Gazprom neft Group

Interim Condensed Consolidated Financial Statements (unaudited)

September 30, 2014

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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 30 September 2014 and the related interim condensed consolidated statements of profit and loss and other comprehensive income for the three- and nine-month periods then ended, changes in equity and cash flows for the nine-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 are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

ZAO PricewaterhouseCoopers Audit

11 November 2014
Moscow, Russian Federation

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

	Notes	September 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	*6*	100,510	91,077
Short-term financial assets	*7*	50,603	55,870
Trade and other receivables	*8*	97,503	87,348
Inventories	*9*	96,501	90,223
Current income tax prepayments		5,304	7,671
Other current assets	*10*	98,479	100,882
Total current assets		**448,900**	**433,071**
Non-current assets			
Property, plant and equipment	*11*	1,065,156	895,543
Goodwill and other intangible assets		57,286	55,386
Investments in associates and joint ventures	*12*	161,329	120,358
Long-term trade and other receivables		211	106
Long-term financial assets	*14*	25,546	22,406
Deferred income tax assets		21,415	18,508
Other non-current assets	*15*	41,149	18,255
Total non-current assets		**1,372,092**	**1,130,562**
Total assets		**1,820,992**	**1,563,633**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*16*	51,275	52,413
Trade and other payables	*17*	91,238	68,035
Other current liabilities		29,847	26,650
Current income tax payable		1,981	3,872
Other taxes payable	*18*	51,561	46,783
Provisions for liabilities and charges		15,187	10,158
Total current liabilities		**241,089**	**207,911**
Non-current liabilities			
Long-term debt	*19*	367,113	261,455
Other non-current financial liabilities		18,299	7,028
Deferred income tax liabilities		70,674	59,729
Provisions for liabilities and charges		32,225	25,881
Other non-current liabilities		2,105	3,608
Total non-current liabilities		**490,416**	**357,701**
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		17,139	19,293
Retained earnings		1,023,080	930,304
Other reserves		3,461	4,087
Equity attributable to Gazprom neft shareholders		**1,042,608**	**952,612**
Non-controlling interest		46,879	45,409
Total equity		**1,089,487**	**998,021**
Total liabilities and shareholders' equity		**1,820,992**	**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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Sales		431,647	402,312	1,246,155	1,117,346
Less export duties and sales related excise tax		(57,758)	(55,174)	(183,838)	(179,493)
Total revenue from sales	**26**	**373,889**	**347,138**	**1,062,317**	**937,853**
Costs and other deductions					
Purchases of oil, gas and petroleum products		(94,922)	(88,002)	(275,509)	(236,307)
Production and manufacturing expenses		(43,864)	(38,473)	(125,034)	(104,875)
Selling, general and administrative expenses		(19,941)	(19,731)	(57,791)	(50,973)
Transportation expenses		(28,261)	(24,900)	(84,026)	(80,378)
Depreciation, depletion and amortization		(21,944)	(20,173)	(63,159)	(57,300)
Taxes other than income tax	**18**	(89,742)	(83,970)	(263,801)	(234,898)
Exploration expenses		(98)	(1,146)	(716)	(1,981)
Total operating expenses		**(298,772)**	**(276,395)**	**(870,036)**	**(766,712)**
Other loss, net		(2,341)	(1,595)	(3,846)	(2,044)
Operating profit		**72,776**	**69,148**	**188,435**	**169,097**
Share of profit of associates and joint ventures	**12**	84	5,200	4,576	7,839
Net foreign exchange (loss) / gain	**20**	(9,243)	226	(14,554)	(2,274)
Finance income	**21**	2,099	1,585	4,734	4,287
Finance expense	**22**	(3,893)	(2,886)	(9,735)	(8,796)
Total other (expense) / income		**(10,953)**	**4,125**	**(14,979)**	**1,056**
Profit before income tax		**61,823**	**73,273**	**173,456**	**170,153**
Current income tax expense		(7,700)	(10,458)	(26,458)	(25,076)
Deferred income tax expense		(1,544)	(2,153)	(3,919)	(3,938)
Total income tax expense		**(9,244)**	**(12,611)**	**(30,377)**	**(29,014)**
Profit for the period		**52,579**	**60,662**	**143,079**	**141,139**
Other comprehensive income / (loss)					
Currency translation differences		15,272	44	16,564	9,173
Cash flow hedge, net of deferred tax		(12,193)	1,396	(14,639)	(3,302)
Other comprehensive income		36	-	43	-
Other comprehensive income for the period		**3,115**	**1,440**	**1,968**	**5,871**
Total comprehensive income for the period		**55,694**	**62,102**	**145,047**	**147,010**
Profit attributable to:					
- Gazprom neft shareholders		51,932	57,533	139,531	135,154
- Non-controlling interest		647	3,129	3,548	5,985
Profit for the period		**52,579**	**60,662**	**143,079**	**141,139**
Total comprehensive income attributable to:					
- Gazprom neft shareholders		52,602	58,854	138,905	138,361
- Non-controlling interest		3,092	3,248	6,142	8,649
Total comprehensive income for the period		**55,694**	**62,102**	**145,047**	**147,010**
Earnings per share attributable to Gazprom neft shareholders					
Basic earnings (RUB per share)		11.01	12.19	29.57	28.65
Diluted earnings (RUB per share)		11.01	12.19	29.57	28.65
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,718	4,718

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

	Attributable to Gazprom neft shareholders							
	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	-	-	-	139,531	-	139,531	3,548	143,079
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	13,970	13,970	2,594	16,564
Cash flow hedge, net of deferred tax	-	-	-	-	(14,639)	(14,639)	-	(14,639)
Other comprehensive income	-	-	-	-	43	43	-	43
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**139,531**	**(626)**	**138,905**	**6,142**	**145,047**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(46,755)	-	(46,755)	(2,654)	(49,409)
Transaction under common control	-	-	201	-	-	201	-	201
Acquisition of non-controlling interest	-	-	(2,355)	-	-	(2,355)	(2,018)	(4,373)
Total transactions with owners	**-**	**-**	**(2,154)**	**(46,755)**	**-**	**(48,909)**	**(4,672)**	**(53,581)**
Balance as of September 30, 2014	**98**	**(1,170)**	**17,139**	**1,023,080**	**3,461**	**1,042,608**	**46,879**	**1,089,487**

	Attributable to Gazprom neft shareholders							
	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	-	-	-	135,154	-	135,154	5,985	141,139
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	6,509	6,509	2,664	9,173
Cash flow hedge, net of deferred tax	-	-	-	-	(3,302)	(3,302)	-	(3,302)
Total comprehensive income for the period	**-**	**-**	**-**	**135,154**	**3,207**	**138,361**	**8,649**	**147,010**
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(63,344)	-	(63,344)	(2,804)	(66,148)
Acquisition of non-controlling interest and other	-	-	3,108	-	-	3,108	(4,369)	(1,261)
Total transactions with owners	**-**	**-**	**3,108**	**(63,344)**	**-**	**(60,236)**	**(7,173)**	**(67,409)**
Balance as of September 30, 2013	**98**	**(1,170)**	**19,233**	**887,541**	**1,805**	**907,507**	**42,023**	**949,530**

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows from operating activities		
Profit before income tax	173,456	170,153
Adjustments for:		
Share of profit of associates and joint ventures	(4,576)	(7,839)
Loss on foreign exchange differences	18,810	7,957
Finance income	(4,734)	(4,287)
Finance expense	9,735	8,796
Depreciation, depletion and amortization	63,159	57,300
Allowance for doubtful accounts	96	84
Other non-cash items	551	1,637
Changes in working capital:		
Accounts receivable	3,932	(18,341)
Inventories	(1,077)	9,546
Other assets	8,703	17,723
Accounts payable	(6,986)	2,375
Taxes payable	4,028	6,949
Other liabilities	(790)	(6,636)
Income taxes paid	(25,963)	(21,801)
Interest paid	(11,821)	(8,560)
Dividends received	1,653	4,856
Net cash provided by operating activities	**228,176**	**219,912**
Cash flows from investing activities		
Acquisition of subsidiaries and joint operations, net of cash acquired	(11,538)	(2,263)
Acquisition of associates and joint ventures	(45,355)	(1,187)
Bank deposits placement	(58,289)	(51,856)
Repayment of bank deposits	55,108	29,827
Acquisition of other investments	(2,405)	(283)
Proceeds from sales of other investments	-	890
Short-term loans issued	(833)	(2,505)
Repayment of short-term loans issued	169	624
Long-term loans issued	(14,633)	(10,568)
Repayment of long-term loans issued	1,052	620
Capital expenditures	(180,976)	(142,437)
Proceeds from sale of property, plant and equipment	1,036	3,627
Interest received	2,127	2,892
Net cash used in investing activities	**(254,537)**	**(172,619)**
Cash flows from financing activities		
Proceeds from short-term borrowings	7,539	13,489
Repayment of short-term borrowings	(8,771)	(25,797)
Proceeds from long-term borrowings	99,077	46,614
Repayment of long-term borrowings	(36,120)	(44,976)
Transaction costs directly attributable to the borrowings received	(1,743)	(699)
Dividends paid to Gazprom neft shareholders	(24,959)	(44,032)
Dividends paid to non-controlling interest	(616)	(2,808)
Acquisition of non-controlling interest in subsidiaries	(4,118)	(1,680)
Net cash provided by / (used in) financing activities	**30,289**	**(59,889)**
Increase / (decrease) in cash and cash equivalents	**3,928**	**(12,596)**
Effect of foreign exchange on cash and cash equivalents	5,505	3,473
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	**100,510**	**70,076**

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 judgments, 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 September 30, 2014 were evaluated through November 11, 2014 the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the period ended September 30, 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 recognised 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, judgments 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 to US dollars, EURO and Serbian Dinars applied during the period:

	Average rate				**Reporting date spot rate**	
	Three months ended September 30, 2014	**Three months ended September 30, 2013**	**Nine months ended September 30, 2014**	**Nine months ended September 30, 2013**	**September 30, 2014**	**December 31, 2013**
USD 1	36.19	32.80	35.39	31.62	39.39	32.73
EUR 1	47.99	43.43	47.99	41.65	49.95	44.97
RSD 1	0.41	0.38	0.42	0.37	0.42	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: Presentation,
- 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 Group’s annual periods beginning on or after October 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, November 2013 and July 2014 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 (either through Profit and loss or through Other comprehensive income), 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 January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. 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.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

The Group 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 Consolidated Financial Statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and effective for annual periods beginning on or after January 1, 2016) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation.

5. Acquisition of Subsidiaries

Acquisition of LLC Gazprom neft shelf

In May 2014 the Group acquired 100% share of LLC Gazprom neft shelf from JSC Gazprom. The acquired company holds exploration and production licenses for Prirazlomnoye 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 2.7 billion and the value of assets and liabilities acquired of RUB 4 billion was accounted for as additional paid-in-capital for the period ended September 30, 2014.

LLC Gazprom neft shelf has 21.64% share in joint operation with JSC Gazprom as of 30 September 2014. The arrangement is designed for joint exploration and production on Prirazlomnoye oil field located in the Russian Federation. According to the agreement each partner is assigned for the respective share in profit. The following table presents information of LLC Gazprom neft shelf as of acquisition date (including share in assets and liabilities of joint operation:

	As of the acquisition date
Assets	
Cash and cash equivalents	109
Trade and other receivables	768
Inventories	1,611
Other current assets	2,448
Property, plant and equipment	23,007
Other non-current assets	986
Total assets acquired	**28,929**
Liabilities and shareholders' equity	
Short-term debt and current portion of long-term debt	(15,297)
Trade and other payables	(2,973)
Taxes payable	(29)
Long-term debt	(5,894)
Deferred income tax liabilities	(746)
Total liabilities assumed	**(24,939)**
Equity attributable to shareholders	(3,990)
Total liabilities and shareholders' equity	**(28,929)**

Since the acquisition date the Group made additional contribution to joint operation with JSC Gazprom of RUB 4.9 billion that increased the Group's share up to 21.64%.

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

Acquisition of Gazpromneft-Aero Sheremetyevo

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 remeasured its previously held interest in Aero-Sheremetyevo to fair value resulting in a gain of RUB 3.4 billion recognised under *Other loss* line in the Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income.

The following table summarizes the provisional 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	9,359
Other non-current assets	4
Total assets acquired	**11,297**
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	**7,852**
Cash consideration	3,926
Fair value of the Group's investment in Aero-Sheremetyevo held before the business combination	3,926
Total	7,852
Goodwill	-

6. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	**December 31, 2013**
Cash on hand	665	504
Cash in bank	48,387	21,034
Deposits with original maturity of less than three months	48,285	66,463
Cash equivalents	3,173	3,076
Total cash and cash equivalents	**100,510**	**91,077**

As of September 30, 2014 the majority of bank deposits are held in USD (as of December 31, 2013 in Russian Rouble).

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

7. Short-term Financial Assets

Short-term financial assets as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	December 31, 2013
Deposits with original maturity more than 3 months less than 1 year	46,456	36,869
Short-term loans issued	4,131	18,991
Forward contracts - cash flow hedge	-	10
Financial assets held to maturity	16	-
Total short-term financial assets	**50,603**	**55,870**

8. Trade and Other Receivables

Trade and other receivables as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	December 31, 2013
Trade receivables	99,267	94,860
Other financial receivables	7,762	1,479
Less impairment provision	(9,526)	(8,991)
Total trade and other receivables	**97,503**	**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 September 30, 2014 and December 31, 2013 consist of the following:

	September 30, 2014	December 31, 2013
Crude oil and gas	21,628	20,328
Petroleum products and petrochemicals	46,182	44,836
Materials and supplies	24,524	21,280
Other	6,915	6,359
Less inventory provision	(2,748)	(2,580)
Total inventory	**96,501**	**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 September 30 is as follows:

	2014	2013
Buy / sell crude oil transactions for the period ended September 30	30,552	53,543

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

10. Other Current Assets

Other current assets as of September 30, 2014 and December 31, 2013 consist of the following:

	September 30, 2014	December 31, 2013
Prepaid custom duties	15,004	22,530
Advances paid	32,888	31,618
Prepaid expenses	729	311
Value added tax receivable	37,287	35,223
Other assets	24,950	21,661
Less impairment provision	(12,379)	(10,461)
Total other current assets	**98,479**	**100,882**

The impairment provision mainly relates to other assets represented by other receivables of Group's Serbian subsidiary.

11. Property, Plant and Equipment

Movements in property, plant and equipment for the periods ended September 30, 2014 and 2013 are as follows:

Cost	**O&G properties**	**Refining assets**	**Marketing and distribution**	**Other assets**	**Assets under construction**	**Total PPE**
As of January 1, 2014	**865,828**	**217,000**	**102,443**	**10,706**	**60,271**	**1,256,248**
Additions	130,384	424	283	3,859	29,588	164,538
Acquisitions through business combinations and increase of share in joint operations	26,139	-	9,222	22	659	36,042
Changes in decommissioning obligations	3,493	-	-	-	-	3,493
Capitalised borrowing costs	5,795	-	-	-	1,374	7,169
Transfers	-	15,091	9,737	1,551	(26,379)	-
Internal movement	1,985	(1,675)	(1,903)	(24)	713	(904)
Disposals	(5,025)	(798)	(1,417)	(115)	(559)	(7,914)
Translation differences	28,846	2,744	3,170	26	559	35,345
As of September 30, 2014	**1,057,445**	**232,786**	**121,535**	**16,025**	**66,226**	**1,494,017**
Depreciation and impairment						
As of January 1, 2014	**(281,435)**	**(56,211)**	**(21,829)**	**(1,230)**	**-**	**(360,705)**
Depreciation charge	(47,083)	(6,735)	(6,891)	(439)	-	(61,148)
Acquisitions through business combinations and increase of share in joint operations	(387)	-	-	-	-	(387)
Internal movement	303	(370)	1,068	(97)	-	904
Disposals	1,790	163	752	12	-	2,717
Translation differences	(9,240)	(412)	(585)	(5)	-	(10,242)
As of September 30, 2014	**(336,052)**	**(63,565)**	**(27,485)**	**(1,759)**	**-**	**(428,861)**
Net book value						
As of January 1, 2014	**584,393**	**160,789**	**80,614**	**9,476**	**60,271**	**895,543**
As of September 30, 2014	**721,393**	**169,221**	**94,050**	**14,266**	**66,226**	**1,065,156**

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

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
Cost						
As of January 1, 2013	**709,528**	**183,290**	**84,292**	**7,757**	**59,278**	**1,044,145**
Additions	98,305	1,256	24	1,542	31,255	132,382
Acquisitions through business combinations	-	-	1,367	-	-	1,367
Changes in decommissioning obligations	1,806	-	-	-	-	1,806
Capitalised borrowing costs	714	166	-	-	236	1,116
Transfers	-	10,715	11,170	1,001	(22,886)	-
Internal movement	(351)	(233)	(951)	2,395	(860)	-
Reclassification from assets classified as held for sale	1,217	-	-	-	-	1,217
Disposals	(4,523)	(450)	(2,360)	(34)	(557)	(7,924)
Translation differences	8,622	2,701	2,253	34	458	14,068
As of September 30, 2013	**815,318**	**197,445**	**95,795**	**12,695**	**66,924**	**1,188,177**
Depreciation and impairment						
As of January 1, 2013	**(221,754)**	**(48,021)**	**(15,604)**	**(554)**	**-**	**(285,933)**
Depreciation charge	(43,977)	(5,839)	(5,547)	(606)	-	(55,969)
Internal movement	(74)	1	520	(447)	-	-
Reclassification from assets classified as held for sale	(1,017)	-	-	-	-	(1,017)
Disposals	2,489	85	472	13	-	3,059
Translation differences	(2,604)	(298)	(322)	(10)	-	(3,234)
As of September 30, 2013	**(266,937)**	**(54,072)**	**(20,481)**	**(1,604)**	**-**	**(343,094)**
Net book value						
As of January 1, 2013	**487,774**	**135,269**	**68,688**	**7,203**	**59,278**	**758,212**
As of September 30, 2013	**548,381**	**143,373**	**75,314**	**11,091**	**66,924**	**845,083**

12. Investments in Associates and Joint Ventures

The carrying value of the investments in associates and joint ventures as of September 30, 2014 and December 31, 2013 are summarised below:

		Ownership percentage	September 30, 2014	December 31, 2013
Slavneft	Joint venture	49.9	84,206	85,015
SeverEnergy	Joint venture	45.1	60,057	24,165
Others			17,066	11,178
Total investments			161,329	120,358

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation. The reconciliation of carrying amount of investments in associates and joint ventures as of the beginning of the reporting period and as of 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	4,576	7,839
Dividends declared	(7,453)	(4,324)
Increase in associates and joint ventures	44,526	1,887
Other changes in cost of associates and joint ventures	(678)	12
Carrying amount as of September 30	161,329	111,057

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

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 (Yamal Razvitie, a 50%:50% joint venture between the Group and JSC Novatek) owning initially 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 Yamal Razvitie LLC owns 90.2% share in SeverEnergy LLC. 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 Group and Novatek negotiated a series of linked transactions that aim to simplify ownership structure and achieve parity shareholdings in SeverEnergy upon completion. The Group provided several long-term loans to Yamal Razvitie of which Yamal Razvitie financed RUB 34.9 billion on acquisition of additional 20% share in Artic Russia B.V. (effective share of the Group in SeverEnergy increased from 40.2% to 45.1% respectively). The loans will form the Group's contribution in equity of Yamal Razvitie upon completion of the restructuring of the joint venture. The carrying amount of the Group's investment exceeds the Group's share in the underlying net assets of SeverEnergy by RUB 22 billion as of September 30, 2014 due to complex holding structure, current financing scheme and goodwill arising on acquisition.

The summarized financial information for the significant joint ventures as of September 30, 2014, December 31, 2013 and for the periods ended September 30, 2014 and 2013 is presented in the table below. The summarized financial information refers to the 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	
	September 30, 2014	**December 31, 2013**	**September 30, 2014**	**December 31, 2013**
Cash and cash equivalents	9,309	28,208	177	3,321
Other current assets	17,946	18,630	8,565	11,585
Non-current assets	252,724	235,420	359,882	328,035
Current financial liabilities	(52,740)	(43,758)	(114,692)	(123,167)
Other current liabilities	(21,261)	(20,617)	(2,081)	(486)
Non-current financial liabilities	(27,018)	(33,271)	(118,213)	(78,232)
Other non-current liabilities	(20,777)	(23,816)	(49,325)	(47,812)
Net assets	**158,183**	**160,796**	**84,313**	**93,244**

	Nine months ended September 30, 2014	**Nine months ended September 30, 2013**	**Nine months ended September 30, 2014**	**Nine months ended September 30, 2013**
Revenue	156,311	145,379	18,950	11,184
Depreciation, depletion and amortization	(22,505)	(19,099)	(4,863)	(4,915)
Finance income	1,062	1,242	74	41
Finance expense	(666)	(1,033)	(11,447)	(2,481)
Total income tax (expense) / benefit	(2,105)	(3,607)	762	(389)
Profit / (loss) for the period	10,216	13,975	(8,931)	(335)
Other comprehensive income / (loss)	10,216	13,975	(8,931)	(335)

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

Current and non-current financial liabilities of SeverEnergy include RUB 122 billion Yamal Razvitie payables to Sberbank and the Group under the loan agreements.

Others

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.

Other investments include effective 9.1% share in CJSC Northgas (Northgas), where the Group has a significant influence due to presence in the Board of Directors. On July 1, 2014 the Group acquired 18.2% share in LLC Gazprom Resource Northgas from Gazprombank for consideration of RUB 8.6 billion. LLC Gazprom Resource Northgas owns 50% share in Northgas.

In May 2014 LLC Sibgazpolimer (a 50%:50% joint venture between the Group and JSC Sibur Holding) acquired 50% in LLC Omskiy zavod polipropilena (Poliom). As a result of the transaction the Group has 25% effective share in Poliom. Main activity of Poliom is production of polypropylene.

13. Joint Operations

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).

21.64% share of the Group in joint arrangement with Gazprom (see note 5) is considered to be joint operation under IFRS 11 Joint Arrangements as decisions about relevant activities require the unanimous consent of both participants. The joint operation is not structured as a separate legal entity.

14. Long-term Financial Assets

Long-term financial assets as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	December 31, 2013
Long-term loans issued	16,278	15,335
Forward contracts - cash flow hedge	-	283
Available for sale financial assets	9,994	7,478
Less impairment provision	(726)	(690)
Total long-term financial assets	**25,546**	**22,406**

15. Other Non-Current Assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 38, 508 million and RUB 15,867 million as of September 30, 2014 and December 31, 2013, respectively).

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

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

As of September 30, 2014 and December 31, 2013 the Group has short-term debt and current portion of long-term debt outstanding as follows:

	September 30, 2014	December 31, 2013
Bank loans	999	119
Other borrowings	14,164	17,706
Current portion of long-term debt	36,112	34,588
Total short-term debt and current portion of long-term debt	**51,275**	**52,413**

Current portion includes interest payable on long-term borrowings.

17. Trade and Other Payables

Accounts payable as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	December 31, 2013
Trade accounts payable	50,782	61,003
Dividends payable	25,987	1,943
Other accounts payable	10,308	3,999
Other current financial liabilities	4,161	1,090
Total trade and other payables	**91,238**	**68,035**

18. Other Taxes Payable

Other taxes payable as of September 30, 2014 and December 31, 2013 comprise the following:

	September 30, 2014	December 31, 2013
Mineral extraction tax	19,349	19,608
VAT	18,999	15,649
Excise tax	7,458	5,826
Property tax	2,258	2,425
Other taxes	3,497	3,275
Total other taxes payable	**51,561**	**46,783**

Taxes other than income tax expense for the periods ended September 30, 2014 and 2013 comprise the following:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Mineral extraction tax	59,995	57,291	182,240	157,261
Property tax	2,190	1,840	6,777	5,565
Excise tax	24,406	20,665	64,653	58,769
Other taxes	3,151	4,174	10,131	13,303
Total taxes other than income tax	**89,742**	**83,970**	**263,801**	**234,898**

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

19. Long-term Debt

As of September 30, 2014 and December 31, 2013 the Group has long-term outstanding debt as follows:

	September 30, 2014	December 31, 2013
Bank loans	183,362	98,397
Bonds	61,157	61,583
Loan Participation Notes	156,347	132,534
Other borrowings	2,359	3,529
less current portion of debt	(36,112)	(34,588)
Total long-term debt	**367,113**	**261,455**

In September 2014 the Group signed an agreement to obtain a long-term loan from JSC Rosselkhozbank in the amount of RUB 30 billion at an interest rate of 11.9% due in 2019. In September 2014 the Group obtained RUB 10 billion under this agreement.

In September 2014 the Group singed agreements to obtain long-term loans from JSC Sberbank of Russia in the amount of RUB 22.5 billion and RUB 12.5 billion at interest rates of 11.98% and 12.08%, respectively, due in 2019.

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-year 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.

20. Net Foreign Exchange (Loss) / Gain

Net foreign exchange (loss) / gain for the periods ended September 30, 2014 and 2013 comprise of the following:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net foreign exchange (loss) / gain on financing activities, including:	(25,050)	162	(31,907)	(7,827)
foreign exchange gain	16,212	658	36,064	3,329
foreign exchange loss	(41,262)	(496)	(67,971)	(11,156)
Net foreign exchange gain on operating activities	15,807	64	17,353	5,553
Net foreign exchange (loss) / gain	**(9,243)**	**226**	**(14,554)**	**(2,274)**

The exchange losses in the amount of RUB 3.1 billion arising from foreign currency borrowings was capitalised within borrowing costs to the extent that they are regarded as an adjustment to interest costs

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

21. Finance Income

Finance income for the periods ended September 30, 2014 and 2013 comprise of the following:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest income on cash and cash equivalents	410	248	1,013	585
Interest on bank deposits	594	910	1,683	2,353
Interest income on loans issued	1,095	427	2,038	1,349
Total finance income	**2,099**	**1,585**	**4,734**	**4,287**

22. Finance Expense

Finance expense for the periods ended September 30, 2014 and 2013 comprise of the following:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest expense	4,755	2,951	12,631	8,693
Decommissioning provision: unwinding of the present value discount	379	409	1,145	1,219
Less: capitalised interest	(1,241)	(474)	(4,041)	(1,116)
Total finance expense	**3,893**	**2,886**	**9,735**	**8,796**

23. 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.

As of September 30, 2014 the fair value of bonds and Loan Participation Notes is RUB 201,115 million (as of December 31, 2013 – RUB 189,693 million). Carrying value of other financial assets and liabilities approximate their fair value.

24. 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 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.

Economic Environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The political and economic instability, uncertainty and volatility of the financial markets and other risks may have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

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

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

The EU sanctions, imposed in July 2014, prohibit: (1) the sale, supply, transfer or export of the equipment or technology for projects pertaining to deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in the Russian Federation; (2) technical assistance or brokering services related to such technologies; (3) financing or financial assistance related to any sale, supply, transfer or export of such technologies.

The EU sanctions, imposed in September 2014, additionally prohibit: (4) provision of drilling, well testing, logging and completion services and supply of specialized floating vessels necessary for deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia, (5) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, including JSC Gazprom neft and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by JSC Gazprom neft.

The Group continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Consolidated Financial Statements.

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 September 30, 2014 the Group has entered into contracts to purchase property, plant and equipment for RUB 153, 187 million (December 31, 2013: RUB 109,314 million).

25. 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.

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

As of September 30, 2014 and December 31, 2013 the outstanding balances with related parties were as follows:

September 30, 2014	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Cash and cash equivalents	-	20,257	-
Short-term financial assets	-	11,933	2,876
Trade and other receivables	1,768	2,746	17,398
Other assets	460	2,826	499
Long-term financial assets	-	-	12,794
Total assets	**2,228**	**37,762**	**33,567**
Short-term debt and other current financial liability	-	-	867
Trade and other payables	21,340	3,431	2,138
Other current liabilities	2,142	124	56
Long-term debt and other non-current financial liability	3,954	-	-
Total liabilities	**27,436**	**3,555**	**3,061**

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 September 30, 2014 and 2013 the following transactions occurred with related parties:

Nine months ended September 30, 2014	**Parent company**	**Parent's subsidiaries and associates**	**Associates and joint ventures**
Crude oil, gas and oil products sales	11,240	15,888	32,649
Other revenue	14	222	7,742
Purchases of crude oil, gas and oil products	-	26,267	67,590
Production related services	4	9,678	15,135
Transportation costs	3,833	1,457	1,696
Interest income	-	873	954

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

Nine months ended September 30, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	6,858	14,621	36,741
Other revenue	158	148	4,953
Purchases of crude oil, gas and oil products	-	22,679	63,532
Production related services	58	9,325	12,635
Transportation costs	2,976	1,592	5,004
Interest income	-	524	332

Transactions with Key Management Personnel

Key Management received remunerations: salaries, bonuses and other contributions amounting to RUB 883 million for the period ended September 30, 2014 and to RUB 756 million for the period ended September 30, 2013.

26. Segment Information

Presented below is information about the Group’s operating segments for the periods ended September 30, 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 center 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 prices effective for local markets and linked to 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.

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

Nine months ended September 30, 2014	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	15,494	1,046,823	-	1,062,317
Inter-segment	363,599	6,787	(370,386)	-
Total revenues	379,093	1,053,610	(370,386)	1,062,317
Segment results				
Adjusted EBITDA	141,652	143,884	-	285,536
Depreciation, depletion and amortisation	47,310	15,849	-	63,159
Capital expenditure	**144,340**	**36,636**	**-**	**180,976**

Nine months ended September 30, 2013	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	18,819	919,034	-	937,853
Inter-segment	329,239	5,789	(335,028)	-
Total revenues	348,058	924,823	(335,028)	937,853
Segment results				
Adjusted EBITDA	131,026	120,893	-	251,919
Depreciation, depletion and amortisation	45,327	11,973	-	57,300
Capital expenditure	**105,630**	**36,807**	**-**	**142,437**

The geographical segmentation of the Group's revenue and capital expenditures for the periods ended September 30, 2014 and 2013 are presented below:

Nine months ended September 30, 2014	Russian Federation	CIS	Export and international operations	Total
Sales of crude oil	30,017	12,122	151,580	193,719
Sales of petroleum products	544,906	46,788	408,400	1,000,094
Sales of gas	17,182	-	1,251	18,433
Other sales	30,119	1,007	2,783	33,909
Less custom duties and sales related excises	-	(469)	(183,369)	(183,838)
Revenues from external customers, net	622,224	59,448	380,645	1,062,317
Nine months ended September 30, 2013				
Sales of crude oil	11,103	34,861	155,665	201,629
Sales of petroleum products	462,730	41,865	368,076	872,671
Sales of gas	15,974	-	992	16,966
Other sales	23,244	747	2,089	26,080
Less custom duties and sales related excises	-	(2,161)	(177,332)	(179,493)
Revenues from external customers, net	513,051	75,312	349,490	937,853

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

	Russian Federation	**CIS**	**Export and international operations**	**Total**
Non-current assets as of September 30, 2014	1,134,875	11,022	179,234	1,325,131
Capital expenditures for period ended September 30, 2014	154,559	934	25,483	180,976
Non-current assets as of December 31, 2013	935,843	10,233	143,572	1,089,648
Capital expenditures for period ended September 30, 2013	121,285	1,546	19,606	142,437

Adjusted EBITDA for the periods ended September 30, 2014 and 2013 is reconciled below:

	Three months ended September 30, 2014	**Three months ended September 30, 2013**	**Nine months ended September 30, 2014**	**Nine months ended September 30, 2013**
Profit for the period	52,579	60,662	143,079	141,139
Total income tax expense	9,244	12,611	30,377	29,014
Finance expense	3,893	2,886	9,735	8,796
Finance income	(2,099)	(1,585)	(4,734)	(4,287)
Depreciation, depletion and amortization	21,944	20,173	63,159	57,300
Net foreign exchange (loss) / gain	9,243	(226)	14,554	2,274
Other loss, net	2,341	1,595	3,846	2,044
EBITDA	97,145	96,116	260,016	236,280
less share of profit of associates and joint ventures	(84)	(5,200)	(4,576)	(7,839)
add share of EBITDA of associates and joint ventures	10,092	10,436	30,096	23,478
Total adjusted EBITDA	**107,153**	**101,352**	**285,536**	**251,919**

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