Gazprom Neft Group

Interim Condensed Consolidated Financial Statements (Unaudited)

March 31, 2014

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Contents

Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JSC Gazprom Neft and its subsidiaries (the "Group") as of 31 March 2014 and the related interim condensed consolidated statement of profit and loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

ZAO PricewaterhouseCoopers Audit

30 April 2014
Moscow, Russian Federation

Interim Condensed Consolidated Statement of Financial Position (Unaudited) Currency – RUB millions

	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	*6*	200,259	91,077
Short-term financial assets	*7*	24,888	55,870
Trade and other receivables	*8*	83,935	87,348
Inventories	*9*	105,816	90,223
Current income tax prepayments		4,735	7,671
Other current assets	*10*	96,718	100,882
Total current assets		**516,351**	**433,071**
Non-current assets			
Property, plant and equipment	*11*	953,389	895,543
Goodwill and other intangible assets		56,610	55,386
Investments in associates and joint ventures	*12*	121,052	120,358
Long-term trade and other receivables		112	106
Long-term financial assets	*13*	17,817	22,406
Deferred income tax assets		22,249	18,508
Other non-current assets		23,229	18,255
Total non-current assets		**1,194,458**	**1,130,562**
Total assets		**1,710,809**	**1,563,633**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*14*	56,404	52,413
Trade and other payables	*15*	66,843	68,035
Other current liabilities		31,895	26,650
Current income tax payable		3,661	3,872
Other taxes payable	*16*	55,822	46,783
Provisions for liabilities and charges		14,386	10,158
Total current liabilities		**229,011**	**207,911**
Non-current liabilities			
Long-term debt	*17*	330,321	261,455
Other non-current financial liabilities		12,713	7,028
Deferred income tax liabilities		65,115	59,729
Provisions for liabilities and charges		29,278	25,881
Other non-current liabilities		2,059	3,608
Total non-current liabilities		**439,486**	**357,701**
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		19,293	19,293
Retained earnings		968,120	930,304
Other reserves		5,738	4,087
Equity attributable to the Company's owners		**992,079**	**952,612**
Non-controlling interest		50,233	45,409
Total equity		**1,042,312**	**998,021**
Total liabilities and shareholders' equity		**1,710,809**	**1,563,633**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013
Sales		385,170	355,954
Less export duties and sales related excise tax		(65,160)	(64,059)
Total revenue from sales	**23**	**320,010**	**291,895**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(75,762)	(70,760)
Production and manufacturing expenses		(37,518)	(31,529)
Selling, general and administrative expenses		(17,190)	(14,276)
Transportation expenses		(28,730)	(28,015)
Depreciation, depletion and amortization		(20,095)	(17,993)
Taxes other than income tax	**16**	(85,280)	(77,302)
Exploration expenses		(90)	(712)
Total operating expenses		**(264,665)**	**(240,587)**
Other gain / (loss), net		307	(943)
Operating profit		**55,652**	**50,365**
Share of profit of associates and joint ventures	**12**	296	2,337
Net foreign exchange loss		(7,500)	(1,172)
Finance income	**18**	1,570	1,511
Finance expense	**19**	(2,896)	(3,090)
Total other expense		**(8,530)**	**(414)**
Profit before income tax		**47,122**	**49,951**
Current income tax expense		(8,024)	(7,399)
Deferred income tax benefit / (expense)		186	(2,025)
Total income tax expense		**(7,838)**	**(9,424)**
Profit for the period		**39,284**	**40,527**
Other comprehensive income / (loss)			
Currency translation differences		11,473	1,475
Cash flow hedge, net of deferred tax		(6,466)	(809)
Other comprehensive income for the period		**5,007**	**666**
Total comprehensive income for the period		**44,291**	**41,193**
Profit attributable to:			
- Gazprom Neft shareholders		37,816	39,567
- Non-controlling interest		1,468	960
Profit for the period		**39,284**	**40,527**
Total comprehensive income attributable to:			
- Gazprom Neft shareholders		39,467	39,968
- Non-controlling interest		4,824	1,225
Total comprehensive income for the period		**44,291**	**41,193**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		8.02	8.39
Diluted earnings (RUB per share)		8.02	8.39
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited) Currency – RUB millions

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2014	**98**	**(1,170)**	**19,293**	**930,304**	**4,087**	**952,612**	**45,409**	**998,021**
Profit for the period	-	-	-	37,816	-	37,816	1,468	39,284
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	8,117	8,117	3,356	11,473
Cash flow hedge, net of deferred tax	-	-	-	-	(6,466)	(6,466)	-	(6,466)
Total comprehensive income for the period	**-**	**-**	**-**	**37,816**	**1,651**	**39,467**	**4,824**	**44,291**
Balance as of March 31, 2014	**98**	**(1,170)**	**19,293**	**968,120**	**5,738**	**992,079**	**50,233**	**1,042,312**

	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	**98**	**(1,170)**	**16,125**	**815,731**	**(1,402)**	**829,382**	**40,547**	**869,929**
Profit for the period	-	-	-	39,567	-	39,567	960	40,527
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	1,210	1,210	265	1,475
Cash flow hedge, net of deferred tax	-	-	-	-	(809)	(809)	-	(809)
Total comprehensive income for the period	**-**	**-**	**-**	**39,567**	**401**	**39,968**	**1,225**	**41,193**
Transactions with owners, recorded in equity								
Acquisition of non-controlling interest and other	-	-	35	-	-	35	190	225
Total transactions with owners	**-**	**-**	**35**	**-**	**-**	**35**	**190**	**225**
Balance as of March 31, 2013	**98**	**(1,170)**	**16,160**	**855,298**	**(1,001)**	**869,385**	**41,962**	**911,347**

Interim Condensed Consolidated Statement of Cash Flows (Unaudited) Currency – RUB millions

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash flows from operating activities		
Profit before income tax	47,122	49,951
Adjustments for:		
Share of profit of associates and joint ventures	(296)	(2,337)
Loss on foreign exchange differences	15,125	2,510
Finance income	(1,570)	(1,511)
Finance expense	2,896	3,090
Depreciation, depletion and amortization	20,095	17,993
Allowance for doubtful accounts	(62)	(52)
Other non-cash items	(1,393)	1,528
Changes in working capital:		
Accounts receivable	9,087	(14,186)
Inventories	(12,083)	(6,427)
Other assets	5,114	4,696
Accounts payable	(4,917)	3,348
Taxes payable	8,540	4,495
Other liabilities	(8,004)	(9,125)
Income taxes paid	(5,393)	(7,216)
Interest paid	(3,284)	(3,233)
Dividends received	-	404
Net cash provided by operating activities	**70,977**	**43,928**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(1,287)
Acquisition of associates and joint ventures	(765)	-
Bank deposits placement	(8,606)	(5,758)
Repayment of bank deposits	41,244	9,244
Acquisition of other investments	-	(640)
Proceeds from sales of other investments	-	501
Short-term loans issued	(217)	(1,143)
Repayment of short-term loans issued	24	6
Long-term loans issued	(3,376)	(2,536)
Repayment of long-term loans issued	541	318
Capital expenditures	(48,458)	(36,857)
Proceeds from sale of property, plant and equipment	181	3
Interest received	873	1,361
Net cash used in investing activities	**(18,559)**	**(36,788)**
Cash flows from financing activities		
Proceeds from short-term borrowings	1,655	9,254
Repayment of short-term borrowings	(696)	(21,823)
Proceeds from long-term borrowings	82,086	2,235
Repayment of long-term borrowings	(26,554)	(5,704)
Transaction costs directly attributable to the borrowings received	(1,324)	(194)
Dividends paid to the Company's shareholders	(3)	(3)
Dividends paid to non-controlling interest	(317)	-
Acquisition of non-controlling interest in subsidiaries	-	(29)
Net cash provided by / (used in) financing activities	**54,847**	**(16,264)**
Increase / (decrease) in cash and cash equivalents	107,265	(9,124)
Effect of foreign exchange on cash and cash equivalents	1,917	867
Cash and cash equivalents as of the beginning of the period	**91,077**	**79,199**
Cash and cash equivalents as of the end of the period	**200,259**	**70,942**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements

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 Interim Condensed Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2013, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group's Consolidated Financial Statements for 2013.

Subsequent events occurring after March 31, 2014 were evaluated through April 30, 2014 the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the period ended March 31, 2014 are not necessarily indicative of the results expected for the full year.

The Group as a whole is not subject to significant seasonal fluctuations.

Income tax expense is recognized based on Management's estimate of the weighted average annual income tax rate expected for the full financial year.

Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended December 31, 2013, except for those described in Application of new IFRS paragraph.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

Foreign currency translation

The following exchange rates for Russian Roubles applied during the period:

	Average rate		Reporting date spot rate	
	Three months ended March 31, 2014	**Three months ended March 31, 2013**	**March 31, 2014**	**December 31, 2013**
USD 1	34.96	30.41	35.69	32.73
EUR 1	47.95	40.19	49.05	44.97
RSD 1	0.41	0.36	0.43	0.39

3. Application of New IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after January 1, 2014:

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

The Group has initially applied amended standards and new IFRIC while preparing these Interim Condensed Consolidated Financial Statements. It has no significant impact on the Group's Interim Condensed Consolidated Financial Statements.

4. New Accounting Standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after July 1, 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 reliably 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. A 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.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 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. The amendment has no significant impact on Group's Interim Condensed Consolidated Financial Statements.

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

5. Acquisition of Subsidiaries

In March 2014 the Group acquired 100% share in LLC Aero TO the only asset of which is 50% share in LLC Gazpromneft-Aero Sheremetyevo (Aero Sheremetyevo). This acquisition provided the Group with effective control over Aero Sheremetyevo having increased its effective interest from 50% to 100%. The main businesses of Aero Sheremetyevo are retail jet fuel and integrated services for aircraft fuel and lubricant supply. The Group re-measured its previously held interest in Aero-Sheremetyevo to fair value resulting in a gain of RUB 3.4 billion recognized under *Other gain / loss* line in the Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

The following table summarizes the preliminary estimates of fair value of the assets and liabilities acquired:

	As of the acquisition date
Assets	
Cash and cash equivalents	189
Trade and other receivables	669
Inventories	530
Other current assets	546
Property, plant and equipment, net	9,561
Other non-current assets	4
Total assets acquired	**11,499**
Liabilities and shareholders' equity	
Trade and other payables	(654)
Taxes payable	(17)
Other current liabilities	(150)
Long-term debt	(1,011)
Deferred income tax liabilities	(1,613)
Total liabilities assumed	**(3,445)**
Total identifiable assets acquired and liabilities assumed	**8,054**
Cash consideration	3,926
Fair value of the Group's investment in Aero-Sheremetyevo held before the business combination	4,128
Consideration transferred	8,054
Goodwill	-

6. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
Cash on hand	592	504
Cash in bank	189,113	21,034
Deposits with original maturity of less than three months	8,234	66,463
Cash equivalents	2,320	3,076
Total cash and cash equivalents	**200,259**	**91,077**

As of March 31, 2014 the majority of bank deposits are held in USD (as of December 31, 2013 in Russian Rouble).

7. Short-term Financial Assets

Short-term financial assets as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
Deposits with original maturity more than 3 months less than 1 year	6,312	36,869
Short-term loans issued	18,576	18,991
Forward contracts - cash flow hedge	-	10
Total short-term financial assets	**24,888**	**55,870**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

8. Trade and Other Receivables

Trade and other receivables as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
Trade receivables	91,924	94,860
Other financial receivables	1,635	1,479
Less impairment provision	(9,624)	(8,991)
Total trade and other receivables	**83,935**	**87,348**

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

9. Inventories

Inventories as of March 31, 2014 and December 31, 2013 consist of the following:

	March 31, 2014	December 31, 2013
Crude oil and gas	22,874	20,328
Petroleum products and petrochemicals	55,363	44,836
Materials and supplies	23,173	21,280
Other	7,290	6,359
Less inventory provision	(2,884)	(2,580)
Total inventory	**105,816**	**90,223**

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 period ended March 31 is as follows:

	2014	2013
Buy / sell crude oil transactions for the period ended March 31	10,008	23,226

10. Other Current Assets

Other current assets as of March 31, 2014 and December 31, 2013 consist of the following:

	March 31, 2014	December 31, 2013
Prepaid custom duties	17,975	22,530
Advances paid	26,706	31,618
Prepaid expenses	2,701	311
Value added tax receivable	37,877	35,223
Other assets	23,077	21,661
Less impairment provision	(11,618)	(10,461)
Total other current assets	**96,718**	**100,882**

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

11. Property, Plant and Equipment

Movements in property, plant and equipment for the period ended March 31, 2014 and 2013 are as follows:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
Cost						
As of January 1, 2014	**865,828**	**217,000**	**102,443**	**10,706**	**60,271**	**1,256,248**
Additions	37,182	87	269	4,048	9,280	50,866
Acquisitions through business combinations	-	-	9,214	-	347	9,561
Changes in decommissioning obligations	2,140	-	-	-	-	2,140
Capitalised borrowing costs	1,033	-	-	-	305	1,338
Transfers	-	5,809	3,324	375	(9,508)	-
Internal movement	58	(170)	(241)	8	300	(45)
Disposals	(1,219)	(226)	(445)	(81)	(200)	(2,171)
Translation differences	14,104	3,143	2,136	30	602	20,015
As of March 31, 2014	**919,126**	**225,643**	**116,700**	**15,086**	**61,397**	**1,337,952**
Depreciation and impairment						
As of January 1, 2014	**(281,435)**	**(56,211)**	**(21,829)**	**(1,230)**	**-**	**(360,705)**
Depreciation charge	(14,984)	(2,172)	(2,199)	(170)	-	(19,525)
Internal movement	6	(4)	43	-	-	45
Disposals	402	70	145	2	-	619
Translation differences	(4,189)	(457)	(345)	(6)	-	(4,997)
As of March 31, 2014	**(300,200)**	**(58,774)**	**(24,185)**	**(1,404)**	**-**	**(384,563)**
Net book value						
As of January 1, 2014	**584,393**	**160,789**	**80,614**	**9,476**	**60,271**	**895,543**
As of March 31, 2014	**618,926**	**166,869**	**92,515**	**13,682**	**61,397**	**953,389**

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	28,485	759	-	222	8,549	38,015
Acquisitions through business combinations	-	-	1,367	-	-	1,367
Changes in decommissioning obligations	186	-	-	-	-	186
Capitalised borrowing costs	152	-	-	-	228	380
Transfers	-	2,167	3,877	254	(6,298)	-
Internal movement	626	(28)	(1,028)	430	-	-
Reclassification from assets classified as held for sale	1,217	-	-	-	-	1,217
Disposals	(850)	(167)	(212)	(29)	(178)	(1,436)
Translation differences	2,452	284	284	(11)	44	3,053
As of March 31, 2013	**741,796**	**186,305**	**88,580**	**8,623**	**61,623**	**1,086,927**
Depreciation and impairment						
As of January 1, 2013	**(221,754)**	**(48,021)**	**(15,604)**	**(554)**	**-**	**(285,933)**
Depreciation charge	(13,688)	(1,840)	(846)	(351)	-	(16,725)
Internal movement	32	-	68	(100)	-	-
Reclassification from assets classified as held for sale	(1,017)	-	-	-	-	(1,017)
Disposals	577	39	63	9	-	688
Translation differences	(812)	(23)	(52)	1	-	(886)
As of March 31, 2013	**(236,662)**	**(49,845)**	**(16,371)**	**(995)**	**-**	**(303,873)**
Net book value						
As of January 1, 2013	**487,774**	**135,269**	**68,688**	**7,203**	**59,278**	**758,212**
As of March 31, 2013	**505,134**	**136,460**	**72,209**	**7,628**	**61,623**	**783,054**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

12. Joint Arrangements: Joint Operations and Joint Ventures

The carrying value of the most significant investments in associates and joint ventures as of March 31, 2014 and December 31, 2013 are summarised below:

		Ownership percentage	March 31, 2014	December 31, 2013
Slavneft	Joint venture	49.9	85,948	85,015
SeverEnergy	Joint venture	45.1	25,979	24,165
Others			9,125	11,178
Total investments			121,052	120,358

The principal place of business of the most significant joint ventures and associates disclosed above is the 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 not significant.

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:

	2014	2013
Carrying amount as of January 1	120,358	105,643
Share of profit of associates and joint ventures	296	2,337
Dividends declared	-	(404)
Increase in associates and joint ventures	301	-
Other changes in cost of associates and joint ventures	97	10
Carrying amount as of March 31	121,052	107,586

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) owning a 51% equity interest in SeverEnergy. In December 2013 and March 2014 Yamal Razvitie acquired 60% interest and 20% interest, respectively, 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% as of December 31, 2013 and to 45.1% as of March 31, 2014. SeverEnergy is developing 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 March 31, 2014 amounting to RUB 25 billion relates to additional shares acquisition in December 2013 and March 2014 by Yamal Razvitie.

As of March 31, 2014 the Group has a commitment to provide a loan to Yamal Razvitie of USD 980 million.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

The summarized financial information for the significant joint ventures as of March 31, 2014, December 31, 2013 and for the periods ended March 31, 2014 and 2013 is presented in the table below.

The summarized financial information refers to amounts included in the IFRS financial statements of the joint ventures. Summarized financial information on SeverEnergy includes assets and liabilities of Yamal Razvitie LLC as holding company.

	Slavneft		**SeverEnergy**	
	March 31, 2014	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Cash and cash equivalents	23,270	28,208	3,974	3,321
Other current assets	18,420	18,630	10,692	11,586
Non-current assets	236,486	235,420	398,448	349,199
Current financial liabilities	(42,789)	(43,758)	(113,729)	(119,595)
Other current liabilities	(21,666)	(20,617)	(35,537)	(486)
Non-current financial liabilities	(31,089)	(33,271)	(90,066)	(82,645)
Other non-current liabilities	(19,769)	(23,816)	(60,674)	(51,916)
Net assets	**162,863**	**160,796**	**113,108**	**109,464**

	Three months ended March 31, 2014	**Three months ended March 31, 2013**	**Three months ended March 31, 2014**	**Three months ended March 31, 2013**
Revenue	51,588	47,974	4,462	3,133
Depreciation, depletion and amortization	(6,702)	(5,870)	(1,779)	(1,363)
Finance income	378	376	34	8
Finance expense	(250)	(364)	(2,967)	(1,222)
Total income tax expense	(352)	(999)	255	(91)
Profit / (loss) for the period	2,067	4,130	(2,400)	(212)
Other comprehensive income / (loss)	2,067	4,130	(2,400)	(212)

Under IFRS 11 Joint Arrangements the Group 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 in 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).

13. Long-term Financial Assets

Long-term financial assets as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	**December 31, 2013**
Long-term loans issued	10,298	15,335
Forward contracts - cash flow hedge	818	283
Available for sale financial assets	7,446	7,478
Less impairment provision	(745)	(690)
Total long-term financial assets	**17,817**	**22,406**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

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

As of March 31, 2014 and December 31, 2013 the Group has short-term debt and current portion of long-term debt outstanding as follows:

	March 31, 2014	December 31, 2013
Bank loans	907	119
Other borrowings	15,168	17,706
Current portion of long-term debt	40,329	34,588
Total short-term debt and current part of long-term debt	**56,404**	**52,413**

Current portion includes interest payable on long-term borrowings.

15. Trade and Other Payables

Accounts payable as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
Trade accounts payable	51,922	61,003
Dividends payable	1,743	1,943
Other accounts payable	10,664	3,999
Other current financial liabilities	2,514	1,090
Total trade and other payables	**66,843**	**68,035**

16. Other Taxes Payable

Other taxes payable as of March 31, 2014 and December 31, 2013 comprise the following:

	March 31, 2014	December 31, 2013
Mineral extraction tax	21,480	19,608
VAT	20,629	15,649
Excise tax	7,735	5,826
Property tax	2,250	2,425
Other taxes	3,728	3,275
Total other taxes payable	**55,822**	**46,783**

Taxes other than income tax expense for the periods ended March 31, 2014 and 2013 comprise the following:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Mineral extraction tax	60,482	50,858
Property tax	2,281	1,829
Excise tax	18,948	19,308
Other taxes	3,569	5,307
Total taxes other than income tax	**85,280**	**77,302**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

17. Long-term Debt

As of March 31, 2014 and December 31, 2013 the Group has long-term outstanding debt as follows:

	March 31, 2014	December 31, 2013
Bank loans	160,378	98,397
Bonds	61,137	61,583
Loan Participation Notes	145,042	132,534
Other borrowings	4,093	3,529
less current portion of debt	(40,329)	(34,588)
Total long-term debt	**330,321**	**261,455**

In March 2014 the Group drew down USD 2,150 million (RUB 78,774 million) club term facility from a group of international banks with a final maturity date falling five years from the date of the first utilization and two-years grace period. The interest rate under the facility is LIBOR plus 1.50% per annum.

In March 2014 the Group early repaid amount outstanding under the five-year Pre-Export Finance Facility for USD 731 million (RUB 26,514 million). The facility was obtained in August 2010 and bore interest rate of LIBOR plus 1.6% per annum..

18. Finance Income

Finance income for the periods ended March 31, 2014 and 2013 comprise of the following:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest income on cash and cash equivalents	306	139
Interest on bank deposits	764	840
Interest income on loans issued	500	532
Total finance income	**1,570**	**1,511**

19. Finance Expense

Finance expense for the periods ended March 31, 2014 and 2013 comprise of the following:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Interest expense	3,860	3,082
Decommissioning provision: unwinding of the present value discount	374	388
Less: capitalized interest	(1,338)	(380)
Total finance expense	**2,896**	**3,090**

20. Fair Value Measurement

The following assets and liabilities are measured at fair value in the Interim Condensed Consolidated Financial Statements: derivative financial instruments (forward exchange contracts used as hedging instruments), Stock Appreciation Rights plan (SARs) and 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). The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of December 31, 2013. There were no transfers between the levels of the fair value hierarchy during the interim period. 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.

21. Commitments and Contingencies

<u>Taxes</u>

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 2011, 2012 and 2013 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.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

Operating Environment

While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Russian Federation, restrictive currency controls, and 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 March 31, 2014 the Group has entered into contracts to purchase property, plant and equipment for RUB 128,152 million (December 31, 2013: RUB 109,314 million).

22. Related Party Transactions

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

As of March 31, 2014 and December 31, 2013 the outstanding balances with related parties were as follows:

March 31, 2014	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Cash and cash equivalents	-	46,368	-
Short-term financial assets	-	17,060	2,292
Trade and other receivables	1,847	2,366	2,261
Other assets	1,068	3,242	1,096
Long-term financial assets	-	5,272	3,718
Total assets	**2,915**	**74,308**	**9,367**
Short-term debt and other current financial liability	-	-	2,844
Trade and other payables	2,244	3,516	2,184
Other current liabilities	3	739	195
Long-term debt and other non-current financial liability	3,903	-	-
Total liabilities	**6,150**	**4,255**	**5,223**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

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**

For the periods ended March 31, 2014 and 2013 the following transactions occurred with related parties:

Three months ended March 31, 2014	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	3,572	5,908	11,739
Other revenue	-	81	86
Purchases of crude oil, gas and oil products	-	7,822	22,224
Production related services	31	3,595	5,078
Transportation costs	1,401	606	623
Interest income	-	311	176

Three months ended March 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	1,883	5,396	11,026
Other revenue	-	48	1,538
Purchases of crude oil, gas and oil products	-	6,466	21,473
Production related services	-	2,958	3,495
Transportation costs	1,160	563	1,933
Interest income	-	131	123

Transactions with key management personnel

Key management received remunerations: salaries, bonuses and other contributions amounting to RUB 167 million for the period ended March 31, 2014 and to RUB 234 million for the period ended March 31, 2013.

23. Segment Information

Presented below is information about the Group's operating segments for the periods ended March 31, 2014 and 2013. 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.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

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 associates and joint ventures' 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 associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Three months ended March 31, 2014

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	2,414	317,596	-	320,010
Inter-segment	120,451	2,166	(122,617)	-
Total revenues	122,865	319,762	(122,617)	320,010
Segment results				
Adjusted EBITDA	50,410	33,623	-	84,033
Depreciation, depletion and amortisation	15,079	5,016	-	20,095
Capital expenditure	**39,695**	**8,763**	**-**	**48,458**

Three months ended March 31, 2013

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	5,471	286,424	-	291,895
Inter-segment	104,020	2,006	(106,026)	-
Total revenues	109,491	288,430	(106,026)	291,895
Segment results				
Adjusted EBITDA	38,269	38,424	-	76,693
Depreciation, depletion and amortisation	13,838	4,155	-	17,993
Capital expenditure	**27,838**	**9,019**	**-**	**36,857**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) Currency – RUB millions

The geographical segmentation of the Group's revenue and capital expenditures for the periods ended March 31, 2014 and 2013 are presented below:

Three months ended March 31, 2014	Russian Federation	CIS	Export and international sales	Total
Sales of crude oil	8,332	4,166	52,624	65,122
Sales of petroleum products	154,581	13,684	136,897	305,162
Sales of gas	6,379	-	692	7,071
Other sales	6,722	277	816	7,815
Less custom duties and sales related excises	-	(331)	(64,829)	(65,160)
Revenues from external customers, net	176,014	17,796	126,200	320,010
Three months ended March 31, 2013				
Sales of crude oil	2,964	12,267	57,439	72,670
Sales of petroleum products	134,440	12,068	122,920	269,428
Sales of gas	5,728	-	619	6,347
Other sales	6,570	185	754	7,509
Less custom duties and sales related excises	-	(727)	(63,332)	(64,059)
Revenues from external customers, net	149,702	23,793	118,400	291,895

	Russian Federation	CIS	Export and international sales	Total
Non-current assets as of March 31, 2014	983,253	9,996	161,143	1,154,392
Capital expenditures for period ended March 31, 2014	38,266	313	9,879	48,458
Non-current assets as of December 31, 2013	935,843	10,233	143,572	1,089,648
Capital expenditures for period ended March 31, 2013	31,897	378	4,582	36,857

Adjusted EBITDA for the periods ended March 31, 2014 and 2013 is reconciled below:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Profit for the period	39,284	40,527
Total income tax expense	7,838	9,424
Finance expense	2,896	3,090
Finance income	(1,570)	(1,511)
Depreciation, depletion and amortization	20,095	17,993
Net foreign exchange loss	7,500	1,172
Other gain / (loss), net	(307)	943
EBITDA	75,736	71,638
less Share of profit of associates and joint ventures	(296)	(2,337)
add Share of EBITDA of associates and joint ventures	8,593	7,392
Total adjusted EBITDA	**84,033**	**76,693**

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