GAZPROM NEFT

CONSOLIDATED FINANCIAL STATEMENTS 2013

HIGH PERFORMANCE

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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 2013, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for 2013, 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.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

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Independent Auditor's Report (Continued)

Opinion

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

ZAO PricewaterhouseCoopers Audit

24 February 2014

Moscow, Russian Federation

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

RUB millions

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2013

	Notes	December 31, 2013	December 31, 2012 Restated	January 1, 2012 Restated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	7	91,077	79,199	29,806
Short-term financial assets	8	55,870	15,889	15,511
Trade and other receivables	9	87,348	66,614	70,981
Inventories	10	90,223	91,214	77,486
Current income tax prepayments		7,671	8,393	12,425
Other current assets	11	100,882	107,082	90,732
Assets classified as held for sale		–	2,179	2,029
TOTAL CURRENT ASSETS		**433,071**	**370,570**	**298,970**
NON-CURRENT ASSETS				
Property, plant and equipment	12	895,543	758,212	665,054
Goodwill and other intangible assets	13	55,386	49,878	49,819
Investments in associates and joint ventures	14	120,358	105,643	100,715
Long-term trade and other receivables		106	160	221
Long-term financial assets	15	22,406	23,256	9,497
Deferred income tax assets	16	18,508	12,664	13,624
Other non-current assets	17	18,255	7,827	8,793
TOTAL NON-CURRENT ASSETS		**1,130,562**	**957,640**	**847,723**
TOTAL ASSETS		**1,563,633**	**1,328,210**	**1,146,693**

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

RUB millions

Consolidated Statement of Financial Position As of December 31, 2013 (continued)

	Notes	December 31, 2013	December 31, 2012 Restated	January 1, 2012 Restated
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term debt and current portion of long-term debt	18	52,413	77,193	53,949
Trade and other payables	19	68,035	50,007	40,435
Other current liabilities	20	26,650	31,079	25,816
Current income tax payable		3,872	3,158	2,073
Other taxes payable	21	46,783	43,024	36,678
Provisions for liabilities and charges	22	10,158	7,301	7,190
Liabilities associated with assets classified as held for sale		–	42	667
TOTAL CURRENT LIABILITIES		**207,911**	**211,804**	**166,808**
NON-CURRENT LIABILITIES				
Long-term debt	23	261,455	166,447	176,990
Other non-current financial liabilities		7,028	5,232	6,824
Deferred income tax liabilities	16	59,729	48,904	42,952
Provisions for liabilities and charges	22	25,881	23,895	22,064
Other non-current liabilities		3,608	1,999	1,961
TOTAL NON-CURRENT LIABILITIES		**357,701**	**246,477**	**250,791**
EQUITY				
Share capital	24	98	98	98
Treasury shares		(1,170)	(1,170)	(1,170)
Additional paid-in capital		19,293	16,125	10,022
Retained earnings		930,304	815,731	673,870
Other reserves		4,087	(1,402)	(939)
EQUITY ATTRIBUTABLE TO THE COMPANY'S OWNERS		**952,612**	**829,382**	**681,881**
Non-controlling interest	34	45,409	40,547	47,213
TOTAL EQUITY		**998,021**	**869,929**	**729,094**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,563,633**	**1,328,210**	**1,146,693**

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

RUB millions (except per share data)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Notes	Year ended December 31, 2013	Year ended December 31, 2012 Restated
SALES		**1,504,037**	**1,519,450**
Less export duties and sales related excise tax		(236,434)	(286,801)
TOTAL REVENUE FROM SALES	36	**1,267,603**	**1,232,649**
COSTS AND OTHER DEDUCTIONS			
Purchases of oil, gas and petroleum products		(319,051)	(340,453)
Production and manufacturing expenses		(144,552)	(126,639)
Selling, general and administrative expenses		(72,005)	(68,389)
Transportation expenses		(107,837)	(103,556)
Depreciation, depletion and amortization		(76,785)	(69,163)
Taxes other than income tax	21	(316,070)	(297,824)
Exploration expenses		(2,876)	(3,431)
TOTAL OPERATING EXPENSES		**(1,039,176)**	**(1,009,455)**
Other loss, net	26	(6,310)	(5,268)
OPERATING PROFIT		**222,117**	**217,926**
Share of profit of associates and joint ventures		11,251	12,767
Net foreign exchange (loss) / gain		(2,166)	1,042
Finance income	27	6,011	3,275
Finance expense	28	(11,233)	(11,089)
TOTAL OTHER INCOME		**3,863**	**5,995**
PROFIT BEFORE INCOME TAX		**225,980**	**223,921**
Current income tax expense		(34,823)	(34,108)
Deferred income tax expense		(4,437)	(5,661)
TOTAL INCOME TAX EXPENSE	29	**(39,260)**	**(39,769)**
PROFIT FOR THE PERIOD		**186,720**	**184,152**

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

RUB millions (except per share data)

Consolidated Statement of Profit and Loss and Other Comprehensive Income For the year ended December 31, 2013 (continued)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012 Restated
OTHER COMPREHENSIVE INCOME / (LOSS)			
Currency translation differences		12,739	(6,725)
Cash flow hedge		(3,221)	5,156
Other comprehensive income		(37)	–
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		**9,481**	**(1,569)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**196,201**	**182,583**
PROFIT ATTRIBUTABLE TO:			
Gazprom Neft shareholders		177,917	176,296
Non-controlling interest		8,803	7,856
PROFIT FOR THE PERIOD		**186,720**	**184,152**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Gazprom Neft shareholders		183,406	175,833
Non-controlling interest		12,795	6,750
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**196,201**	**182,583**
EARNINGS PER SHARE ATTRIBUTABLE TO GAZPROM NEFT SHAREHOLDERS			
Basic earnings (RUB per share)		37.71	37.37
Diluted earnings (RUB per share)		37.71	37.37
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718

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

RUB millions

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2013

	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, 2013 (RESTATED)	98	(1,170)	16,125	815,731	(1,402)	829,382	40,547	869,929
Profit for the period	–	–	–	177,917	–	177,917	8,803	186,720
OTHER COMPREHENSIVE INCOME / (LOSS)								
Currency translation differences	–	–	–	–	8,747	8,747	3,992	12,739
Cash flow hedge	–	–	–	–	(3,221)	(3,221)	–	(3,221)
Other comprehensive income	–				(37)	(37)		(37)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	–	–	–	177,917	5,489	183,406	12,795	196,201
Transactions with owners, recorded in equity								
Dividends to equity holders	–	–	–	(63,344)	–	(63,344)	(3,561)	(66,905)
Acquisition of non-controlling interest	–	–	3,168	–	–	3,168	(4,372)	(1,204)
TOTAL TRANSACTIONS WITH OWNERS	–	–	3,168	(63,344)	–	(60,176)	(7,933)	(68,109)
BALANCE AS OF DECEMBER 31, 2013	**98**	**(1,170)**	**19,293**	**930,304**	**4,087**	**952,612**	**45,409**	**998,021**
BALANCE AS OF JANUARY 1, 2012	98	(1,170)	10,022	676,947	(940)	684,957	47,213	732,170
Effect of retrospective restatement (Note 5)	–	–	–	(3,077)	1	(3,076)	–	(3,076)
BALANCE AS OF JANUARY 1, 2012 (RESTATED)	98	(1,170)	10,022	673,870	(939)	681,881	47,213	729,094
Profit for the period	–	–	–	176,296	–	176,296	7,856	184,152
OTHER COMPREHENSIVE (LOSS) / INCOME								
Currency translation differences	–	–	–	–	(5,619)	(5,619)	(1,106)	(6,725)
Cash flow hedge	–	–	–	–	5,156	5,156	–	5,156
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	–	–	–	176,296	(463)	175,833	6,750	182,583
Transactions with owners, recorded 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 (RESTATED)	**98**	**(1,170)**	**16,125**	**815,731**	**(1,402)**	**829,382**	**40,547**	**869,929**

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

RUB millions

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	Notes	Year ended December 31, 2013	Year ended December 31, 2012 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		225,980	223,921
ADJUSTMENTS FOR:			
Share of profit of associates and joint ventures	14	(11,251)	(12,767)
Loss / (gain) on foreign exchange differences		9,350	(5,635)
Finance income	27	(6,011)	(3,275)
Finance expense	28	11,233	11,089
Depreciation, depletion and amortization	12,13	76,785	69,163
Allowance for doubtful accounts	31	(413)	2,773
Other non-cash items		1,256	3,853
CHANGES IN WORKING CAPITAL:			
Accounts receivable		(16,632)	764
Inventories		4,056	(13,814)
Other assets		9,228	(17,659)
Accounts payable		15,681	8,579
Taxes payable		3,111	6,418
Other liabilities		(7,115)	7,363
Income taxes paid		(33,514)	(28,932)
Interest paid		(9,981)	(11,302)
Dividends received		4,973	7,209
NET CASH PROVIDED BY OPERATING ACTIVITIES		276,736	247,748

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

RUB millions

Consolidated Statement of Cash Flows
For the year ended December 31, 2013 (continued)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012 Restated
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired		(4,657)	(2,261)
Acquisition of associates and joint ventures		(1,200)	—
Bank deposits placement		(74,295)	(43,315)
Repayment of bank deposits		44,870	39,076
Acquisition of other investments		(283)	(4,517)
Proceeds from sales of other investments		890	4,557
Short-term loans issued		(2,829)	(4,193)
Repayment of short-term loans issued		863	8,110
Long-term loans issued		(19,848)	(13,751)
Repayment of long-term loans issued		1,004	261
Capital expenditures		(208,611)	(169,213)
Proceeds from sale of property, plant and equipment		3,847	2,314
Interest received		4,524	2,476
NET CASH USED IN INVESTING ACTIVITIES		**(255,725)**	**(180,456)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		18,930	92,986
Repayment of short-term borrowings		(31,249)	(78,341)
Proceeds from long-term borrowings		119,032	67,743
Repayment of long-term borrowings		(50,318)	(56,970)
Transaction costs directly attributable to the borrowings received		(1,074)	(683)
Dividends paid to the Company's shareholders		(63,328)	(34,433)
Dividends paid to non-controlling interest		(3,248)	(762)
Acquisition of non-controlling interest in subsidiaries		(1,755)	(5,572)
NET CASH USED IN FINANCING ACTIVITIES		**(13,010)**	**(16,032)**
INCREASE IN CASH AND CASH EQUIVALENTS		**8,001**	**51,260**
Effect of foreign exchange on cash and cash equivalents		3,877	(1,868)
CASH AND CASH EQUIVALENTS AS OF THE BEGINNING OF THE PERIOD		**79,199**	**29,807**
CASH AND CASH EQUIVALENTS AS OF THE END OF THE PERIOD		**91,077**	**79,199**

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

RUB millions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

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").

Subsequent events occurring after December 31, 2013 were evaluated through February 24, 2014 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 implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement have the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

In assessing control, the Group takes into consideration potential voting rights that are substantive. 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 except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. 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 do not have 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

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 Profit and Loss and Other Comprehensive Income.

Changes in Ownership Interests in Subsidiaries without Change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of Subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

An associate is an entity over which the investor has significant influence. Investments in associates 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.

Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

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.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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 fair value of which 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.

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 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

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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 indicators 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 amortization and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. 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, plant are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround do not involve replacement of assets or installation of new assets. 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 ponstruction 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, that are directly attributable to exploration activity;
- 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 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 written-off to the Statement of Profit and Loss and Other Comprehensive Income.

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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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.

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.

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

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

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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.

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.

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 eight Group companies including JSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and 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.

MINERAL EXTRACTION TAX AND EXCISE DUTIES

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.

COMMON STOCK

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.

TREASURY STOCK

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-

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

EARNINGS PER SHARE

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.

STOCK-BASED COMPENSATION

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.

RETIREMENT AND OTHER BENEFIT OBLIGATIONS

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 significant post-retirement benefits or other significant compensated benefits requiring accrual.

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 optimize 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.

OTHER COMPREHENSIVE INCOME/LOSS

All other comprehensive Income/Loss is presented by the items that are or may be reclassified subsequently to profit or loss.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements 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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Management reviews the 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.

Actual results may differ the judgements, estimates made by the management 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.

ESTIMATION OF OIL AND GAS RESERVES

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. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. 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.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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.

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 etc.

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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

JOINT ARRANGEMENTS

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering it's rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

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 2014 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 and November 2013 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. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliable measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. Ay considering its rights fundamental difference to the IAS 39 hedge accounting model is the lack of the 80–125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is to be determined once the standard is complete. The standard is available for early adoption. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

IAS 32, Financial Instruments (issued in December 2011 and effective for annual periods beginning or after January 1, 2014), clarifies certain aspects because of diversity in application of the requirements on offsetting, focused on the following main areas: the meaning of 'currently has a legal enforceable right to set-off'; the application of simultaneous realization and settlements; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements.

Investment Entities (amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other entities and IAS 27 Separate Financial Statements, issued in October 2012 and effective to annual periods beginning on or after 1 January 2014). The key changes are the following:

- Introduce a definition of an investment 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;
- Provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement;
- Require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries;
- Require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Amendments to IAS 36 – Impairment of Assets (issued in May 2013 and effective for annual periods beginning on or after 1 January 2014) on required disclosures when recoverable amount is determined based on fair value less costs of disposal. IAS 36 was amended as follows:

- To remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment;
- To require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed; and
- To require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.

IFRIC 21 – Levies (issued in May 2013 and effective to annual periods beginning on or after 1 January 2014). Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time;
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

Amendment to IAS 39 - Financial Instruments: Recognition and Measurement (issued in June 2013 and effective for annual periods beginning on or after 1 January 2014) on novation of derivatives and hedge accounting. IAS 39 was amended to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. The amendments will not result in the expiration or termination of the hedging instrument if:

- As a consequence of laws or regulations, the parties to the hedging instrument agree that a CCP, or an entity (or entities) acting as a counterparty in order to effect clearing by a CCP ('the clearing counterparty'), replaces their original counterparty; and
- Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such replacement of the counterparty. These changes include changes in the contractual collateral requirements, rights to offset receivables and payables balances, and charges levied.

The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

Improvements to International Financial Reporting Standards (issued in December 2013, effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to nine standards. Basis for Conclusions of IFRS 1 was amended to clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1. The clarification suggested that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements. IFRS 2 was amended to separate the definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus make the description of each condition clearer. IFRS 3 was amended to: (i) clarify that contingent consideration is a financial asset or financial liability that can only be measured at fair value, with changes in fair value being presented in either profit or loss or other comprehensive income depending on the requirements of IFRS 9; (ii) exclude all types of joint arrangements from the scope of IFRS 3 and clarify that it only excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself from the scope of IFRS 3. IFRS 8 was amended to clearly that the reconciliation of the total of the reportable segments' assets to the entity's assets should be reported if such amounts are regularly provided to the chief operating decision maker. IFRS 13 was amended to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. The amendment to IFRS 13 Basis for Conclusions was intended to clarify that short-term receivables and payables with no stated interest rate should still be measured at invoice amounts despite deleting relevant paragraphs from IFRS 9 and IAS 39. IAS 16 and IAS 38 were amended clarifying that (i) the determination of the accumulated depreciation does not depend on the selection of the valuation technique; and (ii) the accumulated depreciation is calculated as the difference between the gross and the net carrying amounts. IAS 24 was amended to clarify that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity. IAS 40 was amended to state explicitly that judgement is needed to determine whether the transaction is solely

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgement is based on the guidance in IFRS 3.

The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

Other amendments: The amendment to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after 1 July 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. This amendment will not have any impact on Group's Consolidated Financial Statements as the Group does not apply IAS 19.

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

5. APPLICATION OF NEW IFRS

A number of new IFRS standards and interpretation became effective for the periods beginning on or after January 1, 2013: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interest in Other entities, IFRS 13 Fair Value Measurement, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, Annual improvements 2012. Additionally, the following amended standards also became effective for the periods beginning on of after January 1, 2013: IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements, IAS 28 Investments in Associates.

The Group has applied these standards while preparing these Consolidated Financial Statements. The standards have no significant impact on the Group's Consolidated Financial Statements, except for the application of IFRS 11 Joint Arrangements.

Under IFRS 11 joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The Group has assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development (SPD) as Joint operations. Tomskneft and Salym Petroleum development are engaged with production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partner). The joint arrangements determined to be joint ventures will continue to be accounted for under the equity method of accounting.

In accordance with the transition provision of IFRS 11 the Group has applied the new policy for interests in joint operations occurring on or after January 1, 2012. The Group derecognized the investment that was previously accounted for using the equity method and recognized its share of each of the assets and the liabilities in respect of the interest in the joint operations, including any goodwill that might have been part of the carrying amount of the investment.

The Group measured the initial carrying amount of the assets and liabilities by disaggregationg them from the carrying amount of the investment as of January 1, 2012 on the basis of the information used in applying the equity method. Any differences arising from the investment previously accounted for using the equity method and the amount of the assets and liabilities recognized, including any goodwill, was adjusted against Retained Earnings.

Subsequently, participant of the joint arrangement accounts for the assets and revenue it controls and the liabilities and expenses to which it is obliged, including its share of any assets and liabilities held and incurred jointly.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Effect of the change in the accounting policy on the Statement of Financial Position as of January 1, 2012 and December 31, 2012 and Statement of Profit and Loss and Other Comprehensive Income for the year ended December 2012 is presented below:

Reconciliation of shareholders' equity as of January 1, 2012	Previously reported	Adjustment due to change in accounting policy	Restated
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	29,435	371	29,806
Short-term financial assets	18,951	(3,440)	15,511
Trade and other receivables	70,780	201	70,981
Inventories	74,201	3,285	77,486
Current income tax prepayments	12,377	48	12,425
Other current assets	89,518	1,214	90,732
Assets classified as held for sale	2,029	–	2,029
TOTAL CURRENT ASSETS	**297,291**	**1,679**	**298,970**
NON-CURRENT ASSETS			
Property, plant and equipment	574,982	90,072	665,054
Goodwill and other intangible assets	40,194	9,625	49,819
Investments in associates and joint ventures	175,315	(74,600)	100,715
Long-term trade and other receivables	219	2	221
Long-term financial assets	9,487	10	9,497
Deferred income tax assets	11,934	1,690	13,624
Other non-current assets	8,737	56	8,793
TOTAL NON-CURRENT ASSETS	**820,868**	**26,855**	**847,723**
TOTAL ASSETS	**1,118,159**	**28,534**	**1,146,693**

RUB millions

Notes to the Consolidated Financial Statements
For the year ended December 31, 2013 (continued)

Reconciliation of shareholders' equity as of January 1, 2012	Previously reported	Adjustment due to change in accounting policy	Restated
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term debt and current portion of long-term debt	44,330	9,619	53,949
Trade and other payables	41,196	(761)	40,435
Other current liabilities	25,165	651	25,816
Current income tax payable	1,994	79	2,073
Other taxes payable	30,089	6,589	36,678
Provisions for liabilities and charges	6,888	302	7,190
Liabilities associated with assets classified as held for sale	667	–	667
TOTAL CURRENT LIABILITIES	150,329	16,479	166,808
NON-CURRENT LIABILITIES			
Long-term debt	176,979	11	176,990
Other non-current financial liabilities	6,824	–	6,824
Deferred income tax liabilities	32,443	10,509	42,952
Provisions for liabilities and charges	17,458	4,606	22,064
Other non-current liabilities	1,956	5	1,961
TOTAL NON-CURRENT LIABILITIES	235,660	15,131	250,791
EQUITY			
Share capital	98	–	98
Treasury shares	(1,170)	–	(1,170)
Additional paid-in capital	10,022	–	10,022
Retained earnings	676,947	(3,077)	673,870
Other reserves	(940)	1	(939)
EQUITY ATTRIBUTABLE TO THE COMPANY'S OWNERS	684,957	(3,076)	681,881
Non-controlling interest	47,213	–	47,213
TOTAL EQUITY	732,170	(3,076)	729,094
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,118,159	28,534	1,146,693

RUB millions

Notes to the Consolidated Financial Statements
For the year ended December 31, 2013 (continued)

Reconciliation of shareholders' equity as of December 31, 2012	Previously reported	Adjustment due to change in accounting policy	Restated
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	76,012	3,187	79,199
Short-term financial assets	15,863	26	15,889
Trade and other receivables	66,596	18	66,614
Inventories	88,284	2,930	91,214
Current income tax prepayments	8,384	9	8,393
Other current assets	106,265	817	107,082
Assets classified as held for sale	2,179	–	2,179
TOTAL CURRENT ASSETS	363,583	6,987	370,570
NON-CURRENT ASSETS			
Property, plant and equipment	669,425	88,787	758,212
Goodwill and other intangible assets	40,162	9,716	49,878
Investments in associates and joint ventures	185,087	(79,444)	105,643
Long-term trade and other receivables	159	1	160
Long-term financial assets	23,253	3	23,256
Deferred income tax assets	10,670	1,994	12,664
Other non-current assets	7,769	58	7,827
TOTAL NON-CURRENT ASSETS	936,525	21,115	957,640
TOTAL ASSETS	1,300,108	28,102	1,328,210

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Reconciliation of shareholders' equity as of December 31, 2012	Previously reported	Adjustment due to change in accounting policy	Restated
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term debt and current portion of long-term debt	66,195	10,998	77,193
Trade and other payables	51,348	(1,341)	50,007
Other current liabilities	31,128	(49)	31,079
Current income tax payable	2,631	527	3,158
Other taxes payable	35,908	7,116	43,024
Provisions for liabilities and charges	6,987	314	7,301
Liabilities associated with assets classified as held for sale	42	–	42
TOTAL CURRENT LIABILITIES	**194,239**	**17,565**	**211,804**
NON-CURRENT LIABILITIES			
Long-term debt	166,417	30	166,447
Other non-current financial liabilities	5,232	–	5,232
Deferred income tax liabilities	38,759	10,145	48,904
Provisions for liabilities and charges	18,062	5,833	23,895
Other non-current liabilities	1,968	31	1,999
TOTAL NON-CURRENT LIABILITIES	**230,438**	**16,039**	**246,477**
EQUITY			
Share capital	98	–	98
Treasury shares	(1,170)	–	(1,170)
Additional paid-in capital	16,125	–	16,125
Retained earnings	818,808	(3,077)	815,731
Other reserves	1,023	(2,425)	(1,402)
EQUITY ATTRIBUTABLE TO THE COMPANY'S OWNERS	**834,884**	**(5,502)**	**829,382**
Non-controlling interest	40,547	–	40,547
TOTAL EQUITY	**875,431**	**(5,502)**	**869,929**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,300,108**	**28,102**	**1,328,210**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Reconciliation of comprehensive income for the year ended December, 31 2012	Previously reported	Adjustment due to change in accounting policy	Restated
SALES	**1,517,067**	**2,383**	**1,519,450**
Less export duties and sales related excise tax	(286,801)	–	(286,801)
TOTAL REVENUE FROM SALES	**1,230,266**	**2,383**	**1,232,649**
COSTS AND OTHER DEDUCTIONS			
Purchases of oil, gas and petroleum products	(430,485)	90,032	(340,453)
Production and manufacturing expenses	(113,624)	(13,015)	(126,639)
Selling, general and administrative expenses	(66,115)	(2,274)	(68,389)
Transportation expenses	(103,556)	–	(103,556)
Depreciation, depletion and amortization	(58,461)	(10,702)	(69,163)
Taxes other than income tax	(251,128)	(46,696)	(297,824)
Exploration expenses	(3,263)	(168)	(3,431)
TOTAL OPERATING EXPENSES	**(1,026,632)**	**17,177**	**(1,009,455)**
Other loss, net	(4,891)	(377)	(5,268)
OPERATING PROFIT	**198,743**	**19,183**	**217,926**
Share of profit of associates and joint ventures	28,281	(15,514)	12,767
Net foreign exchange gain	953	89	1,042
Finance income	3,174	101	3,275
Finance expense	(11,160)	71	(11,089)
TOTAL OTHER INCOME	**21,248**	**(15,253)**	**5,995**
PROFIT BEFORE INCOME TAX	**219,991**	**3,930**	**223,921**
Current income tax expense	(30,085)	(4,023)	(34,108)
Deferred income tax expense	(5,754)	93	(5,661)
TOTAL INCOME TAX EXPENSE	**(35,839)**	**(3,930)**	**(39,769)**
PROFIT FOR THE PERIOD	**184,152**	**–**	**184,152**
OTHER COMPREHENSIVE (LOSS) / INCOME:			
Currency translation differences	(4,299)	(2,426)	(6,725)
Cash flow hedge	5,156	–	5,156
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	**857**	**(2,426)**	**(1,569)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**185,009**	**(2,426)**	**182,583**
PROFIT ATTRIBUTABLE TO:			
Gazprom Neft shareholders	176,296	–	176,296
Non-controlling interest	7,856	–	7,856
PROFIT FOR THE PERIOD	**184,152**	**–**	**184,152**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Gazprom Neft shareholders	178,259	(2,426)	175,833
Non-controlling interest	6,750	–	6,750
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**185,009**	**(2,426)**	**182,583**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

The application of IFRS 11 has no effect on the Group's earnings per share data previously reported. The effect of retrospective application of IFRS 11 to the cash flow statement for the year ended 2012 previously reported, is an increase of net cash provided by operating activity in amount of RUB 16.7 billion and an increase of net cash used in investing activity in amount of RUB 13.8 billion.

6. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

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 decrease in 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 NON-CONTROLLING INTEREST IN SUBSIDIARIES

In 2013 the Group has accounted for the acquisition of the additional interest in several subsidiaries where control is maintained in the amount of RUB 1.2 billion. As a result of these transactions the Group increased additional paid-in-capital by RUB 3.2 billion for the year ended December 31, 2013. This amount represents the excess of the carrying value of the investments acquired of RUB 4.4 billion over the consideration paid.

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.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2013, December 31, 2012 and as of January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	504	416	479
Cash in bank	21,034	27,383	16,386
Deposits with original maturity of less than three months	66,463	48,604	12,152
Cash equivalents	3,076	2,796	789
TOTAL CASH AND CASH EQUIVALENTS	**91,077**	**79,199**	**29,806**

As of December 31, 2013, December 31, 2012 and January 1, 2012 the majority of bank deposits are held in Russian Ruble.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

8. SHORT-TERM FINANCIAL ASSETS

Short-term financial assets as of December 31, 2013, December 31, 2012 and as of January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Deposits with original maturity more than 3 months less than 1 year	36,869	7,519	246
Short-term loans issued	18,991	6,832	11,084
Forward contracts – cash flow hedge	10	632	1,858
Financial assets held to maturity	–	906	2,323
TOTAL SHORT-TERM FINANCIAL ASSETS	**55,870**	**15,889**	**15,511**

9. TRADE AND OTHER RECEIVABLES

Trade and other receivables as of December 31, 2013, December 31, 2012 and as of January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Trade receivables	94,860	72,820	75,763
Other financial receivables	1,479	1,983	1,480
Less impairment provision	(8,991)	(8,189)	(6,262)
TOTAL TRADE AND OTHER RECEIVABLES	**87,348**	**66,614**	**70,981**

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

10. INVENTORIES

Inventories as of December 31, 2013, December 31, 2012 and as of January 1, 2012 consist of the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Crude oil and gas	20,328	18,117	19,675
Petroleum products and petrochemicals	44,836	48,731	35,719
Materials and supplies	21,280	21,714	21,506
Other	6,359	5,126	4,376
Less provision for impairment	(2,580)	(2,474)	(3,790)
TOTAL INVENTORY	**90,223**	**91,214**	**77,486**

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:

	2013	2012
Buy/sell crude oil transactions for the year ended December 31	64,281	76,912

11. OTHER CURRENT ASSETS

Other current assets as of December 31, 2013, December 31, 2012 and as of January 1, 2012 consist of the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Prepaid custom duties	22,530	30,530	26,103
Advances paid	31,618	28,197	30,606
Prepaid expenses	311	329	343
Value added tax receivable	35,223	39,570	28,436
Other assets	21,661	19,168	15,526
Less impairment provision	(10,461)	(10,712)	(10,282)
TOTAL OTHER CURRENT ASSETS	**100,882**	**107,082**	**90,732**

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

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

12. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the years ended December 31, 2013 and 2012 is below:

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
AS OF JANUARY 1, 2013	709,528	183,290	84,292	7,757	59,278	1,044,145
Additions	141,463	1,256	105	1,542	50,875	195,241
Acquisitions through business combinations	35	740	1,619	2,033	122	4,549
Changes in decommissioning obligations	2,538	–	–	–	–	2,538
Capitalised borrowing costs	1,671	166	–	–	373	2,210
Transfers	–	28,397	19,006	1,574	(48,977)	–
Internal movement	5,249	(122)	(2,232)	(1,529)	(1,366)	–
Reclassification from assets classified as held for sale	1,217	–	–	–	–	1,217
Disposals	(6,973)	(695)	(3,537)	(816)	(691)	(12,712)
Translation differences	11,100	3,968	3,190	145	657	19,060
AS OF DECEMBER 31, 2013	**865,828**	**217,000**	**102,443**	**10,706**	**60,271**	**1,256,248**
DEPRECIATION AND IMPAIRMENT						
AS OF JANUARY 1, 2013	(221,754)	(48,021)	(15,604)	(554)	–	(285,933)
Depreciation charge	(58,409)	(7,840)	(7,503)	(773)	–	(74,525)
Internal movement	(991)	1	783	207	–	–
Reclassification from assets classified as held for sale	(1,017)	–	–	–	–	(1,017)
Disposals	3,895	112	950	13	–	4,970
Translation differences	(3,159)	(463)	(455)	(123)	–	(4,200)
AS OF DECEMBER 31, 2013	**(281,435)**	**(56,211)**	**(21,829)**	**(1,230)**	**–**	**(360,705)**
NET BOOK VALUE						
AS OF JANUARY 1, 2013	487,774	135,269	68,688	7,203	59,278	758,212
AS OF DECEMBER 31, 2013	**584,393**	**160,789**	**80,614**	**9,476**	**60,271**	**895,543**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
AS OF JANUARY 1, 2012	614,566	145,959	70,314	11,411	49,326	891,576
Additions	102,673	4,463	2,133	245	59,704	169,218
Acquisitions through business combinations	4,591	–	–	–	–	4,591
Changes in decommissioning obligations	2,268	–	–	–	–	2,268
Capitalised borrowing costs	332	–	–	–	1,242	1,574
Transfers	–	34,580	13,178	547	(48,305)	–
Internal movement	–	–	3,406	(3,406)	–	–
Reclassification to and from assets classified as held for sale	(1,718)	–	–	–	–	(1,718)
Disposals	(6,278)	(757)	(3,094)	(892)	(1,842)	(12,863)
Translation differences	(6,906)	(955)	(1,645)	(148)	(847)	(10,501)
AS OF DECEMBER 31, 2012	**709,528**	**183,290**	**84,292**	**7,757**	**59,278**	**1,044,145**
DEPRECIATION AND IMPAIRMENT						
AS OF JANUARY 1, 2012	(174,038)	(41,903)	(9,969)	(612)	–	(226,522)
Depreciation charge	(53,530)	(6,552)	(6,929)	(344)	–	(67,355)
Impairment	–	–	(503)	–	–	(503)
Reclassification to and from non-current assets classified as held for sale	–	–	(216)	216	–	–
Disposals	3,913	280	1,759	179	–	6,131
Translation differences	1,901	154	254	7	–	2,316
AS OF DECEMBER 31, 2012	**(221,754)**	**(48,021)**	**(15,604)**	**(554)**	**–**	**(285,933)**
NET BOOK VALUE						
AS OF JANUARY 1, 2012	**440,528**	**104,056**	**60,345**	**10,799**	**49,326**	**665,054**
AS OF DECEMBER 31, 2012	487,774	135,269	68,688	7,203	59,278	758,212

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment comprised of 3.99% for the year ended December 31, 2013 (2012: 2.73%).

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

	2013	2012
AS OF JANUARY 1	**31,709**	**18,744**
Additions	23,605	19,048
Unsuccessful exploration expenditures derecognised	(975)	(1,911)
Transfer to proved property	(1,253)	–
Reclassification to assets classified as held for sale	–	(1,718)
Disposals	(1,637)	(1,489)
Translation differences	2,065	(965)
AS OF DECEMBER 31	**53,514**	**31,709**

13. 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, 2013	25,945	1,381	10,853	17,072	2,133	57,384
Additions	–	63	3,687	36	912	4,698
Acquisitions through business combinations	776	–	30	–	1,727	2,533
Internal movement	(2)	(138)	429	–	48	337
Disposals	(41)	(146)	(684)	–	(370)	(1,241)
Translation differences	1,294	–	302	–	90	1,686
AS OF DECEMBER 31, 2013	**27,972**	**1,160**	**14,617**	**17,108**	**4,540**	**65,397**
AMORTIZATION AND IMPAIRMENT						
AS OF JANUARY 1, 2013	–	(640)	(3,722)	(2,472)	(672)	(7,506)
Amortization charge	–	(189)	(1,246)	(671)	(154)	(2,260)
Internal movement	–	(3)	(436)	–	102	(337)
Disposals	–	88	68	–	34	190
Translation differences	–	–	(46)	–	(52)	(98)
AS OF DECEMBER 31, 2013	**–**	**(744)**	**(5,382)**	**(3,143)**	**(742)**	**(10,011)**
NET BOOK VALUE						
AS OF JANUARY 1, 2013	25,945	741	7,131	14,600	1,461	49,878
AS OF DECEMBER 31, 2013	**27,972**	**416**	**9,235**	**13,965**	**3,798**	**55,386**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Cost	Goodwill	Licenses	Software	Land rights	Other IA	Total IA
AS OF JANUARY 1, 2012	26,215	1,111	9,428	17,179	1,677	55,610
Additions	–	680	1,876	–	639	3,195
Acquisitions through business combinations	370	19	–	–	–	389
Disposals	–	(413)	(311)	(101)	(180)	(1,005)
Translation differences	(640)	(16)	(140)	(6)	(3)	(805)
AS OF DECEMBER 31, 2012	**25,945**	**1,381**	**10,853**	**17,072**	**2,133**	**57,384**
AMORTIZATION AND IMPAIRMENT						
AS OF JANUARY 1, 2012	–	(199)	(3,327)	(1,707)	(558)	(5,791)
Amortization charge	–	(475)	(445)	(765)	(123)	(1,808)
Disposals	–	29	48	–	–	77
Translation differences	–	5	2	–	9	16
AS OF DECEMBER 31, 2012	**–**	**(640)**	**(3,722)**	**(2,472)**	**(672)**	**(7,506)**
NET BOOK VALUE						
AS OF JANUARY 1, 2012	26,215	912	6,101	15,472	1,119	49,819
AS OF DECEMBER 31, 2012	**25,945**	**741**	**7,131**	**14,600**	**1,461**	**49,878**

Goodwill acquired through business combination has been allocated to Upstream and Downstream (as of December 31, 2013 RUB 21.4 billion and RUB 6.6 billion, respectively) related groups of cash generating units.

14. 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, 2013, December 31, 2012 and January 1, 2012 are summarised below:

		Ownership percentage	December 31, 2013	December 31, 2012	January 1, 2012
Slavneft	Joint venture	49.9	85,015	78,831	72,681
SeverEnergy	Joint venture	40.2	24,165	24,285	24,599
Others			11,178	2,527	3,435
TOTAL INVESTMENTS IN ASSOCIATES AND JOINT VENTURES			**120,358**	**105,643**	**100,715**

The principal place of business of the most significant joint ventures and associates disclosed above is Russian Federation.

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group's share of those joint ventures' and associates' profit or loss and other comprehensive income are nonsignificant.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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 :

	2013	2012
CARRYING AMOUNT AS OF JANUARY 1	**105,643**	**100,715**
Share of profit of associates and joint ventures	11,251	12,767
Dividends declared	(4,405)	(7,892)
Increase in associates and joint ventures	7,858	–
Other changes in cost of associates and joint ventures	11	53
CARRYING AMOUNT AS OF DECEMBER 31	**120,358**	**105,643**

The total amount of dividends received from associates in 2013 equals to RUB 578 million (2012: RUB 431 million). The total amount of dividends received from joint ventures in 2013 equals to RUB 3,827 million (2012: RUB 7,461 million).

SLAVNEFT

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of legal entities. Slavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and Rosneft.

SEVERENERGY

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (a 50%:50% joint venture between the Group and JSC Novatek) owing a 51% equity interest in SeverEnergy. In December 2013 Yamal Razvitie acquired 60% interest in Artic Russia B.V. owning 49% stake in SeverEnergy. As a result the Group increased its effective share in SeverEnergy from 25.5% to 40.2%. 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 difference between the carrying amount of the investment in SeverEnergy and the Group's share in the underlying net assets as of December 31, 2013 amounting to RUB 16 billion relates to additional shares acquisition in December 2013 by Yamal Razvitie.

The summarized financial information for the significant joint ventures and associates as of December 31, 2013, December 31, 2012 and January 1, 2012 is presented in the table below.

The summarized financial information refers to amounts included in the IFRS financial statements of the joint ventures or associates.

	Slavneft			SeverEnergy		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	28,208	32,117	6,888	3,025	724	1,644
Other current assets	18,630	17,822	23,293	7,460	4,493	3,385
Non-current assets	235,420	219,589	209,368	226,727	184,266	166,165
Current financial liabilities	(43,758)	(35,722)	(22,680)	(21,872)	(11,375)	(27,707)
Other current liabilities	(20,617)	(19,507)	(19,177)	(486)	(344)	(41)
Non-current financial liabilities	(33,271)	(36,956)	(36,519)	(78,232)	(41,444)	(5,253)
Other non-current liabilities	(23,816)	(25,998)	(21,671)	(27,807)	(27,395)	(27,685)
NET ASSETS	**160,796**	**151,345**	**139,502**	**108,815**	**108,925**	**110,508**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

	Slavneft		SeverEnergy	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Revenue	193,038	198,682	15,832	5,099
Depreciation, depletion and amortization	(26,024)	(28,304)	(6,782)	(1,508)
Finance income	1,623	1,249	57	32
Finance expense	(1,478)	(1,526)	(3,300)	(2,007)
Total income tax expense	(4,731)	(5,835)	(774)	(318)
Profit / (loss) for the period	17,085	24,679	(501)	(1,231)
Other comprehensive income / (loss)	17,085	24,679	(501)	(1,231)

As of December 31, 2013 the Group has contingent liabilities and commitments in relation to its associates and joint ventures in amount of RUB 13.1 billion.

15. LONG-TERM FINANCIAL ASSETS

Long-term financial assets as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Long-term loans issued	15,335	15,507	2,800
Forward contracts - cash flow hedge	283	342	–
Financial assets held to maturity	–	–	7
Available for sale financial assets	7,478	8,106	7,481
Less impairment provision	(690)	(699)	(791)
TOTAL LONG-TERM FINANCIAL ASSETS	**22,406**	**23,256**	**9,497**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

16. DEFERRED INCOME TAX ASSETS AND AIABILITIES

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

	Assets	Liabilities	Net
AS OF DECEMBER 31, 2013			
Property, plant and equipment	4,847	(53,461)	(48,614)
Intangible assets	14	(2,889)	(2,875)
Investments	1,863	(505)	1,358
Inventories	324	(757)	(433)
Trade and other receivables	313	(27)	286
Loans and borrowings	–	(545)	(545)
Provisions	2,911	–	2,911
Tax loss carry-forwards	6,062	–	6,062
Other	2,174	(1,545)	629
TAX ASSETS / (LIABILITIES)	**18,508**	**(59,729)**	**(41,221)**
AS OF DECEMBER 31, 2012			
Property, plant and equipment	4,523	(44,885)	(40,362)
Intangible assets	17	(3,170)	(3,153)
Investments	2,230	(451)	1,779
Inventories	503	(228)	275
Trade and other receivables	1,113	–	1,113
Loans and borrowings	–	(170)	(170)
Provisions	3,291	–	3,291
Tax loss carry-forwards	686	–	686
Other	301	–	301
TAX ASSETS / (LIABILITIES)	**12,664**	**(48,904)**	**(36,240)**
AS OF JANUARY 1, 2012			
Property, plant and equipment	5,062	(39,200)	(34,138)
Intangible assets	1	(2,899)	(2,898)
Investments	4,025	(401)	3,624
Inventories	545	(206)	339
Trade and other receivables	836	–	836
Loans and borrowings	–	(246)	(246)
Provisions	2,920	–	2,920
Tax loss carry-forwards	–	–	–
Other	235	–	235
TAX ASSETS / (LIABILITIES)	**13,624**	**(42,952)**	**(29,328)**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Movement in temporary differences during the year:

	January 1, 2013	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	December 31, 2013
Property, plant and equipment	(40,362)	(7,094)	(806)	(352)	(48,614)
Intangible assets	(3,153)	278	–	–	(2,875)
Investments	1,779	(794)	373	–	1,358
Inventories	275	(703)	(5)	–	(433)
Trade and other receivables	1,113	(860)	33	–	286
Loans and borrowings	(170)	(365)	(10)	–	(545)
Provisions	3,291	(391)	11	–	2,911
Tax loss carry-forwards	686	5,371	–	5	6,062
Other	301	121	207	–	629
	(36,240)	**(4,437)**	**(197)**	**(347)**	**(41,221)**

	January 1, 2012	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	December 31, 2012
Property, plant and equipment	(34,138)	(6,524)	575	(275)	(40,362)
Intangible assets	(2,898)	(255)	–	–	(3,153)
Investments	3,624	(293)	(1,552)	–	1,779
Inventories	339	(64)	–	–	275
Trade and other receivables	836	277	–	–	1,113
Loans and borrowings	(246)	76	–	–	(170)
Provisions	2,920	370	–	1	3,291
Tax loss carry-forwards	–	686	–	–	686
Other	235	66	–	–	301
	(29,328)	**(5,661)**	**(977)**	**(274)**	**(36,240)**

17. OTHER NON-CURRENT ASSETS

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 15,867 million, RUB 6,200 million and RUB 7,865 million as of December 31, 2013, 2012 and 2011, respectively).

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

18. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

As of December 31, 2013, December 31, 2012 and January 1, 2012 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Bank loans	119	13,084	116
Other borrowings	17,706	17,083	17,075
Finance lease liabilities	–	–	1,257
Current portion of long-term debt	34,588	47,026	35,501
TOTAL SHORT-TERM DEBT AND CURRENT PART OF LONG-TERM DEBT	**52,413**	**77,193**	**53,949**

Current portion includes interest payable on long-term borrowings.

19. TRADE AND OTHER PAYABLES

Accounts payable as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Trade accounts payable	61,003	46,269	36,198
Dividends payable	1,943	1,397	1,534
Other accounts payable	3,999	1,436	883
Other current financial liabilities	1,090	905	1,820
TOTAL TRADE AND OTHER PAYABLES	**68,035**	**50,007**	**40,435**

20. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Advances received	16,607	21,475	14,030
Payables to employees	1,844	2,116	2,457
Other non-financial payables	8,199	7,488	9,329
TOTAL OTHER CURRENT LIABILITIES	**26,650**	**31,079**	**25,816**

21. OTHER TAXES PAYABLE

Other taxes payable as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Mineral extraction tax	19,608	16,761	16,098
VAT	15,649	15,941	12,611
Excise tax	5,826	5,881	3,968
Property tax	2,425	1,617	1,472
Other taxes	3,275	2,824	2,529
TOTAL OTHER TAXES PAYABLE	**46,783**	**43,024**	**36,678**

Taxes other than income tax expense for the years ended December 31, 2013 and 2012 comprise the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Mineral extraction tax	214,023	201,305
Property tax	7,938	7,814
Excise tax	77,701	76,408
Other taxes	16,408	12,297
TOTAL OTHER TAXES PAYABLE	**316,070**	**297,824**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

22. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Decommissioning provision	20,773	20,447	18,368
Stock Appreciation Rights	1,798	1,112	1,896
Other	13,468	9,637	8,990
TOTAL PROVISIONS	**36,039**	**31,196**	**29,254**
Including Short-term part	10,158	7,301	7,190

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

	2013	2012
AS OF JANUARY 1	20,447	18,368
New obligation incurred	2,872	1,669
Provision assumed in a business combination	–	5
Utilization and other changes of provision	(3,933)	(1,329)
Change in estimates	(334)	599
Unwind of discount	1,396	1,444
Translation differences	325	(309)
AS OF DECEMBER 31	**20,773**	**20,447**

23. LONG-TERM DEBT

As of December 31, 2013, December 31, 2012 and January 1, 2012 the Group has long-term outstanding loans as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Bank loans	98,397	82,240	136,456
Bonds	61,583	82,025	71,999
Loan Participation Notes	132,534	46,118	–
Finance lease liabilities	–	–	3,207
Other borrowings	3,529	3,090	829
less current portion of debt	(34,588)	(47,026)	(35,501)
TOTAL LONG-TERM DEBT	**261,455**	**166,447**	**176,990**

On April 13, 2010, the Group placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUB 20 billion (fully repaid in 2013 and all current as of December 31, 2012). The bonds bore interest of 7.15% per year and had semi-annual coupon payments.

On September 19, 2012 the Group has drawn USD 1,500 million (RUB 46,375 million) financed by 10 years Loan Participation Notes (LPN) (Series 1 Issue) with 4.375% coupon to be paid semi-annually at par.

On April 26, 2013 the Group raised EURO 750 million (RUB 30,637 million) financed by 2.933% the Loan Participation Notes (LPN) due 2018 (Series 2).

On November 25, 2013 the Group has drawn USD 1,500 million (RUB 49,358 million) financed by 10 years Loan Participation Notes (LPN) (Series 3 Issue) with 6.0% coupon to be paid semi-annually at par.

Outstanding amount under LPN as of December 31, 2013 is US$ 3.0 billion and EURO 750 million (total amount RUB 131.9 billion, all non-current). Outstanding amount under LPN as of December 31, 2012 is US$ 1.5 billion (RUB 45.6 billion, all non-current). LPNs are listed on the Irish Stock Exchange.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

On April 19, 2013 the Group signed an unsecured term and revolving loan agreement with several banks for the amount of US$ 1 billion (31,715 RUB million). The agreement comprises two loan facilities being an amortizing USD 700 million term loan facility with a maturity date falling 5 years and a USD 300 million revolving loan facility with a bullet repayment after 3 years. The term loan facility bears a floating interest rate of LIBOR plus 1.75% per annum while for the revolving part the interest rate is the sum of LIBOR and spread ranging from 1.2% to 1.5% per annum depending on the level of utilization of the revolving loan facility. Outstanding amount under the loan as of December 31, 2013 is US$ 700 million (RUB 22.9 billion, all non-current).

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, 2013, December 31, 2012 and January 1, 2012, respectively.

24. SHARE CAPITAL

Share capital as of December 31, 2013, December 31, 2012 and January 1, 2012 comprise of the following:

	Ordinary shares			Treasury shares		
	December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
Number of shares (million)	4,741	4,741	4,741	23	23	23
Authorised shares (million)	4,741	4,741	4,741	23	23	23
Par value (RUB per share)	0.0016	0.0016	0.0016	0.0016	0.0016	0.0016
ON ISSUE AS OF DECEMBER 31, FULLY PAID (RUB MILLION)	**8**	**8**	**8**	**(1,170)**	**(1,170)**	**(1,170)**

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

On June 8, 2012 the annual general shareholders' meeting of JSC "Gazprom neft" approved dividends on the ordinary shares for 2011 in amount of RUB 7.3 per share.

On June 7, 2013 the annual general shareholders' meeting of JSC "Gazprom neft" approved dividend on the ordinary shares for 2012 in amount of RUB 9.3 per share.

On September 30, 2013 the extraordinary general shareholders' meeting of JSC "Gazprom neft" approved interim dividend on the ordinary shares for the six months ended June 30, 2013 in amount of RUB 4.09 per share.

25. PERSONNEL COSTS

Personnel costs for the years ended December 31, 2013 and 2012 comprise of the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Wages and salaries	47,001	43,524
Stock appreciation rights (SAR)	547	1,112
Other costs	5,487	5,239
TOTAL EMPLOYEE COSTS	**53,035**	**49,875**
Social security contributions (social taxes)	10,633	9,279
TOTAL EMPLOYEE COSTS (WITH SOCIAL TAXES)	**63,668**	**59,154**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

26. OTHER LOSS

Other losses for the years ended December 31, 2013 and 2012 comprise of the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Penalties	(442)	(441)
Provisions (legal, environmental, etc.)	(1,671)	(396)
Impairment	–	(2,015)
Other	(4,197)	(2,416)
TOTAL OTHER EXPENSE	**(6,310)**	**(5,268)**

27. FINANCE INCOME

Finance income for the years ended December 31, 2013 and 2012 comprise of the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income on cash and cash equivalents	862	468
Interest on bank deposits	3,271	1,678
Interest income on loans issued	1,771	858
Other financial income	107	271
TOTAL FINANCE INCOME	**6,011**	**3,275**

28. FINANCE EXPENSE

Finance expense for the years ended December 31, 2013 and 2012 comprise of the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Interest expense	12,047	11,219
Decommissioning provision: unwinding of the present value discount	1,396	1,444
Less: capitalized interest	(2,210)	(1,574)
TOTAL FINANCE EXPENSE	**11,233**	**11,089**

29. INCOME TAX EXPENSE

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

	Year ended December 31, 2013	Year ended December 31, 2012
CURRENT INCOME TAX EXPENSE		
Current year	36,581	36,042
Adjustment for prior years	(1,758)	(1,934)
	34,823	**34,108**
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	5,777	5,127
Change in tax rate	(1,340)	534
	4,437	**5,661**
TOTAL INCOME TAX EXPENSE	**39,260**	**39,769**
Share of tax of associates and joint ventures	2,556	2,990
TOTAL INCOME TAX EXPENSE INCLUDING SHARE OF TAX OF ASSOCIATES AND JOINT VENTURES	**41,816**	**42,759**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

Reconciliation of effective tax rate:

	Year ended December 31, 2013		Year ended December 31, 2012	
	RUB million	%	RUB million.	%
TOTAL INCOME TAX EXPENSE	**41,816**	**18.5**	**42,759**	**18.9**
Profit before income tax excluding share of of profit associates and joint ventures	214,729		211,154	
Profit before income tax of associates and joint ventures	10,806		15,025	
PROFIT BEFORE INCOME TAX	**225,535**		**226,179**	
Tax at applicable domestic tax rate (20%)	45,107	20.0	45,236	20.0
Effect of tax rates in foreign jurisdictions	(1,596)	(0.7)	(2,935)	(1.3)
Difference in statutory tax rate in domestic entities	(2,009)	(0.9)	(1,775)	(0.8)
Non-deductible income and expenses	3,737	1.7	4,479	2.0
Adjustment for prior years	(1,758)	(0.8)	(1,934)	(0.9)
Change in tax rate	(1,340)	(0.6)	534	0.2
Foreign exchange income/losses	(325)	(0.1)	(846)	(0.4)
TOTAL INCOME TAX EXPENSE	**41,816**	**18.5**	**42,759**	**18.9**

30. 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 DECEMBER 31, 2013					
Forward exchange contracts					
Assets	293	9	1	1	282
Liabilities	(3,177)	(17)	(29)	(890)	(2,241)
TOTAL	**(2,884)**	**(8)**	**(28)**	**(889)**	**(1,959)**
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 JANUARY 1, 2012					
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)**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

As of December 31, 2013, December 31, 2012 and January, 2012 the Group has outstanding forward currency exchange contracts for a total notional value of US$ 1,769 million, US$ 2,557 million and US$ 3,609 million respectively. During the year ended December 31, 2013 the amount of RUB 376 million was reclassified from equity to gain in statement of income (for the year ended December 31, 2012 RUB 1,509 billion was reclassified to gain in statement of income).

No significant ineffectiveness occurred during the reporting period.

31. 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 increase effectiveness of Management decisions through detailed analysis of related risks.

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.

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 these transactions 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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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

As of December 31, 2013	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	46,635	38,365	3,195	1,216	1,666
Bank deposits	10,804	25,031	794	–	240
Loans issued	18,434	556	–	1	–
Forward exchange contracts	–	10	–	–	
Trade and other financial receivables	32,897	32,939	580	20,232	700
NON-CURRENT					
Trade and other financial receivables	106	–	–	–	–
Loans issued	15,287	48	–	–	–
Forward exchange contracts	–	283	–	–	–
Available for sale financial assets	6,009	–	–	779	–
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(19,002)	(29,871)	(3,305)	(228)	(7)
Trade and other financial payables	(36,555)	(23,889)	(546)	(5,649)	(1,350)
Forward exchange contracts	–	(46)	–	–	–
Payables and accruals to employees	(7,294)	(213)	(4)	(964)	(198)
NON-CURRENT					
Long-term debt	(61,034)	(155,452)	(44,799)	(1)	(169)
Forward exchange contracts	–	(3,131)	–	–	–
Other non-current financial liabilities	(3,897)	–	–	–	–
Payables and accruals to employees	(1,982)	–	–	–	(42)
NET EXPOSURE	**408**	**(115,370)**	**(44,085)**	**15,386**	**840**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

As of December 31, 2012	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	58,860	15,856	1,425	2,214	844
Bank deposits	5,078	1,443	476	–	522
Loans issued	6,044	133	640	15	–
Forward exchange contracts	–	632	–	–	–
Held to maturity financial assets	906	–	–	–	–
Trade and other financial receivables	21,175	30,774	307	13,580	778
NON-CURRENT					
Trade and other financial receivables	160	–	–	–	–
Loans issued	15,441	66	–	–	–
Forward exchange contracts	–	342	–	–	–
Available for sale financial assets	6,332	424	333	63	255
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(38,224)	(37,574)	(146)	(1,235)	(14)
Trade and other financial payables	(31,294)	(13,353)	(963)	(3,560)	(819)
Forward exchange contracts	–	(18)	–	–	–
Payables and accruals to employees	(6,061)	(40)	(129)	(1,450)	(100)
NON-CURRENT					
Long-term debt	(60,724)	(101,098)	(3,133)	(804)	(688)
Forward exchange contracts	–	(995)	–	–	–
Other non-current financial liabilities	(4,237)	–	–	–	–
Payables and accruals to employees	(1,112)	–	–	–	–
NET EXPOSURE	**(27,656)**	**(103,408)**	**(1,190)**	**8,823**	**778**

RUB millions

Notes to the Consolidated Financial Statements
For the year ended December 31, 2013 (continued)

As of January 1, 2012	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
CURRENT					
Cash and cash equivalents	17,307	8,688	2,922	173	716
Bank deposits	–	–	–	–	246
Loans issued	10,777	102	–	205	–
Forward exchange contracts	–	1,858	–	–	–
Held to maturity financial assets	713	1,610	–	–	–
Trade and other financial receivables	18,822	43,783	467	7,701	208
NON-CURRENT					
Trade and other financial receivables	221	–	–	–	–
Loans issued	2,759	27	–	–	14
Held to maturity financial assets	7	–	–	–	–
Available for sale financial assets	5,685	745	165	90	5
FINANCIAL LIABILITIES					
CURRENT					
Short-term debt	(28,395)	(25,047)	(412)	(3)	(92)
Trade and other financial payables	(22,705)	(11,763)	(538)	(3,365)	(282)
Forward exchange contracts	–	(1,782)	–	–	–
Payables and accruals to employees	(8,401)	(3)	(109)	(1,181)	(97)
NON-CURRENT					
Long-term debt	(63,262)	(109,833)	(3,257)	(509)	(129)
Forward exchange contracts	–	(6,822)	–	–	–
NET EXPOSURE	**(66,472)**	**(98,437)**	**(762)**	**3,111**	**589**

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate		
	Year ended December 31, 2013	Year ended December 31, 2012	December 31, 2013	December 31, 2012	January 1, 2012
USD 1	31.85	31.09	32.73	30.37	32.20
EUR 1	42.31	39.95	44.97	40.23	41.67
RSD 1	0.37	0.35	0.39	0.35	0.40

RUB millions

Notes to the Consolidated Financial Statements
For the year ended December 31, 2013 (continued)

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, 2013		
USD/RUB (10% increase)	(3,834)	(12,680)
EUR/RUB (10% increase)	21	(4,434)
RSD/RUB (10% increase)	8,030	
DECEMBER 31, 2012		
USD/RUB (10% increase)	1,907	(12,094)
EUR/RUB (10% increase)	27	(297)
RSD/RUB (10% increase)	–	882
JANUARY 1, 2012		
USD/RUB (10% increase)	(179)	(11,769)
EUR/RUB (10% increase)	23	(98)
RSD/RUB (10% increase)	–	311

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 significant part of the Group's borrowings is at variable interest rates (linked to the LIBOR or EURIBOR rate). To mitigate the risk of unfavourable changes in the LIBOR or EURIBOR rates, the Group's treasury function monitors interest rate in debt markets and based on it decides whether it is necessary to hedge interest rate or to obtain financing on a fixed-rate or variable-rate basis.

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.

The interest rate profiles of the Group are presented below:

	Carrying amount		
	December 31, 2013	December 31, 2012	January 1, 2012
FIXED RATE INSTRUMENTS			
Financial assets	162,272	109,963	46,266
Financial liabilities	(214,800)	(149,559)	(94,030)
	(52,528)	**(39,596)**	**(47,764)**
VARIABLE RATE INSTRUMENTS			
Financial liabilities	(99,068)	(94,081)	(136,909)
	(99,068)	**(94,081)**	**(136,909)**

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 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, 2013	
Increase by 100 bp	(991)
DECEMBER 31, 2012	
Increase by 100 bp	(941)
JANUARY 1, 2012	
Increase by 100 bp	(1,369)

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.

Commodity Price Risk

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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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 and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

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. Any excess of receivables over approved credit limit is secured by either letter of credit from bank with external credit rating not less than A or advance payment. Management believes that not impaired trade receivables are fully recoverable.

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 December 31, 2013, December 31, 2012 and January 1, 2012, the analysis of financial receivables is as follows:

	Gross	Impairment	Gross	Impairment	Gross	Impairment
	December 31, 2013	December 31, 2013	December 31, 2012	December 31, 2012	January 1, 2012	January 1, 2012
Not past due	76,049	(15)	60,284	(315)	70,336	(366)
Past due 0–180 days	6,047	(56)	5,447	(18)	864	(187)
Past due 180–365 days	1,822	(502)	3,900	(2,715)	723	(230)
Past due 1–3 year	7,588	(3,621)	1,049	(950)	1,254	(1,221)
Past due more than three years	4,939	(4,797)	4,283	(4,191)	4,287	(4,258)
	96,445	**(8,991)**	**74,963**	**(8,189)**	**77,464**	**(6,262)**

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

	2013	2012
Balance at beginning of the year	8,189	6,262
Increase during the year	403	3,837
Amounts written off against receivables	48	388
Decrease due to reversal	(378)	(1,064)
Other movements	(149)	(567)
Translation differences	878	(667)
BALANCE AT END OF THE YEAR	**8,991**	**8,189**

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 and January 1, 2012.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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, 2013					
Cash and cash equivalents	4,157	71,719	8,027	3,594	87,497
Derivative financial assets	151	4	61	77	293
Deposits with original maturity more than 3 months less than 1 year	–	33,211	1,399	2,259	36,869
AS OF DECEMBER 31, 2012					
Cash and cash equivalents	5,789	58,037	6,526	5,635	75,987
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	–	24	7,495	–	7,519
AS OF JANUARY 1, 2012					
Cash and cash equivalents	2,579	13,923	541	11,495	28,538
Derivative financial assets	1,362	496	–	–	1,858
Held to maturity investments	–	1,710	613	7	2,330
Deposits with original maturity more than 3 months less than 1 year	–	–	246	–	246

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.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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, 2013							
Bank loans	98,516	104,339	9,014	23,556	27,158	38,833	5,778
Bonds	61,583	73,526	921	2,476	14,483	55,646	–
Loan Participation Notes	132,534	177,739	848	1,067	4,921	49,557	121,346
Other borrowings	21,235	22,638	17,706	2,114	1,098	444	1,276
Other non-current financial liabilities	3,897	4,123	–	–	1,031	3,092	–
Trade and other payables	67,989	67,989	66,381	1,608	–	–	–
Payables and accruals to employees	10,697	10,697	8,673	–	2,024	–	–
	396,451	**461,051**	**103,543**	**30,821**	**50,715**	**147,572**	**128,400**
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	20,173	20,615	17,012	89	644	929	1,941
Other non-current financial liabilities	4,237	4,369	–	–	874	2,621	874
Trade and other payables	49,989	49,989	44,953	5,036	–	–	–
Payables and accruals to employees	8,892	8,892	7,780	–	1,112	–	–
	306,758	**336,659**	**125,468**	**17,804**	**38,132**	**85,932**	**69,323**
AS OF JANUARY 1, 2012							
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	17,904	17,904	15,913	–	101	271	1,619
Finance lease liabilities	4,464	5,178	983	599	599	1,798	1,199
Trade and other payables	38,653	38,653	37,941	712	–	–	–
Payables and accruals to employees	9,791	9,791	9,791	–	–	–	–
	279,383	**310,503**	**80,991**	**30,971**	**78,379**	**96,233**	**23,929**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

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 ratio 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:

	Year ended December 31, 2013	Year ended December 31, 2012
Long-term debt	261,455	166,447
Short-term debt and current portion of long-term debt	52,413	77,193
Less: cash, cash equivalents and deposits	(127,946)	(86,718)
NET DEBT	**185,922**	**156,922**
Total EBITDA	316,463	305,124
NET DEBT TO EBITDA RATIO AT THE END OF THE REPORTING PERIOD	**0.59**	**0.51**
Operating profit	222,117	217,926
Operating profit adjusted for income tax expenses	181,506	176,882
Share of profit of associates and joint ventures	11,251	12,767
Average capital employed	1,105,397	978,416
ROACE	**17.44%**	**19.38%**

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

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy 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).

The following assets and liabilities are measured at fair value in the Group's Consolidates Financial Statements:

- Derivative financial instruments (forward exchange contracts used as hedging instruments),
- Stock Appreciation Rights plan (SARs)
- Financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses.

Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). There were no transfers between the levels of the fair value hierarchy during the year.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy.

Carrying value of other financial assets and liabilities approximate their fair value.

The table below analyses financial instruments carried at fair value, wich refer to Level 2 of the fair value hierarchy.

	Level 2
AS OF DECEMBER 31, 2013	
Forward exchange contracts	293
TOTAL ASSETS	**293**
Forward exchange contracts	(3,177)
Other financial liabilities	(1,798)
Total liabilities	(4,975)
AS OF DECEMBER 31, 2012	
Forward exchange contracts	974
TOTAL ASSETS	**974**
Forward exchange contracts	(1,013)
Other financial liabilities	(1,112)
Total liabilities	(2,125)
AS OF JANUARY 1, 2012	
Forward exchange contracts	1,858
TOTAL ASSETS	**1,858**
Forward exchange contracts	(8,604)
Other financial liabilities	(1,896)
TOTAL LIABILITIES	**(10,500)**

During 2010 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, 2013 and Deccember 31, 2012:

	December 31, 2013	December 31, 2012
Volatility	3.7%	7.50%
Risk-free interest rate	6.12%	6.27%
Dividend yield	4.69%	3.90%

As of January 1, 2012 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, 2013 and 2012 the Group recognized compensation expense of RUB 547 million and RUB 1,112 million correspondingly. This expense is included within selling, general and administrative expenses. A provision of RUB 1,798 million has been recorded within other non-current liabilities in respect of the Group's estimated obligations under the plan at December 31, 2013. As at December 31, 2012 the amount of the provision was equal to RUB 1,112 million. As at January 1, 2012 the amount of the provision was equal to RUB 1,896 million.

32. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	2,659	1,911	1,810
Between one and five years	4,905	3,380	2,043
More than five years	20,472	9,936	5,071
	28,036	**15,227**	**8,924**

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

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

33. COMMITMENTS AND CONTINGENCIES

TAXES

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal and regional budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, significant additional taxes, penalties and interest may be accrued. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years from the year when the tax authorities make decision regarding tax reviews. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2010, 2011 and 2012 are currently open for review. Management believes it has adequately provided for any probable additional tax accruals that might arise from these reviews.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce significant reporting and documentation requirements regarding market environment at the date of transaction. Compared to the old rules the new transfer pricing rules appear to be more technically elaborate and 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 constant internal review for 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 in order to mitigate potential risks, the Group negotiates pricing approaches for major controllable transactions with tax authorities in advance. One of the pricing agreements between the Group and tax authorities regarding most significant intercompany transactions has been concluded in 2012. 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.

he 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 the risk that the Group can be challenged by tax authorities is remote.

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 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, 2013 the Group has entered into contracts to purchase property, plant and equipment for RUB 109,314 million (December 31, 2012: RUB 28,683 million; January 1, 2012: RUB 16,794 million).

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

34. GROUP ENTITIES

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

Subsidiary	Country of incorporation	Ownership interest December 31, 2013	December 31, 2012	January 1, 2012
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%	100%
OJSC "Gazpromneft-Yaroslavl"	Russian Federation	93%	93%	91%
OJSC "Gazpromneft-Noyabrskneftegaz"	Russian Federation	100%	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%	88%
OJSC "Gazpromneft-ONPZ"	Russian Federation	100%	100%	100%
OJSC "Gazpromneft-MNPZ"	Russian Federation	96%	96%	78%
OJSC "CNT"	Russian Federation	100%	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 "Gazprom neft Orenburg"	Russian Federation	100%	62%	62%
LLC "Gazpromneft Marin Bunker"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-Center"	Russian Federation	100%	100%	100%
LLC "Gazpromneftfinance"	Russian Federation	100%	100%	100%
LLC "Gazpromneft-smazochnye materialy"	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%	90%	–
Gazprom Neft Trading GmbH	Austria	100%	100%	100%
Naftna industrija Srbije A.D.	Serbia	56%	56%	56%

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

The following table summarises the information relating to the significant Group's subsidiary Naftna industrija Srbije A.D. The carrying amount of non-controlling interests of all other subsidiaries are not significant individually.

	Carrying amount of non-controlling interest	Profit attributable to non-controlling interest	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As of December 31, 2013	38,600	22,724	47,418	128,163	(42,811)	(44,715)
As of December 31, 2012	32,567	17,424	39,577	92,411	(22,889)	(34,830)
As of January 1, 2012	27,867	11,223	36,534	86,184	(20,054)	(39,113)

	Revenue	Profit
Year ended December 31, 2013	136,450	16,733
Year ended December 31, 2012	102,468	14,140

Dividends paid in 2013 by Naftna industrija Srbije A.D. to non-controlling share comprised RUB 2.0 billion (dividends were not declared in 2012).

35. 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.

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

As of December 31, 2013, December 31, 2012 and January 1, 2012 the outstanding balances with related parties were as follows:

December 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	32,965	–
Short-term financial assets	–	16,248	2,869
Trade and other receivables	2,760	3,178	3,497
Other assets	635	3,010	1,326
Long-term financial assets	–	2,587	6,494
TOTAL ASSETS	**3,395**	**57,988**	**14,186**
Short-term debt and other current financial liability	–	–	1,246
Trade and other payables	1,277	3,432	2,488
Other current liabilities	1	761	413
Long-term debt and other non-current financial liability	3,897	–	1,000
TOTAL LIABILITIES	**5,175**	**4,193**	**5,147**

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

December 31, 2012	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	23,958	–
Short-term financial assets	–	1,210	4,010
Trade and other receivables	744	1,926	3,679
Other assets	–	1,117	678
Long-term financial assets	–	–	5,675
TOTAL ASSETS	**744**	**28,211**	**14,042**
Trade and other payables	1,378	1,250	1,555
Other current liabilities	79	35	722
Long-term debt and other non-current financial liability	4,231	–	1,162
TOTAL LIABILITIES	**5,688**	**1,285**	**3,439**

January 1, 2012	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	–	4,089	–
Short-term financial assets	–	242	10,016
Trade and other receivables	921	309	4,438
Other assets	–	361	679
Long-term financial assets	–	–	2,095
TOTAL ASSETS	**921**	**5,001**	**17,228**
Short-term debt and other current financial liability	1,222	–	527
Trade and other payables	439	319	2,017
Other current liabilities	260	41	1,864
Long-term debt and other non-current financial liability	3,207	–	573
TOTAL LIABILITIES	**5,128**	**360**	**4,981**

For the year ended December 31, 2013 and 2012 the following transaction occurs with related parties:

Year ended December 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	9,929	21,994	48,156
Other revenue	158	321	6,420
Purchases of crude oil, gas and oil products	–	31,250	84,618
Production related services	145	13,597	17,089
Transportation costs	4,727	2,025	6,120
Interest income	–	788	486

Year ended December 31, 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	5,292
Purchases of crude oil, gas and oil products	–	18,939	90,209
Production related services	1,075	9,805	11,373
Transportation costs	3,262	4,878	11,609
Interest income	–	–	280

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key Management received remunerations: salaries, bonuses and other contributions amounted to RUB 1,074 million for the year ended December 31, 2013 and to RUB 952 million for the year ended December 31, 2012.

RUB millions

Notes to the Consolidated Financial Statements For the year ended December 31, 2013 (continued)

36. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended December 31, 2013 and 2012. 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.

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.

Year ended December 31, 2013	Upstream	Downstream	Eliminations	Total
SEGMENT REVENUES				
Refined products, oil and gas sales and other revenues:				
External customers	24,284	1,243,319	–	1,267,603
Inter-segment	445,356	7,287	(452,643)	–
TOTAL REVENUES	**469,640**	**1,250,606**	**(452,643)**	**1,267,603**
SEGMENT RESULTS				
Adjusted EBITDA	175,474	161,278	–	336,752
Depreciation, depletion and amortisation	59,095	17,690	–	76,785
CAPITAL EXPENDITURE	**154,489**	**54,122**	**–**	**208,611**

Year ended December 31, 2012	Upstream	Downstream	Eliminations	Total
SEGMENT REVENUES				
Refined products, oil and gas sales and other revenues:				
External customers	20,729	1,211,920	–	1,232,649
Inter-segment	438,201	4,139	(442,340)	–
TOTAL REVENUES	**458,930**	**1,216,059**	**(442,340)**	**1,232,649**
SEGMENT RESULTS				
Adjusted EBITDA	188,891	134,215	–	323,106
Depreciation, depletion and amortisation	54,233	14,930	–	69,163
CAPITAL EXPENDITURE	**101,913**	**67,300**	**–**	**169,213**

RUB millions

Notes to the Consolidated Financial Statements
For the year ended December 31, 2013 (continued)

The geographical segmentation of the Group's revenue and capital expenditures for the for the years ended December 31, 2013 and 2012 is presented below:

Year ended December 31, 2013	Russian Federation	CIS	Export and international sales	Total
Sales of crude oil	19,257	48,620	209,449	277,326
Sales of petroleum products	630,359	58,309	477,365	1,166,033
Sales of gas	23,926	–	1,461	25,387
Other sales	31,266	1,065	2,960	35,291
Less custom duties and sales related excises	–	(3,355)	(233,079)	(236,434)
REVENUES FROM EXTERNAL CUSTOMERS, NET	**704,808**	**104,639**	**458,156**	**1,267,603**

Year ended December 31, 2012	Russian Federation	CIS	Export and international sales	Total
Sales of crude oil	13,241	29,783	347,953	390,977
Sales of petroleum products	572,082	59,177	441,774	1,073,033
Sales of gas	17,729	–	6,281	24,010
Other sales	28,382	625	2,423	31,430
Less custom duties and sales related excises	–	(4,647)	(282,154)	(286,801)
REVENUES FROM EXTERNAL CUSTOMERS, NET	**631,434**	**84,938**	**516,277**	**1,232,649**

The Group has no customer which accounted for more than 10% of the Group's sales.

	Russian Federation	CIS	Export and international sales	Total
Non-current assets as of December 31, 2013	935,843	10,233	143,572	1,089,648
Capital expenditures for year ended December 31, 2013	168,085	2,783	37,743	208,611
Non-current assets as of December 31, 2012	820,217	7,442	94,061	921,720
Capital expenditures for year ended December 31, 2012	138,264	2,192	28,757	169,213

Adjusted EBITDA for the years ended December 31, 2013 and 2012 is reconciled below:

	Year ended December 31, 2013	Year ended December 31, 2012
Profit for the period	186,720	184,152
Total income tax expense	39,260	39,769
Finance expense	11,233	11,089
Finance income	(6,011)	(3,275)
Depreciation, depletion and amortization	76,785	69,163
Net foreign exchange (loss) / gain	2,166	(1,042)
Other loss, net	6,310	5,268
EBITDA	**316,463**	**305,124**
Less share of profit of associates and joint ventures	(11,251)	(12,767)
add Share of EBITDA of associates and joint ventures	31,540	30,749
TOTAL ADJUSTED EBITDA	**336,752**	**323,106**

RUB millions

SUPPLEMENTARY INFORMATION ON OIL AND GAS ACTIVITIES (UNAUDITED)

For the year ended December 31, 2013

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 practices 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 that are consistent with practices. 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.

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

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures.

Information for year ended and as of 31 December 2012 and 2011 was restated to reflect the effect of IFRS 11 application.

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.

	December 31, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Unproved oil and gas properties	48,191	25,056
Proved oil and gas properties	778,836	658,708
Less: Accumulated depreciation, depletion and amortization	(275,369)	(217,725)
NET CAPITALIZED COSTS OF OIL AND GAS PROPERTIES	**551,658**	**466,039**
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Proved oil and gas properties	191,620	143,359
Less: Accumulated depreciation, depletion and amortization	(62,613)	(50,726)
Net capitalized costs of oil and gas properties	129,007	92,633
TOTAL CAPITALIZED COSTS CONSOLIDATED AND EQUITY INTERESTS	**680,665**	**558,672**

RUB millions

Supplementary Information on Oil and Gas Activities (Unaudited) For the year ended December 31, 2013 (continued)

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

For the year ended December 31	December 31, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Exploration costs	3,159	3,082
Development costs	132,907	97,509
COSTS INCURRED	136,066	100,591
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Exploration costs	1,034	664
Development costs	43,143	17,374
TOTAL COSTS INCURRED CONSOLIDATED AND EQUITY INTERESTS	180,243	118,629

RESULTS OF OPERATIONS FROM OIL AND GAS PRODUCING ACTIVITIES

For the period ended December 31	December 31, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Revenues:		
Sales	115,460	125,860
Transfers	325,942	326,127
TOTAL REVENUES	441,402	451,987
Production costs	(71,847)	(63,955)
Exploration expenses	(3,159)	(3,082)
Depreciation, depletion and amortization	(60,069)	(52,381)
Taxes other than income tax	(220,032)	(209,940)
PRETAX INCOME FROM PRODUCING ACTIVITIES	86,295	122,629
Income tax expenses	(16,561)	(23,124)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	69,734	99,505
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
TOTAL REVENUES	87,976	89,091
Production costs	(13,368)	(8,807)
Exploration expenses	(1,034)	(664)
Depreciation, depletion and amortization	(12,601)	(12,779)
Taxes other than income tax	(46,456)	(47,067)
PRETAX INCOME FROM PRODUCING ACTIVITIES	14,517	19,774
Income tax expenses	(2,803)	(3,908)
RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	11,714	15,866
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESULTS OF OIL AND GAS PRODUCING ACTIVITIES	81,448	115,371

RUB millions

Supplementary Information on Oil and Gas Activities (Unaudited) For the year ended December 31, 2013 (continued)

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, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	4,870	4,815
Production	(300)	(299)
Purchases of minerals in place	–	1
Revision of previous estimates	411	353
END OF YEAR	4,981	4,870
Minority's share included in the above proved reserves	(17)	(115)
Proved reserves, adjusted for minority interest	4,964	4,755
Proved developed reserves	2,614	2,660
Proved undeveloped reserves	2,367	2,210
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	982	940
Production	(67)	(66)
Purchases of minerals in place	48	–
Revision of previous estimates	185	108
END OF YEAR	1,148	982
Proved developed reserves	472	471
Proved undeveloped reserves	676	511
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR	6,129	5,852

RUB millions

Supplementary Information on Oil and Gas Activities (Unaudited) For the year ended December 31, 2013 (continued)

Proved Gas Reserves Quantities – in Bcf	December 31, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
BEGINNING OF YEAR	6,092	4,903
Production	(436)	(342)
Purchases of minerals in place	–	–
Revision of previous estimates	667	1,531
END OF YEAR	6,323	6,092
Minority's share included in the above proved reserves	(38)	(396)
Proved reserves, adjusted for minority interest	6,285	5,696
Proved developed reserves	3,410	3,662
Proved undeveloped reserves	2,913	2,430
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
BEGINNING OF YEAR	3,951	3,182
Production	(58)	(31)
Purchases of minerals in place	1,014	–
Revision of previous estimates	2,162	800
END OF YEAR	7,069	3,951
Proved developed reserves	493	97
Proved undeveloped reserves	6,576	3,854
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN RESERVES – END OF YEAR	**13,392**	**10,043**

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS 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.

RUB millions

Supplementary Information on Oil and Gas Activities (Unaudited) For the year ended December 31, 2013 (continued)

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, 2013	December 31, 2012
CONSOLIDATED SUBSIDIARIES AND SHARE IN JOINT OPERATIONS		
Future cash inflows	7,690,400	7,724,434
Future production costs	(4,723,691)	(4,036,226)
Future development costs	(612,498)	(578,391)
Future income tax expenses	(354,004)	(488,647)
Future net cash flow	2,000,207	2,621,170
10% annual discount for estimated timing of cash flow	(1,197,686)	(1,540,776)
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	802,521	1,080,394
GROUP'S SHARE OF ASSOCIATES AND JOINT VENTURES		
Future cash inflows	2,084,265	1,635,948
Future production costs	(1,085,733)	(881,730)
Future development costs	(151,527)	(121,689)
Future income tax expenses	(153,455)	(117,171)
Future net cash flow	693,550	515,358
10% annual discount for estimated timing of cash flow	(407,796)	(291,537)
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	285,754	223,821
TOTAL CONSOLIDATED AND EQUITY INTERESTS IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	**1,088,275**	**1,304,215**

AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Gazprom neft":

AUDITEE

Gazprom Neft Joint-Stock Company

Certificate of State Registration of a Joint-Stock Company No. 1025501701686, issued on December 11, 2007 by the Interdistrict Inspectorate of the Federal Tax Service No. 15 for St. Petersburg. lit. A, 5 ul. Galernaya Street, St. Petersburg, 190000, Russia.

AUDITORY

PriceWaterhouseCoopers Audit Closed Joint-Stock Company (ZAO PwC Audit) located at: 10 ul. Butyrsky Val, Moscow, 125047, Russia.

Certificate of State Registration of a Joint-Stock Company No. 008.890 issued by the Moscow Chamber of Registration on February 28, 1992.

Certificate of Entry in the Uniform State Register of Legal Entities regarding legal entity registered before July 1, 2002, registration No. 1027700148431 dated August 22, 2002, issued by Interdistrict Inspectorate of the Ministry of Taxation No. 39 for Moscow.

Member of Audit Chamber of Russia Nonprofit Partnership (NP ACR), a self-regulating auditing organisation, registration No. 870 with the Member Register of NP ACR.

Main Registration Record Number (ORNZ) with the Register of Auditors and Audit Organisations: 10201003683.

AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Gazprom neft":

We have audited the attached financial statements of Open Joint Stock Company "Gazprom neft" (hereinafter – Company) which comprise the balance sheet as of 31 December 2013, and statement of financial result, statement of changes in equity and statement of cash flows for the year ended 31 December 2013 and notes to the balance sheet and statement of financial results (hereinafter all the reports together are referred to as the "financial statements").

COMPANY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Company's management is responsible for the presentation and authenticity fair presentation of these financial statements in accordance with the reporting rules established in the Russian Federation and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

THE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion as to whether the financial statements are fairly presented based on our audit. We conducted the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the 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 of Company, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion on the financial statements.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Company as of 31 December 2013 and the result of its operations and its cash flows for the year then ended in accordance with the reporting rules established in the Russian Federation.

Director of
ZAO PricewaterhouseCoopers Audit T.S. Medvedeva
06 March 2014

BALANCE SHEET

	Codes
	0710001
	31.12.2013
Organization JSC Gazprom Neft	42045241
Taxpayer Identification Number	5504036333
Type of Business Wholesale trade in oil and oil products	51.51
Form of Incorporation/Form of Ownership Open Joint Stock Company/Joint Private and Foreign Ownership	47/34
Unit of Measure thou. rub.	384
Location (Address) 5A Galernaya St., Saint-Petersburg, 190000	

Notes	Item	Line code	December 31, 2013	December 31, 2012	December 31, 2011
	ASSETS				
	I. NON-CURRENT ASSETS				
	Intangible assets including	1110	541,344	155,049	172,256
	rights to intellectual property items	1111	342,690	117,436	93,819
	other	1119	198,654	37,613	78,437
	Results of research and developments	1120	104,972	60,209	55,292
3.2	Intangible development assets	1130	2,920,227	2,661,998	2,582,929
3.3	Tangible development assets:	1150	6,585,184	14,720,502	15,876,074
	fixed assets including:	1151	4,906,181	12,638,481	13,609,460
	land plots and environmental facilities	1152	–	5,756	5,756
	buildings, structures, plant and equipment	1153	4,906,181	12,632,725	13,359,745
3.4	in-process CAPEX	1154	1,679,003	2,082,021	2,266,614
3.7	Financial investment including	1170	449,044,611	369,111,656	179,778,063
	investment in subsidiaries	1171	358,637,838	290,475,298	136,055,059
	investment in associates	1172	33,676,547	33,676,547	17,340,818
	investment in other organizations	1173	4,045,712	3,902,723	3,925,423
	loans to organizations due beyond 12 months	1174	52,684,514	41,057,088	22,456,763
	Deferred tax assets	1180	2,607,602	2,133,039	1,588,701
	Other non-current assets including	1190	5,212,087	3,472,893	2,844,987
	capitalised expenditures on soil reclamation and elimination of fixed assets	1191	7,977	205,975	233,545
	licenses	1192	201,500	275,568	1,565,567
	non-exclusive right objects	1193	3,926,249	2,705,661	713,143
	value-added tax on acquired assets	1194	–	690	28,366
	advances receivable upon capital investments	1195	14,547	19,312	304,366
	other	1197	1,061,814	265,687	–
	TOTAL FOR SECTION I	**1100**	**467,016,027**	**392,315,346**	**202,898,302**

Balance Sheet (continued)

Notes	Item	Line code	December 31, 2013	December 31, 2012	December 31, 2011
	ASSETS				
	II. CURRENT ASSETS				
3.5	Inventory including	1210	20,626,014	24,493,085	24,459,819
	raw material, materials, and other similar assets	1211	3,336,557	3,057,391	3,029,529
	work in process costs	1212	744,378	640,589	683,599
	finished products and goods for resale	1213	8,777,532	12,811,903	13,313,661
	goods shipped	1215	7,099,050	7,181,510	5,578,255
	other inventories and costs	1219	668,497	801,692	1,854,775
3.6	Value-added tax on acquired assets	1220	7,972,343	9,172,017	9,136,629
3.8	Receivables including	1230	193,699,521	187,907,644	476,547,260
	Receivables (due beyond 12 months after reporting date) including	1231	5,860,387	5,380,741	67,433,466
	buyers and customers	1232	–	–	–
	advances receivable	1233	–	–	–
	other debtors	1234	5,860,387	5,380,741	67,433,466
	Receivables (due within 12 months after reporting date) including	1235	187,839,134	182,526,903	409,113,794
	buyers and customers	1236	90,559,641	59,367,571	66,223,059
	due from founders to authorized capital	1237	–	–	–
	advances receivable	1238	21,855,561	20,822,598	18,462,857
	other debtors	1239	75,423,932	102,336,734	324,427,878
3.7	Financial investments (exclusive cash equivalents) including	1240	138,095,629	81,221,530	15,090,736
	loans to organizations due within 12 months	1241	105,145,189	76,721,530	15,090,736
	deposits	1242	32,910,440	4,500,000	–
	other	1243	40,000	–	–
3.9	Cash and cash equivalents including	1250	72,129,361	59,573,576	11,762,458
	cash in hand	1251	–	–	–
	settlement accounts	1252	5,717,520	7,992,011	6,907,590
	currency accounts	1253	2,827,612	6,580,669	1,253,879
	other cash and cash equivalents	1259	63,584,229	45,000,896	3,600,989
	Other current assets	1260	992	1,532	–
	TOTAL FOR SECTION II	1200	432,523,860	362,369,384	536,996,902
	BALANCE	**1600**	**899,539,887**	**754,684,730**	**739,895,204**

Balance Sheet (continued)

Notes	Item	Line code	December 31, 2013	December 31, 2012	December 31, 2011
	LIABILITIES				
3.19	**III. EQUITY AND RESERVES**				
	Authorized capital (pooling capital, statutory fund, partner contributions)	1310	7,586	7,586	7,586
	Surplus capital	1350	7,807,598	7,807,598	7,807,598
	Reserve capital	1360	379	379	379
	Retained earnings (uncovered loss)	1370	333,785,989	330,127,474	280,230,699
	TOTAL FOR SECTION III	**1300**	**341,601,552**	**337,943,037**	**288,046,262**
	IV. LONG-TERM LIABILITIES				
	Borrowed funds including	1410	256,712,166	159,032,800	177,261,998
3.11	bank loans maturing beyond 12 months after reporting date	1411	63,797,141	48,632,381	100,350,614
3.12	loans maturing beyond 12 months after reporting date	1412	192,915,025	110,400,419	76,911,384
	Deferred tax liabilities	1420	1,145,211	1,023,728	1,176,020
3.17	Estimated liabilities	1430	1,908,487	1,884,249	2,303,691
	TOTAL FOR SECTION IV	**1400**	**259,765,864**	**161,940,777**	**180,741,709**
	V. SHORT-TERM LIABILITIES				
	Borrowed funds including	1510	170,185,039	156,705,923	146,697,284
3.11	bank loans maturing within 12 months after reporting date	1511	–	11,850,337	–
3.12	loans maturing within 12 months after reporting date	1512	144,798,426	51,594,425	27,358,136
	current maturity of long-term debt	1513	25,386,613	93,261,161	119,339,148
3.10	Payables including	1520	126,382,254	96,551,592	122,571,366
	suppliers and contractors	1521	103,033,242	65,761,429	72,743,643
	due to employees	1522	164,629	128,293	475,405
	due to state extra-budgetary funds	1523	125,936	94,424	7,945
	taxes payable	1524	2,012,375	2,028,712	595,049
	other creditors including	1525	21,005,796	28,514,107	48,730,043
	advances received	1527	11,288,518	16,741,222	11,871,572
	other payables	1528	9,717,278	11,772,885	36,858,471
	Income due to shareholders (founders)	1529	40,276	24,627	19,281
	Deferred income	1530	105,845	125,623	145,401
3.17	Estimated liabilities	1540	1,499,333	1,417,778	1,693,182
	TOTAL FOR SECTION V	**1500**	**298,172,471**	**254,800,916**	**271,107,233**
	BALANCE	**1700**	**899,539,887**	**754,684,730**	**739,895,204**

Deputy Director General
in charge of Economics and Finance (signature) A.V. Yankevich

Chief Accountant (signature) O.N. Makretskaya

Power of Attorney No. НК-63 dd. March 18, 2013

March 6, 2014

FINANCIAL PERFORMANCE REPORT

	Codes
	0710002
	31.12.2013
Organization JSC Gazprom Neft	42045241
Taxpayer Identification Number	5504036333
Type of Business Wholesale trade in oil and oil products	51.51
Form of Incorporation/Form of Ownership Open Joint Stock Company/Joint Private and Foreign Ownership	47/34
Unit of Measure thou. rub.	384

Notes	Item	Line code	2013	2012
3.14	**PROCEEDS**	**2110**	**1,178,063,787**	**1,129,875,141**
	including from sale of:			
	oil and oil products	2111	1,148,840,316	1,102,752,593
	other	2112	29,223,471	27,122,548
3.15	**SALES COSTS**	**2120**	**(820,138,131)**	**(764,099,211)**
	including from sale of:			
	oil and oil products	2121	(789,660,342)	(735,125,389)
	other	2122	(30,477,789)	(28,973,822)
	GROSS PROFIT (LOSS)	**2100**	**357,925,656**	**365,775,930**
	Commercial expenses	2210	(258,450,058)	(284,302,141)
	Administrative expenses	2220	(15,175,631)	(13,638,359)
	GAIN (LOSS) ON SALES	**2200**	**84,299,967**	**67,835,430**
	Income from interests in other organizations	2310	10,323,297	35,342,814
	Interest receivable	2320	10,786,620	9,832,592
	Interest payable	2330	(16,590,603)	(13,697,647)
3.16	Other income	2340	42,235,879	140,125,500
3.16	Other expenses	2350	(48,966,538)	(142,568,704)
	PROFIT (LOSS) BEFORE TAX	**2300**	**82,088,622**	**96,869,985**
3.13	**INCOME TAX, INCLUDING:**	**2405**	**(15,363,591)**	**(13,061,129)**
	current income tax	2410	(15,597,273)	(13,507,067)
	tax on income of previous years	2411	233,682	445,938
	including line 2405:			
	constant tax liabilities (assets)	2421	(884,999)	(503,344)
	Changes in deferred tax liabilities	2430	(121,483)	152,292
	Changes in deferred tax assets	2450	474,563	544,337
	Other	2460	(50,240)	(236)
	Profit tax redistribution within the Consolidated Taxpayer Group	2465	111,853	–
	NET PROFIT (LOSS)	**2400**	**67,139,724**	**84,505,249**

Financial performance report (continued)

Notes	Item	Line code	2013	2012
	FOR REFERENCE			
	Revaluation of non-current assets, excluded from the net profit (loss) for the period	2510	–	–
	Result of other transactions, excluded from the net profit (loss) for the period	2520	–	–
	Cumulative financial result for the period	2500	67,139,724	84,505,249
3.21	Basis profit (loss) per share, (RUB)	2900	14	18
	Diluted earnings (loss) per share	2910	–	–

Deputy Director General
in charge of Economics and Finance (signature) A.V. Yankevich

Chief Accountant (signature) O.N. Makretskaya

Power of Attorney No. HK-63 dd. March 18, 2013

March 6, 2014

STATEMENT OF CHANGES IN EQUITY

	Codes
	0710003
	31.12.2013
Organization JSC Gazprom Neft	42045241
Taxpayer Identification Number	5504036333
Type of Business Wholesale trade in oil and oil products	51.51
Form of Incorporation/Form of Ownership Open Joint Stock Company/Joint Private and Foreign Ownership	47/34
Unit of Measure thou. rub.	384

1. CHANGES IN EQUITY

Item	Line code	Authorized capital	Treasure stock	Surplus capital	Reserve capital	Retained earnings (Uncovered loss)	Government social fund	Total
CAPITAL VALUE AS OF DECEMBER 31, 2011	**3100**	**7,586**	**(-)**	**7,807,598**	**379**	**280,230,699**	**–**	**288,046,262**
FOR 2012								
TOTAL GROWTH OF CAPITAL	**3210**	**–**	**–**	**–**	**–**	**84,508,262**	**–**	**84,508,262**
including:								
net profit	3211	x	x	x	x	84,505,249	x	84,505,249
assets revaluation	3212	x	x	–	x	–	–	–
income directly related to the growth of capital	3213	x	x	–	x	–	x	–
additional issue of shares	3214	–	x	–	x	x	x	–
increase in par value of shares	3215	–	x	–	x	–	x	–
reorganization of legal entity	3216	–	–	–	–	–	–	–
repurchase of own stock	3217	x	–	x	x	x	x	–
other	3219	–	–	–	–	3,013	x	3,013
TOTAL REDUCTION OF CAPITAL	**3220**	**(-)**	**–**	**(-)**	**(-)**	**(34,611,487)**	**–**	**(34,611,487)**
including:								
loss	3221	x	x	x	x	(–)	x	(–)
assets revaluation	3222	x	x	(–)	x	(–)	–	(–)
costs directly related to the reduction of capital	3223	x	x	x	x	(–)	–	(–)
decrease in par value of shares	3224	(–)	x	x	x	–	x	(–)
decrase in number of shares	3225	(–)	–	x	x	x	x	(–)
reorganization of legal entity	3226	–	–	–	–	–	–	(–)
dividends	3227	x	x	x	x	(34,611,487)	x	(34,611,487)
other	3229	–	–	–	–	–	x	–
Changes in surplus capital	3230	x	x	–	x	–	x	–
Changes in reserve capital	3240	x	x	x	–	–	x	–
CAPITAL VALUE AS OF DECEMBER 31, 2012	**3200**	**7,586**	**(-)**	**7,807,598**	**379**	**330,127,474**	**–**	**337,943,037**

Statement of changes in equity (continued)

Item	Line code	Authorized capital	Treasure stock	Surplus capital	Reserve capital	Retained earnings (Uncovered loss)	Government social fund	Total
FOR 2013								
TOTAL INCREASE IN EQUITY	**3310**	–	–	–	–	**67,144,517**	–	**67,144,517**
including:								
net profit	3311	x	x	x	x	67,139,724	x	67,139,724
assets revaluation	3312	x	x	–	x	x	–	–
income directly related to the growth of capital	3313	x	x	–	x	–	x	–
additional issue of shares	3314	–	x	–	x	x	x	–
increase in par value of shares	3315	–	x	–	x	x	x	–
reorganization of legal entity	3316	–	–	–			–	–
repurchase of own stock	3317	x	–	x	x	x	x	–
other	3319	–	–	–	–	4,793	x	4,793
TOTAL REDUCTION OF CAPITAL:	**3320**	(–)	–	(–)	(–)	**(63,486,002)**		**(63,486,002)**
including:								
loss	3321	x	x	x	x	(–)	x	(–)
assets revaluation	3322	x	x	(–)	x	x	–	(–)
costs directly related to the reduction of capital	3323	x	x	(x)	x	(–)	–	(–)
decrease in par value of shares	3324	(–)	x	x	x	–	x	(–)
decrease in number of shares	3325	(–)	–	x	x	x	x	(–)
reorganization of legal entity	3326	–	–	–	–	–	–	(–)
dividends	3327	x	x	x	x	(63,486,002)	x	(63,486,002)
other	3329	–	–	–	–	–	x	–
Changes in surplus capital	3330	x	x	–	x	–	x	x
Changes in reserve capital	3340	x	x	x	–	–	x	x
CAPITAL VALUE AS OF DECEMBER 31, 2013	**3300**	**7,586**	**(–)**	**7,807,598**	**379**	**333,785,989**	**–**	**341,601,552**

2. NET ASSETS

Item	Line code	December 31, 2013	December 31, 2012	December 31, 2011
Net assets	3600	341,707,397	338,068,660	288,191,663

Deputy Director General
in charge of Economics and Finance (signature) **A.V. Yankevich** **Chief Accountant** (signature) **O.N. Makretskaya**

Power of Attorney No. HK-63 dd. March 18, 2013

March 6, 2014

CASH FLOW STATEMENT

	Codes
	0710004
	31.12.2013
Organization JSC Gazprom Neft	42045241
Taxpayer Identification Number	5504036333
Type of Business Wholesale trade in oil and oil products	51.51
Form of Incorporation/Form of Ownership Open Joint Stock Company/Joint Private and Foreign Ownership	47/34
Unit of Measure thou. rub.	384

Item	Line code	2013	2012
CASH FLOWS FROM CURRENT TRANSACTIONS			
REVENUES – TOTAL	4110	1,143,054,997	1,099,033,698
including:			
from sales of goods, products, works and services	4111	1,119,080,104	1,085,482,474
lease payments, license payments, fees, commisions, etc.	4112	1,276,239	249,542
other receivables:	4113	22,698,654	13,301,682
from sales of other assets	4114	7,238	–
from currency sales	4115	1,546,420	2,180,615
other receivables	4119	21,144,996	11,121,067
CASH DISBURSEMENTS – TOTAL	4120	(1,062,241,353)	(1,038,258,613)
including:			
to suppliers (contractors) for raw stock, materials, works, services	4121	(878,068,028)	(826,099,447)
in connection with payment of the workers' wages	4122	(5,401,579)	(7,000,292)
payment of bond service charges	4123	(9,525,070)	(9,051,674)
income tax	4124	(19,864,705)	(9,482,666)
other payments, expenses:	4125	(149,381,971)	(186,624,534)
custom duties	4126	(129,818,916)	(173,283,502)
payments to non budget funds	4127	(707,133)	(728,329)
settlement of taxes and duties, excluding income tax	4130	(5,360,776)	(7,109,848)
other payments, transfers	4139	(13,495,146)	(5,502,855)
NET CASH FLOWS FROM CURRENT TRANSACTIONS	**4100**	**80,813,644**	**60,775,085**

Cash flow statement (continued)

Item	Line code	2013	2012
CASH FLOWS FROM INVESTMENT TRANSACTIONS			
TOTAL CASH RECEIVED	4210	32,368,867	55,453,251
including:			
sale of non current assets (excluding financial investments)	4211	29,435	21,705
sale of other organizations capital stock (investment shares)	4212	398	4,664,721
repayment of loans provided to other companies, sale of debt securities (cash receivables from other parties)	4213	20,193,443	12,024,123
dividends, interests on debt financial investments and similar revenues from interests in other organizations	4214	11,297,920	38,742,702
other revenues	4219	847,671	–
TOTAL CASH DISBURSEMENTS	4220	(131,078,989)	(106,775,046)
including:			
acquisition, creation, modernization, reconstruction and preparation for use of non-current assets	4221	(2,359,511)	(520,056)
acquisition of other organizations capital stock (investment shares)	4222	(2,471,973)	(37,493,481)
acquisition of debt securities (cash receivables from other parties), provision of loans to other parties	4223	(125,838,926)	(68,761,509)
other payments, transfers	4229	(408,579)	(–)
NET CASH FLOWS FROM INVESTMENT TRANSACTIONS	4200	(98,710,122)	(51,321,795)
CASH FLOWS FROM FINANCIAL TRANSACTIONS			
TOTAL CASH RECEIVED	4310	195,687,711	124,804,679
including:			
proceeds from borrowings	4311	195,684,295	124,803,925
other receipts	4319	3,416	754
CASH DISBURSEMENTS (TOTAL)	4320	(167,533,197)	(87,675,767)
dividends and other payments due to income allocation to the holders (participants)	4322	(62,597,726)	(34,124,112)
payment (discharge) of notes and other debt securities, loan repayment	4323	(104,935,465)	(53,551,655)
payment of financial lease liability	4324	(6)	–
NET CASH FLOWS FROM FINANCIAL TRANSACTIONS	4300	28,154,514	37,128,912
NET CASH FLOWS IN THE REPORTING PERIOD	4400	10,258,036	46,582,202
BALANCE OF CASH FUNDS AND CASH EQUIVALENTS AS OF THE BEGINNING OF THE REPORTING PERIOD	4450	59,573,576	11,762,458
BALANCE OF CASH FUNDS AND CASH EQUIVALENTS AS OF THE END OF THE REPORTING PERIOD	4500	72,129,361	59,573,576
EXCHANGE RATE DIFFERENCES BALANCE	4490	2,297,749	1,228,916

Deputy Director General
in charge of Economics and Finance (signature) A.V. Yankevich

Chief Accountant (signature) O.N. Makretskaya

ГАЗПРОМ НЕФТЬ

Power of Attorney No. HK-63 dd. March 18, 2013

March 6, 2014

JSC GAZPROM NEFT

ADDRESSES & CONTACTS

Office:

3-5 Pochtamtskaya St.,
St. Petersburg,
Russian Federation 190000

Tel.: 7 (812) 363-31-52
Tel.: 8 (800) 700-31-52 (free call in Russia)
Fax: 7 (812) 363-31-51

www.gazprom-neft.ru

Investor relations:

Tel.: +7 (812) 385-95-48
E-mail: ir@gazprom-neft.ru