Gazprom Neft Group

Consolidated Financial Statements

December 31, 2012

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Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of JSC "Gazprom Neft"

We have audited the accompanying consolidated financial statements of JSC "Gazprom Neft" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

25 February 2013

Moscow, Russian Federation

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Independent Auditor's Report (Continued)

T.S. Medvedeva, Director (licence no. 01-000496), ZAO PricewaterhouseCoopers Audit

Audited entity: JSC Gazprom Neft

State registration certificate № 1025501701686 issued by Interdistrict inspectorate of Federal tax authority #15 of Saint-Petersburg on 11.12.2007

Certificate of inclusion in the Unified State Register of Legal Entities № 55 № 002790652 issued on 01.06.2006

5-A Galernaya st., St. Petersburg, Russian Federation

Independent auditor: ZAO PricewaterhouseCoopers Audit

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

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

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

Gazprom Neft Group
Consolidated Statement of Financial Position
As of December 31, 2012

Currency – RUB millions

	Notes	December 31, 2012	December 31, 2011	January 1, 2011
Assets				
Current assets				
Cash and cash equivalents	6	76,012	29,435	34,920
Short-term financial assets	7	15,863	18,951	11,734
Trade and other receivables	8	66,596	70,780	48,010
Inventories	9	88,284	74,201	56,536
Current income tax prepayments		8,384	12,377	3,622
Other current assets	10	106,265	89,518	62,548
Assets classified as held for sale		2,179	2,029	7,466
Total current assets		**363,583**	**297,291**	**224,836**
Non-current assets				
Property, plant and equipment	11	669,425	574,982	468,424
Goodwill and other intangible assets	12	40,162	40,194	39,278
Investments in associates and joint ventures	13	185,087	175,315	179,301
Long-term trade and other receivables		159	219	256
Long-term financial assets	14	23,253	9,487	22,290
Deferred income tax assets	15	10,670	11,934	9,855
Other non-current assets		7,769	8,737	11,162
Total non-current assets		**936,525**	**820,868**	**730,566**
Total assets		**1,300,108**	**1,118,159**	**955,402**
Liabilities and shareholders' equity				
Current liabilities				
Short-term debt and current portion of long-term debt	16	66,195	44,330	52,860
Trade and other payables	17	51,348	41,196	36,995
Other current liabilities	18	31,128	25,165	21,385
Current income tax payable		2,631	1,994	4,139
Other taxes payable	19	35,908	30,089	22,458
Provisions for liabilities and charges	20	6,987	6,888	10,551
Liabilities associated with assets classified as held for sale		42	667	3,873
Total current liabilities		**194,239**	**150,329**	**152,261**
Non-current liabilities				
Long-term debt	21	166,417	176,979	149,424
Other non-current financial liabilities		5,232	6,824	-
Deferred income tax liabilities	15	38,759	32,443	22,856
Provisions for liabilities and charges	20	18,062	17,458	19,017
Other non-current liabilities		1,968	1,956	1,880
Total non-current liabilities		**230,438**	**235,660**	**193,177**
Equity				
Share capital	22	98	98	98
Treasury shares		(1,170)	(1,170)	(1,170)
Additional paid-in capital		16,125	10,022	-
Retained earnings		818,808	676,947	537,533
Other reserves		1,023	(940)	5,978
Equity attributable to the Company's owners		**834,884**	**684,957**	**542,439**
Non-controlling interest		40,547	47,213	67,525
Total equity		**875,431**	**732,170**	**609,964**
Total liabilities and shareholders' equity		**1,300,108**	**1,118,159**	**955,402**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

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

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
Sales		1,517,067	1,291,596
Less export duties and sales related excise tax		(286,801)	(261,793)
Total revenue from sales	**34**	**1,230,266**	**1,029,803**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(430,485)	(314,199)
Production and manufacturing expenses		(123,367)	(107,523)
Selling, general and administrative expenses		(66,115)	(51,430)
Transportation expenses		(93,813)	(81,935)
Depreciation, depletion and amortization		(58,461)	(55,799)
Taxes other than income tax	**19**	(251,128)	(208,196)
Exploration expenses		(3,263)	(2,105)
Total operating expenses		**(1,026,632)**	**(821,187)**
Other (loss) / gain, net	**24**	(4,891)	925
Operating profit		**198,743**	**209,541**
Share of profit of equity accounted investments		28,281	6,874
Net foreign exchange gain		953	740
Finance income	**25**	3,174	1,956
Finance expense	**26**	(11,160)	(11,446)
Total other income / (expense)		**21,248**	**(1,876)**
Profit before income tax		**219,991**	**207,665**
Current income tax expense		(30,085)	(33,728)
Deferred income tax expense		(5,754)	(6,268)
Total income tax expense	**27**	**(35,839)**	**(39,996)**
Profit for the year		**184,152**	**167,669**
Other comprehensive (loss) / income:			
Currency translation differences		(4,299)	3,526
Share of other comprehensive income of associates		-	7
Cash flow hedge		5,156	(9,075)
Other comprehensive income / (loss) for the year		**857**	**(5,542)**
Total comprehensive income for the year		**185,009**	**162,127**
Profit attributable to:			
- Gazprom Neft shareholders		176,296	160,362
- Non-controlling interest		7,856	7,307
Profit for the year		**184,152**	**167,669**
Total comprehensive income attributable to:			
- Gazprom Neft shareholders		178,259	153,444
- Non-controlling interest		6,750	8,683
Total comprehensive income for the year		**185,009**	**162,127**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		37.37	33.99
Diluted earnings (RUB per share)		37.37	33.99
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718

Gazprom Neft Group
Consolidated Statement of Changes in Shareholders' Equity
For the year ended December 31, 2012 **Currency – RUB millions**

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2011	**98**	**(1,170)**	**-**	**537,533**	**5,978**	**542,439**	**67,525**	**609,964**
Profit for the year	-	-	-	160,362	-	160,362	7,307	167,669
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	2,150	2,150	1,376	3,526
Share of other comprehensive income of associates	-	-	-	-	7	7	-	7
Cash flow hedge	-	-	-	-	(9,075)	(9,075)	-	(9,075)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**160,362**	**(6,918)**	**153,444**	**8,683**	**162,127**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(20,948)	-	(20,948)	(572)	(21,520)
Acquisition of non-controlling interest	-	-	10,022	-	-	10,022	(28,423)	(18,401)
Total transactions with owners	**-**	**-**	**10,022**	**(20,948)**	**-**	**(10,926)**	**(28,995)**	**(39,921)**
Balance as of December 31, 2011	**98**	**(1,170)**	**10,022**	**676,947**	**(940)**	**684,957**	**47,213**	**732,170**

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2012	**98**	**(1,170)**	**10,022**	**676,947**	**(940)**	**684,957**	**47,213**	**732,170**
Profit for the year	-	-	-	176,296	-	176,296	7,856	184,152
Other comprehensive (loss) / income								
Currency translation differences	-	-	-	-	(3,193)	(3,193)	(1,106)	(4,299)
Cash flow hedge	-	-	-	-	5,156	5,156	-	5,156
Total comprehensive income for the year	**-**	**-**	**-**	**176,296**	**1,963**	**178,259**	**6,750**	**185,009**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	(34,435)	-	(34,435)	(863)	(35,298)
Acquisition of non-controlling interest and other	-	-	6,103	-	-	6,103	(12,553)	(6,450)
Total transactions with owners	**-**	**-**	**6,103**	**(34,435)**	**-**	**(28,332)**	**(13,416)**	**(41,748)**
Balance as of December 31, 2012	**98**	**(1,170)**	**16,125**	**818,808**	**1,023**	**834,884**	**40,547**	**875,431**

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

For the year ended December 31, 2012 Currency – RUB millions

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities			
Profit before income tax		219,991	207,665
Adjustments for:			
Share of profit of equity accounted investments	13	(28,281)	(6,874)
(Gain) / loss on foreign exchange differences		(5,247)	5,127
Finance income	25	(3,174)	(1,956)
Finance expense	26	11,160	11,446
Depreciation, depletion and amortization	11,12	58,461	55,799
Allowance for doubtful accounts	29	2,773	299
Other non-cash items		3,351	5,815
Changes in working capital:			
Accounts receivable		(1,931)	(22,080)
Inventories		(14,222)	(18,190)
Other assets		(18,130)	(22,271)
Accounts payable		9,952	5,742
Taxes payable		6,073	6,837
Other liabilities		9,079	(7,340)
Income taxes paid		(25,361)	(43,047)
Interest paid		(11,302)	(9,657)
Dividends received		17,881	13,556
Net cash provided by operating activities		**231,073**	**180,871**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(2,261)	(16,239)
Proceeds from disposal of subsidiaries, net of cash disposed		-	8,371
Acquisition of equity-accounted investments		-	(1,506)
Bank deposits placement		(43,315)	(3,442)
Repayment of bank deposits		39,076	6,837
Acquisition of other investments		(4,517)	(7,248)
Proceeds from sales of other investments		4,557	5,104
Short-term loans issued		(4,193)	(6,736)
Repayment of short-term loans issued		10,840	1,228
Long-term loans issued		(13,751)	(5,744)
Repayment of long-term loans issued		261	1,099
Capital expenditures		(158,102)	(130,788)
Proceeds from sale of property, plant and equipment		2,314	1,575
Interest received		2,476	5,200
Net cash used in investing activities		**(166,615)**	**(142,289)**

For the year ended December 31, 2012 Currency – RUB millions

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from financing activities		
Proceeds from short-term borrowings	92,986	20,069
Repayment of short-term borrowings	(78,341)	(17,889)
Proceeds from long-term borrowings	67,743	66,988
Repayment of long-term borrowings	(56,970)	(60,834)
Transaction costs directly attributable to the borrowings received	(683)	(206)
Dividends paid to the Company's shareholders	(34,433)	(29,157)
Dividends paid to non-controlling interest	(762)	(754)
Acquisition of non-controlling interest in subsidiaries	(5,572)	(23,722)
Net cash used in financing activities	**(16,032)**	**(45,505)**
Increase in cash and cash equivalents	48,426	(6,923)
Effect of foreign exchange on cash and cash equivalents	(1,850)	1,431
Cash and cash equivalents as of the beginning of the year	**29,436**	**34,928**
Cash and cash equivalents as of the end of the year	**76,012**	**29,436**

1. General

Description of Business

JSC Gazprom Neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. JSC Gazprom (“Gazprom”, that is a state controlled entity), the Group’s ultimate parent company, owns 95.68% shares in the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Group’s first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. All the relevant data on the transition from previous GAAP (US GAAP) is described in Note 35 to these Consolidated Financial Statements.

Subsequent events occurring after December 31, 2012 were evaluated through February 25, 2013 the date these Consolidated Financial Statements were authorised for issue.

Basis of Measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SARs) are stated at fair value.

Foreign Currency Translation

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Ruble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of Consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Accordingly, the Group's share of net earnings from these companies is included in profit and loss as share of profit of equity accounted investments. All other investments are classified either as held-to-maturity or as available for sale.

Business Combinations

The Group accounts for its business combinations according to IFRS 3 *Business Combinations*. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company have not public market price).

Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-Controlling Interest

Certain changes in a parent's ownership interest are accounted for as equity transactions. When a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary is measured at carrying value at the date control is lost. In addition, ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Comprehensive Income.

Acquisitions from Entities under Common Control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

Investments in Associates and Joint Ventures (Equity Accounted Investees)

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and Cash Equivalents

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

Non-Derivative Financial Assets

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial Assets at Fair Value through Profit or Loss

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

Held-to-maturity Financial Assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and Receivables

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses.

Non-Derivative Financial Liabilities

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Derivative Financial Instruments

The Group uses derivative instruments to manage its exposure to changes in foreign currency exchange rates. A substantial portion of the Group's revenues are received in US Dollars. Additionally, a significant portion of the Group's financing activities is also undertaken in US Dollars. However, the Group's operating expenditures and capital spending are primarily denominated in Russian Rubles. Accordingly, a change in the value of the US Dollar against the Russian Ruble will impact the Group's operating results and cash flows. Therefore, the Group enters into forward contracts to manage this risk.

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is expected.

Hedge Accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument.

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

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

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

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is calculated on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Assets Classified as Held for Sale

Assets are classified in the Consolidated Statement of Financial Position as ‘assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period in which they were reclassified. These assets are measured at the lower of the carrying amounts and fair value less costs to sell. Assets classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Intangible Assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets that have limited useful lives are amortised on a straight-line basis over the shorter of their useful lives and the period set by legislation. Useful lives with respect to intangible assets are determined as follows:

Intangible Asset Group	Average Life
Licenses and software	1-5 years
Land rights	25 years

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and any impairments. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred; renewals and improvements of assets are capitalised. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

Oil and Gas Properties

Exploration and Evaluation assets

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

Development Costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, Depletion and Amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves, respectively. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as Other equipment. The assets are depreciated based on the straight-line method.

Capitalisation of Borrowing Costs

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

Decommissioning Obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and Production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

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

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period for the purposes other than to produce inventories during that period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income Taxes

Currently the Group does not exercise the option to pay taxes as a consolidated tax-payer and, accordingly, the Group is not subject to taxation on a consolidated basis. Current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 *Income Taxes*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

<u>Mineral Extraction Tax and Excise Duties</u>

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

<u>Common Stock</u>

Common stock represents the authorised capital of the Group, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders' meeting.

<u>Treasury stock</u>

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

<u>Earnings per Share</u>

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

<u>Stock-Based Compensation</u>

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SARs in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

<u>Retirement and Other Benefit Obligations</u>

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Government Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of Revenues

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

Buy/Sell Transactions

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to leverage production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in crude oil transportation to the refinery costs and any negative difference is treated as an increase in crude oil transportation costs to the refinery.

Transportation Costs

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the Transneft pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Maintenance and Repair

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

<u>Estimation of Oil and Gas Reserves</u>

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortisation charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

<u>Useful Lives of Property, Plant and Equipment</u>

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

Impairment of Long-Lived Assets

The carrying amounts of the Group's long-lived assets, other than goodwill, inventories, long-term financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rates, discount rates and inflation.

Impairment of Non-Derivative Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning Obligations

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

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

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

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

4. New Accounting Standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and that the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is deferred until 2015, earlier adoption is permitted. The Group does not plan to adopt the standard before 2015 and is currently assessing the impact of the new standard on its Consolidated financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011, including amendments and transition guidance and effective for annual periods beginning on or after January 1, 2013), replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. Based on the analysis performed by the Group, the new Standard will not have any significant impact on the Consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011, including amendments, transition guidance, effective for annual periods beginning on or after January 1, 2013), replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Based on the analysis performed by the Group some of the entities currently accounted for using equity method are expected to be classified as joint operations.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011, including transition guidance amendments, effective for annual periods beginning on or after January 1, 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group will amend its disclosures to comply with the requirements of the standard in 2013.

IFRS 13, Fair value measurement, (issued in May 2011, effective for annual periods beginning on or after January 1, 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its Consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011, effective for annual periods beginning on or after January 1, 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group expect the change will not have significant impact on its Consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011, effective for annual periods beginning on or after January 1, 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The main effect relates to the segregation of joint ventures from associates, that was made during the IFRS 11 adoption.

Amendments to IFRS 7 - Disclosures—Offsetting Financial Assets and Financial Liabilities (issued in December 2011, effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group will amend its disclosures to comply with the requirements of the standard in 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its Consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after July 1, 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its Consolidated financial statements, but have no impact on measurement of transactions and balances.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (issued in December 2011, effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is currently assessing the impact of the amendments on its Consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2012, effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker. The Group is currently assessing the impact of the amendments on its Consolidated financial statements.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, the amendments to IAS 19 "Employee benefits", relating to changes in recognition and measurement of defined benefit pension expense, will not have any impact on Group's Consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated financial statements.

For the year ended December 31, 2012 Currency – RUB millions

5. Acquisitions and disposals of subsidiaries and non-controlling interests

Acquisition of Novy Port

On November 21, 2012 the Group acquired 90% shares of LLC Gazprom neft Novy Port (Novy Port) from JSC Gazprom. The acquired Company holds exploration and production licences for Novoportovskoe oil field. The transaction was treated as common control transaction and accounted for using predecessor accounting method.

The difference between the cash consideration paid of RUB 6.3 billion and the value of assets and liabilities acquired of RUB 4.9 billion was accounted for as additional paid-in-capital for the year ended December 31, 2012. The following tables present information of LLC Novy Port as of December 31, 2012 and as of acquisition date:

	December 31, 2012	As of the acquisition date
Assets		
Current assets	5,504	3,248
Property, plant and equipment, net	4,046	2,910
Other non-current assets	20	20
Total assets acquired	**9,570**	**6,178**
Liabilities and shareholders' equity		
Current liabilities	4,180	761
Total liabilities assumed	**4,180**	**761**
Equity attributable to the Company's owners	4,851	4,875
Non-controlling interest	539	542
Total liabilities and shareholders' equity	**9,570**	**6,178**

Acquisition of Zhivoi Istok

In October 2012 the Group acquired 100% of LLC Zhivoi Istok for the amount of RUB 1,108 million, which holds licenses to explore and produce oil at the Baleykinsky field and to survey the Uranskaya acreage.

The following table present information of LLC Zhivoi Istok as of the acquisition date:

	As of the acquisition date
Assets	
Current assets	15
Property, plant and equipment, net	1,681
Other non-current assets	1
Total assets acquired	**1,697**
Liabilities and shareholders' equity	
Current liabilities	11
Other non-current liabilities	578
Total liabilities assumed	**589**
Total identifiable assets acquired and liabilities assumed	1,108
Consideration paid	(1,108)
Goodwill	-

Acquisition of non-controlling interest in subsidiaries

In 2012 the Group has accounted for the acquisition of the additional interest in several subsidiaries where control is maintained in the amount of RUB 6.5 billion. As a result of these transactions the Group increased additional paid-in-capital by RUB 6.1 billion for the year ended December 31, 2012. This amount represents the excess of the carrying value of the investments acquired of RUB 12.6 billion over the consideration paid.

For the year ended December 31, 2012 Currency – RUB millions

Acquisition of Orenburg assets

In the second half of 2011 the Group acquired three entities (100% of CJSC Centre of Science-Intensive Technologies, 87.5% of JSC Yuzhuralneftegaz and 61.8% of CJSC Gazprom Neft Orenburg) for the total consideration paid of RUB 17,786 million, which hold exploration and production licenses for the Eastern part of the Orenburg field, the Tsarichanskoye and the Kapitonovskoye fields with total proved reserves of 330 mboe. All together these three assets form a new production cluster in the Orenburg region.

The following table present information of business combination of CJSC Centre of Science-Intensive Technologies and JSC Yuzhuralneftegaz as of the acquisition date:

	As of the acquisition date
Assets	
Current assets	482
Property, plant and equipment, net	16,325
Other non-current assets	1,375
Total assets acquired	**18,182**
Liabilities and shareholders' equity	
Current liabilities	655
Other non-current liabilities	3,203
Total liabilities assumed	**3,858**
Total identifiable assets acquired and liabilities assumed	14,324
Non-controlling interest	(994)
Consideration paid	(13,330)
Goodwill	-

The acquisition of CJSC Gazprom Neft Orenburg from JSC Gazprom (the parent company) was deemed to have occurred between entities under common control and therefore was accounted for using predecessor accounting method. The difference between the cash consideration paid of RUB 3.6 billion and the value of assets and liabilities acquired of RUB 4.7 billion was charged to additional paid-in-capital for the year ended December 31, 2011.

The following tables present information of CJSC Gazprom Neft Orenburg as of December 31, 2011 and as of acquisition date and for the periods before and after acquisition in 2011:

	December 31, 2011	**As of the acquisition date**
Assets		
Current assets	1,704	1,415
Property, plant and equipment, net	14,666	14,692
Other non-current assets	4	-
Total assets acquired	**16,374**	**16,107**
Liabilities and shareholders' equity		
Current liabilities	4,242	3,750
Non-current liabilities	4,495	5,072
Total liabilities assumed	**8,737**	**8,822**
Equity attributable to the Company's owners	4,720	4,502
Non-controlling interest	2,917	2,783
Total liabilities and shareholders' equity	**16,374**	**16,107**

For the year ended December 31, 2012 Currency – RUB millions

	For the period from the acquisition date to December 31, 2011	For the period from January 1, 2011 to the acquisition date
Revenue from sales	1,352	3,417
Depreciation, depletion and amortisation	(176)	(840)
Other operating costs	(842)	(2,606)
Total operating expenses	**(1,018)**	**(3,446)**
Total other expenses	(55)	(116)
Operating profit / (loss)	**279**	**(145)**
Profit before income tax	**224**	**(261)**
Total income tax expense / (benefit)	(136)	232
Profit for the period	**88**	**(29)**

Acquisition of non-controlling interest in NIS

On March 18, 2011 the Group finalized its offer made in January 2011 to buy out the free float shares in NIS (a maximum 19.12% of the NIS equity was available for purchase). Approximately 8.4 million NIS shares were submitted for purchase amounting to 5.15% of NIS authorized share capital. Based on the previously announced offer price the Group paid RUB 1.7 billion (US$ 58 million) for acquiring these shares increasing its interest in NIS from 51% to 56.15%.

The Group has accounted for the acquisition of the additional interest in NIS as an acquisition of non-controlling interest where control is maintained. As a result of the transaction the Group increased additional paid-in-capital by RUB 152 million for the year ended December 31, 2011. This amount represents the excess of the carrying value of the investments acquired of RUB 1.8 billion over the consideration paid.

Acquisition of non-controlling interest in Sibir Energy

On February 14, 2011 the Board of Directors of Sibir Energy adopted a resolution to reduce the share capital by 86.25 million shares (22.39%). Central Fuel Company, an affiliate to the Moscow Government, made a decision to withdraw membership in Sibir Energy for a compensation of RUB 21.6 billion. Starting from February 15, 2011 the Group has 100% interest in Sibir Energy.

As a result of the transaction the Group recognized an increase in additional paid-in-capital by RUB 616 million for the year ended December 31, 2011. The increase represents the excess of the carrying value of the investments acquired of RUB 22.3 billion over the consideration paid to Central Fuel Company.

Following the reduction in share capital of Sibir Energy, the Group has increased its effective interest in Moscow refinery from 69.02% to 77.72%. As a result of the increase in effective interest in Moscow refinery the Group recognized a credit of RUB 5.2 billion in additional paid-in-capital in shareholders' equity for the year ended December 31, 2011.

For the year ended December 31, 2012 Currency – RUB millions

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2012, December 31, 2011 and as of January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Cash on hand	416	479	222
Cash in bank	27,369	16,376	6,730
Deposits with original maturity of less than three months	45,431	11,791	27,694
Cash equivalents	2,796	789	274
Total cash and cash equivalents	**76,012**	**29,435**	**34,920**

As of December 31, 2012, December 31, 2011 and January 1, 2011 the majority of bank deposits are held in Russian Ruble. Bank deposits represent deposits with original maturities of less than three months.

7. Short-term financial assets

Short-term financial assets as of December 31, 2012, December 31, 2011 and as of January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Deposits with original maturity more than 3 months less than 1 year	7,495	246	3,334
Short-term loans issued	6,830	14,524	5,468
Forward contracts - cash flow hedge	632	1,858	2,932
Financial assets held to maturity	906	2,323	-
Total short-term financial assets	**15,863**	**18,951**	**11,734**

8. Trade and Other receivables

Trade and other receivables as of December 31, 2012, December 31, 2011 and as of January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Trade receivables	72,598	75,356	50,279
Other financial receivables	1,979	1,480	3,558
Less impairment provision	(7,981)	(6,056)	(5,827)
Total trade and other receivables	**66,596**	**70,780**	**48,010**

Trade receivables represent amounts due from customers in the ordinary course of business and are short-term by nature.

9. Inventories

Inventories as of December 31, 2012, December 31, 2011 and as of January 1, 2011 consist of the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Crude oil and gas	16,727	18,215	12,111
Petroleum products and petrochemicals	48,705	35,702	24,831
Materials and supplies	20,214	19,804	18,631
Other	5,096	4,263	2,607
Less provision for impairment	(2,458)	(3,783)	(1,644)
Total inventory	**88,284**	**74,201**	**56,536**

For the year ended December 31, 2012 Currency – RUB millions

As part of the management of crude inventory, the Group may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy/sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken for the years ended December 31 is as follows:

	2012	2011
Buy/sell crude oil transactions for the year ended December 31	76,912	76,731

10. Other Current Assets

Other current assets as of December 31, 2012, December 31, 2011 and as of January 1, 2011 consist of the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Prepaid custom duties	30,530	26,103	15,219
Advances paid	27,611	29,572	17,985
Prepaid expenses	329	343	857
Value added tax receivable	39,437	28,347	23,567
Other assets	15,630	12,004	10,263
Less impairment provision	(7,272)	(6,851)	(5,343)
Total other current assets	**106,265**	**89,518**	**62,548**

The impairment provision mainly relates to other assets being other receivables of our Serbian subsidiary.

11. Property, Plant and Equipment

Movements in property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
Cost						
As of January 1, 2011	**367,506**	**127,681**	**56,884**	**3,548**	**32,571**	**588,190**
Additions	72,585	650	366	5,369	48,966	127,936
Acquisitions through business combinations	31,017	891	-	-	-	31,908
Changes in decommissioning obligations	681	-	-	-	-	681
Capitalised borrowing costs	236	-	-	-	381	617
Transfers	-	17,480	13,878	2,199	(33,557)	-
Reclassification to assets classified as held for sale	(1,189)	-	-	-	-	(1,189)
Disposals	(3,097)	(1,466)	(1,494)	(121)	(845)	(7,023)
Translation differences	1,635	723	680	416	1,063	4,517
As of December 31, 2011	**469,374**	**145,959**	**70,314**	**11,411**	**48,579**	**745,637**
Depreciation and impairment						
As of January 1, 2011	**(76,924)**	**(36,865)**	**(5,736)**	**(241)**	**-**	**(119,766)**
Depreciation charge	(44,297)	(5,098)	(4,298)	(411)	-	(54,104)
Reclassification to non-current assets classified as held for sale	1,017	-	-	-	-	1,017
Disposals	2,294	179	173	32	-	2,678
Translation differences	(261)	(119)	(108)	8	-	(480)
As of December 31, 2011	**(118,171)**	**(41,903)**	**(9,969)**	**(612)**	**-**	**(170,655)**
Net book value						
As of January 1, 2011	**290,582**	**90,816**	**51,148**	**3,307**	**32,571**	**468,424**
As of December 31, 2011	**351,203**	**104,056**	**60,345**	**10,799**	**48,579**	**574,982**

For the year ended December 31, 2012 Currency – RUB millions

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
Cost						
As of January 1, 2012	**469,374**	**145,959**	**70,314**	**11,411**	**48,579**	**745,637**
Additions	91,720	4,463	2,133	18	59,648	157,982
Acquisitions through business combinations	4,591	-	-	-	-	4,591
Changes in decommissioning obligations	173	-	-	-	-	173
Capitalised borrowing costs	332	-	-	-	1,242	1,574
Transfers	-	34,580	13,178	547	(48,305)	-
Internal movement	-	-	3,406	(3,406)	-	-
Reclassification to assets classified as held for sale	(1,718)	-	-	-	-	(1,718)
Disposals	(5,092)	(757)	(3,094)	(665)	(1,842)	(11,450)
Translation differences	(2,309)	(955)	(1,645)	(148)	(847)	(5,904)
As of December 31, 2012	**557,071**	**183,290**	**84,292**	**7,757**	**58,475**	**890,885**
Depreciation and impairment						
As of January 1, 2012	**(118,171)**	**(41,903)**	**(9,969)**	**(612)**	**-**	**(170,655)**
Depreciation charge	(42,903)	(6,552)	(6,929)	(344)	-	(56,728)
Impairment	-	-	(503)	-	-	(503)
Internal movement	-	-	(216)	216	-	-
Disposals	3,607	280	1,759	179	-	5,825
Translation differences	186	154	254	7	-	601
As of December 31, 2012	**(157,281)**	**(48,021)**	**(15,604)**	**(554)**	**-**	**(221,460)**
Net book value						
As of January 1, 2012	**351,203**	**104,056**	**60,345**	**10,799**	**48,579**	**574,982**
As of December 31, 2012	**399,790**	**135,269**	**68,688**	**7,203**	**58,475**	**669,425**

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment comprised of 2.73% for the year ended December 31, 2012 (2011: 3.54%).

The information regarding Group’s exploration and evaluation assets (part of O&G assets) are presented below**:**

	2012	2011
As of January 1	14,368	11,862
Additions	19,048	2,466
Acquisitions through business combinations	-	560
Unsuccessful exploration expenditures derecognised	(1,911)	(832)
Reclassification to assets classified as held for sale	(1,718)	-
Disposals	(1,489)	-
Translation differences	(717)	312
As of December 31	**27,581**	**14,368**

For the year ended December 31, 2012 Currency – RUB millions

12. Goodwill and other intangible assets

The information regarding movements in Group's intangible assets is presented below:

Cost	Goodwill	Licenses	Software	Land rights	Other IA	Total IA
As of January 1, 2011	**16,053**	**716**	**7,512**	**17,662**	**1,375**	**43,318**
Additions	-	321	1,733	-	302	2,356
Reclassification to assets classified as held for sale	-	-	-	(119)	-	(119)
Disposals	-	-	-	(364)	-	(364)
Translation differences	599	15	133	-	-	747
As of December 31, 2011	**16,652**	**1,052**	**9,378**	**17,179**	**1,677**	**45,938**
Amortization and impairment						
As of January 1, 2011	**-**	**(111)**	**(2,449)**	**(1,060)**	**(420)**	**(4,040)**
Amortization charge	-	(69)	(829)	(659)	(138)	(1,695)
Reclassification to non-current assets classified as held for sale	-	-	-	12	-	12
Translation differences	-	(15)	(6)	-	-	(21)
As of December 31, 2011	**-**	**(195)**	**(3,284)**	**(1,707)**	**(558)**	**(5,744)**
Net book value						
As of January 1, 2011	**16,053**	**605**	**5,063**	**16,602**	**955**	**39,278**
As of December 31, 2011	**16,652**	**857**	**6,094**	**15,472**	**1,119**	**40,194**

Cost	Goodwill	Licenses	Software	Land rights	Other IA	Total IA
As of January 1, 2012	**16,652**	**1,052**	**9,378**	**17,179**	**1,677**	**45,938**
Additions	-	587	1,803	-	639	3,029
Acquisitions through business combinations	370	19	-	-	-	389
Disposals	-	(384)	(263)	(101)	(180)	(928)
Translation differences	(640)	(16)	(140)	(6)	(3)	(805)
As of December 31, 2012	**16,382**	**1,258**	**10,778**	**17,072**	**2,133**	**47,623**
Amortization and impairment						
As of January 1, 2012	**-**	**(195)**	**(3,284)**	**(1,707)**	**(558)**	**(5,744)**
Amortization charge	-	(431)	(414)	(765)	(123)	(1,733)
Translation differences	-	5	2	-	9	16
As of December 31, 2012	**-**	**(621)**	**(3,696)**	**(2,472)**	**(672)**	**(7,461)**
Net book value						
As of January 1, 2012	**16,652**	**857**	**6,094**	**15,472**	**1,119**	**40,194**
As of December 31, 2012	**16,382**	**637**	**7,082**	**14,600**	**1,461**	**40,162**

Goodwill acquired through business combination has been allocated to Upstream and Downstream (as of December 31, 2012 RUB 10.9 billion and RUB 5.4 billion, respectively) related groups of cash generating units.

For the year ended December 31, 2012 Currency – RUB millions

13. Investments in Associates and Joint Ventures

The Group has several investments in associates and joint ventures. The carrying value of the most significant investments as of December 31, 2012, December 31, 2011 and January 1, 2011 are summarised below:

		Ownership percentage	December 31, 2012	December 31, 2011	January 1, 2011
Slavneft	Joint venture	49.9	78,831	72,681	77,642
Tomskneft	Joint venture	50.0	33,741	31,284	33,516
SPD	Joint venture	50.0	45,703	43,316	40,129
SeverEnergy	Associate	25.5	24,285	24,599	26,209
Others			2,527	3,435	1,805
Total investments in associates and joint ventures			185,087	175,315	179,301

The reconciliation of carrying amount of investments in associates and joint ventures as at the beginning of the reporting period and as at the end of the reporting period is shown below:

	2012	2011
Carrying amount as of January 1	175,315	179,301
Share of profit of associates and joint ventures	28,281	6,874
Dividends declared	(18,565)	(12,364)
Fair value of net assets of associates and joint ventures acquired	-	1,506
Other changes in cost of associates and joint ventures	56	(2)
Carrying amount as of December 31	185,087	175,315

The Group's share of the profit of equity accounted investments increased to RUB 28,281 million for the year ended December 31, 2012 as compared to RUB 6,874 million for the year ended December 31, 2011 due to the adoption of the 60/66 tax system in the end of 2011 financial year (under which export duty rates on crude oil sales decreased from 65% to 60%), which lead to increases in the domestic price of crude oil. The tax change resulted in an increase in the profit of associated entities selling crude oil domestically.

JSC Slavneft

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of legal entities. The control over Slavneft is divided equally between the Group and TNK-BP.

The following table summarises the financial information of Slavneft as of December 31, 2012, December 31, 2011 and January 1, 2011. Revenue and net income are shown for the year ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011	January 1, 2011
Current assets	49,939	30,181	35,898
Non-current assets	219,681	209,368	199,910
Total liabilities	118,183	100,047	83,014
Revenues	199,401	157,421	
Net income/ (loss)	23,981	(3,230)	

JSC Tomskneft VNK

In December 2007 the Group acquired a 50% equity interest in JSC Tomskneft VNK ("Tomskneft") and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft ("Rosneft"). As part of this transaction, the Group and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

For the year ended December 31, 2012 Currency – RUB millions

The following table summarises the financial information of Tomskneft as of December 31, 2012, December 31, 2011 and January 1, 2011. Revenue and net income are shown for the year ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011	January 1, 2011
Current assets	22,623	19,462	19,860
Non-current assets	79,335	82,719	81,236
Total liabilities	63,380	61,957	61,797
Revenues	109,497	96,610	
Net income	14,156	5,945	

Salym Petroleum Development N.V.

As part of the acquisition of Sibir Energy in September 2009 the Group acquired a 50% equity interest in Salym Petroleum Development N.V. ("SPD"). SPD is owned 50% by Sibir and 50% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of SPD relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarises the financial information of SPD as of December 31, 2012, December 31, 2011 and January 1, 2011. Revenue and net income are shown for the year ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011	January 1, 2011
Current assets	10,286	12,512	8,971
Non-current assets	27,174	28,670	28,465
Total liabilities	11,864	19,914	24,331
Revenues	76,529	63,366	
Net income	17,723	6,437	

SeverEnergy LLC

In December 2010 Yamal Razvitie LLC (a 50%:50% joint venture between the Group and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom. The respective purchase price paid by the Group comprised RUB 28,123 million. SeverEnergy is developing through its subsidiaries the Samburgskoye and Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The following table summarises the financial information of SeverEnergy as of December 31, 2012, December 31, 2011 and January 1, 2011. Revenue and net income is shown for the year ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011	January 1, 2011
Current assets	5,217	5,029	4,923
Non-current assets	184,657	166,165	142,353
Total liabilities	80,558	60,686	37,536
Revenues	5,099	-	
Net loss	(1,231)	(3,703)	

For the year ended December 31, 2012 Currency – RUB millions

14. Long-term Financial Assets

Long-term financial assets as of December 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Long-term loans issued	15,507	2,800	10,419
Forward contracts - cash flow hedge	342	-	2,942
Financial assets held to maturity	-	-	1,531
Available for sale financial assets	8,103	7,478	7,398
Less impairment provision	(699)	(791)	-
Total long-term financial assets	**23,253**	**9,487**	**22,290**

15. Deferred income tax assets and liabilities

<u>Recognised deferred tax assets and liabilities</u>

Recognized deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
As of December 31, 2012			
Property, plant and equipment	4,014	(34,983)	(30,969)
Intangible assets	-	(3,157)	(3,157)
Investments	2,230	(451)	1,779
Inventories	501	-	501
Trade and other receivables	282	-	282
Loans and borrowings	-	(168)	(168)
Provisions	2,957	-	2,957
Tax loss carry-forwards	686	-	686
Tax assets / (liabilities)	**10,670**	**(38,759)**	**(28,089)**
As of December 31, 2011			
Property, plant and equipment	4,887	(28,945)	(24,058)
Intangible assets	-	(2,882)	(2,882)
Investments	4,025	(401)	3,624
Inventories	534	-	534
Trade and other receivables	19	-	19
Loans and borrowings	-	(215)	(215)
Provisions	2,469	-	2,469
Tax loss carry-forwards	-	-	-
Tax assets / (liabilities)	**11,934**	**(32,443)**	**(20,509)**
As of January 1, 2011			
Property, plant and equipment	6,521	(18,900)	(12,379)
Intangible assets	-	(3,209)	(3,209)
Investments	40	(427)	(387)
Inventories	439	-	439
Trade and other receivables	-	-	-
Loans and borrowings	-	(320)	(320)
Provisions	2,361	-	2,361
Tax loss carry-forwards	494	-	494
Tax assets / (liabilities)	**9,855**	**(22,856)**	**(13,001)**

For the year ended December 31, 2012 Currency – RUB millions

Movement in temporary differences during the year:

	January 1, 2011	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	December 31, 2011
Property, plant and equipment	(12,379)	(7,030)	-	(4,649)	(24,058)
Intangible assets	(3,209)	327	-	-	(2,882)
Investments	(387)	122	3,889	-	3,624
Inventories	439	95	-	-	534
Trade and other receivables	-	19	-	-	19
Loans and borrowings	(320)	105	-	-	(215)
Provisions	2,361	94	-	14	2,469
Tax loss carry-forwards	494	-	-	(494)	-
	(13,001)	**(6,268)**	**3,889**	**(5,129)**	**(20,509)**

	January 1, 2012	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	December 31, 2012
Property, plant and equipment	(24,058)	(6,636)	-	(275)	(30,969)
Intangible assets	(2,882)	(275)	-	-	(3,157)
Investments	3,624	(293)	(1,552)	-	1,779
Inventories	534	(33)	-	-	501
Trade and other receivables	19	263	-	-	282
Loans and borrowings	(215)	47	-	-	(168)
Provisions	2,469	487	-	1	2,957
Tax loss carry-forwards	-	686	-	-	686
	(20,509)	**(5,754)**	**(1,552)**	**(274)**	**(28,089)**

16. Short-term Debt and Current Portion of Long-term Debt

As of December 31, 2012, December 31, 2011 and January 1, 2011 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Bank loans	13,084	116	773
Other borrowings	6,085	7,456	7,738
Finance lease liabilities	-	1,257	-
Current portion of long-term debt	47,026	35,501	44,349
Total short-term debt and current part of long-term debt	**66,195**	**44,330**	**52,860**

Current portion includes interest payable on long-term borrowings.

As of December 31, 2012, December 31, 2011 and January 2011 short-term loans were provided by international and Russian banks for funding of working capital and consisted of unsecured facilities.

For the year ended December 31, 2012 Currency – RUB millions

17. Trade and Other Payables

Accounts payable as of December 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Trade accounts payable	47,610	36,997	28,061
Dividends payable	1,397	1,534	8,932
Other accounts payable	1,436	883	2
Other current financial liabilities	905	1,782	-
Total trade and other payables	**51,348**	**41,196**	**36,995**

18. Other Current Liabilities

Other current liabilities as of December 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Advances received	21,475	13,772	13,003
Payables to employees	2,116	2,346	1,412
Other non-financial payables	7,537	9,047	6,970
Total other current liabilities	**31,128**	**25,165**	**21,385**

19. Other Taxes Payable

Other taxes payable as of December 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Mineral extraction tax	13,138	12,428	10,233
VAT	12,717	9,970	6,311
Excise tax	5,871	3,968	3,006
Property tax	1,440	1,350	1,414
Other taxes	2,742	2,373	1,494
Total other taxes payable	**35,908**	**30,089**	**22,458**

Taxes other than income tax expense for the year ended December 31, 2012 and 2011 comprise the following:

	2012	2011
Mineral extraction tax	156,164	133,335
Property tax	7,029	6,140
Excise tax	76,408	58,308
Other taxes	11,527	10,413
Total taxes other than income tax	**251,128**	**208,196**

For the year ended December 31, 2012 Currency – RUB millions

20. Provisions for liabilities and charges

Provisions for liabilities and charges as of December 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	December 31, 2012	December 31, 2011	January 1, 2011
Decommissioning provision	14,614	13,762	12,386
Stock Appreciation Rights	1,112	1,896	1,429
Other	9,323	8,688	15,753
Total provisions	**25,049**	**24,346**	**29,568**
Including Short-term part	6,987	6,888	10,551

The movement in the decommissioning obligation (which comprise the major part of all provisions created by the Group) during the year was as follows:

	2012	2011
As of January 1	13,762	12,386
New obligation incurred	1,371	685
Provision assumed in a business combination	5	484
Reclassification to assets classified as held for sale	-	(72)
Utilization of provision	(545)	(670)
Change in estimates	(1,203)	(488)
Unwind of discount	1,444	1,324
Translation differences	(220)	113
As of December 31	**14,614**	**13,762**

21. Long-Term Debt

As of December 31, 2012, December 31, 2011 and January 1, 2011 the Group has long-term outstanding loans as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Bank loans	82,240	136,456	149,639
Bonds	82,025	71,999	39,173
Loan Participation Notes	46,118	-	-
Finance lease liabilities	-	3,207	-
Other borrowings	3,060	818	4,961
less current portion of debt	(47,026)	(35,501)	(44,349)
Total long-term debt	**166,417**	**176,979**	**149,424**

On April 21, 2009, the Group placed ten-year Ruble Bonds (04 series) with the total par value of RUB 10 billion (all non-current as of December 31, 2012 and December 31, 2011 and all current as of January 1, 2011). In April, 2011 an option to redeem the bonds earlier was exercised and in August, 2011 the Group completed a secondary placement of RUB 6.1 billion. The bonds maturing in 2018 bear interest of 8.2% per year and have semi-annual coupon payments.

On July 21, 2009, the Group placed seven-year Ruble Bonds (03 series) with the total par value of RUB 8 billion (RUB 140 million all current as of December 31, 2012; RUB 8 billion all current as of December 31, 2011 and RUB 8 billion all non-current as of January 1, 2011). From July 23 ,2012 the bonds bear interest of 1.0% per year.

On April 13, 2010, the Group placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUB 20 billion (RUB 10 billion current and RUB 10 billion non-current as of December 31, 2012 and non-current as of December 31, 2011 and January 1, 2011). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed five-year Ruble Bonds (08 series) with the total par value of RUB 10 billion (all non-current as of December 31, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (09 series) with the total par value of RUB 10 billion (all non-current as of December 31, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year with a five year put option to early redeem at par and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (10 series) with the total par value of RUB 10 billion (all current as of December 31, 2012 and all non-current December 31, 2011). The bonds bear interest of 8.9% per year with a seven year put option to early redeem at par and have semi-annual coupon payments.

On February 7, 2012 the Group placed ten-year Ruble Bonds (11 series) with the total par value of RUB 10 billion (all non-current as of December 31, 2012). The bonds bear interest of 8.25% per year. The bonds have an early redemption offer to be made 3 years following the placement.

On December 5, 2012 the Group placed ten-year Ruble Bonds (12 series) with the total par value of RUB 10 billion (all non-current as of December 31, 2012). The bonds bear interest of 8.5% per year. The bonds have an early redemption offer to be made 5 years following the placement.

In July 2010 the Group completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of US$ 1.5 billion (approximately RUB 46 billion). The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015. As of December 31, 2012, December 31, 2011 and January 1, 2011 the Group has US$ 1.2 billion, US$ 1.5 billion and US$ 1.5 billion, respectively (approximately RUB 36.2 billion, RUB 48.3 and RUB 45.7 billion) outstanding under the loan including current portion of US$ 0.5 billion and US$ 0.3 billion as of December 31, 2012 and 2011 and all non-current as of January 1, 2011 (approximately RUB 14.0 billion and RUB 9.9 billion, respectively).

As of December 31, 2012 the Group has RUB 46,014 million in long term loans from a number of banks, primarily denominated in US Dollars (including current portion of RUB 10,809 million). As of December 31, 2011 the Group had RUB 88,812 million in long term loans from a number of banks (including current portion of RUB 15,312 million). As of January 1, 2011 the Group had RUB 105,292 million in long term loans from a number of banks (including current portion of RUB 31,877 million). Interest rates under the loans varied from LIBOR plus 0.5% to fixed interest rate of 6.75%.

On September 19, 2012 the Group has drawn USD 1,500 million (46,375 RUB million) financed by 10 years Loan Participation Notes (LPN) (Series 1 Issue) with 4.375% coupon to be paid semi-annually at par. Outstanding amount under the loan as of December 31, 2012 is RUB 45.6 billion (all non-current). LPNs are listed on the Irish Stock Exchange.

The loan agreements contain financial covenants that require the Group's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of December 31, 2012, December 31, 2011 and January 1, 2011, respectively.

22. Share capital

Share capital as of December 31, 2012 and 2011 and January 1, 2011 comprise of the following:

	Ordinary shares		**Treasury shares**	
	2012	**2011**	**2012**	**2011**
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016
On issue as of December 31, fully paid (RUB million)	8	8	(1,170)	(1,170)

The nominal value of share capital differs from its carrying value due to effect of the inflation.

23. Personnel costs

Personnel costs for the years ended December 31, 2012 and 2011 comprise of the following:

	2012	**2011**
Wages and salaries	39,341	37,809
Stock appreciation rights (SAR)	2,028	2,494
Other costs	4,888	3,199
Total employee costs	**46,257**	**43,502**
Social security contributions (social taxes)	8,598	7,927
Total employee costs (with social taxes)	**54,855**	**51,429**

24. Other (loss)/ gain

Other gain and losses for the years ended December 31, 2012 and 2011 comprise of the following:

	2012	**2011**
Penalties	(441)	(208)
Provisions (legal, environmental, etc.)	(396)	(292)
Gain on investments sale	-	3,299
Impairment	(2,015)	-
Other	(2,039)	(1,874)
Total other income/expense	**(4,891)**	**925**

25. Finance income

Finance income for the years ended December 31, 2012 and 2011 comprise of the following:

	2012	**2011**
Interest income on cash and cash equivalents	468	297
Interest on other bank deposits	1,678	860
Interest income on loans issued	858	799
Other financial income	170	-
Total finance income	**3,174**	**1,956**

26. Finance expense

Finance expense for the years ended December 31, 2012 and 2011 comprise of the following:

	2012	2011
Interest expense	11,290	10,739
Decommissioning provision: unwinding of the present value discount	1,444	1,324
Less: capitalized interest	(1,574)	(617)
Total finance expense	**11,160**	**11,446**

27. Income tax expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	2012	2011
Current income tax expense		
Current year	32,019	33,645
Adjustment for prior years	(1,934)	83
	30,085	**33,728**
Deferred tax expense		
Origination and reversal of temporary differences	5,220	6,268
Change in tax rate	534	-
	5,754	**6,268**
Tax expense excluding share of tax of equity accounted investees	**35,839**	**39,996**
Share of tax of equity accounted investees	6,773	(15)
Total income expense	**42,612**	**39,981**

Reconciliation of effective tax rate:

	2012		2011	
	RUB million	**%**	**RUB million**	**%**
Total income tax expense	**42,612**	18.8	**39,981**	19.5
Profit before income tax excluding share of equity accounted investees	191,710		200,791	
Profit before income tax of equity accounted investees	34,748		3,924	
Profit before income tax	**226,458**		**204,715**	
Tax at applicable domestic tax rate (20%)	45,292	20.0	40,943	20.0
Effect of tax rates in foreign jurisdictions	(2,935)	(1.3)	(2,844)	(1.4)
Difference in statutory tax rate in domestic entities	(1,371)	(0.6)	(931)	(0.5)
Non-deductible income and expenses	4,406	1.9	1,890	0.9
Adjustment for prior years	(1,934)	(0.9)	83	0.0
Foreign exchange income/losses	(846)	(0.4)	840	0.4
Total income tax expense	**42,612**	18.8	**39,981**	19.5

For the year ended December 31, 2012 Currency – RUB millions

28. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of January 01, 2011					
Forward exchange contracts					
Assets	5,874	2,850	82	2,942	-
Liabilities	-	-	-	-	-
Total	**5,874**	**2,850**	**82**	**2,942**	**-**
As of December 31, 2011					
Forward exchange contracts					
Assets	1,858	111	1,747	-	-
Liabilities	(8,604)	(153)	(1,629)	(2,154)	(4,668)
Total	**(6,746)**	**(42)**	**118**	**(2,154)**	**(4,668)**
As of December 31, 2012					
Forward exchange contracts					
Assets	974	584	48	135	207
Liabilities	(1,013)	(9)	(9)	(73)	(922)
Total	**(39)**	**575**	**39**	**62**	**(715)**

As of December 31, 2012, December 31, 2011 and January, 2011 the Group has outstanding forward currency exchange contracts for a total notional value of US$ 2,557 million, US$ 3,609 million and US$ 1,265 million respectively. During the year ended December 31, 2012 the amount of RUB 1,509 million was reclassified from equity to gain in statement of income (for the year ended December 31, 2011 RUB 4 billion was reclassified to gain in statement of income).

No significant ineffectiveness occurred during the reporting period.

29. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

The Group’s goal in risk management is to create additional guarantees of achievement by Gazprom Neft of its strategic goals by identifying and guarding against risks and by instituting effective mechanisms to deal with them.

The Group’s Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group’s financial risks is the responsibility of employees acting within their respective professional spheres. The Group’s Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group’s employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

For the year ended December 31, 2012 Currency – RUB millions

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Market risk

Currency Risk

The Group is exposed to currency risk primarily on sales and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the group companies, for instance the Russian Ruble for companies operating in Russia. The currency in which transactions described above are denominated is mainly US Dollar.

The Group's currency exchange risk is considerably mitigated by its foreign currency liabilities: significant share of the Group's borrowings is US dollars. The currency structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. A balanced structure of currency assets and liabilities minimises the impact of currency risk factors on the Group's financial and business performance.

Furthermore, the Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

The carrying amounts of the Group's financial instruments denominated in the foreign currencies are as follows:

As of December 31, 2012

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Non-current					
Trade and other financial receivables	159	-	-	-	-
Loans issued	15,441	66	-	-	-
Available for sale financial assets	6,329	424	333	63	255
Forward exchange contracts	-	342	-	-	-
Current					
Trade and other financial receivables	21,157	30,774	307	13,580	778
Loans issued	6,042	133	640	15	-
Held to maturity financial assets	906	-	-	-	-
Bank deposits	5,054	1,443	476	-	522
Cash and cash equivalents	55,714	15,815	1,425	2,214	844
Forward exchange contracts	-	632	-	-	-
Financial liabilities					
Non-current					
Long-term debt	(60,694)	(101,098)	(3,133)	(804)	(688)
Forward exchange contracts	-	(995)	-	-	-
Other non-current financial liabilities	(4,237)	-	-	-	-
Payables and accruals to employees	(1,112)	-	-	-	-
Current					
Short-term debt	(27,226)	(37,574)	(146)	(1,235)	(14)
Trade and other financial payables	(32,985)	(13,003)	(963)	(3,560)	(819)
Payables and accruals to employees	(5,801)	(40)	(129)	(1,450)	(100)
Forward exchange contracts	-	(18)	-	-	-
Net exposure	(21,253)	(103,099)	(1,190)	8,823	778

For the year ended December 31, 2012 Currency – RUB millions

As of December 31, 2011

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Non-current					
Trade and other financial receivables	219	-	-	-	-
Loans issued	2,759	27	-	-	14
Available for sale financial assets	5,682	745	165	90	5
Current					
Trade and other financial receivables	18,681	43,723	467	7,701	208
Loans issued	10,777	3,542	-	205	-
Held to maturity financial assets	713	1,610	-	-	-
Bank deposits	-	-	-	-	246
Cash and cash equivalents	16,952	8,673	2,922	173	715
Forward exchange contracts	-	1,858	-	-	-
Financial liabilities					
Non-current					
Long-term debt	(63,251)	(109,833)	(3,257)	(509)	(129)
Forward exchange contracts	-	(6,822)	-	-	-
Current					
Short-term debt	(18,776)	(25,047)	(412)	(3)	(92)
Trade and other financial payables	(23,893)	(11,336)	(538)	(3,365)	(282)
Payables and accruals to employees	(8,063)	(3)	(109)	(1,181)	(97)
Forward exchange contracts	-	(1,782)	-	-	-
Net exposure	(58,200)	(94,645)	(762)	3,111	588

As of January 1, 2011

	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
Financial assets					
Non-current					
Trade and other financial receivables	256	-	-	-	
Loans issued	5,332	4,984	-	-	103
Held to maturity financial assets	-	1,531	-	-	-
Available for sale financial assets	3,907	745	269	101	2,376
Forward exchange contracts	-	2,942	-	-	-
Current					
Trade and other financial receivables	16,160	24,129	3,050	4,355	316
Loans issued	937	2,388	-	2,089	54
Bank deposits	2,729	41	25	-	539
Cash and cash equivalents	18,671	12,916	1,924	918	491
Forward exchange contracts	-	2,932	-	-	-
Financial liabilities					
Non-current					
Long-term debt	(29,345)	(116,064)	(2,841)	-	(1,174)
Payables and accruals to employees	(1,429)	-	-	-	-
Current					
Short-term debt	(18,216)	(32,363)	(982)	(771)	(528)
Trade and other financial payables	(21,883)	(11,967)	(168)	(2,977)	-
Payables and accruals to employees	(3,950)	-	(106)	(616)	(36)
Net exposure	(26,831)	(107,786)	1,171	3,099	2,141

For the year ended December 31, 2012 Currency – RUB millions

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate		
	12 months 2012	**12 months 2011**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
USD 1	31.09	29.39	30.37	32.20	30.48
EUR 1	39.95	40.88	40.23	41.67	40.33
RSD 1	0.35	0.40	0.35	0.40	0.38

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain/loss from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis showed in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming a 10 percent change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

	Weakening of RUB	
	Equity	**Profit or loss**
December 31, 2012		
USD/RUB (10% increase)	(9,141)	(12,504)
EUR/RUB (10% increase)	-	(297)
RSD/RUB (10% increase)	-	882
December 31, 2011		
USD/RUB (10% increase)	(9,513)	(12,148)
EUR/RUB (10% increase)	-	(98)
RSD/RUB (10% increase)	-	311
January 1, 2011		
USD/RUB (10% increase)	(4,577)	(13,286)
EUR/RUB (10% increase)	-	(201)
RSD/RUB (10% increase)	-	310

10% decrease in the exchange rates will have the same in the amount, but the opposite effect on Equity and Profit and loss of the Group.

Interest Rate Risk

The major part of the Group’s borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group’s treasury function performs periodic analysis of the interest rate environment, depending on which Management of the Group decides whether it is more secure to obtain financing on a fixed-rate or variable-rate basis. When changes in the fixed or variable market interest rates are considered significant Management may consider refinancing of certain debt instruments on more favorable terms.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favorable over the expected period until maturity.

For the year ended December 31, 2012 Currency – RUB millions

The interest rate profiles of the Group are presented below:

	Carrying amount		
	December 31, 2012	**December 31, 2011**	**January 1, 2011**
Fixed rate instruments			
Financial assets	106,750	49,328	55,672
Financial liabilities	(138,531)	(84,400)	(79,975)
	(31,781)	(35,072)	(24,303)
Variable rate instruments			
Financial liabilities	(94,081)	(136,909)	(122,309)
	(94,081)	(136,909)	(122,309)

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase/decrease by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit or loss
December 31, 2012	
Increase by 100 bp	(941)
December 31, 2011	
Increase by 100 bp	(1,369)
January 1, 2011	
Increase by 100 bp	(1,223)

Decrease by 100 bp in the interest rates will have the same in the amount, but the opposite effect on Profit and loss of the Group.

<u>Commodity Price Risk</u>

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual lending limits depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

For the year ended December 31, 2012 Currency – RUB millions

The carrying amount of financial assets represents the maximum credit exposure.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Impairment losses

As of 31 December 2012, 31 December 2011 and 1 January 2011, the analysis of financial receivables is as follows:

	Gross	Impairment	Gross	Impairment	Gross	Impairment
	December 31, 2012	December 31, 2012	December 31, 2011	December 31, 2011	January 1, 2011	January 1, 2011
Not past due	60,057	(107)	69,927	(160)	45,570	(139)
Past due 0- 180 days	5,447	(18)	864	(187)	2,485	(261)
Past due 180 - 365 days	3,900	(2,715)	723	(230)	717	(318)
Past due 1 - 3 year	1,049	(950)	1,254	(1,221)	1,529	(1,438)
Past due more than three years	4,283	(4,191)	4,287	(4,258)	3,792	(3,671)
	74,736	**(7,981)**	**77,055**	**(6,056)**	**54,093**	**(5,827)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2012	2011
Balance at beginning of the year	6,056	5,827
Increase during the year	3,837	542
Amounts written off against receivables	388	-
Decrease due to reversal	(1,064)	(243)
Other movements	(569)	(32)
Translation differences	(667)	(38)
Balance at end of the year	**7,981**	**6,056**

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any held-to-maturity investments that were past due but not impaired at December 31, 2012, December 31, 2011 and January 1, 2011.

For the year ended December 31, 2012 Currency – RUB millions

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	A	BBB	Less than BBB	Without rating	Total
As of December 31, 2012					
Cash and cash equivalents	5,465	55,174	6,526	5,635	**72,800**
Derivative financial assets	101	804	-	69	**974**
Held to maturity investments	-	516	390	-	**906**
Deposits with original maturity more than 3 months less than 1 year	-	-	7,495	-	**7,495**
As of December 31, 2011					
Cash and cash equivalents	2,213	13,918	541	11,495	**28,167**
Derivative financial assets	1,362	496	-	-	**1,858**
Held to maturity investments	-	1,710	613	-	**2,323**
Deposits with original maturity more than 3 months less than 1 year	-	-	246	-	**246**
As of January 1, 2011					
Cash and cash equivalents	7,596	21,567	280	4,981	**34,424**
Derivative financial assets	4,114	1,760	-	-	**5,874**
Held to maturity investments	-	1,531	-	-	**1,531**
Deposits with original maturity more than 3 months less than 1 year	-	-	3,334	-	**3,334**

The credit quality of trade and other receivables is assessed regularly by the Management of the Group. For this purposes the customers are individually analysed based on the number of characteristics, such as:

- legal form of the entity;
- duration of relationships with the Group, including ageing profile, maturity and existence of any financial difficulties;
- whether the customer is a final customer or not, related party or not.

One of the major factors that is considered while taking decision is ageing profile. The most significant current customers do not have any breakage of payment history.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group’s stable financial situation, which is confirmed by international rating agencies, helps it to mobilise funds in Russian and foreign banks with comparative ease.

For the year ended December 31, 2012 Currency – RUB millions

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	**Contractual cash flows**	**Less than 6 months**	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**Over 5 years**
As of December 31, 2012							
Bank loans	95,324	101,284	31,260	9,045	28,826	31,204	949
Bonds	82,025	97,976	23,466	2,637	4,682	47,191	20,000
Loan Participation Notes	46,118	53,534	997	997	1,994	3,987	45,559
Other borrowings	9,145	9,587	4,972	1,131	614	929	1,941
Other non-current financial liabilities	4,237	4,369	-	-	874	2,621	874
Trade and other payables	51,330	51,330	46,294	5,036	-	-	-
Payables and accruals to employees	8,632	8,632	7,520	-	1,112	-	-
	296,811	**326,712**	**114,509**	**18,846**	**38,102**	**85,932**	**69,323**
As of December 31, 2011							
Bank loans	136,572	148,002	11,091	18,411	53,264	64,125	1,111
Bonds	71,999	90,975	5,272	11,249	24,415	30,039	20,000
Other borrowings	8,274	8,274	3,071	3,223	90	271	1,619
Finance lease liabilities	4,464	5,178	983	599	599	1,798	1,199
Trade and other payables	39,414	39,414	38,702	712	-	-	-
Payables and accruals to employees	9,453	9,453	9,453	-	-	-	-
	270,176	**301,296**	**68,572**	**34,194**	**78,368**	**96,233**	**23,929**
As of January 1, 2011							
Bank loans	150,412	167,026	21,606	17,145	52,744	74,402	1,129
Bonds	39,173	45,456	12,766	1,322	10,644	20,724	-
Other borrowings	12,699	12,699	5,251	3,032	1,535	263	2,618
Trade and other payables	36,995	36,995	35,133	1,862	-	-	-
Payables and accruals to employees	6,137	6,137	4,708	-	1,429	-	-
	245,416	**268,313**	**79,464**	**23,361**	**66,352**	**95,389**	**3,747**

For the year ended December 31, 2012 Currency – RUB millions

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which include long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by average for the period figure of Capital Employed. Capital employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	December 31, 2012	December 31, 2011
Long-term debt	166,417	176,979
Short-term debt and current portion of long-term debt	66,195	44,330
Less: cash, cash equivalents and deposits	(83,507)	(29,681)
Net debt	149,105	191,628
Total EBITDA	290,376	271,289
Net debt to EBITDA ratio at the end of the reporting period	0.51	0.71
Operating profit	198,743	209,541
Operating profit adjusted for income tax expenses	161,589	167,802
Share of profit of equity accounted investments	28,281	6,874
Average capital employed	974,167	848,896
ROACE	19.49%	20.58%

There were no changes in the Group's approach to capital management during the year.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Except for forward exchange contracts and SAR all other financial assets and liabilities of the Group are included in Level 3 of the hierarchy.

For the year ended December 31, 2012 Currency – RUB millions

	Level 2
December 31, 2012	
Forward exchange contracts	974
Total assets	974
Forward exchange contracts	(1,013)
Other financial liabilities	(1,112)
Total liabilities	(2,125)
December 31, 2011	
Forward exchange contracts	1,858
Total assets	1,858
Forward exchange contracts	(8,604)
Other financial liabilities	(1,896)
Total liabilities	(10,500)
January 1, 2011	
Forward exchange contracts	5,874
Total assets	5,874
Other financial liabilities	(1,429)
Total liabilities	(1,429)

During 2012 the Board approved the implementation of a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalization. The plan is open to selected management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the vesting period. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognized is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognized in the period the change occurs subject to the vesting period.

The following assumptions are used in the Black-Scholes-Merton model as of December 31, 2012 and January 1 2011:

	December 31, 2012	January 1, 2011
Volatility	7.50%	11.21%
Risk-free interest rate	6.27%	5.96%
Dividend yield	3.90%	3.83%

As of December 31, 2011 no assumptions required to be made by the Group as SAR accrual based on actual calculation is accounted for in these Consolidated Financial Statements.

In the consolidated statement of comprehensive income for the period ended December 31, 2012 and 2011 the Group recognized compensation expense of RUB 1,112 million and RUB 467 million correspondingly. This expense is included within selling, general and administrative expenses. A provision of RUB 1,112 million has been recorded within other non-current liabilities in respect of the Group's estimated obligations under the plan at December 31, 2012. As at December 31, 2011 the amount of the provision was equal to RUB 1,896 million. As at January 1, 2011 the amount of the provision was equal to RUB 1,429 million.

For the year ended December 31, 2012 Currency – RUB millions

30. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Less than one year	1,731	1,567	1,448
Between one and five years	2,479	1,642	2,216
More than five years	9,844	4,641	5,337
	14,054	7,850	9,001

The Group rentals mainly land plots under pipelines and office premises.

31. Commitments and Contingencies

Taxes

During 2012 the Russian tax authorities completed reviews of the operations of certain Russian subsidiaries of the Company for the year ended December 31, 2010 and 2009. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations and changes that can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group (including allocation between federal and regional budgets) may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their interpretation of legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2009, 2010 and 2011 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these reviews.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce significant reporting and documentation requirements. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions (transactions with a related party and some types of transactions with an unrelated party), if the transaction pricing was not at arm's length. The Group's transactions with related parties are subject to the constant internal review on compliance with the new transfer pricing rules. The Group believes that the transfer pricing documentation that the Group has prepared to comply with the new legislation provides sufficient evidence to support the Group's tax positions and related tax returns. In addition to mitigate potential risks the Group negotiates with the tax authorities pricing approaches in major controllable transactions for advance pricing agreements conclusion. Given that the practice of implementation of the new transfer pricing rules has not yet developed and some clauses of the new law have contradictions and cannot be called unambiguous, the impact of any challenge to the Group's transfer prices cannot be reliably estimated.

The transfer pricing legislation that is applicable to transactions on or prior to December 31, 2011 also allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if transaction price differs from the market price by more than 20%. Management believes it has adequately provided for any probable losses that might arise and that the probability the Group can be challenged by tax authorities is remote.

For the year ended December 31, 2012 Currency – RUB millions

Operating Environment

While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Russian Federation, restrictive currency controls, and a high level of inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Environmental Matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and the Group does not therefore have any material environmental liabilities.

Capital Commitments

As of December 31, 2012 the Group has entered into contracts to purchase property, plant and equipment for RUB 28,683 million (December 31, 2011: RUB 16,794 million; January 1, 2011: RUB 18,317 million).

32. Group Entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

		Ownership interest		
Subsidiary	**Country of incorporation**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
OJSC "Gazpromneft-Omsk"	Russian Federation	100%	100%	100%
OJSC "Gazpromneft-Tumen"	Russian Federation	100%	100%	100%
OJSC "Gazpromneft-Ural"	Russian Federation	100%	100%	100%
OJSC "Gazpromneft-Novosibirsk"	Russian Federation	100%	100%	97%
OJSC "Gazpromneft-Yaroslavl"	Russian Federation	91%	91%	91%
OJSC "Gazpromneft-Noyabrskneftegaz"	Russian Federation	100%	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%	-
OJSC "Gazpromneft-ONPZ"	Russian Federation	100%	100%	100%
OJSC "CNT"	Russian Federation	100%	100%	-
CJSC "Gazpromneft-Severo-Zapad"	Russian Federation	100%	100%	100%
CJSC "Gazpromneft-Kuzbass"	Russian Federation	100%	100%	100%
CJSC "Gazpromneft-Aero"	Russian Federation	100%	100%	100%
CJSC "Gazpromneft-Orenburg"	Russian Federation	62%	62%	-
LLC "Gazpromneft Marin Bunker"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-Center"	Russian Federation	100%	100%	100%
LLC "Gazproneftfinance"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-Smazochnye Materialy"	Russian Federation	100%	100%	100%
LLC "NK "Sibneft-Ugra"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-Vostok"	Russian Federation	100%	100%	100%
LLC "Zapolyarneft"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-Hantos"	Russian Federation	100%	100%	100%
LLC "Gazprom neft Novy Port"	Russian Federation	90%	-	-
Gazpromneft Trading GmbH	Austria	100%	100%	100%
NAFTNA INDUSTRIJA SRBIJE (NIS)	Serbia	56%	56%	51%

For the year ended December 31, 2012 Currency – RUB millions

33. Related party transactions

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

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. The table below summarises transactions in the ordinary course of business with either the parent company or associates and joint ventures.

Transactions with key management personnel

Key management received remunerations: salaries, bonuses and other contributions amounted to RUB 952 million for the year ended December 31, 2012 and to RUB 1,396 million for the year ended December 31, 2011.

Other related party transactions

The Group enters into transactions with related parties based on market or regulated prices.

As of December 31, 2012; December 31, 2011 and January 1, 2011 the outstanding balances with related parties were as follows:

December 31, 2012	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Short-term financial assets	-	1,210	4,010
Trade receivables	744	1,926	2,178
Other receivables	-	-	1,688
Other assets	-	1,117	990
Cash and cash equivalents	-	23,958	-
Long-term financial assets	-	-	5,675
Total assets	**744**	**28,211**	**14,541**
Short-term debt	-	-	5,105
Trade and other payables	1,378	1,250	5,782
Other current liabilities	79	35	853
Non-current financial liabilities	4,231	-	1,162
Total liabilities	**5,688**	**1,285**	**12,902**

December 31, 2011	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Short-term financial assets	-	242	13,461
Trade receivables	921	309	4,440
Other receivables	-	-	21
Other assets	-	361	1,109
Cash and cash equivalents	-	4,089	-
Long-term financial assets	-	-	2,095
Total assets	**921**	**5,001**	**21,126**
Short-term debt	1,222	-	7,174
Trade and other payables	439	319	5,828
Other current liabilities	260	41	1,416
Long-term debt	3,207	-	573
Total liabilities	**5,128**	**360**	**14,991**

For the year ended December 31, 2012 Currency – RUB millions

January 1, 2011	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Short-term financial assets	-	-	2,127
Trade receivables	-	394	644
Other receivables	-	-	-
Other assets	-	414	1,201
Cash and cash equivalents	-	5,364	-
Long-term financial assets	-	-	7,940
Total assets	**-**	**6,172**	**11,912**
Short-term debt	-	-	7,434
Trade and other payables	-	208	1,867
Other current liabilities	-	35	2,648
Long-term debt	-	-	1,102
Total liabilities	**-**	**243**	**13,051**

For the year ended December 31, 2012 and 2011 the following transaction occurs with related parties:

2012	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and oil products sales	6,208	14,818	49,418
Other revenue	1	112	5,215
Purchases of crude oil, gas and oil products	-	18,939	180,485
Production related services	548	9,805	11,430
Transportation costs	3,262	4,878	17,689
Interest income	-	-	256

2011	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and oil products sales	1,139	1,198	53,946
Other revenue	4	160	3,062
Purchases of crude oil, gas and oil products	-	-	151,305
Production related services	-	-	8,084
Transportation costs	1,560	5,178	13,306
Interest income	-	-	587

34. Segment information

Presented below is information about the Group’s operating segments for the years ended December 31, 2012 and 2011. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Intersegment revenues are based upon estimated market prices.

For the year ended December 31, 2012 Currency – RUB millions

Adjusted EBITDA represents the Group's EBITDA and its share in equity accounted investments' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

For the year ended December 31, 2012	**Upstream**	**Downstream**	**Eliminations**	**Total**
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	18,346	1,211,920	-	1,230,266
Inter-segment	347,819	4,139	(351,958)	-
Total revenues	366,165	1,216,059	(351,958)	1,230,266
Segment results				
Adjusted EBITDA	175,373	147,733	-	323,106
Depreciation, depletion and amortisation	43,531	14,930	-	58,461
Segment assets as of December 31, 2012	775,271	734,937	(210,100)	1,300,108
Capital expenditure	90,802	67,300	-	158,102

For the year ended December 31, 2011	**Upstream**	**Downstream**	**Eliminations**	**Total**
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	9,225	1,020,578	-	1,029,803
Inter-segment	305,558	3,148	(308,706)	-
Total revenues	314,783	1,023,726	(308,706)	1,029,803
Segment results				
Adjusted EBITDA	136,070	164,007	-	300,077
Depreciation, depletion and amortisation	44,406	11,393	-	55,799
Segment assets as of December 31, 2011	627,285	776,585	(285,711)	1,118,159
Capital expenditure	75,151	55,637	-	130,788

The geographical segmentation of the Group's revenue and capital expenditures for the years ended December 31, 2012 and 2011 is presented below:

For the year ended December 31, 2012	**Russian Federation**	**CIS**	**Export and international sales**	**Total**
Sales of crude oil	12,988	29,783	347,953	390,724
Sales of petroleum products	571,020	59,177	441,774	1,071,971
Sales of gas and gas condensate	17,540	-	6,281	23,821
Other sales	27,503	625	2,423	30,551
Less custom duties and sales related excises	-	(4,646)	(282,155)	(286,801)
Revenues from external customers, net	629,051	84,939	516,276	1,230,266
For the year ended December 31, 2011				
Sales of crude oil	2,052	36,259	304,758	343,069
Sales of petroleum products	478,172	46,808	379,177	904,157
Sales of gas and gas condensate	12,809	-	5,366	18,175
Other sales	23,723	377	2,095	26,195
Less custom duties and sales related excises	-	(8,386)	(253,407)	(261,793)
Revenues from external customers, net	516,756	75,058	437,989	1,029,803

For the year ended December 31, 2012 Currency – RUB millions

	Russian Federation	**CIS**	**Export and international sales**	**Total**
Non-current assets as of December 31, 2012	801,099	7,442	94,061	902,602
Capital expenditures for the year ended December 31, 2012	127,153	2,192	28,757	158,102
Non-current assets as of December 31, 2011	720,350	7,130	71,967	799,447
Capital expenditures for the year ended December 31, 2011	113,428	1,177	16,183	130,788

Adjusted EBITDA for the years ended December 31, 2012 and 2011 is reconciled below:

	Year ended December 31, 2012	**Year ended December 31, 2011**
Profit for the year	184,152	167,669
Total income tax expense	35,839	39,996
Finance expense	11,160	11,446
Finance income	(3,174)	(1,956)
Depreciation, depletion and amortization	58,461	55,799
Net foreign exchange gain	(953)	(740)
Other (loss) / gain, net	4,891	(925)
EBITDA	290,376	271,289
less Share of profit of equity accounted investments	(28,281)	(6,874)
add Share of EBITDA of equity accounted investments	61,011	35,662
Total adjusted EBITDA	**323,106**	**300,077**

35. Explanation to transition to IFRS

As stated in Note 2 these are the first Consolidated Financial Statements prepared in accordance with IFRS. The date of the Group transition to IFRS is January 1, 2011 (the “Transition date”).

Accounting policies described in Note 2 were applied when preparing Consolidated Financial Statements for the years ended December 31, 2012 and the comparative information and Consolidated Statement of Financial Position as at the Transition Date.

In preparing its opening IFRS Consolidated Statement of Financial Position and adjusting amounts reported previously in the financial statements prepared in accordance with US GAAP (Generally accepted Accounting principles of USA, previous GAAP), the Group has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, which contains a number of voluntary exemptions and mandatory exceptions from the requirement to apply IFRS retrospectively.

Exemptions used during transition to IFRS

The Group has applied the following exemptions allowed by IFRS 1:

a. Business combinations

The Group elected to apply IFRS 3 (R) prospectively to business combinations occurring after its transition date. All business combinations, which occurred prior to the Transition Date, have not been restated. Correspondingly, any goodwill recognised under previous GAAP has not been restated as of the Transition Date. The Group tested goodwill for impairment as of the Transition Date and no impairments were recognised.

The exemption was also applied to associates and joint ventures.

b. Deemed cost

As deemed cost as of January 1, 2011 the Group measured certain items of property, plant and equipment at fair value or at fair value based on previous acquisition. All other items of property, plant and equipment as well as investments in jointly controlled entities and associates have been accounted under the historical cost convention.

c. Cumulative Translation Differences

Cumulative translation differences are deemed to be zero at the Transition Date.

d. Decommissioning liabilities included in the cost of property, plant and equipment

When accounting for decommissioning liability, the Group applied a shortcut method by:

- measuring the liability as of the transition date in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* based on the new functional currency; and
- recognising in retained earnings the difference between that amount of the liability at the date of transition and the amount determined under the Group's previous GAAP.

Adjustments Made in Connection with Transition to IFRS

The financial statements under US GAAP were presented in US Dollars. In presenting the reconciliation of the transition to IFRS and the Russian Ruble as the presentation currency for the financial statements, the following rules were followed:

- all items in the statement of financial position were translated using closing exchange rates at the end of the year;
- all items in the statement of comprehensive income were translated using the average exchange rate for the year.

The following material adjustments were made to the US GAAP financial statements in connection with the transition to IFRS:

a. Reclassifications

To align the presentation of certain items of assets and liabilities, income and expenses with the requirements of IFRS, the Group made a number of reclassifications from US GAAP financial statements.

The major reclassifications were:

- export duties and excise tax related to sales volumes are presented as deductions from sales in IFRS financial statements rather than operating expenses;
- part of transportation expenses (regarding transportation to refinery) was transferred to production and manufacturing expenses;
- tax prepayments were reclassified from trade and other receivables to other current assets and investments in associates were separated from long-term financial assets.

b. Functional Currency

This assessment of functional currency under IFRS required significant judgement by Management considering how the markets have been evolving during the last years and expectation for future. It was concluded that for the majority of the Group entities including JSC Gazprom Neft the functional currency is the Russian Rouble, as that is considered the currency of the primary economic environment affecting the businesses of those entities. The functional currency for the international operations was assessed as US dollar or local currency. The determination of the functional currency might have significant impact in the future, depending on how the exchange rates between the main currencies affecting the Group will develop.

Under US GAAP the Group's functional currency was US Dollar. For the purposes of reporting under IFRS the local currency was determined to be the functional currency for most group entities. The Russian Ruble was set as the functional currency of JSC Gazprom Neft and its subsidiaries operating in Russian Federation and as the presentation currency for the whole Group.

c. Deemed Cost

As described above the Group applied the exemption allowed by IFRS to the measurement of certain items of property, plant and equipment. The fair values of assets were determined by an independent appraiser to be RUB 171,532 million. The aggregate adjustment to the amounts presented in US GAAP financial statements comprised RUB (16,173) million as of January 1, 2011.

As of January 1, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the fair value as deemed cost adjustment (increase in deferred tax asset of RUB 3,235 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 3,694 million).

As of December 31, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the fair value as a deemed cost adjustment (increase in deferred tax asset of RUB 5,683 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 8,948 million).

d. Historical cost

Except as described in paragraph c. Deemed Cost above, the Group applied historical cost for measurement of items of property, plant and equipment. Several subsidiaries operating in the Russian Federation had used Russian Rubles as their functional currency since their acquisition dates. As several non-monetary assets were purchased before January 1, 2002 the Group applied IAS 29 *Financial reporting in Hyper-Inflationary Economies* to inflate items purchased during 1995 – 2002.

As of January 1, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (increase in deferred tax asset of RUB 320 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 4,119 million).

As of December 31, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (increase in deferred tax asset of RUB 3,936 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 1,020 million).

e. Measurement of financial liabilities

Under US GAAP short-term and long-term debt were reported at book value and related transaction costs were accounted for separately. In accordance with IFRS financial liabilities are stated at amortised cost.

f. Hedge accounting

As allowed by IAS 39 the Group applied hedge accounting in financial statements prepared in accordance with IFRS. For accounting policy please refer to Note 2 “Summary of Significant Accounting Policies”

g. Decommissioning obligation

The decommissioning obligation reported under US GAAP was measured using a discount rate of 8% and a US dollar inflation rate of 2.5%. For the purposes of these Consolidated Financial Statements the Group changed the discount and inflation rates based on the conditions existing for the Russian Ruble as of the Transition Date to 11% and 5%, respectively.

h. Accounting for Transactions under Common Control

Under previous US GAAP the Group was obliged to present results of the acquisitions under common control as if the acquired assets and liabilities had always been under control of the Group. Under IFRS accounting policies the Group decided to account for business combinations under common control from the date when control was obtained by the Group.

In the fourth quarter of 2011, the group had acquired certain entities under common control which were accounted for retrospectively under US GAAP. For the purpose of the IFRS financial statements these acquisitions have been accounted for from the date control was obtained. Hence, the effects of retrospective consolidation in US GAAP have been eliminated in these IFRS financial statements.

i. Other adjustments

Other adjustments include all other individually insignificant adjustments required to make the financial statements compliant with IFRS and adjustments to deferred taxes necessary as a consequence of previous adjustments.

Reconciliations to IFRS of data provided under previous GAAP are provided in the tables below.

Impact on the cash flow statements

The Group has made a number of reclassifications to the numbers reported under US GAAP in order to present its operating cash flows in accordance with IFRS. These reclassification adjustments have no significant impact on the results presented for each type of the Group's activities.

Below the reconciliations of Statement of financial position as of December 31, 2011; January 1, 2011 and comprehensive income for the year ended December 31, 2011 are provided.

Reconciliation of shareholders' equity as of January 1, 2011	Under previous US GAAP, USD million	Adjustments: US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Transaction under common control	Other adjustments	Total impact of change to IFRS	Under IFRS
Assets												
Current assets												
Cash and cash equivalents	1,146	34,927	-	-	-	-	-	-	-	(7)	(7)	34,920
Short-term financial assets	218	6,644	5,029	-	-	-	-	-	-	61	5,090	11,734
Trade and other receivables	2,600	79,240	(30,233)	-	-	-	-	-	(1,036)	39	(31,230)	48,010
Inventories	1,874	57,114	-	-	(212)	-	-	-	(366)	-	(578)	56,536
Current income tax prepayments	-	-	3,657	-	-	-	-	-	-	(35)	3,622	3,622
Other current assets	1,112	33,891	29,227	-	(287)	(283)	-	-	-	-	28,657	62,548
Assets classified as held for sale	189	5,760	-	-	1,706	-	-	-	-	-	1,706	7,466
Total current assets	**7,139**	**217,576**	**7,680**	**-**	**1,207**	**(283)**	**-**	**-**	**(1,402)**	**58**	**7,260**	**224,836**
Non-current assets												
Property, plant and equipment	16,466	501,833	1,189	(16,173)	(1,602)	-	-	-	(16,823)	-	(33,409)	468,424
Goodwill and other intangible assets	1,274	38,828	-	-	450	-	-	-	-	-	450	39,278
Investments in associates	-	-	188,896	-	(9,595)	-	-	-	-	-	179,301	179,301
Long-term trade and other receivables	-	-	274	-	-	-	-	-	-	(18)	256	256
Long-term financial assets	6,994	213,155	(189,505)	-	(1,440)	-	-	-	-	80	(190,865)	22,290
Deferred income tax asset	220	6,705	-	1,054	2,016	-	105	(52)	-	27	3,150	9,855
Other non-current assets	569	17,341	(4,419)	-	(4)	(1,756)	-	-	-	-	(6,179)	11,162
Total non-current assets	**25,523**	**777,862**	**(3,565)**	**(15,119)**	**(10,175)**	**(1,756)**	**105**	**(52)**	**(16,823)**	**89**	**(47,296)**	**730,566**
Total assets	**32,662**	**995,438**	**4,115**	**(15,119)**	**(8,968)**	**(2,039)**	**105**	**(52)**	**(18,225)**	**147**	**(40,036)**	**955,402**

Reconciliation of shareholders' equity as of January 1, 2011	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments		
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,740	53,030	1,402	-	-	(409)	-	-	(1,402)	239	(170)	52,860
Trade and other payables	2,216	67,537	(28,526)	-	-	-	-	-	(2,042)	26	(30,542)	36,995
Other current liabilities	-	-	20,694	-	-	-	-	-	-	691	21,385	21,385
Current income tax payable	-	-	4,175	-	-	-	-	-	-	(36)	4,139	4,139
Other taxes payable	884	26,942	(4,175)	-	-	-	-	-	(305)	(4)	(4,484)	22,458
Provisions for liabilities and charges	-	-	10,545	-	-	-	-	-	-	6	10,551	10,551
Liabilities associated with assets classified held for sale	134	4,084	-	-	-	-	-	-	-	(211)	(211)	3,873
Total current liabilities	**4,974**	**151,593**	**4,115**	**-**	**-**	**(409)**	**-**	**-**	**(3,749)**	**711**	**668**	**152,261**
Non-current liabilities												
Long-term debt	4,942	150,617	-	-	-	(1,190)	-	-	-	(3)	(1,193)	149,424
Deferred income tax liability	816	24,869	-	1,513	(2,423)	88	-	-	(1,158)	(33)	(2,013)	22,856
Provisions for liabilities and charges	429	13,075	6,644	-	-	-	-	(262)	(427)	(13)	5,942	19,017
Other non-current liabilities	428	13,044	(6,644)	-	-	-	-	-	(4,511)	(9)	(11,164)	1,880
Total non-current liabilities	**6,615**	**201,605**	**-**	**1,513**	**(2,423)**	**(1,102)**	**-**	**(262)**	**(6,096)**	**(58)**	**(8,428)**	**193,177**
Equity												
Share capital	2	61	-	-	37	-	-	-	-	-	37	98
Treasury shares	(45)	(1,371)	-	-	201	-	-	-	-	-	201	(1,170)
Additional paid-in capital	677	20,631	-	-	(15,453)	-	-	-	(5,178)	-	(20,631)	-
Retained earnings	18,223	555,381	-	(16,632)	5,481	(528)	(5,873)	210	-	(506)	(17,848)	537,533
Other reserves	-	-	-	-	-	-	5,978	-	-	-	5,978	5,978
Equity attributable to the Company's owners	**18,857**	**574,702**	**-**	**(16,632)**	**(9,734)**	**(528)**	**105**	**210**	**(5,178)**	**(506)**	**(32,263)**	**542,439**
Non-controlling interest	2,216	67,538	-	-	3,189	-	-	-	(3,202)	-	(13)	67,525
Total equity	**21,073**	**642,240**	**-**	**(16,632)**	**(6,545)**	**(528)**	**105**	**210**	**(8,380)**	**(506)**	**(32,276)**	**609,964**
Total liabilities and shareholders' equity	**32,662**	**995,438**	**4,115**	**(15,119)**	**(8,968)**	**(2,039)**	**105**	**(52)**	**(18,225)**	**147**	**(40,036)**	**955,402**

Reconciliation of shareholders' equity as of December 31, 2011	Under previous US GAAP, USD million	Adjustments: US GAAP converted to presentation currency	Adjustments: Reclassification	Adjustments: Fair value as deemed cost	Adjustments: Historical cost	Adjustments: Amortised cost	Adjustments: Hedge accounting	Adjustments: Decommissioning obligation	Adjustments: Other adjustments	Total impact of change to IFRS	Under IFRS
Assets											
Current assets											
Cash and cash equivalents	914	29,427	-	-	-	-	-	-	8	8	29,435
Short-term financial assets	529	17,032	1,932	-	-	-	-	-	(13)	1,919	18,951
Trade and other receivables	3,562	114,683	(43,851)	-	-	-	-	-	(52)	(43,903)	70,780
Inventories	2,343	75,435	-	-	(1,234)	-	-	-	-	(1,234)	74,201
Current income tax prepayments	-	-	12,267	-	-	-	-	-	110	12,377	12,377
Other current assets	1,642	52,866	37,605	-	(66)	(887)	-	-	-	36,652	89,518
Assets classified as held for sale	81	2,608	-	-	(579)	-	-	-	-	(579)	2,029
Total current assets	**9,071**	**292,051**	**7,953**	**-**	**(1,879)**	**(887)**	**-**	**-**	**53**	**5,240**	**297,291**
Non-current assets											
Property, plant and equipment	19,313	621,803	1,352	(28,417)	(19,682)	-	-	-	(74)	(46,821)	574,982
Goodwill and other intangible assets	1,275	41,050	-	-	(856)	-	-	-	-	(856)	40,194
Investments in associates	-	-	195,269	-	(19,954)	-	-	-	-	175,315	175,315
Long-term trade and other receivables	-	-	225	-	-	-	-	-	(6)	219	219
Long-term financial assets	6,453	207,761	(196,042)	-	(2,269)	-	-	-	37	(198,274)	9,487
Deferred income tax asset	214	6,890	-	(460)	1,774	-	3,649	175	(94)	5,044	11,934
Other non-current assets	357	11,494	(1,578)	-	-	(1,411)	-	-	232	(2,757)	8,737
Total non-current assets	**27,612**	**888,998**	**(774)**	**(28,877)**	**(40,987)**	**(1,411)**	**3,649**	**175**	**95**	**(68,130)**	**820,868**
Total assets	**36,683**	**1,181,049**	**7,179**	**(28,877)**	**(42,866)**	**(2,298)**	**3,649**	**175**	**148**	**(62,890)**	**1,118,159**

Reconciliation of shareholders' equity as of December 31, 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Liabilities and shareholders' equity											
Current liabilities											
Short-term debt and current portion of long-term debt	1,277	41,114	3,574	-	-	(368)	-	-	10	3,216	44,330
Trade and other payables	2,126	68,449	(26,790)	-	-	-	-	-	(463)	(27,253)	41,196
Other current liabilities	-	-	23,246	-	-	-	-	-	1,919	25,165	25,165
Current income tax payable	-	-	1,996	-	-	-	-	-	(2)	1,994	1,994
Other taxes payable	997	32,100	(1,996)	-	-	-	-	-	(15)	(2,011)	30,089
Provisions for liabilities and charges	-	-	7,148	-	-	-	-	-	(260)	6,888	6,888
Liabilities of disposal groups classified as held for sale	17	547	-	-	-	-	-	-	120	120	667
Total current liabilities	**4,417**	**142,210**	**7,178**	**-**	**-**	**(368)**	**-**	**-**	**1,309**	**8,119**	**150,329**
Non-current liabilities											
Long-term debt	5,420	174,503	3,220	-	-	(707)	-	-	(37)	2,476	176,979
Deferred income tax liability	1,014	32,647	-	2,805	(3,182)	245	-	-	(72)	(204)	32,443
Other non-current financial liabilities	-	-	6,858	-	-	-	-	-	(34)	6,824	6,824
Provisions for liabilities and charges	393	12,653	3,703	-	-	-	-	1,109	(7)	4,805	17,458
Other non-current liabilities	493	15,873	(13,780)	-	-	-	-	-	(137)	(13,917)	1,956
Total non-current liabilities	**7,320**	**235,676**	**1**	**2,805**	**(3,182)**	**(462)**	**-**	**1,109**	**(287)**	**(16)**	**235,660**
Equity											
Share capital	2	64	-	-	34	-	-	-	-	34	98
Treasury shares	(45)	(1,449)	-	-	279	-	-	-	-	279	(1,170)
Additional paid-in capital	731	23,535	-	-	(13,513)	-	-	-	-	(13,513)	10,022
Retained earnings	22,824	734,844	-	(31,682)	(26,152)	(1,468)	768	(934)	1,571	(57,897)	676,947
Other reserves	-	-	-	-	-	-	2,881	-	(3,821)	(940)	(940)
Equity attributable to the Company's owners	**23,512**	**756,994**	**-**	**(31,682)**	**(39,352)**	**(1,468)**	**3,649**	**(934)**	**(2,250)**	**(72,037)**	**684,957**
Non-controlling interest	1,434	46,169	-	-	(332)	-	-	-	1,376	1,044	47,213
Total equity	**24,946**	**803,163**	**-**	**(31,682)**	**(39,684)**	**(1,468)**	**3,649**	**(934)**	**(874)**	**(70,993)**	**732,170**
Total liabilities and shareholders' equity	**36,683**	**1,181,049**	**7,179**	**(28,877)**	**(42,866)**	**(2,298)**	**3,649**	**175**	**148**	**(62,890)**	**1,118,159**

Reconciliation of comprehensive income for the year ended December 31, 2011	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Transaction under common control	Other adjustments		
Sales	44,172	1,297,666	-	-	-	-	-	-	(3,685)	(2,385)	(6,070)	1,291,596
Less export duties and excise tax	(8,092)	(238,076)	(24,568)	-	-	-	-	-	-	851	(23,717)	(261,793)
Total revenue from sales	**36,080**	**1,059,590**	**(24,568)**	**-**	**-**	**-**	**-**	**-**	**(3,685)**	**(1,534)**	**(29,787)**	**1,029,803**
Costs and other deductions												
Purchases of oil, gas and petroleum products	(10,817)	(317,272)	1,573	-	1,295	-	-	-	-	205	3,073	(314,199)
Production and manufacturing expenses	(3,039)	(89,354)	(19,316)	-	-	-	-	-	500	647	(18,169)	(107,523)
Selling, general and administrative expenses	(1,779)	(52,482)	1,345	-	-	-	-	-	156	(449)	1,052	(51,430)
Transportation expenses	(3,391)	(99,542)	17,246	-	-	-	-	-	-	361	17,607	(81,935)
Depreciation, depletion and amortization	(1,963)	(57,688)	-	(351)	1,334	-	-	-	906	-	1,889	(55,799)
Taxes other than income tax	(8,038)	(235,967)	24,745	-	-	-	-	-	2,155	871	27,771	(208,196)
Exploration expenses	(74)	(2,203)	(88)	-	-	-	-	-	-	186	98	(2,105)
Total operating expenses	**(29,101)**	**(854,508)**	**25,505**	**(351)**	**2,629**	**-**	**-**	**-**	**3,717**	**1,821**	**33,321**	**(821,187)**
Other income, net	39	1,212	1,556	-	(2,204)	-	-	-	-	361	(287)	925
Operating profit	**7,018**	**206,294**	**2,493**	**(351)**	**425**	**-**	**-**	**-**	**32**	**648**	**3,247**	**209,541**
Share of profit of equity accounted investments	248	7,234	(97)	-	-	-	-	-	-	(263)	(360)	6,874
Net foreign exchange (loss) gain	(172)	(4,700)	(1,556)	-	-	-	11,170	-	31	(4,205)	5,440	740
Finance income	66	1,844	97	-	-	-	-	-	-	15	112	1,956
Finance expense	(329)	(9,669)	(937)	-	-	(442)	-	(385)	(156)	143	(1,777)	(11,446)
Total income tax expenses	**(187)**	**(5,291)**	**(2,493)**	**-**	**-**	**(442)**	**11,170**	**(385)**	**(125)**	**(4,310)**	**3,415**	**(1,876)**
Profit before income tax	**6,831**	**201,003**	**-**	**(351)**	**425**	**(442)**	**11,170**	**(385)**	**(93)**	**(3,662)**	**6,662**	**207,665**
Current profit tax expense	(1,173)	(34,217)	-	-	-	-	-	-	-	489	489	(33,728)
Deferred profit tax expense	(71)	(2,018)	-	(2,846)	(1,066)	(88)	-	-	(250)	-	(4,250)	(6,268)
Total income tax expenses	**(1,244)**	**(36,235)**	**-**	**(2,846)**	**(1,066)**	**(88)**	**-**	**-**	**(250)**	**489**	**(3,761)**	**(39,996)**
Profit for the year	**5,587**	**164,768**	**-**	**(3,197)**	**(641)**	**(530)**	**11,170**	**(385)**	**(343)**	**(3,173)**	**2,901**	**167,669**
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	11,170	(385)	(374)	(3,507)	2,536	160,362
- Non-controlling interest	233	6,942	-	-	-	-	-	-	31	334	365	7,307

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Transaction under common control	Other adjustments		
Other comprehensive income:												
Currency translation differences	-	-	-	-	-	-	-	-	-	3,526	3,526	3,526
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	(9,075)	-	-	-	(9,075)	(9,075)
Other comprehensive income for the year	-	-	-	-	-	-	(9,075)	-	-	3,533	(5,542)	(5,542)
Total comprehensive income for the year	**5,587**	**164,768**	**-**	**(3,197)**	**(641)**	**(530)**	**2,095**	**(385)**	**(343)**	**360**	**(2,641)**	**162,127**
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	2,095	(385)	(343)	(1,381)	(4,382)	153,444
- Non-controlling interest	233	6,942	-	-	-	-	-	-	-	1,741	1,741	8,683

36. Subsequent Events

No significant events, which required disclosure in these Consolidated Financial Statements, occurred after the reporting date.

For the year ended December 31, 2012 Currency – RUB millions

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The proved oil and gas reserve quantities and related information regarding standardized measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities

	December 31, 2012	December 31, 2011
Consolidated subsidiaries		
Unproved oil and gas properties	12,312	3,108
Proved oil and gas properties	511,740	440,864
Less: Accumulated depreciation, depletion and amortization	(152,232)	(114,842)
Net capitalized costs of oil and gas properties	**371,820**	**329,130**
Group's share of equity method investees		
Proved oil and gas properties	256,495	212,276
Less: Accumulated depreciation, depletion and amortization	(112,255)	(82,867)
Net capitalized costs of oil and gas properties	144,240	129,409
Total capitalized costs consolidated and equity interests	**516,060**	**458,539**

Presented below are cost incurred in acquisition, exploration and development of oil and gas reserves

For the year ended December 31:

	December 31, 2012	December 31, 2011
Consolidated subsidiaries		
Exploration costs	2,914	2,153
Development costs	86,556	65,306
Costs incurred	**89,470**	**67,459**
Group's share of equity method investees		
Exploration costs	1,039	1,140
Development costs	28,958	25,829
Total costs incurred consolidated and equity interests	**119,467**	**94,428**

For the year ended December 31, 2012 Currency – RUB millions

Results of operations from oil and gas producing activities

For the period ended December 31:

	December 31, 2012	December 31, 2011
Consolidated subsidiaries		
Revenues:		
Sales	106,817	101,038
Transfers	254,894	208,758
Total revenues	**361,711**	**309,796**
Production costs	(50,519)	(43,299)
Exploration expenses	(3,263)	(2,165)
Depreciation, depletion and amortization	(42,397)	(44,346)
Taxes other than income tax	(163,156)	(140,146)
Pretax income from producing activities	**102,376**	**79,840**
Income tax expenses	(19,191)	(18,155)
Results of oil and gas producing activities	**83,185**	**61,685**
Group's share of equity method investees		
Total revenues	181,061	152,508
Production costs	(24,045)	(27,606)
Exploration expenses	(1,039)	(621)
Depreciation, depletion and amortization	(22,971)	(26,309)
Taxes other than income tax	(93,102)	(86,124)
Pretax income from producing activities	**39,904**	**11,848**
Income tax expenses	(7,569)	(1,774)
Results of oil and gas producing activities	**32,335**	**10,074**
Total consolidated and equity interests in results of oil and gas producing activities	**115,520**	**71,759**

Proved oil and gas reserve quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities - in MMBbl	**December 31, 2012**	**December 31, 2011**
Consolidated subsidiaries		
Beginning of year	4,038	3,599
Production	(233)	(224)
Purchases of minerals in place	1	263
Revision of previous estimates	311	400
End of year	*4,117*	*4,038*
Minority's share included in the above proved reserves	(115)	(90)
Proved reserves, adjusted for minority interest	4,002	3,948
Proved developed reserves	2,214	2,237
Proved undeveloped reserves	1,903	1,801
Group's share of equity method investees		
Beginning of year	1,717	1,663
Production	(132)	(136)
Purchases of minerals in place	-	-
Revision of previous estimates	150	190
End of year	*1,735*	*1,717*
Proved developed reserves	917	918
Proved undeveloped reserves	818	799
Total consolidated and equity interests in reserves - end of year	**5,852**	**5,755**

Proved Gas Reserves Quantities - in Bcf	**December 31, 2012**	**December 31, 2011**
Consolidated subsidiaries		
Beginning of year	4,332	2,795
Production	(308)	(258)
Purchases of minerals in place	-	8
Revision of previous estimates	1,465	1,787
End of year	*5,489*	*4,332*
Minority's share included in the above proved reserves	(396)	(22)
Proved reserves, adjusted for minority interest	5,093	4,310
Proved developed reserves	3,108	2,843
Proved undeveloped reserves	2,381	1,489
Group's share of equity method investees		
Beginning of year	3,753	2,615
Production	(65)	(41)
Purchases of minerals in place	-	-
Revision of previous estimates	866	1,179
End of year	*4,554*	*3,753*
Proved developed reserves	651	609
Proved undeveloped reserves	3,903	3,144
Total consolidated and equity interests in reserves - end of year	**10,043**	**8,085**

For the year ended December 31, 2012 Currency – RUB millions

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	December 31, 2012	December 31, 2011
Consolidated subsidiaries		
Future cash inflows	6,545,703	5,680,929
Future production costs	(3,423,510)	(2,837,844)
Future development costs	(500,665)	(386,118)
Future income tax expenses	(402,439)	(415,953)
Future net cash flow	2,219,089	2,041,014
10% annual discount for estimated timing of cash flow	(1,242,245)	(1,084,260)
Standardized measure of discounted future net cash flow	976,844	956,754
Group's share of equity method investees		
Future cash inflows	2,814,679	2,457,252
Future production costs	(1,494,446)	(1,500,043)
Future development costs	(199,415)	(218,240)
Future income tax expenses	(203,379)	(128,435)
Future net cash flow	917,439	610,534
10% annual discount for estimated timing of cash flow	(590,068)	(301,836)
Standardized measure of discounted future net cash flow	327,371	308,698
Total consolidated and equity interests in the standardized measure of discounted future net cash flow	**1,304,215**	**1,265,452**

For the year ended December 31, 2012 Currency – RUB millions

	December 31, 2012	**December 31, 2011**
Consolidated subsidiaries		
Discounted present value as of beginning of year	956,754	528,392
Sales and transfers of oil produced, net of production costs and other operating expenses	(149,481)	(127,802)
Net change in prices received per barrel, net of production costs and other operating expenses	(64,829)	375,996
Changes in future development costs	(54,841)	(67,123)
Development costs incurred during the period	89,470	67,460
Revisions of previous quantity estimates and acquisitions	73,614	182,052
Accretion of discount	115,927	112,801
Net change in income taxes	31,140	(88,954)
Other	(20,910)	(26,068)
Discounted present value as of the end of year	**976,844**	**956,754**
Company's share of equity method investees		
Discounted present value as of beginning of year	308,699	187,989
Sales and transfers of oil produced, net of production costs and other operating expenses	(63,915)	(97,740)
Net change in prices received per barrel, net of production costs and other operating expenses	68,817	105,394
Changes in future development costs	25,361	(28,286)
Development costs incurred during the period	29,997	28,628
Revisions of previous quantity estimates	2,648	16,111
Accreation of discount	53,088	84,040
Net change in income taxes	(29,356)	(62,772)
Net change due to purchases and sales of minerals in place	-	-
Other	(67,968)	75,335
Discounted present value as of the end of year	**327,371**	**308,699**

For the year ended December 31, 2012 Currency – RUB millions

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