJSC Amurnefteproduct	Russian Federation	96.36	96.36
OJSC Primornefteproduct	Russian Federation	95.21	95.04
LLC Alliance - Baikalneftesbyt	Russian Federation	100.00	100.00
LLC Alliance Bunker	Russian Federation	100.00	100.00
CJSC Gavanbunker	Russian Federation	100.00	100.00
Inventory and equipment supply			
LLC Naftatekhresource	Russian Federation	100.00	100.00
Transportation services			
CJSC Alliancetransoil	Russian Federation	100.00	100.00

[1] *Control over CJSC Saneco and OJSC Tatnefteotdacha is based on potential voting rights (Note 17).*

Note 2 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Note 3 Application of new and revised International Financial Reporting Standards

New and revised standards affecting the financial statements

A number of new and revised standards which became effective or available for early adoption on 1 January 2013, have been applied in the preparation of the consolidated financial statements.

In preparation of the consolidated financial statements for the year ended 31 December 2012 the Group early adopted the following standards that came into force on 1 January 2013:

- A package of five standards on consolidation, joint arrangements, associates and disclosures was issued including IFRS 10 "*Consolidated Financial Statements*", IFRS 11 "*Joint Arrangements*", IFRS 12 "*Disclosures of Interests in Other Entities*", IAS 27 (as revised in 2011) "*Separate Financial Statements*" and IAS 28 (as revised in 2011) "*Investments in Associates and Joint Ventures*";
- Amendments to IAS 19 "*Employee Benefits*";
- Amendments to IAS 1 "*Presentation of Financial Statements*" – *Presentation of items of other comprehensive income.*

The following new and revised IFRSs have been adopted in these consolidated financial statements:

- Amendments to IFRS 7 *"Financial Instruments: Disclosures"*;
- IFRS 13 *"Fair Value Measurement"*.

The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

At the date of approval of the Group's consolidated financial statements, the following new, revised and amended standards have been issued, but are not effective for the year ended 31 December 2013:

	Effective for annual periods beginning on or after
• IFRS 9 "*Financial instruments*"	1 January 2018
• Amendments to IFRS 10 "*Consolidated Financial Statements*" – Amendments for investment entities	1 January 2014
• Amendments to IFRS 12 "*Disclosure of Interests in Other Entities*" – Amendments for investment entities	1 January 2014
• Amendments to IAS 19 "*Employee Benefits*" – Amendments to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	1 July 2014
• Amendments to IAS 27 "*Separate Financial Statements*" – Amendments for investment entities	1 January 2014
• Amendments to IAS 32 "*Financial Instruments: Presentation*" – Amendments relating to the offsetting of financial assets and financial liabilities	1 January 2014
• Amendments to IAS 36 "*Impairment of Assets*" – Amendments arising from Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
• Amendments to IAS 39 "*Financial Instruments: Recognition and Measurement*" – Amendments for novations of derivatives	1 January 2014

Management is currently considering the potential impact of the adoption of these standards and amendments. It is not practicable to provide a reasonable estimate of their effect until a detailed review has been completed.

Note 4 Basis of preparation

Entities of the Group maintain their accounting records in accordance with the laws and accounting and reporting regulations of the countries of incorporation. Statutory accounting principles and procedures may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying consolidated financial statements, which have been prepared from the Group entities statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Going concern

In assessing its going concern status, management has taken account of the Group's financial position, expected future trading performance, its borrowings and available credit facilities, anticipated additional borrowing facilities under negotiation and its capital expenditures commitments and plans, together with other risks facing the Group. Management believes that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of these consolidated financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

Note 5 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all of the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of its returns.

When the Company has less than a majority of the voting rights of an investee, it has a power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control over the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

When the Group loses control over a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary's assets or liabilities are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "*Financial Instruments: Recognition and Measurement*" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "*Income Taxes"* and IAS 19 "*Employee Benefits",* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "*Share-based Payment"* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"* are measured in accordance with that Standard.

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*", as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGU") that is expected to benefit from the synergies of the combination.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint

venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Functional and presentation currency

Amounts presented 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 ("functional currency"). The individual financial statements of each Group's entity are prepared in its functional currency:

- for entities operating in the Russian Federation – Russian Rouble ("RUB");
- for entities operating in Kazakhstan – Kazakhstan Tenge ("KZT");
- for entities operating in Cyprus and Bermuda – US Dollar ("USD").

The Group has chosen to present its consolidated financial statements in USD, as management believes it is a convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the oil and gas industry. The translation of balances and transactions of the Group's entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the quarterly average exchange rates for the period, except for significant transactions that are translated at rates on the date of such transactions and in instances where exchange rates fluctuate significantly during the period;
- resulting exchange differences are recognised in other comprehensive income as "Currency exchange differences on translating foreign operations" and accumulated in equity (attributed to non-controlling interests as appropriate);
- all cash flows are translated at the quarterly average exchange rates for the period, except for significant transactions that are translated at rates on the date of such transactions. Resulting exchange differences are presented as "Translation difference".

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a partial disposal of an interest in a joint venture or an associate of which the retained interest becomes a financial interest that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Property, plant and equipment

The Group's property, plant and equipment consist of oil and gas assets involved in crude oil and gas exploration and production ("oil and gas assets"), refining assets involved in oil refining ("refining assets") and marketing and other assets involved in oil and oil products transportation and marketing of oil products ("marketing and other assets").

Oil and gas assets

Exploration and evaluation assets

The Group follows the "successful efforts" method of accounting for its oil and gas assets, under which all costs for acquiring licenses and for the exploration and evaluation, survey, drilling and development of oil fields are initially capitalised in field area cost centres pending determination of oil and gas reserves. Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the consolidated statement of profit or loss as they are incurred. Capitalised expenditures incurred during the various exploration and appraisal phases are recognised through consolidated statement of profit or loss unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation assets are accounted for at historic cost less impairment losses if applicable.

When commercial reserves are discovered and plans to develop are approved, exploration and evaluation assets are transferred to oil and gas production assets.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- the term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of oil and gas resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of oil and gas resources in the specific area have not led to the discovery of commercially viable quantities of oil and gas resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although the development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration license areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

Oil and gas production assets

Oil and gas production assets are stated at cost less accumulated depletion and impairment losses, if applicable. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, reclassified exploration and evaluation assets and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas production assets are depleted in accordance with the unit-of-production method over proved and probable reserves; the base for depletion includes management's best estimates of future development costs related to probable reserves. For this purpose, the Group has determined estimates of oil and gas reserves in accordance with definitions of Petroleum Resources Management System with involvement of internationally recognised reserve engineer, DeGolyer and MacNaughton. Depletion of a field area is charged to the consolidated statement of profit or loss when production commences.

Proved and probable reserves include oil and gas quantities which the Group expects to produce after the expiry dates of its current licenses. The Group's current production licenses for oil and gas fields expire between 2015 and 2034. Where the license term is shorter than the production phase of the oil and gas field, the oil and gas properties are depreciated over the production phase of the oil and gas fields, as management believes that such licenses will be renewed. The production phase of oil and gas fields is determined based on the estimate of commercially viable reserves.

Proved reserves are those volumes of oil and gas which, by analysis of geological and engineering data, are estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods

and governmental regulations. Proved reserves can be categorised as developed or undeveloped.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable, under current economic conditions, operating methods and government regulations. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Refining, marketing and other assets

Refining, marketing and other assets are measured at cost less accumulated depreciation and impairment losses, if applicable. Such cost include borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use and is calculated on a straight-line basis over the estimated useful economic lives of assets, which are:

Buildings	20-50 years
Infrastructure	5-30 years
Machinery and equipment	3-20 years
Vehicles	3-10 years
Fixtures and fittings	2-8 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Provision for decommissioning and site restoration costs

Decommissioning and site restoration provision relates primarily to the conservation and abandonment of wells, removal of pipelines and other oil and gas facilities together with site restoration related to the Group's license areas. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning and site restoration costs, discounted to net present value, are capitalised within property, plant and equipment as oil and gas assets and a corresponding obligation recorded when a constructive obligation to incur such costs exists and the amount can be reliably estimated. The Group records the long-term portion of the obligation for decommissioning and site restoration costs as a separate line item in the consolidated statements of financial position.

The decommissioning asset is depleted using the unit-of-production method based on proved and probable reserves. The unwinding of the discount is recognised as finance costs.

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

Impairment of tangible and intangible assets (excluding goodwill and exploration and evaluation assets)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss. After the recognition of an impairment loss depletion charge for impaired oil and gas assets is adjusted in the reporting periods following the date of impairment recognition.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount but so that the

increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis and crude oil stock being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through

the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Impairment of financial assets

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

Loans and receivables are reviewed and subsequently assessed for impairment on an individual basis. Objective evidence of impairment for an individual account receivable could include: significant financial difficulty of the issuer or counterparty; or breach of contract, such as default or delinquency in payments; or it becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

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

Cash, cash equivalents and restricted cash

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less at the date of investment, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Restricted cash comprises cash deposited in special bank accounts that can be used only for the purpose intended.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement, the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to additional paid-in-capital. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in the consolidated statement of profit or loss upon conversion or expiration of the conversion option.

When the convertible bonds are exercised before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Group allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible bonds were issued.

Once the allocation of the consideration is made, any resulting gain or loss is treated as follows:

- the amount of gain or loss relating to the liability component is recognized in the consolidated statement of profit or loss; and
- the amount of consideration relating to the equity component is recognised in the consolidated statement of changes in equity.

Accordingly, the Group recognises profit or loss in the consolidated statement of profit or loss to the extent that amount of the consideration allocated to the liability component is lower or exceeds the carring amount of the liability component. The amount of consideration allocated to equity is recognised in equity. The equity component that is not eliminated is reclassified to retained earnings within consolidated statement of changes in equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

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

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

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

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

Derivative financial instruments

In order to manage its exposure to foreign exchange rate risks the Group enters into a derivative financial instrument such as cross currency interest swap.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately. Fair value is determined in the manner described in Note 36.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Employee benefits

Remuneration to employees, in respect of services rendered during the period is recognised as an expense in the consolidated statement of profit or loss in that reporting period.

Defined contribution plan

The Group's entities are legally obliged to make defined contributions to the State Pension Funds of the Russian Federation and Kazakhstan where the Group operates (a defined contribution plan financed on a pay-as-you-go basis). In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through social security charges at the rate of 30% for annual gross remuneration of each employee not exceeding certain amount, for remuneration exceeding the set amount the rate drops to 10%. The Group's contributions to the State Pension Funds of the Russian Federation and Kazakhstan where the Group operates relating to defined contribution plans are charged to the consolidated statement of profit or loss in the period to which they relate.

Defined benefit plans

The Group has defined benefit plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method, with actuarial valuations being carried out every two years at the end of annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to the consolidated statement of profit or loss.

Past service cost is recognised in the consolidated statement of profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the defined benefit liability. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents service costs in the consolidated statement of profit or loss in the line item Payroll and related taxes in either Cost of Sales, Selling expenses or Administrative expenses depending on the function of subsidiary. Curtailment gains and losses are accounted for as past service costs.

Share based payments

The Group operates a share option plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of reporting period, the Group revises its estimates of the number of options that are expected to vest. The Group recognises the impact of the revision of the original estimates in the consolidated statement of profit or loss with a corresponding entry to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, value added tax and customs duties.

Revenue from the sale of crude oil, oil products and other goods is recognised when the following conditions are satisfied:

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

Sales of goods that result in award credits for customers, under the Group's loyalty program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Incidental revenues from production of crude oil at the well's development stage or revenues associated with initial test production are offset against capitalised costs of the related field area cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

Revenue from rendering of services is recognised at the time the services are provided to the customer.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

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

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group's entities operate.

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker ("CODM") has been identified as the management team of Managing Director, Chief Financial Officer, Chief Operating Officer, Chief Executive Officer Downstream, Chief Executive Officer Upstream.

Note 6 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. They are reviewed on an ongoing basis. Actual results could differ from those estimates.

Critical judgments in applying accounting policies

The following are critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over CJSC Saneco and OJSC Tatnefteotdacha

In 2012, the Group contributed 100% of the shares of CJSC Saneco and 99.54% of the shares of OJSC Tatnefteotdacha into AR Oil & Gas B.V., a joint venture of the Group and Repsol Exploracion, S.A. registered in the Netherlands. However, based on the definition of control under IFRS 10 "*Consolidated Financial Statements*", management of the Group considers that it has retained control over CJSC Saneco and OJSC Tatnefteotdacha. This determination is made on the basis that the Group has a substantive potential voting right in respect of the contributed entities, through the existence of a buy-back option, which can be exercised at fair value determined by independent valuators. Management expects to obtain non-monetary benefits from exercise of the option and thus deems the option to be substantive, such that this is a determinative factor in retaining control.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

Useful economic lives of property, plant and equipment

Oil and gas production assets

The Group's oil and gas production assets are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved and probable oil and gas reserves and incorporating the anticipated future capital cost for the development of those reserves.

When determining the life of the oil and gas field, assumptions that were valid at the time of estimation, may change when new information becomes available. The factors that could affect the estimation of the life of an oil and gas field include the following:

- changes in the estimation of proved and probable oil and gas reserves;
- variances between actual and forecasted commodity prices used in the estimation of oil and gas reserves;
- unforeseen operational issues; and
- changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

Any of these changes could affect prospective depletion of oil and gas production assets and their carrying value.

Anticipated future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

Refining, marketing and other assets

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

Impairment of goodwill and tangible assets

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to a cash-generating unit "Downstream segment" which is also a reportable operating segment.

The recoverable amount of downstream segment assets was determined based on a value in use calculations using cash flow projections that were based on the following assumptions:

- cash flows based on 2014 financial budget approved by the management;
- cash flows beyond 2014 extrapolated using a steady 1.2% per annum growth rate;
- prices of oil products were forecast on the basis of oil price and refining margins;
- costs included crude oil purchases, operating and administrative expenses;
- financial pre-tax discount rate of 10.69% per annum.

Management believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

No impairment related to goodwill has been recognised for the years ended 31 December 2013 and 2012.

Impairment of tangible assets

The Group considers both external and internal sources of information in assessing whether there are any indications that its tangible assets are impaired.

External sources of information considered by the Group include changes in the market economic and legal environment in which the Group operates, that are not within its control.

Internal sources of information considered by the Group include the manner in which oil and gas properties are being used or expected to be used and actual and forecasted expectations of economic performance of such assets.

In determining the recoverable amounts of the Group's tangible assets, Group management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's properties, costs to sell the properties and the appropriate post-tax discount rate.

Reductions in oil and gas price forecasts, increases in estimated future costs of production, increases in estimated future development costs, reductions in the amount of 2P reserves and/or adverse current economic conditions can result in a write-down of the carrying amounts of the Group's tangible assets.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management applies judgement in allocating assets that do not generate independent cash inflows to cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Changes to the cash-generating unit allocations or to the timing of cash flows could impact the carrying value of the respective assets.

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable oil and gas reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties.

At 31 December 2013, the Group recognised an impairment loss in the amount of TUSD 95,490 related to Tomsk gas fields (Note 15) due to decrease in both long-term projection of domestic gas prices and 2P reserves as per DeGolyer and MacNaughton gas reserves report.

At 31 December 2012, the Group reversed an impairment loss of TUSD 58,721 related to the Tomsk oil fields (Note 15). Management's judgment was primarily based on the significant increase in oil price projections and the relative stability of reserves for the two preceding years.

Impairment of investments in associates

Management of the Group assesses the carrying value of its investments in associates when events or changes in circumstances suggest that indicators of impairment exist. At 31 December 2013, regarding investment in Eurotek consideration was given to a range of indicators, including moratorium to increase domestic gas prices from 2014 till 2016 issued by the Ministry of Economic Development of the Russian Federation.

Included in the consolidated statement of profit or loss for the year ended 31 December 2013, impairment loss related to investment in Eurotek in the amount of TUSD 79,115 was classified as loss from associate.

Decommissioning and site restoration costs

In respect of fields where the Group is required to perform decommissioning and site restoration, a provision is recorded to recognise existing commitments (Note 28). The Group performs analysis in order to estimate the probability, timing and amount involved with probable required outflow of resources. Estimating the amounts

and timing of those decommissioning and site restoration obligations that should be recorded requires significant judgment. The judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for decommissioning and site restoration costs are subject to change because of change in laws and regulations, and their interpretation.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of countries where the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 14).

Valuation of financial instruments

As described in Note 36, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 36 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Note 7 Segment information

For management purposes, the Group is organised in separate reporting segments based on the nature of the Group's operations. There are two business segments: the upstream segment, which includes crude oil and gas exploration, extraction and production, and the downstream segment, which includes oil refining, transportation and sale of oil products. Management reviews and evaluates the performance of these segments on a regular basis. Operations of the Parent company and subsidiaries involved in non-core activities are disclosed as "Other companies", none of which meet criterias for a separate reporting.

The CODM assesses the performance of the operating segments based on segment adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). Segment financial information provided to the CODM is prepared using the management accounts and includes segment adjusted EBITDA as the measure of profitability used by the CODM to allocate finance and make operational decisions. Segment adjusted EBITDA is prepared on a basis that does not directly align with IFRS. The explanations of differences to IFRS are included below, as a reconciliation of segment adjusted EBITDA (on a non-IFRS basis) to adjusted EBITDA (on an IFRS basis), which in turn is reconciled to profit before tax.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

Financial information by reportable segments is presented below:

Year ended 31 December 2013

	Upstream	Downstream	Total reportable segments	Other companies	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	1,049,658	3,225,296	4,274,954	61,929	-591,097	-231	3,745,555
Less inter-segment revenue	-459,329	-70,023	-529,352	-61,745	591,097	-	-
Revenue from external customers	590,329	3,155,273	3,745,602	184	-	-231	3,745,555
Segment adjusted EBITDA	**498,614**	**274,514**	**773,128**	**-66,288**	**93**	**-11,199**	**695,734**
Supplemental information:							
Depreciation, depletion and amortisation	-143,230	-65,357	-208,587	-475	-	-5	-209,067
Impairment of oil and gas production assets	-95,490	-	-95,490	-	-	-	-95,490
Interest income	17,791	17,439	35,230	101,562	-119,487	572	17,877
Finance costs	-65,760	-106,109	-171,869	-95,360	67,716	32,696	-166,817
Profit before tax	208,963	69,379	278,342	-62,624	-51,677	-19,513	144,528
Income tax expense	-71,875	-16,319	-88,194	-3,955	-	12,216	-79,933
Profit for the year	**137,088**	**53,060**	**190,148**	**-66,579**	**-51,677**	**-7,297**	**64,595**
Additions to property, plant and equipment	299,647	517,059	816,706	442	-	-31,694	785,454
Share of profits/(losses) of associates and joint ventures	-	69	69	-85,271	-	-	-85,202

Year ended 31 December 2012

	Upstream	Downstream	Total reportable segments	Other companies	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	1,017,934	2,984,585	4,002,519	45,611	-589,383	-13,508	3,445,239
Less inter-segment revenue	-396,290	-147,482	-543,772	-45,611	589,383	-	-
Revenue from external customers	621,644	2,837,103	3,458,747	-	-	-13,508	3,445,239
Segment adjusted EBITDA	**518,638**	**276,348**	**794,986**	**-46,403**	**-537**	**-13,950**	**734,096**
Supplemental information							
Depreciation, depletion and amortisation	-149,528	-41,922	-191,450	-332	-	-592	-192,374
Reversal of impairment of oil and gas production assets	59,362	-	59,362	-	-	-641	58,721
Interest income	7,023	51,801	58,824	76,680	-120,447	-80	14,977
Finance costs	-71,957	-73,974	-145,931	-65,362	86,671	29,588	-95,034
Profit before tax	373,192	248,993	622,185	-28,872	-34,200	-14,697	544,416
Income tax expense	-84,889	-44,068	-128,957	-3,925	-	9,236	-123,646
Profit for the year	**288,303**	**204,925**	**493,228**	**-32,797**	**-34,200**	**-5,461**	**420,770**
Additions to property, plant and equipment	377,808	452,247	830,055	777	-	-	830,832
Share of profits of associates and joint ventures	-	362	362	1,947	-	-	2,309

Upstream and downstream segment revenue includes revenue from sales of crude oil and gas and oil products, respectively, and revenue from other sales.

The Group has one customer that comprises more than 10% of the Group's revenue. The total revenue from this customer for each segment was as follows:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Revenue	**% of segment revenue**	**Revenue**	**% of segment revenue**
Upstream	-	-	9,445	1%
Downstream	709,839	22%	861,334	29%

The reconciliation of segments' adjusted EBITDA (on a non-IFRS basis) to adjusted EBITDA on an IFRS basis includes the following reconciling items:

- elimination of unrealised gains/losses on intra-segment operations;
- effect of difference in exchange rates applied.

Prices used in transactions between reportable segments are determined on an arm's length basis in a manner equal to transactions with third parties, except for interest-free loans provided and obtained.

Reconciliation of the segments' adjusted EBITDA to adjusted EBITDA on an IFRS basis to profit before tax is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Adjusted EBITDA of reportable segments	773,128	794,986
Adjusted EBITDA of other companies	-66,288	-46,403
Inter-segment eliminations	93	-537
Effect of reconciling items	-11,199	-13,950
Adjusted EBITDA (on an IFRS basis)	**695,734**	**734,096**
Depreciation, depletion and amortisation	-209,067	-192,374
(Impairment)/reversal of impairment of oil and gas production assets	-95,490	58,721
Interest income	17,877	14,977
Finance costs	-166,817	-95,034
(Loss)/gain on derivatives classified as held for trading, net	-2,774	7,678
Currency exchange (loss)/gain, net	-15,820	21,688
Impairment of investment in associate	-79,115	-
Other	-	-5,336
Profit before tax	**144,528**	**544,416**

Geographical information

The Group operates in two geographical areas, Russia and Kazakhstan. For management accounting purposes activities in Kazakhstan are considered to be not significant.

The Group's revenue from external customers by geographical location was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Switzerland	853,162	1,039,230
China	226,734	77,102
Denmark	191,889	60,164
Singapore	124,874	44,392
Austria	81,203	76,620
Belarus	66,190	970
Germany	37,251	79,453
Other foreign countries	98,890	227,468
	1,680,193	**1,605,399**
Domestic revenue[2]	2,065,362	1,839,840
	3,745,555	**3,445,239**

Note 8 Production costs of crude oil and gas

	Year ended 31 December 2013	Year ended 31 December 2012
Production tax	221,521	203,059
Payroll and related taxes	52,168	48,887
Taxes other than income and production tax	43,820	35,501
Repairs and maintenance	21,998	17,231
Materials and fuel	18,405	19,430
Transportation	11,101	10,413
Oil preparation	8,501	6,835
Insurance	7,677	5,704
Energy	4,163	4,751
Rent	3,260	4,409
Other	7,702	9,661
	400,316	**365,881**

Production costs of crude oil and gas represent cost of crude oil and gas sold both intragroup and to external customers. Production costs of crude oil sold intragroup amounted to TUSD 263,114 for the year ended 31 December 2013 (2012: TUSD 202,927).

[2] Domestic revenue includes revenue generated by Russian and Kazakhstan subsidiaries. The disclosure requirements of IFRS 8 "Operating segments" dictate using a reporting entity's country of domilice, but since no revenues are earned in Bermuda this information is presented as an alternative.

Note 9 Production costs of oil products

	Year ended 31 December 2013	Year ended 31 December 2012
Crude oil purchased for refining	1,013,611	913,325
Transportation	601,953	528,725
Oil products purchased for re-sale	226,401	244,818
Taxes other than income tax	137,823	141,560
Materials	56,225	12,661
Payroll and related taxes	31,596	32,485
Other	30,369	25,206
	2,097,978	**1,898,780**

Transportation costs included cost of delivery of crude oil to the Khabarovsk Oil Refinery and related insurance expenses.

Note 10 Selling expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Transportation	233,514	201,907
Payroll and related taxes	61,168	59,145
Repairs and maintenance	20,113	15,778
Energy and utilities	8,049	7,548
Taxes other than income tax	7,336	7,024
Insurance	3,224	3,148
Advertising and marketing	3,046	2,642
Rent	2,922	2,299
Export related expenses	2,408	3,162
Other	8,334	11,934
	350,114	**314,587**

Note 11 Administrative expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Payroll and related taxes and share options	48,806	41,390
Professional fees (legal, audit, consulting, etc.)	20,363	21,459
Rent	15,026	14,892
Bank charges	4,493	3,146
Advertising and marketing	3,576	3,057
Taxes other than income tax	3,356	2,773
Other	8,834	9,023
	104,454	**95,740**

Note 12 Other operating expenses, net

	Year ended 31 December 2013	Year ended 31 December 2012
Charity donations	36,497	9,986
Impairment loss on slow-moving and obsolete inventory	13,790	44
Impairment of loan receivable	8,680	-
Loss on disposal of assets	3,015	5,948
Other	3,386	3,507
	65,368	**19,485**

Charity donations primarily represented contributions to the Fund named after Z. Bazhaev.

Note 13 Finance costs

	Year ended 31 December 2013	Year ended 31 December 2012
Interest expense on bonds	132,347	117,883
Interest expense on loans and borrowings	50,366	39,824
Total interest expense for financial liabilities not classified as at fair value through profit or loss	**182,713**	**157,707**
Amortisation of debt issue costs and bank commissions	53,047	24,524
Convertible bonds settlement	9,242	-
Unwinding of discount on provision for decommissioning and site restoration costs (Note 28)	8,920	2,829
Less: amounts included in the cost of qualifying assets	-87,105	-90,026
	166,817	**95,034**

Capitalised borrowing costs related to loans obtained for the purposes of modernising the Khabarovsk Oil Refinery and developing oil and gas fields.

On 18 December 2013, the Group early redeemed outstanding TUSD 265,000 convertible bonds with original maturity in July 2014 at a 105 per cent of the principal amount. Total payment in the amount of TUSD 278,250 was allocated to the liability and equity components of the bonds. As a result of the transaction, the Group recognised loss relating to the liability component in the amount of TUSD 9,242 in the consolidated statement of profit or loss and gain relating to the equity component in the amount of TUSD 14,183 in the consolidated statement of changes in equity.

Note 14 Income tax

The Parent company, Alliance Oil Company Ltd, which is registered in Bermuda, is exempt from income tax.

The statutory income tax rate in the Russian Federation, the location of the majority of the Group's entities, is 20%. OJSC Khabarovsk Oil Refinery applies 15.5% income tax rate due to the decreased regional budget component of the income tax.

The profit of LLC Potential Oil, a Kazakhstan subsidiary, is subject to 30% income tax rate.

The profit of Cypriot subsidiaries, Vostok Oil (Cyprus) Ltd and O&G Credit Agency Ltd, is subject to income tax at the rate of 12.5% (2012: 10%).

Income tax recognised in the consolidated statement of profit or loss:

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax	81,993	95,676
Deferred tax	-2,060	27,970
Total income tax expense	**79,933**	**123,646**

The income tax expense recorded in the consolidated statement of profit or loss differs from the theoretical amount that would have arisen applying the tax rate to the profit before income tax by jurisdiction and is reconciled as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	**144,528**	**544,416**
Theoretical tax at rate 20% for Russian Federation	37,732	79,844
Theoretical tax at rate 15.5% for Russian Federation	3,368	18,489
Theoretical tax at rate 30% for Kazakhstan	15,680	15,521
Theoretical tax at other rates	-6,545	3,464
Non-deductible charity expenses	7,707	2,716
Loss from associate non-deductible for tax purposes	10,848	-
Other	11,143	3,612
Total income tax expense	**79,933**	**123,646**
Effective tax rate for the Group	55%	23%

The movement in the Group's net deferred tax liabilities was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Net deferred tax liabilities at beginning of the year	**236,471**	**161,559**
Recognised in the consolidated statement of profit or loss	-2,060	27,970
Tax effect of currency exchange differences on intercompany loans	-13,678	3,435
Acquired on acquisition of subsidiaries (Note 33)	-	31,817
Change in tax rate	819	-
Translation difference	-16,618	11,690
Net deferred tax liabilities at end of the year	**204,934**	**236,471**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position is presented below:

	31 December 2013	31 December 2012
Deferred tax liabilities	231,738	265,002
Deferred tax assets	-26,804	-28,531
Net deferred tax liabilities	**204,934**	**236,471**

The tax effects on the major temporary differences that gave rise to the deferred taxation at 31 December 2013 and 2012 are presented below:

	31 December 2013	31 December 2012
Property, plant and equipment	295,628	282,086
Inventories	1,634	-5,017
Effect of currency exchange differences on intercompany loans	-5,457	-3,274
Valuation of loans and borrowings	1,016	5,863
Trade, other payables and accrued expenses	-4,619	-6,124
Tax loss carry-forward	-80,440	-35,540
Other	-2,828	-1,523
Net deferred tax liabilities	**204,934**	**236,471**

At 31 December 2013, deferred tax liabilities have not been recognised for temporary differences associated with investments in subsidiaries in the amount of TUSD 1,441,316 (2012: TUSD 1,516,305).

Note 15 Property, plant and equipment

	Exploration and evaluation assets	Oil and gas production assets	Refining assets	Marketing and other assets	Total
Cost					
At 31 December 2012	**94,646**	**3,201,743**	**1,678,623**	**343,535**	**5,318,547**
Reclassifications	-896	896	-	-	-
Additions	33,322	227,154	482,505	42,473	785,454
Change in estimates for provision for decommissioning (Note 28)	-	-31,446	-	-	-31,446
Disposals	-	-8,777	-3,022	-5,334	-17,133
Reclassified to inventory	-	-43,733	-776	-	-44,509
Translation difference	-7,925	-248,573	-131,654	-25,491	-413,643
At 31 December 2013	**119,147**	**3,097,264**	**2,025,676**	**355,183**	**5,597,270**
Accumulated depletion and depreciation					
At 31 December 2012	**-**	**-572,030**	**-115,648**	**-110,820**	**-798,498**
Charge for the year	-	-144,498	-50,292	-22,408	-217,198
Disposals	-	1,900	2,238	2,866	7,004
Translation difference	-	59,455	9,358	8,683	77,496
At 31 December 2013	**-**	**-655,173**	**-154,344**	**-121,679**	**-931,196**
Accumulated impairment					
At 31 December 2012	**-**	**-45,450**	**-**	**-**	**-45,450**
Impairment charge	-	-95,490	-	-	-95,490
Depletion of accumulated impairment	-	1,530	-	-	1,530
Translation difference	-	3,631	-	-	3,631
At 31 December 2013	**-**	**-135,779**	**-**	**-**	**-135,779**
Net book value at 31 December 2013	**119,147**	**2,306,312**	**1,871,332**	**233,504**	**4,530,295**

	Exploration and evaluation assets	Oil and gas production assets	Refining assets	Marketing and other assets	Total
Cost					
At 31 December 2011	**32,950**	**2,399,933**	**1,181,055**	**282,339**	**3,896,277**
Reclassifications	-	-502	-	502	-
Additions	47,846	317,739	417,753	47,494	830,832
Acquisitions through business combination (Note 33)	9,650	294,084	-	146	303,880
Change in estimates for provision for decommissioning (Note 28)	-	47,175	-	-	47,175
Disposals	-	-9,306	-3,154	-3,713	-16,173
Translation difference	4,200	152,620	82,969	16,767	256,556
At 31 December 2012	**94,646**	**3,201,743**	**1,678,623**	**343,535**	**5,318,547**
Accumulated depletion and depreciation					
At 31 December 2011	**-**	**-393,400**	**-86,772**	**-87,076**	**-567,248**
Charge for the year	-	-154,218	-24,433	-19,998	-198,649
Disposals	-	1,137	1,298	1,471	3,906
Translation difference	-	-25,549	-5,741	-5,217	-36,507
At 31 December 2012	**-**	**-572,030**	**-115,648**	**-110,820**	**-798,498**
Accumulated impairment					
At 31 December 2011	**-**	**-105,231**	**-**	**-**	**-105,231**
Reversal of impairment	-	58,721	-	-	58,721
Depletion of accumulated impairment	-	5,765	-	-	5,765
Translation difference	-	-4,705	-	-	-4,705
At 31 December 2012	**-**	**-45,450**	**-**	**-**	**-45,450**
Net book value at 31 December 2012	**94,646**	**2,584,263**	**1,562,975**	**232,715**	**4,474,599**

During the reporting period construction materials previously recognised within oil and gas production assets in the amount of TUSD 43,733 were reclassified to current inventory based on revised capital construction program for Kolvinskoye oil field.

Management of the Group assesses the carrying value of its oil and gas production assets when events or changes in circumstances suggest that indicators of impairment exist. Consideration was given to a range of indicators including decrease in 2P gas reserves of SN-Gasproduction and moratorium to increase domestic gas prices issued by Ministry of Economic Development of the Russian Federation ("MED"). The impairment review resulted in the recognition of impairment loss of TUSD 95,490 related to SN-Gasproduction.

Key assumptions used by the Group management in determining the value in use of its intangible assets and property, plant and equipment were as follows:

- domestic gas prices based on MED long-term forecast;
- production volumes based on the approved field's development program and 2P reserves;
- the corresponding operating costs included production and other taxes, other production and administration expenses;
- the capital expenditures included drilling costs and other capital expenditures expected to be incurred for filed development;
- pre-tax discount rate of 11% per annum.

The impairment test was performed for the period of expected profitable operations but no longer than the field development period determined in the reserve report prepared by DeGolyer and MacNaughton.

At 31 December 2012, as a result of analysis of the upstream segment assets, the previously recognised impairment loss related to the Tomsk cash generating unit in the amount of TUSD 58,721 was reversed. The reversal reflected the significant improvement of conditions that gave rise to impairment loss in prior years, i.e. oil price projections increased significantly and 2P reserves remained relatively stable in years 2011 and 2012.

Exploration and evaluation assets

The additions to exploration and evaluation assets mainly comprise capitalised exploration drilling costs and geological studies and seismic researches related to the exploration license oil fields and prospects located in the Volga-Urals, Tomsk and Timano-Pechora regions of the Russian Federation.

Total amount of cash invested in the exploration and evaluation of crude oil and gas for the year ended 31 December 2013 included in the consolidated statement of cash flows within "Investments in oil and gas production assets" was TUSD 33,368 (2012: TUSD 47,150).

Note 16 Goodwill

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at beginning of the year	**20,394**	**19,239**
Translation difference	-1,468	1,155
Balance at end of the year	**18,926**	**20,394**

At 31 December 2013, the Group tested the amount of goodwill for impairment. For the purpose of such testing, goodwill was allocated to a cash-generating unit "Downstream segment" (Note 7). No impairment loss was identified.

Note 17 Investments in associates and joint ventures

Details of the Group's joint venture and associates at 31 December 2013 and 2012 were as follows:

				Carrying value		Voting power held by the Group, %	
Operating entity	**Activity**	**Type**	**Country**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
AR Oil&Gaz B.V.	Joint Venture – holding company	Joint venture	Netherlands	1,523	162,537	51%	51%
Alrep LLC	Joint Venture – management company	Joint venture	Russian Federation	81	-	51%	51%
OJSC Eurotek	Joint venture – gas production	Associate	Russian Federation	66,790	-	51%	-
Lia Oil S.A.	Trading of crude oil and oil products	Associate	Switzerland	25,211	23,964	40%	40%
LLC Dalnefteresource	Trading of oil products	Associate	Russian Federation	219	690	49%	49%
LLC Dalnefteprom	Trading of oil products	Associate	Russian Federation	-	-	49%	-
				93,824	**187,191**		

(Loss)/profit from associates and joint ventures for the years ended 31 December 2013 and 2012 were as follows:

	31 December 2013	31 December 2012
Investment in OJSC Eurotek	-86,787	-
Investment in Lia Oil S.A.	1,515	2,015
Investment in Alrep LLC	68	-
Investment in AR Oil&Gaz B.V.	-67	-89
Investment in Dalnefteresource LLC	69	383
	-85,202	**2,309**

Investments in joint ventures

The Group owns a 51%-share in AR Oil and Gaz B.V. ("AROG"), registered in the Netherlands, representing a joint venture between the Group and Repsol Exploracion S.A. ("Repsol"). In 2012, the Group contributed to AROG 100% of its shares in CJSC Saneco ("Saneco") and 99.54% of its shares in OJSC Tatnefteotdacha ("TNO"). In January 2013, the formation of the joint venture was completed through Repsol contributing OJSC Eurotek ("Eurotek") to AROG.

As described in Note 6, the Group continues to consolidate Saneco and TNO on the basis that the Group has a fair value option that is deemed in the money. Repsol has the same fair value option over Eurotek. As such, AROG does not control any of the contributed subsidiaries, but exercised significant influence over them. To avoid double-counting, the Group does not equity account for the impact of Saneco, TNO and Eurotek on AROG's results, and only equity accounts for the remaining portion of AROG. As such, the Group's investment in AROG was accounted for under the equity method, as a 51% share in the joint venture's net assets, excluding the investment in Saneco, TNO and Eurotek.

Carrying value of investment in AROG, excluding Saneco, TNO and Eurotek was as follows:

	31 December 2013	31 December 2012
Net assets	2,986	37,284
Proportion of ownership and voting power held by the Group	51%	51%
OJSC Eurotek contribution outstanding	-	143,523
Carrying value of investment	**1,523**	**162,537**

Net assets of AROG comprise primarily cash and cash equivalents. Group's share of AROG's loss for the year ended 31 December 2013 amounted to TUSD 67 (2012: TUSD 89).

Investments in associates

Eurotek

The Group equity accounts for Eurotek as an associate with voting power of 51% (see above in "Investments in joint ventures"). The Group engaged independent appraisor to determine fair value of assets and liabilities of Eurotek at the date of contribution into AROG. Fair value of assets acquired and liabilities assumed at the date of acquisition was as follows:

Non-current assets	218,158
Current assets	24,219
Non-current liabilities	-1,095
Current liabilities	-6,776
Identifiable net assets at the date of acquisition	**234,506**

Goodwill arising on acquisition and recorded as a part of investment in associate was calculated as follows:

Consideration transferred, including:	
Cash balance at AROG on acquisition date	18,977
OJSC Eurotek contribution outstanding	143,523
Less: 51% of fair value of identifiable net assets acquired	-119,598
Goodwill arising on acquisition	**42,902**

The summarised financial information below represents amounts shown in Eurotek's financial statements prepared in accordance with IFRSs.

	31 December 2013
Non-current assets	168,493
Current assets	13,699
Non-current liabilities	-1,912
Current liabilities	-49,320

	Year ended 31 December 2013
Revenue	31,563
Loss for the year	-86,049
Total comprehensive loss	-98,497

Reconciliation of the above summarised financial information to the carrying value of investment in the associate recognised in the consolidated financial statements:

	31 December 2013
Net assets	130,960
Proportion of ownership and voting power held by the Group	51%
Goodwill recognised in cost of investment	42,902
Goodwill impairment	-42,902
Carrying value of investment	**66,790**

At 31 December 2013, the Group identified indicators that investment in Eurotek may be impaired, in particular a moratorium on increase in domestic gas prices introduced in the Russian Federation in 2013, which significantly affected assessment of gas companies future cash flows.
Impairment test was based on the following key assumptions:

- domestic gas prices based on MED long-term forecast;
- financial pre-tax discount rate of 14.95% per annum.

Group's total loss from Eurotek comprised TUSD 86,787 and included Group's share in Eurotek operational loss for the year of TUSD 7,672 and impairment of investment in the total amount of TUSD 79,115 (including goodwill impairment of TUSD 42,902).

Lia Oil

At 31 December 2013 and 2012, the Group owned 40% share in the capital of Lia Oil S.A., an oil-trading company registered in Switzerland.

The summarised financial information below represents amounts shown in Lia Oil's financial statements prepared in accordance with IFRSs.

	31 December 2013	31 December 2012
Non-current assets	20,310	24,260
Current assets	330,550	187,619
Non-current liabilities	-	-8,577
Current liabilities	-294,023	-149,583

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	2,722,805	2,696,428
Profit for the year	3,787	5,037
Total comprehensive income	3,787	5,037

Reconciliation of the above summarised financial information to the carrying value of investment in the associate recognised in the consolidated financial statements:

	31 December 2013	31 December 2012
Net assets	56,837	53,719
Proportion of ownership and voting power held by the Group	40%	40%
Goodwill recognised in cost of investment	2,476	2,476
Carrying value of investment	**25,211**	**23,964**

Other associates

The carrying amount of the Group's interest in LLC Dalnefteresource at 31 December 2013 amounted to TUSD 219 (2012: TUSD 690). Group's share of profit of LLC Dalnefteresource for the year ended 31 December 2013 amounted to TUSD 69 (2012: TUSD 383).

Note 18 Other assets

	31 December 2013	31 December 2012
Value added tax (VAT) recoverable after 12 months	9,733	656
Long-term prepaid expenses	2,742	2,186
Other	986	149
	13,461	**2,991**

Note 19 Inventories

	31 December 2013	31 December 2012
Oil products	144,716	114,661
Crude oil	79,646	81,649
Other inventories	77,894	32,809
Less: impairment of slow-moving and obsolete inventories	-14,863	-1,128
	287,393	**227,991**

Note 20 Trade and other accounts receivable

	31 December 2013	31 December 2012
Trade accounts receivable	129,093	99,482
Other accounts receivable	33,320	26,418
Less: allowance for doubtful debts	-6,193	-9,532
	156,220	**116,368**

The majority of retail and wholesale customers operate on the advance payment terms. The credit period for other customers does not exceed 30 days. No interest is charged on the outstanding balances. The Group monitors trade accounts receivable through a special committee on a monthly basis. The concentration of credit risk is limited due to the customer base being large and unrelated.

At 31 December 2013 and 2012, balances of the Group's largest customers each exceeded 10% of the outstanding balance of trade accounts receivable:

	31 December 2013	31 December 2012
Company A	51,931	19,112
Company B	21,232	15,120
Company C	4,741	14,658

Based on the past history of transactions with these customers management believes that there is no specific credit risk attached to them.

Allowance for doubtful debts is recognised in respect of estimated non-recoverable amounts determined by reference to past default experience of the counterparty and analysis of the counterparty's current financial position.

The movements in the allowance for doubtful debts are presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at beginning of the year	**9,532**	**3,037**
Additions to allowance	55	8,323
Release of allowance	-2,898	-48
Amounts written-off	-39	-2,103
Translation difference	-457	323
Balance at end of the year	**6,193**	**9,532**

Ageing of fully and partially impaired trade and other receivables is presented below:

	31 December 2013	31 December 2012
Less than 90 days	78	50
90-365 days	6,115	6,838
	6,193	**6,888**

The Group has past due balances of trade and other receivables for which no allowance was created as the management considered such balances as recoverable. Ageing of past due but not impaired trade and other receivables is presented below:

	31 December 2013	31 December 2012
Less than 90 days	5,775	3,363
90-365 days	308	1,817
	6,083	**5,180**

Note 21 Value added tax and other taxes receivable

	31 December 2013	31 December 2012
VAT recoverable within 12 months	215,634	264,003
Export and other custom duties	20,805	28,904
Other taxes receivable	2,395	3,329
	238,834	**296,236**

Note 22 Advances paid and prepaid expenses

	31 December 2013	31 December 2012
Advances paid	178,713	154,205
Prepaid expenses	9,318	7,785
Less: impairment of advances paid	-526	-728
	187,505	**161,262**

Note 23 Other financial assets

	31 December 2013	31 December 2012
Bank deposits placed with third party banks	81,695	34,464
Loans provided	32,591	14,020
Derivatives classified as held for trading	-	1,337
	114,286	**49,821**

At 31 December 2013, bank deposits placed with third party banks were denominated in RUB and bore interest of 5.22% - 7.1% (2012: 7.1% - 7.7%) per annum.

At 31 December 2013, loans provided were presented net of impairment provision of TUSD 9,362 (2012: TUSD 790) and included:

- non-collateralised RUB-denominated loans to an associate at 10% per annum with maturity in December 2014;
- non-collateralised and non-interest bearing RUB-denominated loan to a third party with maturity in January 2014.

At 31 December 2012, loans provided to third parties included:

- non-collateralised RUB-denominated loan at 10% per annum with maturity in July 2013;
- non-collateralised RUB-denominated non-interest bearing loan with maturity in January 2013.

Note 24 Cash, cash equivalents and restricted cash

	31 December 2013	31 December 2012
Cash in banks:		
in USD	29,464	12,076
in RUB	55,681	56,049
in EUR	884	1,004
in other currencies	1,444	1,169
Cash in transit	2,515	7,817
Cash deposits:		
in USD	79,867	219,631
in RUB	118,636	80,972
in EUR	1,845	2,116
in other currencies	-	1,538
Petty cash	1,829	2,441
Other	207	120
	292,372	**384,933**
Restricted cash:		
in USD	418	1,069
in EUR	-	25,818
	418	**26,887**
	292,790	**411,820**

At 31 December 2013, cash deposits bore interest of 0.01% - 7.5% (2012: 0.01% - 7.6%) per annum. At 31 December 2012, restricted cash was primarily represented by letters of credit on a special account with Vnesheconombank in relation to agreements for the reconstruction of OJSC Khabarovsk Oil Refinery.

Note 25 Share capital and reserves

Share capital

The Parent company's share capital changes are presented below:

	Number of shares held	Par value per share (USD)	Share capital	Additional paid-in capital
Balance at 1 January 2012	**171,528,414**	**1**	**171,528**	**1,104,355**
Issue of preference shares, net of issue costs	5,000,000	1	5,000	191,272
Changes in ownership of subsidiaries	-	-	-	583
Balance at 31 December 2012	**176,528,414**	**1**	**176,528**	**1,296,210**
Issue of preference shares, net of issue costs	2,280,000	1	2,280	95,065
Shares cancelled through amalgamation	-178,808,414	1	- 178,808	178,806
Share capital of the Company (Note 1)	2,100	1	2	-
Changes in ownership of subsidiaries	-	-	-	2,866
Balance at 31 December 2013	**2,100**	1	**2**	**1,572,947**

At 31 December 2013, the authorised share capital of the Parent company amounted to 2,100 ordinary shares (2012: 220,000,000 ordinary or preference shares).

On 22 May 2013, dividends on preference shares of SEK 7.50 per share were approved on the Annual General Meeting of shareholders. Dividends accrued for the year ended 31 December 2013 amounted to TUSD 23,929 (2012: TUSD 5,768). During 2013 dividends on preference shares in the amount of TSEK 184,200 or TUSD 28,062 as of the dates of cash transfers were paid.

Share option plan

For the years ended 31 December 2013 and 2012, the share option charge amounted to TUSD 3,387 and TUSD 1,667, respectively, and was recognised within administrative expenses.

Movements in the number of share options outstanding and their related weighted average exercise prices are presented below:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Average exercise price in SEK per share	Number of options	Average exercise price in SEK per share	Number of options
Balance at beginning of the year	**86.51**	**2,736,551**	**104.31**	**2,615,879**
Granted during the year	-	-	55.00	749,522
Expired during the year	81.80	-437,700	122.97	-628,850
Forfeited during the year	115.00	-15,982	-	-
Terminated during the year	87.22	-2,282,869	-	-
Balance at end of the year	**-**	**-**	**86.51**	**2,736,551**

In December 2013, upon the amalgamation (Note 1) all outstanding options became cash settled. Total amount of cash compensation payable to options holders amounted to TUSD 3,998 based on Black-Scholes option pricing model.

At 31 December 2012, 2,736,551 options were outstanding and 437,700 options were exercisable out of which none have been exercised.

Note 26 Non-controlling interests

The table below presents details of the Group's subsidiaries that had significant non-controlling interests at 31 December 2013 and 2012:

	Country of incorpo-ration	Ownership held by non-controlling interests, %		Voting rights held by non-controlling interests, %		Non-controlling interests		Profit/(loss) attributable to non-controlling interests	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
OJSC Tatnefteotdacha	Russian Federation	49.23	49.23	49.23	49.23	123,171	98,122	32,846	269
CJSC Saneco	Russian Federation	49.00	49.00	49.00	49.00	115,903	100,675	23,018	8,681
LLP Potential Oil	Kazakhstan	20.36	20.36	20.00	20.00	30,547	23,414	7,864	7,067
OJSC Khabarovsk Oil Refinery	Russian Federation	2.16	2.27	1.13	1.17	10,895	12,157	119	2,606
OJSC Khabarovsk-nefteproduct	Russian Federation	10.65	11.11	7.01	7.15	5,387	6,439	-358	-669
OJSC Primornefteproduct	Russian Federation	4.79	4.96	4.79	4.96	3,180	3,206	285	-122
OJSC Pechoraneft	Russian Federation	0.99	0.34	0.07	0.34	2,847	475	67	24
OJSC Amurnefteproduct	Russian Federation	5.22	5.22	3.64	3.64	1,186	1,211	56	81
Total						**293,116**	**245,699**	**63,897**	**17,937**

Summarised financial information (before intragroup eliminations) in respect of the largest subsidiaries with significant non-controlling interests is set out below.

CJSC Saneco

	31 December 2013	31 December 2012
Non-current assets	194,023	199,104
Current assets	98,768	48,652
Non-current liabilities	-17,221	-11,872
Current liabilities	-39,023	-30,424

	Year ended 31 December 2013	Year ended 31 December 2012	From 16 August 2012 to 31 December 2012
Revenue	232,320	211,211	91,462
Profit for the period	46,965	30,595	17,717
Total comprehensive income	31,079	41,032	28,993
Net increase in cash and cash equivalents	14,956	14,998	2,469

OJSC Tatnefteotdacha

	31 December 2013	31 December 2012
Non-current assets	154,536	154,253
Current assets	127,282	70,433
Non-current liabilities	-14,170	-12,920
Current liabilities	-17,495	-12,463

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	189,072	165,940
Profit for the year	66,704	59,114
Total comprehensive income	50,868	69,781
Net increase in cash and cash equivalents	29,496	16,051

Note 27 Loans and borrowings

			31 December 2013		
	Currency	**Interest rate**	**Principal**	**Interest**	**Total**
Non-convertible interest-bearing Eurobonds	USD	7-9.88%	838,382	16,005	854,387
Bank loans denominated in USD	USD	5.3%	655,768	574	656,342
Non-convertible interest-bearing bonds	RUB	8.85-9.25%	456,847	7,135	463,982
Bank loans denominated in RUB	RUB	9.5-11.65%	291,206	3,124	294,330
Total loans and borrowings			**2,242,203**	**26,838**	**2,269,041**
Current portion repayable within one year					179,549
Long-term loans and borrowings					**2,089,492**

			31 December 2012		
	Currency	**Interest rate**	**Principal**	**Interest**	**Total**
Non-convertible interest-bearing bonds	RUB	8.85-9.75%	655,295	14,296	669,591
Non-convertible interest-bearing Eurobonds	USD	9.88%	346,959	10,561	357,520
Bank loans denominated in USD	USD	Libor 3m + 3.85%-Libor 6m+5.5%	329,550	3,924	333,474
Bank loans denominated in RUB	RUB	10.9-12%	267,969	4,010	271,979
Convertible interest-bearing bonds	USD	7.25%	254,417	4,003	258,420
Bank loans denominated in EUR	EUR	Euribor 6m+5.5%	175,088	4,548	179,636
Total loans and borrowings			**2,029,278**	**41,342**	**2,070,620**
Current portion repayable within one year					401,606
Long-term loans and borrowings					**1,669,014**

In May 2013, Alliance Oil Company issued TUSD 500,000 seven-year Eurobonds maturing in May 2020, with a fixed coupon of 7% per annum. The bonds are listed and traded on the Irish Stock Exchange regulated market.

In July 2013, CJSC Alliance Oil, a wholly-owned subsidiary of the Group, obtained long-term loan from Gazprombank in the amount of TRUB 5,000,000 (TUSD 153,200 at the exchange rate at the date of transaction) at 9.5% per annum maturing in July 2018.

In November 2013, OJSC Khabarovsk Oil Refinery, a subsidiary of the Group, signed a TUSD 700,000 long-term bank financing agreement. The loan has a fixed interest rate of 5.3% per annum and matures in November 2023.

In 2012, OJSC "Alliance" Oil Company and CJSC Alliance Oil, wholly-owned subsidiaries of the Group, obtained long-term loans from Gazprombank of TRUB 5,000,000 (TUSD 155,212 at the exchange rates at the dates of transactions) with an interest rate of 10.9% per annum. Both loans were early repaid in 2013.

The weighted average effective interest rates were as follows:

	31 December 2013	31 December 2012
Weighted average interest rate	8.14%	8.23%

At 31 December 2013, the Group did not have borrowings at floating interest rates (2012: 22%).

At 31 December 2013, loans and borrowings were collateralised by:

- 100% of the Group's holding in LLC SN-Gasproduction (2012: 100%);
- proceeds from sale of gas under the contract between LLC SN-Gasproduction and one of its customers in the amount of TUSD 39,768 (2012: TUSD 42,854);
- property, plant and equipment with a carrying value of TUSD 5,640 (2012: TUSD 137,540);
- 97.73% of the Group's holding in OJSC Khabarovsk Oil Refinery at 31 December 2012;
- proceeds from sale of crude oil under the contract between OJSC Vostochnaya Transnationalnaya Kompaniya and one of its customers in the total amount of TUSD 330,000 at 31 December 2012.

The maturity profile of the Group's loans and borrowings based on contractual undiscounted payments, including accrued interest as follows:

	31 December 2013		
	Principal	Interest	Total
Within one year	152,769	168,881	321,650
Within second year	359,377	144,439	503,816
More than two years	1,747,791	408,341	2,156,132
	2,259,937	**721,661**	**2,981,598**

The difference between principal as per maturity profile and principal as included in the consolidated statement of financial position relates to unamortised issue costs.

The Group is subject to external capital requirements imposed on Eurobonds and loans provided by Gazprombank on the basis of net debt to adjusted EBITDA ratio. At 31 December 2013, the Group complied with all capital requirements.

Note 28 Provision for decommissioning and site restoration costs

	31 December 2013	31 December 2012
Balance at beginning of the year	**73,195**	**15,440**
New obligation raised	18,467	6,351
Used during the year	-2,826	-2,591
Change in estimates	-31,446	47,175
Unwinding of discount on provision for decommissioning and site restoration costs (Note 13)	8,920	2,829
Additions through business combination (Note 33)	-	1,871
Translation difference	-6,328	2,120
Balance at end of the year	**59,982**	**73,195**

The provision was estimated by the Group based on the existing technology and current prices. The timing of decommissioning and site restoration obligations is determined as the last year of the estimated period during which oil and gas fields are expected to bring economic benefits to the Group (between 2014 and 2104).

Key assumptions used in estimation the amount of the provision for the year ended 31 December 2013 were discount rates of 10.23% - 12.54% (2012: 11.36%) and inflation rate of 4.7% - 5.6% (2012: 5.5% - 7%).

Note 29 Advances received and accrued expenses

	31 December 2013	31 December 2012
Advances received	156,621	259,682
Wages and salaries payable	31,880	26,079
Accrued vacations	7,004	8,667
Other accrued expenses	3,097	1,637
	198,602	**296,065**

In October 2013, the Group received an advance from one of its customers for crude oil shipments during 23 months from the date of payment. At 31 December 2013, advances received were classified as non-current (TUSD 110,204) and current (TUSD 36,735) according to the agreed delivery schedule.

In September 2012, the Group received an advance from one of its customers for crude oil shipments during 18 months from the date of payment. At 31 December 2012, advances received were classified as non-current (TUSD 26,309) and current (TUSD 130,779) according to the agreed delivery schedule.

Note 30 Personnel costs

The Group's personnel costs for the years ended 31 December 2013 and 2012 are presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Remuneration to the members of the Board of Directors and the managing director (including related taxes, accrual for annual bonuses and share options charges)	11,328	5,552
Remuneration to other employees (including related taxes and pension costs, annual bonuses and share options charges)	182,410	176,355
	193,738	**181,907**

The Group's personnel costs for the years ended 31 December 2013 and 2012 were recorded in the consolidated statement of profit or loss within "Production costs of crude oil and gas", "Production costs of oil products", "Selling expenses" and "Administrative expenses".

Annual bonuses accrued for the years ended 31 December 2013 and 2012 were based on financial performance against the budget and amounted to 10%-50% of the base salary of other employees depending on the position and individual performance in the preceding financial year. Provision for bonuses accrued at 31 December 2013 amounted to TUSD 21,466, and are payable in 2014 (2012: TUSD 17,287 paid in 2013).

Remuneration of the key management personnel

The executive remuneration consists of a base salary, an annual bonus and participation in the Group's long-term incentive plan. The annual bonus is determined based on the Group's and personal performance which are measured by several performance indicators, both operational and financial.

Remuneration paid to the key management personnel during the years ended 31 December 2013 and 2012 was as follows:

			2013			2012
	Salary	Bonus	Total	Salary	Bonus	Total
Managing director – Mr. Arsen Idrisov	2,000	1,500	**3,500**	2,000	1,501	**3,501**
Other key management personnel	6,873	6,594	**13,467**	6,688	5,914	**12,602**
	8,873	**8,094**	**16,967**	**8,688**	**7,415**	**16,103**

Total remuneration of the managing director and other key management personnel accrued for the year ended 31 December 2013 amounted to TUSD 19,066 (2012: TUSD 18,823).

The managing director is a member of the Group's Board of Directors. No board fees are paid to the managing director. The employment contract effective as at 31 December 2013 may be terminated by the Group upon six months written notice to the managing director. Should the managing director decide to leave the Group he also has to give a six months notice. The managing director is entitled to a bonus with an amount not to exceed 50% of his annual salary and can be awarded a bonus up to 100% of his annual salary for specific projects as determined by the Board of Directors.

Other key management personnel includes the management of the Parent company and the corporate centre LLC "Alliance" Oil Company MC, which provides management services to the Group's subsidiaries.

Remuneration to the Board members

Remuneration paid to the Board of Directors members during the years ended 31 December 2013 and 2012 was as follows:

			2013			2012
	Board fee	Other fee	Total	Board fee	Other fee	Total
Chairman of the Board	180	10	**190**	180	5	**185**
Other Board members	600	50	**650**	600	50	**650**
	780	**60**	**840**	**780**	**55**	**835**

Other fees represent remuneration paid to certain directors in connection with their work as part of the Remuneration and Audit committees.

Social security charges and defined benefit plans

Social security charges, recorded within payroll and related taxes, for the year ended 31 December 2013 included contributions to the Pension Fund of the Russian Federation of TUSD 25,188 (2012: TUSD 23,101).

The Group operates unfunded defined benefit plans for qualifying employees of its subsidiaries in the Russian Federation. Under the plans, the employees are entitled to flat retirement benefits payable on actual retirement, recurring social benefits to employees and retired employees, and flat payment on employee's death. No post-employment healthcare benefits are provided.

The present value of the defined benefit obligations and related past service cost were measured using the projected unit credit method by a professional independent actuary.

The principal assumptions used for the purposes of the actuarial valuations for the years ended 31 December 2013 and 2012 were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate	7.7%	8.0%
Expected rate of benefits increase	5.5%	6.0%
Expected rate of salary increase	7.0%	7.5%
Retirement age, years		
Male	60.0	59.0
Female	59.5	54.5

Movements in the present value of the defined benefit obligations were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at beginning of the year	**8,728**	**2,669**
Current service cost	571	548
Interest expense	695	623
Past service cost	127	4,718
Remeasurement gain:		
Actuarial gain arising from changes in experience adjustment	-1,407	-
Actuarial gain arising from changes in financial assumptions	-1,025	-
Actuarial gain arising from changes in demographic assumptions	-275	-
Benefits paid	-320	-
Translation difference	-597	170
Balance at end of the year	**6,497**	**8,728**

The Group expects to make a contribution of TUSD 359 to the defined benefit plans in 2014.

Note 31 Trade and other accounts payable

	31 December 2013	31 December 2012
Trade accounts payable	22,289	14,932
Other accounts payable	65,630	109,164
Dividends payable	-	5,768
	87,919	**129,864**

The average credit period on purchases of goods and services in 2013 was 13 days (2012: 17 days). No interest is charged on the outstanding balance for trade and other accounts payable during the allowed credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all trade and other accounts payable are paid within the credit limit timeframe.

The table below summarises the maturity profile of the Group's trade and other accounts payable at 31 December 2013 and 2012 based on contractual undiscounted payments.

	31 December 2013	31 December 2012
Due in less than 90 days	76,870	87,384
Due in 90-180 days	1,521	5,420
Due in 180-365 days	9,528	37,060
	87,919	**129,864**

Note 32 Other taxes payable

	31 December 2013	31 December 2012
VAT payable	47,997	28,523
Production tax	17,532	17,157
Excise tax	10,559	13,825
Other taxes	13,897	13,408
	89,985	**72,913**

Note 33 Business combinations, acquisition and disposal of subsidiaries

Increase in ownership in subsidiaries in 2013

During the year ended 31 December 2013, the Group acquired additional interest in the following subsidiaries:

	Increase in voting power, %	Preference shares interest acquired, %	Consideration
OJSC Khabarovsk Oil Refinery	0.04	1.11	214
OJSC Khabarovsknefteproduct	0.14	1.70	173
OJSC Primornefteproduct	0.17	0.50	108
			495

Increase in ownership in subsidiaries in 2012

During the year ended 31 December 2012, the Group acquired additional interest in the following subsidiaries:

	Increase in voting power, %	Preference shares interest acquired, %	Consideration
OJSC Khabarovsknefteproduct	0.29	1.93	295
OJSC Khabarovsk Oil Refinery	0.01	2.27	191
			486

Acquisition of controlling interests in subsidiaries in 2012

Acquisition of oil and gas assets

On 29 August 2012, the Group acquired 100% interest in CAP Agro S.A., the ultimate owner of LLC GeoInvestService, for cash consideration of TUSD 30,026. LLC GeoInvestService holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region in Northern Russia, on the East side of the Kolvinskoye oil field.

LLC GeoInvestService did not carry out any activity before the date of acquisition. Accordingly, the acquisition did not meet the definition of a business combination as stated in IFRS 3 "*Business Combinations*", and was treated as acquisition of an asset. Identifiable assets acquired and liabilities assumed were accounted for on an individual basis in the consolidated statement of financial position. The remaining purchase price was allocated to cost of license for West-Osoveiskoye block within the Group's exploration assets.

Acquisition of a gas company

On 15 October 2012, the Group acquired 100% of the shares in Polonio Holdings Limited, the ultimate owner of LLC SN-Gasproduction, an upstream segment company holding two gas licenses in the Tomsk region of the Russian Federation, for cash consideration of TUSD 127,768. Field development was at an advanced stage at the date of acquisition and gas production commenced in February 2013.

The Group engaged an independent appraisal in order to determine the fair value of assets acquired and liabilities assumed. The fair values of assets acquired and liabilities assumed at the date of acquisition were as follows:

Assets	
Property, plant and equipment	303,880
VAT and other taxes receivable	7,666
Cash and cash equivalents	2,036
Other assets	2,967
Liabilities	
Loans and borrowings	-147,172
Deferred tax liabilities	-31,817
Provision for decommissioning and site restoration costs	-1,871
Payables and accrued expenses	-7,921
Identifiable net assets at the date of acquisition	**127,768**

Net cash outflow on acquisition of Polonio Holdings Limited Group:

Consideration paid in cash	127,768
Less: cash and cash equivalents acquired	-2,036
	125,732

Included in the Group's consolidated results for the year ended 31 December 2012 is TUSD 328 of loss generated by Polonio Holdings Limited Group. Had the business combination occured at 1 January 2012, the profit for the year of the Group would have been TUSD 416,964.

Note 34 Related party balances and transactions

Related parties include shareholders, associates, joint ventures and other related parties representing entities under common ownership and control with the Group, and members of key management personnel.

Significant balances with related parties:

	31 December 2013	31 December 2012
Shareholders		
Trade and other accounts receivable	-	1,153
Trade and other accounts payable	1,668	16
Associates and joint ventures		
Trade and other accounts receivable	53,577	19,112
Advances paid and prepaid expenses	-	2,002
Other financial assets	26,123	-
Advances received and accrued expenses	263	55,057
Other related parties		
Advances paid and prepaid expenses	3,261	1,999

No allowance for doubtful debts in respect of the amounts owed by related parties was recognised. All related party balances were unsecured and will be settled in cash under normal commercial credit terms. No guarantees have been given or received in relation to any related party balance.

Significant transactions with related parties:

	Year ended 31 December 2013	Year ended 31 December 2012
Associates and joint ventures		
Revenue	740,456	917,508
Purchase of oil products	1,658	28,052
Purchase of services	971	1,531
Interest income	1,555	250
Loans provided	34,756	24,786
Loans repaid	7,752	24,786
Other related parties		
Purchase of services	18,260	18,583
Charity donations	31,937	9,736
Interest income	-	3,370
Proceeds from deposits withdrawn	-	27,030

Transactions with shareholders with significant influence, associates and other related parties relate to transactions in the ordinary course of business with terms and conditions, that management believe similar to transactions with third parties.

Revenue from sales to related parties includes sales of crude oil and oil products in the domestic and export markets. Purchase of services from related parties mainly includes insurance services and rent.

Charity donations represent contributions to the Fund named after Z. Bazhaev.

Disclosure of transactions in relation to members of key management personnel is presented in Note 30.

Note 35 Commitments and contingencies

Capital commitments

The Group's contractual capital commitments at 31 December 2013 and 2012 amounted to TUSD 546,228 and TUSD 855,011, respectively.

License commitments

The Group is subject to periodic reviews of its activities by local regulatory authorities regarding the requirements of its oil and gas licenses. Management of the Group entities agrees with local regulatory authorities remedial actions necessary to resolve any findings resulting from these reviews. Non-compliance with the terms of a particular license could result in penalties, fines or license limitations, suspension or revocation. The Group's management believes that any non-compliance with license terms that the Group may have in the future will be resolved through negotiations or proposed amendments without material effect on the consolidated financial positions or the operating results of the Group.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had or is expected to have, individually or in the aggregate, a material adverse impact on the Group.

The legal system in Russia is not fully developed and cannot be compared with the legal system in the West. It is also subject to constant changes, sometimes with retroactive effect. This fact could imply negative consequences to the companies of the Group.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the Russian Federation and Kazakhstan. The Group's operations involve air and water venting of detrimental impurities, that may have a potential impact on flora and fauna in the region of operations, and other environmental concerns.

Management believes that the Group's operations are in compliance with all current existing environmental laws and regulations. However, environmental laws and regulations of the Russian Federation and Kazakhstan continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

In accordance with the terms of various laws and extracting licenses upon completion of the oil and gas field exploitation the Group is liable to perform decommissioning and site restoration of the oil fields. The estimated cost of known environmental obligations has been recorded in the consolidated financial statements (Note 28). Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements, the terms of license agreements and the size and nature of the oil and gas fields under the licenses. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation economic and political environment

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

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

Because the Russian Federation produces and exports large volumes of oil and gas, the Russian Federation's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2013 and 2012.

Russian Federation tax and regulatory environment

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

While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group. The management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Note 36 Risk management

Capital risk management

The Group's objective for managing capital is to deliver competitive, secure and sustainable returns to maximise long-term shareholders value and reduce the cost of capital maintenance.

The Group monitors capital structure on the basis of the total debt to equity ratio. Total debt comprises non-current and current loans and borrowings, as shown in the consolidated statement of financial position. Equity of the Group comprises share capital, additional paid-in capital, translation reserve on intercompany loans, translation reserve on foreign operations, option premium on convertible bonds, retained earnings and non-controlling interests.

	31 December 2013	31 December 2012
Loans and borrowings	2,269,041	2,070,620
Total equity	2,904,433	3,033,010
Debt to equity ratio	**78%**	**68%**

In addition, the management of the Group reviews the following ratios on a quarterly basis: net debt, total debt to adjusted EBITDA, net debt to adjusted EBITDA and EBIT to interest expense.

Major categories of financial instruments

Major categories of financial assets and financial liabilities are presented below:

	31 December 2013	31 December 2012
Financial assets		
Loans and receivables (including cash and cash equivalents):		
Trade and other accounts receivable	156,220	116,368
Other financial assets	114,286	48,484
Cash, cash equivalents and restricted cash	292,790	411,820
Fair value through profit or loss		
Other financial assets	-	1,337
	563,296	**578,009**
Financial liabilities		
Measured at amortised cost:		
Loans and borrowings	2,269,041	2,070,620
Trade and other accounts payable	87,919	129,864
Wages and salaries payable	31,880	26,079
Fair value through profit or loss		
Derivatives classified as held for trading	-	5,981
	2,388,840	**2,232,544**

Management believes that the carrying values of financial assets (Notes 20, 23 and 24) and financial liabilities, excluding loans and borrowings, (Notes 29 and 31) recorded at amortised cost in the consolidated financial statements approximate their fair values. At 31 December 2013, non-convertible interest-bearing Eurobonds had a market value of TUSD 856,810 (2012: TUSD 385,665) and non-convertible interest-bearing rouble bonds had a market value of TUSD 458,148 (2012: TUSD 645,596). The fair values of other fixed-rate debt and floating-rate debt (Note 27) approximate their carrying values.

The Group faces a number of financial risks arising from its operations and use of financial instruments, including, but not limited to: foreign currency risk, interest rate risk, credit risk and liquidity risk.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The significant part of the Group's revenues are denominated in USD, whereas the majority of the Group's operational costs are denominated in RUB. At the same time the major part of the Group's borrowings are denominated in USD (2012: USD and EUR), while most of the Group's assets are denominated in RUB.

The Group's exposure to the risk of changes in exchange rates relates primarily to the Group's long-term debt obligations denominated in USD (2012: USD and EUR). The Group manages its foreign currency risk by economically hedging transactions that are expected to occur within a maximum 24-month period. In June and August 2011, the Group entered cross-currency interest rate swaps in order to balance cash inflows from export sales denominated in USD with cash outflows on interest payments denominated in RUB, and obtain a lower interest rate. Swap 1 was settled in July 2012 and Swap 2 in July 2013.

The outstanding balances of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	Denominated in USD		Denominated in EUR	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Assets				
Trade and other accounts receivable	89,217	67,038	-	18,180
Cash, cash equivalents and restricted cash	62,737	26,527	2,746	28,938
	151,954	**93,565**	**2,746**	**47,118**
Liabilities				
Loans and borrowings	669,815	361,452	-	198,155
Trade and other accounts payable	1,655	2,473	2,665	32,799
	671,470	**363,925**	**2,665**	**230,954**
Total net position	**-519,516**	**-270,360**	**81**	**-183,836**

The following table details the Group's sensitivity to a 10% increase and decrease in the RUB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity where the RUB strengthens for 10% against the relevant currency. For a 10% weakening of the RUB against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	Denominated in USD		Denominated in EUR	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
Profit or loss/equity	51,952	27,036	8	18,384

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group takes into account all available quantitative and qualitative information and its own trading records to mitigate the risk of financial loss from defaults.

Credit risk of the Group arises from cash, cash equivalents and restricted cash, loans and receivables and other financial assets, and has a maximum exposure equal to the carrying value of these instruments.

Description of risk management policies relating to trade and other receivables are described in the Note 20.

The credit risk on cash, cash equivalents, restricted cash and investments in deposits is limited because the counterparties are highly rated banks or banks approved by the management of the Group, deposits in which are placed only within approved limits.

In addition, the Group is exposed to credit risk in relation to investments in loans. The counterparty's business activities, financial resources and business risk management processes are taken into account in the assessment of their creditworthiness. The Group issues loans only to counterparties approved by management within the established limits.

There were no guarantees given to secure financing of third parties at 31 December 2013 and 2012.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed.

The net cash flow position of the Group is monitored on a daily basis by the central treasury function with weekly cash movements and cash balances being reported to the Group's management. A significant portion of crude oil and oil products sales contracts is executed on an advanced basis and the Group has also a strict policy for collecting doubtful debts and monitoring trade debtors. The Group prepares detailed budgets and forecasts and reviews the global and domestic oil price environment on a monthly basis in order to optimise crude oil sales, supply routes, oil product mix and refinery volumes. Management is focusing on matching the maturity profiles of financial assets and liabilities and reducing short-term debt through repayment of existing short-term loans. Accordingly, management considers that it is taking all necessary actions to allow the Group to meet its current obligations as they fall due.

The Group's primary sources of cash are its operations, as well as bank loans and the proceeds from equity and debt capital markets offerings.

At 31 December 2013, the Group's unused financing facilities amounted to TUSD 142,662 (2012: TUSD 444,025).

Fair value of financial instruments

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of derivative instruments are calculated using a discounted cash flow analysis based on the applicable yield curve for the duration of the instruments. Cross-currency interest rate swaps are measured at the present value of future cash flows estimated and discounted on rates of 6.9%-7.2% for cash flows denominated in RUB and 0.2%-0.8% for cash flows denominated in USD. Discount rates are based on Bloomberg yield curves.
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: fair value measurements are those derived from quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: fair value measurements are those derived from direct or indirect observable inputs for the asset or liability, other than quoted prices included within Level 1; and
Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2012, cross-currency interest rate swaps held by the Group and carried at fair value were attributed to Level 2 of the hierarchy.

Note 37 Significant events after the end of the period

On 29 January 2014, OJSC Khabarovsk Oil Refinery, a subsidiary of the Group, obtained a long-term bank loan in the amount of TRUB 5,000,000 (TUSD 144,404 at the exchange rate at the date of transaction). The loan has a fixed interest rate of 11.97% per annum and matures in January 2024.

In March 2014, the Group acquired 75.46% shares in OJSC "Kamchatnefteprodukt" and 100% shares in LLC "Kompaniya Solnechniy Veter". OJSC "Kamchatnefteprodukt" has two oil product terminals and 18 gas stations, and LLC "Kompaniya Solnechniy Veter" owns an aircraft fueling station. Both companies are located on the Kamchatka peninsula. Total consideration of TUSD 97,544 was paid by the Group in March 2014. Consideration payable by the Group also includes a contingent component calculated based on profits of the acquired companies under local accounting standards for 2013 and 2014 until transaction is completed. At the date of acquisition OJSC "Kamchatnefteprodukt" and LLC "Kompaniya Solnechniy Veter" did not prepare financial statements in accordance with IFRS and as at the date of issuance of these consolidated financial statements the Group had not completed assessment of fair value of acquired assets, liabilities and contingent liabilities in accordance with IFRS 3 "*Business Combinations*". Thus it was not practical to determine neither the carrying amounts of the acquired assets, liabilities and contingent liabilities nor its fair value in accordance with IFRS immediately after the acquisition, and this information was not presented in these consolidated financial statements.

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