Gazprom Neft Group

Interim Condensed Consolidated Financial Statements

June 30, 2012

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Report on Review of Interim Condensed Consolidated 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 June 2012 and the related interim condensed consolidated statements of comprehensive income for the three and six month periods then ended, and of changes in equity and of cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

ZAO PricewaterhouseCoopers Audit

August 9, 2012

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru

Gazprom Neft Group
Interim Condensed Consolidated Statement of Financial position (Unaudited)
As of June 30, 2012 | **Currency – RUB millions**

	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	*6*	69,319	29,435
Short-term financial assets	*7*	22,877	18,951
Trade and other receivables	*8*	81,808	70,780
Inventories	*9*	73,044	74,201
Current income tax prepayments		10,774	12,377
Other current assets	*10*	92,721	89,518
Assets classified as held for sale		783	2,029
Total current assets		**351,326**	**297,291**
Non-current assets			
Property, plant and equipment	*11*	608,096	574,982
Goodwill and other intangible assets		40,124	40,194
Investments in associates and joint ventures	*12*	173,022	175,315
Long-term trade and other receivables		188	219
Long-term financial assets	*13*	15,014	9,487
Deferred income tax asset		10,869	11,934
Other non-current assets		9,205	8,737
Total non-current assets		**856,518**	**820,868**
Total assets		**1,207,844**	**1,118,159**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	*14*	76,786	44,330
Trade and other payables	*15*	83,477	41,196
Other current liabilities		22,584	25,165
Current income tax payable		1,264	1,994
Other taxes payable	*16*	34,461	30,089
Provisions for liabilities and charges		4,975	6,888
Liabilities associated with assets classified as held for sale		9	667
Total current liabilities		**223,556**	**150,329**
Non-current liabilities			
Long-term debt	*17*	141,113	176,979
Other non-current financial liabilities		7,309	6,824
Deferred income tax liability		35,587	32,443
Provisions for liabilities and charges		17,085	17,458
Other non-current liabilities		1,892	1,956
Total non-current liabilities		**202,986**	**235,660**
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		9,947	10,022
Retained earnings		721,232	676,947
Other reserves		(1,634)	(940)
Equity attributable to the Company's owners		**728,473**	**684,957**
Non-controlling interest		52,829	47,213
Total equity		**781,302**	**732,170**
Total liabilities and shareholders' equity		**1,207,844**	**1,118,159**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

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

	Notes	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales		379,603	321,055	724,138	609,366
Less export duties and sales related excise tax		(78,397)	(65,574)	(144,956)	(121,866)
Total revenue from sales	22	**301,206**	**255,481**	**579,182**	**487,500**
Costs and other deductions					
Purchases of oil, gas and petroleum products		(109,953)	(85,718)	(197,524)	(151,216)
Production and manufacturing expenses		(26,681)	(26,294)	(53,723)	(50,336)
Selling, general and administrative expenses		(15,191)	(11,628)	(29,199)	(24,726)
Transportation expenses		(24,249)	(20,598)	(48,024)	(40,760)
Depreciation, depletion and amortization		(14,413)	(13,741)	(28,483)	(25,838)
Taxes other than income tax	16	(63,556)	(52,457)	(127,839)	(99,433)
Exploration expenses		(218)	(359)	(573)	(881)
Total operating expenses		**(254,261)**	**(210,795)**	**(485,365)**	**(393,190)**
Other income, net		1,372	1,671	1,609	1,969
Operating profit		**48,317**	**46,357**	**95,426**	**96,279**
Share of (loss) / profit of equity accounted investments		(1,733)	2,782	10,354	4,482
Net foreign exchange (loss) / gain		(4,849)	4,048	(2,297)	7,861
Finance income		1,083	379	1,626	755
Finance expense		(2,683)	(2,664)	(5,021)	(5,683)
Total other (expense) / income		**(8,182)**	**4,545**	**4,662**	**7,415**
Profit before income tax		**40,135**	**50,902**	**100,088**	**103,694**
Current income tax expense		(4,524)	(8,781)	(12,849)	(20,937)
Deferred income tax expense		(1,742)	(2,163)	(3,282)	(2,031)
Total income tax expense		**(6,266)**	**(10,944)**	**(16,131)**	**(22,968)**
Profit for the period		**33,869**	**39,958**	**83,957**	**80,726**
Other comprehensive income / (loss):					
Currency translation differences		9,034	(427)	2,432	(3,905)
Share of other comprehensive income of associates		-	-	-	7
Cash flow hedge		(11,442)	(5,621)	(1,925)	1,724
Other comprehensive (loss) / income for the period		**(2,408)**	**(6,048)**	**507**	**(2,174)**
Total comprehensive income for the period		**31,461**	**33,910**	**84,464**	**78,552**
Profit attributable to:					
- Gazprom Neft shareholders		30,353	38,459	78,726	78,449
- Non-controlling interest		3,516	1,499	5,231	2,277
Profit for the period		**33,869**	**39,958**	**83,957**	**80,726**
Total comprehensive income attributable to:					
- Gazprom Neft shareholders		24,693	32,581	78,032	77,456
- Non-controlling interest		6,768	1,329	6,432	1,096
Total comprehensive income for the period		**31,461**	**33,910**	**84,464**	**78,552**
Earnings per share attributable to Gazprom Neft shareholders					
Basic earnings (RUB per share)		7.18	8.47	17.80	17.11
Diluted earnings (RUB per share)		7.18	8.47	17.80	17.11
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,718	4,718

For six months ended June 30, 2012 Currency – RUB millions

	Attributable to equity holders of the Company							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of January 1, 2011	**98**	**(1,170)**	**-**	**537,533**	**5,978**	**542,439**	**67,525**	**609,964**
Profit for the period	-	-	-	78,449	-	78,449	2,277	80,726
Other comprehensive income								
Currency translation differences	-	-	-	-	(2,724)	(2,724)	(1,181)	(3,905)
Share of other comprehensive income of associates	-	-	-	-	7	7	-	7
Cash flow hedge	-	-	-	-	1,724	1,724	-	1,724
Total comprehensive income for the period	**-**	**-**	**-**	**78,449**	**(993)**	**77,456**	**1,096**	**78,552**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	(20,948)	-	(20,948)	(481)	(21,429)
Acquisition of non-controlling interest	-	-	8,974	-	-	8,974	(32,616)	(23,642)
Total transactions with owners	-	-	8,974	(20,948)	-	(11,974)	(33,097)	(45,071)
Balance as of June 30, 2011	**98**	**(1,170)**	**8,974**	**595,034**	**4,985**	**607,921**	**35,524**	**643,445**

	Attributable to equity holders of the Company							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of January 1, 2012	**98**	**(1,170)**	**10,022**	**676,947**	**(940)**	**684,957**	**47,213**	**732,170**
Profit for the period	-	-	-	78,726	-	78,726	5,231	83,957
Other comprehensive income								
Currency translation differences	-	-	-	-	1,231	1,231	1,201	2,432
Cash flow hedge	-	-	-	-	(1,925)	(1,925)	-	(1,925)
Total comprehensive income for the period	**-**	**-**	**-**	**78,726**	**(694)**	**78,032**	**6,432**	**84,464**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	(34,441)	-	(34,441)	(234)	(34,675)
Acquisition of non-controlling interest	-	-	(75)	-	-	(75)	(582)	(657)
Total transactions with owners	-	-	(75)	(34,441)	-	(34,516)	(816)	(35,332)
Balance as of June 30, 2012	**98**	**(1,170)**	**9,947**	**721,232**	**(1,634)**	**728,473**	**52,829**	**781,302**

For six months ended June 30, 2012 Currency – RUB millions

	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from operating activities		
Profit before income tax	100,088	103,694
Adjustments for:		
Share of profit of equity accounted investments	(10,354)	(4,482)
Loss / (gain) on foreign exchange differences	756	(9,666)
Finance income	(1,626)	(755)
Finance expense	5,021	5,683
Depreciation, depletion and amortization	28,483	25,838
Allowance for doubtful accounts	(629)	253
Other non-cash items	1,383	2,688
Changes in working capital:		
Accounts receivable	2,378	(18,494)
Inventories	3,465	(10,820)
Other assets	(2,700)	(7,030)
Accounts payable	4,605	13,085
Taxes payable	4,250	8,041
Other liabilities	(5,001)	(10,082)
Income taxes paid	(11,946)	(21,245)
Interest paid	(5,048)	(4,784)
Dividends received	2,609	5,544
Net cash provided by operating activities	**115,734**	**77,468**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(470)	-
Proceeds from disposal of subsidiaries, net of cash disposed	-	2,422
Acquisition of equity-accounted investments	-	(1,506)
Bank deposits placement	(23,878)	-
Repayment of bank deposits	13,530	2,400
Acquisition of other investments	(2,724)	(5,581)
Proceeds from sales of other investments	382	3,438
Short-term loans issued	(2,495)	(1,692)
Repayment of short-term loans issued	9,573	693
Long-term loans issued	(4,043)	(4,568)
Repayment of long-term loans issued	91	353
Capital expenditures	(62,277)	(54,129)
Proceeds from sale of property, plant and equipment	464	781
Interest received	1,545	2,629
Net cash used in investing activities	**(70,302)**	**(54,760)**

For six months ended June 30, 2012 Currency – RUB millions

	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from financing activities		
Proceeds from short-term borrowings	1,789	8,799
Repayment of short-term borrowings	(2,315)	(8,252)
Proceeds from long-term borrowings	10,664	30,000
Repayment of long-term borrowings	(15,960)	(24,397)
Transaction costs directly attributable to the borrowings received	-	(206)
Dividends paid to the Company's shareholders	(5)	(7,450)
Dividends paid to non-controlling interest	-	(8)
Acquisition of non-controlling interest in subsidiaries	(272)	(23,345)
Net cash used in financing activities	**(6,099)**	**(24,859)**
Increase / (decrease) in cash and cash equivalents	39,333	(2,151)
Effect of foreign exchange on cash and cash equivalents	550	(1,079)
Cash and cash equivalents as of the beginning of the period	**29,436**	**34,928**
Cash and cash equivalents as of the end of the period	**69,319**	**31,698**

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”), 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 IAS 34 *Interim Financial Reporting*. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS. The Group is in process of the adoption of IFRS, all the relevant data on the transition from previous GAAP (US GAAP) is described in Note 24 to these Interim Condensed Consolidated Financial Statements.

These significant accounting policies and estimates represent those policies and estimates that the Group expects to use in its first IFRS financial statements as of December 31, 2012.

In the opinion of the Group’s management (“Management”), the Interim Condensed Consolidated Financial Statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to fairly state the Group’s financial position, results of operations and cash flows for the interim periods. Subsequent events occurring after June 30, 2012 were evaluated through August 9, 2012, the date these financial statements were authorised for issue.

The results for the six months ended June 30, 2012 are not necessarily indicative of the results expected for the full year.

Basis of Measurement

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

Seasonality of Operations

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

Foreign Currency Translation

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

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

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

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

The official exchange rates of the Ruble to the US Dollar were:

32.82 RUB/USD as of June 30, 2012;
32.20 RUB/USD as of December 31, 2011.

For the six months ended June 30, 2012 and 2011 the average exchanges rates of the Russian Ruble were 30.64 RUB /USD and 28.62 RUB/USD, respectively. For the three months ended June 30, 2012 and 2011 the average exchange rates of the Russian Ruble were 31.01 RUB /USD and 27.99 RUB/USD, respectively.

Principles of Consolidation

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

Business Combinations

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

Goodwill and Other Intangible Assets

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

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

Non-Controlling Interest

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

Acquisitions from Entities under Common Control

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

Investments in Associates and Joint Ventures (Equity Accounted Investees)

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

Transactions Eliminated on Consolidation

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

<u>Cash and Cash Equivalents</u>

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

<u>Non-Derivative Financial Assets</u>

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

Financial Assets at Fair Value through Profit or Loss

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

Held-to-maturity Financial Assets

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

Loans and Receivables

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

Available-for-sale Financial Assets

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

Non-Derivative Financial Liabilities

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

Derivative Financial Instruments

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

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

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

Hedge Accounting

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

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

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

Inventories

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

Assets Classified as Held for Sale

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

Intangible Assets

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

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

Property, Plant and Equipment

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

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

<u>Oil and Gas Properties</u>

Exploration and Evaluation assets

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

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

Exploration and evaluation assets include:

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

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

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

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

Other exploration costs are charged to expense when incurred.

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

Development Costs

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

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

Depreciation, Depletion and Amortisation

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

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

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

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

Capitalisation of Borrowing Costs

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

Decommissioning Obligations

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

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

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

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

Income Taxes

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

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

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

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

Mineral Extraction Tax and Excise Duties

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

Common Stock

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

Treasury stock

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

Earnings per Share

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

Stock-Based Compensation

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

Retirement and Other Benefit Obligations

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

Government Grants

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

Leases

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

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

Recognition of Revenues

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

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

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

Buy/Sell Transactions

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

Transportation Costs

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

Maintenance and Repair

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

3. Critical accounting estimates, assumptions and judgments

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

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

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

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

Estimation of Oil and Gas Reserves

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

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

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

Useful Lives of Property, Plant and Equipment

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

Impairment of Long-Lived Assets

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

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rates, discount rates etc.

Impairment of Non-Derivative Financial Assets

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

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

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

Decommissioning Obligations

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

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

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

Contingencies

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

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

4. New Accounting Standards

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

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

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

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

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

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

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

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

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

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

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

5. Financial risk management

Risk Management Framework

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

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

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

Financial Risk Management

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

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

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

Currency Risk

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

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

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

Interest Rate Risk

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

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

Commodity Price Risk

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

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

Such activities help to decrease risks to an acceptable level.

Credit Risk

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

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

Liquidity Risk

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

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

For six months ended June 30, 2012 Currency – RUB millions

Capital management

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

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

6. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Cash on hand	581	479
Cash in bank	52,750	16,376
Deposits with original maturity of less than three months	14,174	11,791
Cash equivalents	1,814	789
Total cash and cash equivalents	69,319	29,435

As of June 30, 2012 and December 31, 2011 the majority of bank deposits are held in US dollars and Russian Ruble, respectively. Bank deposits represent deposits with original maturities of less than three months.

7. Short-term financial assets

Short-term financial assets as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Deposits with original maturity more than 3 months less than 1 year	11,126	246
Short-term loans issued	6,353	14,524
Forward contracts - cash flow hedge	1,912	1,858
Financial assets held to maturity	3,486	2,323
Total short-term financial assets	22,877	18,951

8. Trade and Other receivables

Trade and other receivables as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Trade receivables	75,867	75,356
Other financial receivables	11,369	1,480
Less impairment provision	(5,428)	(6,056)
Total trade and other receivables	81,808	70,780

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

For six months ended June 30, 2012 Currency – RUB millions

9. Inventories

Inventories as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
Crude oil	12,321	14,047
Gas	3,471	4,168
Petroleum products and petrochemicals	37,476	35,702
Materials and supplies	18,401	19,804
Other	4,434	4,263
Less provision for impairment	(3,059)	(3,783)
Total inventory	73,044	74,201

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 six months ended June 30 is as follows:

	2012	2011
Buy/sell crude oil transactions for the six months ended June 30	33,779	35,465

10. Other Current Assets

Other current assets as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
Prepaid custom duties	18,618	26,103
Advances paid	31,730	29,572
Prepaid expenses	1,393	343
Value added tax receivable	32,164	28,347
Other assets	15,612	12,004
Less impairment provision	(6,796)	(6,851)
Total other current assets	92,721	89,518

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

For six months ended June 30, 2012 Currency – RUB millions

11. Property, Plant and Equipment

Movements in property, plant and equipment for the six months ended June 30, 2012 and 2011 are as follows:

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
As of January 1, 2011	**367,506**	**127,681**	**56,884**	**3,548**	**32,571**	**588,190**
Additions	37,759	509	86	5,329	9,528	53,211
Changes in decommissioning obligations	(837)	-	-	-	-	(837)
Capitalised borrowing costs	164	-	-	-	240	404
Transfers	-	8,160	3,015	286	(11,461)	-
Reclassification to non-current assets classified as held for sale	(1,217)	-	-	-	-	(1,217)
Disposals	(1,586)	(1,368)	(663)	(11)	(190)	(3,818)
Translation differences	(1,485)	(1,002)	(2,026)	(31)	(303)	(4,847)
As of June 30, 2011	**400,304**	**133,980**	**57,296**	**9,121**	**30,385**	**631,086**
Depreciation and impairment						
As of January 1, 2011	**(76,924)**	**(36,865)**	**(5,736)**	**(241)**	**-**	**(119,766)**
Depreciation charge	(20,612)	(2,533)	(1,614)	(196)	-	(24,955)
Reclassification to non-current assets classified as held for sale	1,017	-	-	-	-	1,017
Disposals	1,246	87	69	10	-	1,412
Translation differences	222	112	192	21	-	547
As of June 30, 2011	**(95,051)**	**(39,199)**	**(7,089)**	**(406)**	**-**	**(141,745)**
Net book value						
As of January 1, 2011	**290,582**	**90,816**	**51,148**	**3,307**	**32,571**	**468,424**
As of June 30, 2011	**305,253**	**94,781**	**50,207**	**8,715**	**30,385**	**489,341**

For six months ended June 30, 2012 Currency – RUB millions

Cost	**O&G properties**	**Refining assets**	**Marketing and distribution**	**Other assets**	**Assets under construction**	**Total PPE**
As of January 1, 2012	**469,374**	**145,959**	**70,314**	**11,411**	**48,579**	**745,637**
Additions	35,129	1,367	367	245	23,766	60,874
Changes in decommissioning obligations	(879)	-	-	-	-	(879)
Capitalised borrowing costs	170	-	-	-	747	917
Transfers	-	3,575	4,953	214	(8,742)	-
Disposals	(1,631)	(213)	(799)	(80)	(287)	(3,010)
Translation differences	728	255	428	17	720	2,148
As of June 30, 2012	**502,891**	**150,943**	**75,263**	**11,807**	**64,783**	**805,687**
						-
Depreciation and impairment						-
As of January 1, 2012	**(118,171)**	**(41,903)**	**(9,969)**	**(612)**	**-**	**(170,655)**
Depreciation charge	(22,017)	(2,961)	(3,096)	(227)	-	(28,301)
Disposals	1,115	40	433	13	-	1,601
Translation differences	(119)	1	(110)	(8)	-	(236)
As of June 30, 2012	**(139,192)**	**(44,823)**	**(12,742)**	**(834)**	**-**	**(197,591)**
						-
Net book value						-
As of January 1, 2012	**351,203**	**104,056**	**60,345**	**10,799**	**48,579**	**574,982**
As of June 30, 2012	**363,699**	**106,120**	**62,521**	**10,973**	**64,783**	**608,096**

12. Investments in Associates and Joint Ventures

The Group has several investments in associates and joint ventures. The carrying value of the most significant investments as of June 30, 2012 and December 31, 2011 are summarized below:

		Ownership percentage	**June 30, 2012**	**December 31, 2011**
Slavneft	Joint venture	49.9	69,950	72,681
Tomskneft	Joint venture	50.0	30,015	31,284
SPD	Joint venture	50.0	46,081	43,316
SeverEnergy	Associate	25.5	24,567	24,599
Others			2,409	3,435
Total investments in associates and joint ventures			173,022	175,315

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:

	June 30, 2012	**June 30, 2011**
Carrying amount at the beginning of the reporting period	175,315	179,301
Share of profit of associates and joint ventures	10,354	4,482
Dividends received	(12,416)	(11,285)
Fair value of net assets of associates and joint ventures acquired	-	1,506
Other changes in cost of associates and joint ventures	(231)	(2)
Carrying amount at the end of the reporting period	173,022	174,002

For six months ended June 30, 2012 Currency – RUB millions

The Group's share of the profit of equity accounted investments increased to RUB 10,354 million in the six months ended June 30, 2012 as compared to RUB 4,482 million in the six months ended June 30, 2011 (share in loss of RUB 1,733 million in the three months ended 30 June, 2012 as compared to share in profit of RUB 2,782 million in the three months ended June 30, 2011) due to the adoption of the 60/66 tax system in the end of 2011 financial year (under which export duty rates on crude oil sales decreased from 65% to 60%), which lead to increases in the domestic price of crude oil. The tax change resulted in an increase in the profit of associated entities selling crude oil domestically.

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Group and TNK-BP agreed to manage the production and the refineries of the Slavneft group with each party purchasing its share of production.

The following table summarises the financial information of Slavneft as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	31,241	30,181
Non-current assets	204,333	209,369
Total liabilities	113,688	100,467
Revenues	93,345	77,843
Net income	5,347	2,626

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

The following table summarises the financial information of Tomskneft as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	23,257	19,499
Non-current assets	80,151	76,864
Total liabilities	67,465	57,883
Revenues	53,328	47,374
Net income	6,710	5,482

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

The following table summarises the financial information of SPD as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	10,085	12,512
Non-current assets	29,246	28,670
Total liabilities	11,714	19,914
Revenues	36,860	31,527
Net income	7,436	5,035

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

For six months ended June 30, 2012 Currency – RUB millions

The following table summarises the financial information of SeverEnergy as of June 30, 2012 and December 31, 2011. Revenue and net income is shown for the six months ended June 30, 2012 and 2011:

	2012	**2011**
Current assets	5,534	5,029
Non-current assets	175,344	166,165
Total liabilities	70,195	60,686
Revenues	1,199	-
Net income	(485)	(2,077)

13. Long-term Financial Assets

Long-term financial assets as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	**December 31, 2011**
Long-term loans issued	6,862	2,800
Financial assets held to maturity	1,331	-
Available for sale financial assets	7,528	7,478
Less impairment provision	(707)	(791)
Total long-term financial assets	15,014	9,487

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

As of June 30, 2012 and December 31, 2011 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	June 30, 2012	**December 31, 2011**
Bank loans	110	116
Other borrowings	9,013	7,456
Finance lease liabilities	740	1,257
Current portion of long-term debt	66,923	35,501
Total short-term debt and current part of long-term debt	76,786	44,330

Current portion includes interest payable on long-term borrowings.

As of June 30, 2012 short-term loans were provided by international banks for funding of working capital and consisted of unsecured facilities.

15. Trade and Other Payables

Accounts payable as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	**December 31, 2011**
Trade accounts payable	39,606	36,997
Dividends payable	35,993	1,534
Other accounts payable	5,637	883
Other current financial liabilities	2,241	1,782
Total trade and other payables	83,477	41,196

For six months ended June 30, 2012 Currency – RUB millions

16. Other Taxes Payable

Other taxes payable as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Mineral extraction tax	11,314	12,428
VAT	11,943	9,970
Excise tax	6,963	3,968
Property tax	1,433	1,350
Other taxes	2,808	2,373
Total other taxes payable	34,461	30,089

Taxes other than income tax expense for the three and six months ended June 30, 2012 and 2011 comprise the following:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Mineral extraction tax	36,717	32,817	76,595	62,611
Property tax	1,752	1,527	3,435	3,041
Excise	21,387	15,104	41,180	27,794
Others	3,700	3,009	6,629	5,987
Total taxes other than income tax	63,556	52,457	127,839	99,433

17. Long-Term Debt

As of June 30, 2012 and December 31, 2011 the Group has long-term outstanding loans as follows:

	June 30, 2012	December 31, 2011
Bank loans	122,019	136,456
Other borrowings	2,436	818
Bonds	80,320	71,999
Finance lease liabilities	3,261	3,207
less current portion of debt	(66,923)	(35,501)
Total long-term debt	141,113	176,979

On April 21, 2009, the Group placed ten-year Ruble Bonds (04 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). In April, 2011 an option to redeem the bonds earlier was exercised and in August, 2011 the Group completed a secondary placement of RUB 6.1 billion. The bonds maturing in 2019 bear interest of 8.2% per year and have semi-annual coupon payments.

On July 21, 2009, the Group placed seven-year Ruble Bonds (03 series) with the total par value of RUB 8 billion (all current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 14.75% per year with three year put option to early redeem and have semi-annual coupon payments.

On April 13, 2010, the Group placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUB 20 billion (all current as of June 30, 2012 and non-current as of December 31, 2011). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed five-year Ruble Bonds (08 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year and have semi-annual coupon payments.

For six months ended June 30, 2012 Currency – RUB millions

On February 08, 2011, the Group placed ten-year Ruble Bonds (09 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year with a five year put option to early redeem and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (10 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.9% per year with a seven year put option to early redeem and have semi-annual coupon payments.

On February 7, 2012 the Group placed ten-year Ruble Bonds (11 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012). The bonds bear interest of 8.25% per year. The bonds have an early redemption offer to be made 3 years following the placement.

In July 2010 the Group completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of US$ 1.5 billion (approximately RUB 46 billion). The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015. As of June 30, 2012 and December 31, 2011 the Group has US$ 1.5 billion (approximately RUB 49 billion and RUB 48 billion, respectively) outstanding under the loan (including current portion of US$ 0.5 billion and US$ 0.3 billion or approximately RUB 18 billion and RUB 10 billion) as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 the Group has RUB 73,229 million in long term loans from a number of banks, primarily denominated in US Dollars (including current portion of RUB 18,797 million). As of December 31, 2011 the Group had RUB 88,812 million in long term loans from a number of banks (including current portion of RUB 15,312 million). Interest rates under the loans varied from LIBOR plus 0.5% to fixed interest rate of 6.75%.

The loan agreements contain financial covenants that require the Group's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of June 30, 2012 and December 31, 2011, respectively.

18. Cash flow hedges

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

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of December 31, 2011					
Forward exchange contracts					
Assets	1,858	111	1,747	-	-
Liabilities	(8,604)	(153)	(1,629)	(2,154)	(4,668)
Total	(6,746)	(42)	118	(2,154)	(4,668)
As of June 30, 2012					
Forward exchange contracts					
Assets	1,912	1,912	-	-	-
Liabilities	(9,549)	(251)	(1,990)	(1,702)	(5,606)
Total	(7,637)	1,661	(1,990)	(1,702)	(5,606)

As of June 30, 2012 and December 31, 2011 the Group has outstanding forward currency exchange contracts for a total notional value of US$ 2,915 million and US$ 3,609 million respectively. During the reporting period the amount of RUB 170 million was reclassified from equity to loss in statement of income (for the six ended June 30, 2011 RUB 3.7 billion was reclassified to profit in statement of income).

No significant ineffectiveness occurred during the reporting period.

19. Commitments and Contingencies

Taxes

During 2011 the Russian tax authorities completed reviews of the operations of certain Russian subsidiaries of the Company for the year ended December 31, 2009. There were no significant findings as a result of these reviews.

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

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

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

Operating Environment

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

For six months ended June 30, 2012 Currency – RUB millions

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 June 30, 2012 the Group has entered into contracts to purchase property, plant and equipment for RUB 20,137 million (December 31, 2011: RUB 16,794 million).

20. Group Entities

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

		Ownership interest	
Subsidiary	**Country of incorporation**	**June 30, 2012**	**December 31, 2011**
OJSC "Gazpromneft-Omsk"	Russian Federation	100%	100%
OJSC "Gazpromneft-Tumen"	Russian Federation	100%	100%
OJSC "Gazpromneft-Ural"	Russian Federation	100%	100%
OJSC "Gazpromneft-Novosibirsk"	Russian Federation	100%	97%
OJSC "Gazpromneft-Yaroslavl"	Russian Federation	91%	91%
OJSC "Gazpromneft-Noyabrskneftegaz"	Russian Federation	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%
OJSC "Gazpromneft-ONPZ"	Russian Federation	100%	100%
OJCS "Gazpromneft-MNPZ"	Russian Federation	78%	78%
OJSC "CNT"	Russian Federation	100%	100%
CJSC "Gazpromneft-Severo-Zapad"	Russian Federation	100%	100%
CJSC "Gazpromneft-Kuzbass"	Russian Federation	100%	100%
CJSC "Gazpromneft-Aero"	Russian Federation	100%	100%
CJSC "Gazpromneft-Orenburg"	Russian Federation	62%	62%
LLC "Gazpromneft Marin Bunker"	Russian Federation	100%	100%
LLC "Gazpromneft-Center"	Russian Federation	100%	100%
LLC "Gazproneftfinance"	Russian Federation	100%	100%
LLC "Gazpromneft-Smazochnye Materialy"	Russian Federation	100%	100%
LLC "NK "Sibneft-Ugra"	Russian Federation	100%	100%
LLC "Gazpromneft-Vostok"	Russian Federation	100%	100%
LLC "Zapolyarneft"	Russian Federation	100%	100%
LLC "Gazpromneft-Hantos"	Russian Federation	100%	100%
Gazpromneft Trading GmbH	Austria	100%	100%
NAFTNA INDUSTRIJA SRBIJE (NIS)	Serbia	56%	56%

21. Related party transactions

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

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

For six months ended June 30, 2012 Currency – RUB millions

Transactions with key management personnel

Key management received remunerations: salaries, bonuses and other contributions amounted to RUB 237 million for the six months ended June 30, 2012 and to RUB 168 million for the six months ended June 30, 2011.

Other related party transactions

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

As of June 30, 2012 and December 31, 2011 the outstanding balances with related parties were as follows:

June 30, 2012	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Short-term financial assets	-	4,868	4,008
Trade receivables	366	349	1,778
Other receivables	-	-	10,683
Other assets	183	984	2,075
Cash and cash equivalents	-	8,220	-
Long-term financial assets	-	-	3,498
Total assets	**549**	**14,421**	**22,042**
Short-term debt	713	-	8,145
Trade and other payables	31,459	3,710	4,434
Other current liabilities	120	68	1,547
Long-term debt	3,261	-	586
Total liabilities	**35,553**	**3,778**	**14,712**

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

For the six months ended June 30, 2012 and 2011 the following transaction occurs with related parties:

Six months ended June 30, 2011	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Crude oil, gas and oil products sales	26	440	21,948
Other revenue	4	27	1,398
Purchases of crude oil, gas and oil products	-	-	74,592
Production related services	-	-	3,789
Transportation costs	1,067	2,316	6,733
Other services	6	409	4
Interest income	-	-	194

For six months ended June 30, 2012 Currency – RUB millions

Six months ended June 30, 2012	Parent company	Entities under common control	Associates and joint ventures
Crude oil, gas and oil products sales	2,606	1,577	24,349
Other revenue	-	72	2,554
Purchases of crude oil, gas and oil products	-	4,188	85,789
Production related services	-	-	5,074
Transportation costs	1,762	1,983	9,148
Other services	524	4,404	395
Interest income	-	-	311

22. Segment information

Presented below is information about the Group's operating segments for the six months ended June 30, 2012 and 2011. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

Intersegment revenues are based upon estimated market prices.

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

For the period ended June 30, 2012	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	7,409	571,773	-	579,182
Inter-segment	163,734	2,194	(165,928)	-
Total revenues	171,143	573,967	(165,928)	579,182
Segment results				
Adjusted EBITDA	76,159	73,138	-	149,297
Depreciation, depletion and amortisation	19,232	9,251	-	28,483
Segment assets as of June 30, 2012	626,690	849,571	(268,417)	1,207,844
Capital expenditure	34,808	27,469	-	62,277

For six months ended June 30, 2012 Currency – RUB millions

For the period ended June 30, 2011

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	3,307	484,193	-	487,500
Inter-segment	148,569	1,449	(150,018)	-
Total revenues	151,876	485,642	(150,018)	487,500
Segment results				
Adjusted EBITDA	69,741	70,335	-	140,076
Depreciation, depletion and amortisation	17,260	8,578	-	25,838
Segment assets as of December 31, 2011	616,075	787,795	(285,711)	1,118,159
Capital expenditure	43,603	10,526	-	54,129

The geographical segmentation of the Group's revenue and capital expenditures for the period ended June 30 is presented below:

For the period ended June 30, 2012	Russian Federation	CIS	Export and international sales	Total
Sales to external customers, gross	300,618	46,807	376,713	724,138
Less custom duties and sales related excises	-	(1,448)	(143,508)	(144,956)
Revenues from external customers, net	**300,618**	**45,359**	**233,205**	**579,182**
For the period ended June 30, 2011				
Sales to external customers, gross	231,131	39,030	339,205	609,366
Less custom duties and sales related excises	-	(3,651)	(118,215)	(121,866)
Revenues from external customers, net	**231,131**	**35,379**	**220,990**	**487,500**

	Russian Federation	CIS	Export and international sales	Total
Non-current assets as of June 30, 2012	740,750	7,794	82,091	830,635
Capital expenditures for the six months ended June 30, 2012	58,400	537	3,340	62,277
Non-current assets as of December 31, 2011	720,350	7,130	71,967	799,447
Capital expenditures for the six months ended June 30, 2011	49,050	265	4,814	54,129

Adjusted EBITDA for the three and six months ended June 30, 2012 and 2011 is reconciled below:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Profit for the period	33,869	39,958	83,957	80,726
Total income tax expense	6,266	10,944	16,131	22,968
Finance expense	2,683	2,664	5,021	5,683
Finance income	(1,083)	(379)	(1,626)	(755)
Depreciation, depletion and amortization	14,413	13,741	28,483	25,838
Net foreign exchange (loss) / gain	4,849	(4,048)	2,297	(7,861)
Other income, net	(1,372)	(1,671)	(1,609)	(1,969)
EBITDA	59,625	61,209	132,654	124,630
less Share of (loss) profit of equity accounted investments	1,733	(2,782)	(10,354)	(4,482)
add Share of EBITDA of equity accounted investments	8,677	10,013	26,997	19,928
Total adjusted EBITDA	70,035	68,440	149,297	140,076

23. Subsequent events

In July 2012 an option to redeem Ruble bonds (03 series) was earlier exercised and the Group repaid RUB 7.9 billion (included in current portion of long-term debt as of June 30, 2012).

24. Explanation to transition to IFRS

US GAAP differs in certain aspects from IFRS. Therefore, while preparing these Interim Condensed Consolidated Financial Statements the Group has amended certain accounting, measurement and consolidation methods previously applied in US GAAP financial statements to comply with IFRS. The detailed explanation of transition to IFRS is presented in the Interim Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2012.

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

a. Reclassifications

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

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

b. Functional Currency

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

c. Deemed Cost

The Group applied the exemption allowed by IFRS to the measurement of certain items of property, plant and equipment, fair value of which was stated as deemed cost as at date of Transition.

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the adjustment on revaluation of property, plant and equipment as deemed cost (increase in deferred tax asset of RUB 162 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 87 million).

d. Historical cost

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

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (decrease in deferred tax asset of RUB 3,560 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 5,998 million).

e. Measurement of financial liabilities

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

f. Hedge accounting

As allowed by IAS 39 the Group applied hedge accounting in financial statements prepared in accordance with IFRS.

g. Decommissioning obligation

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

h. Other adjustments

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

Impact on the cash flow statements

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

Below the reconciliations of Statement of financial position as of June 30, 2011 and comprehensive income for the three and six months ended June 30, 2011 are provided.

Reconciliation of shareholders' equity as of June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Assets											
Current assets											
Cash and cash equivalents	1,129	31,698	-	-	-	-	-	-	(10)	(10)	31,688
Short-term financial assets	279	7,833	1,572	-	-	-	-	-	(258)	1,314	9,147
Trade and other receivables	3,505	98,406	(30,434)	-	-	-	-	-	318	(30,116)	68,290
Inventories	2,280	64,013	-	-	1,322	-	-	-	-	1,322	65,335
Current income tax prepayments	-	-	4,071	-	-	-	-	-	(13)	4,058	4,058
Other current assets	1,401	39,334	32,568	-	720	(245)	-	-	-	33,043	72,377
Assets classified as held for sale	310	8,703	-	-	739	-	-	-	-	739	9,442
Total current assets	**8,904**	**249,987**	**7,777**	**-**	**2,781**	**(245)**	**-**	**-**	**37**	**10,350**	**260,337**
Non-current assets											
Property, plant and equipment	16,790	471,393	1,179	(809)	17,799	-	-	-	(221)	17,948	489,341
Goodwill and other intangible assets	1,273	35,740	-	-	1,839	-	-	-	-	1,839	37,579
Investments in associates	-	-	168,567	-	5,435	-	-	-	-	174,002	174,002
Long-term trade and other receivables	-	-	225	-	-	-	-	-	2	227	227
Long-term financial assets	6,909	193,976	(167,163)	-	(1,081)	-	-	-	(95)	(168,339)	25,637
Deferred income tax asset	172	4,829	-	1,087	2,380	-	1,883	(122)	(31)	5,197	10,026
Other non-current assets	712	19,990	(6,542)	-	-	(1,696)	-	-	56	(8,182)	11,808
Total non-current assets	**25,856**	**725,928**	**(3,734)**	**278**	**26,372**	**(1,696)**	**1,883**	**(122)**	**(289)**	**22,692**	**748,620**
Total assets	**34,760**	**975,915**	**4,043**	**278**	**29,153**	**(1,941)**	**1,883**	**(122)**	**(252)**	**33,042**	**1,008,957**

Reconciliation of shareholders' equity as of June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Liabilities and shareholders' equity											
Current liabilities											
Short-term debt and current portion of long-term debt	1,164	32,680	2,078	-	-	(152)	-	-	(67)	1,859	34,539
Trade and other payables	2,915	81,840	(22,405)	-	-	-	-	-	(147)	(22,552)	59,288
Other current liabilities	-	-	18,951	-	-	-	-	-	(164)	18,787	18,787
Current income tax payable	-	-	2,639	-	-	-	-	-	(5)	2,634	2,634
Other taxes payable	1,185	33,270	(2,639)	-	-	-	-	-	9	(2,630)	30,640
Provisions for liabilities and charges	-	-	5,419	-	-	-	-	-	466	5,885	5,885
Liabilities of disposal groups classified as held for sale	140	3,931	-	-	-	-	-	-	581	581	4,512
Total current liabilities	**5,404**	**151,721**	**4,043**	**-**	**-**	**(152)**	**-**	**-**	**673**	**4,564**	**156,285**
Non-current liabilities											
Long-term debt	5,919	166,181	-	-	-	(1,104)	-	-	(3)	(1,107)	165,074
Deferred income tax liability	830	23,303	-	1,012	(58)	137	-	-	44	1,135	24,438
Other non-current financial liabilities	-	-	-	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	406	11,399	5,756	-	-	-	-	887	(80)	6,563	17,962
Other non-current liabilities	273	7,665	(5,756)	-	-	-	-	-	(156)	(5,912)	1,753
Total non-current liabilities	**7,428**	**208,548**	**-**	**1,012**	**(58)**	**(967)**	**-**	**887**	**(195)**	**679**	**209,227**
Equity											
Share capital	2	56	-	-	42	-	-	-	-	42	98
Treasury shares	(45)	(1,263)	-	-	93	-	-	-	-	93	(1,170)
Additional paid-in capital	717	20,130	-	-	(11,156)	-	-	-	-	(11,156)	8,974
Retained earnings	20,078	563,706	-	(734)	36,544	(822)	(5,819)	(1,009)	3,168	31,328	595,034
Other reserves	-	-	-	-	-	-	7,702	-	(2,717)	4,985	4,985
Equity attributable to the Company's owners	**20,752**	**582,629**	**-**	**(734)**	**25,523**	**(822)**	**1,883**	**(1,009)**	**451**	**25,292**	**607,921**
Non-controlling interest	1,176	33,017	-	-	3,688	-	-	-	(1,181)	2,507	35,524
Total equity	**21,928**	**615,646**	**-**	**(734)**	**29,211**	**(822)**	**1,883**	**(1,009)**	**(730)**	**27,799**	**643,445**
Total liabilities and shareholders' equity	**34,760**	**975,915**	**4,043**	**278**	**29,153**	**(1,941)**	**1,883**	**(122)**	**(252)**	**33,042**	**1,008,957**

Reconciliation of comprehensive income for the three months ended June , 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifications	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Other adjustments		
Sales	11,476	321,164	-	-	-	-	-	-	(109)	(109)	321,055
Less export duties and excise tax	(2,104)	(58,882)	(6,661)	-	-	-	-	-	(31)	(6,692)	(65,574)
Total revenue from sales	**9,372**	**262,282**	**(6,661)**	**-**	**-**	**-**	**-**	**-**	**(140)**	**(6,801)**	**255,481**
Costs and other deductions											
Purchases of oil, gas and petroleum products	(3,060)	(85,636)	224	-	(511)	-	-	-	205	(82)	(85,718)
Production and manufacturing expenses	(776)	(21,717)	(4,366)	-	-	-	-	-	(211)	(4,577)	(26,294)
Selling, general and administrative expenses	(398)	(11,138)	(84)	-	-	-	-	-	(406)	(490)	(11,628)
Transportation expenses	(896)	(25,075)	4,506	-	-	-	-	-	(29)	4,477	(20,598)
Depreciation, depletion and amortization	(505)	(14,133)	-	994	(602)	-	-	-	-	392	(13,741)
Taxes other than income tax	(2,113)	(59,134)	6,633	-	-	-	-	-	44	6,677	(52,457)
Exploration expenses	(12)	(336)	-	-	-	-	-	-	(23)	(23)	(359)
Total operating expenses	**(7,760)**	**(217,169)**	**6,913**	**994**	**(1,113)**	**-**	**-**	**-**	**(420)**	**6,374**	**(210,795)**
Other income, net	42	1,175	896	-	(805)	-	-	-	405	496	1,671
Operating profit	**1,654**	**46,288**	**1,148**	**994**	**(1,918)**	**-**	**-**	**-**	**(155)**	**69**	**46,357**
Share of profit of equity accounted investments	87	2,435	336	-	-	-	-	-	11	347	2,782
Net foreign exchange (loss) gain	(106)	(2,966)	(896)	-	-	-	6,129	-	1,781	7,014	4,048
Finance income	26	728	(336)	-	-	-	-	-	(13)	(349)	379
Finance expense	(76)	(2,127)	(252)	-	-	(136)	-	(109)	(40)	(537)	(2,664)
Total other income/expense	**(69)**	**(1,930)**	**(1,148)**	**-**	**-**	**(136)**	**6,129**	**(109)**	**1,739**	**6,475**	**4,545**
Profit before income tax	**1,585**	**44,358**	**-**	**994**	**(1,918)**	**(136)**	**6,129**	**(109)**	**1,584**	**6,544**	**50,902**
Current profit tax expense	(313)	(8,760)	-	-	-	-	-	-	(21)	(21)	(8,781)
Deferred profit tax expense	(54)	(1,511)	-	(21)	(604)	(27)	-	-	-	(652)	(2,163)
Total income tax expenses	**(367)**	**(10,271)**	**-**	**(21)**	**(604)**	**(27)**	**-**	**-**	**(21)**	**(673)**	**(10,944)**
Profit for the period	**1,218**	**34,087**	**-**	**973**	**(2,522)**	**(163)**	**6,129**	**(109)**	**1,563**	**5,871**	**39,958**
Attributable to:											
- Gazprom Neft shareholders	1,167	32,660	-	973	(2,522)	(163)	6,129	(109)	1,491	5,799	38,459
- Non-controlling interest	51	1,427	-	-	-	-	-	-	72	72	1,499

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifications	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Other adjustments		
Other comprehensive income:											
Currency translation differences	-	-	-	-	-	-	-	-	(427)	(427)	(427)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-	(5,621)	-	-	(5,621)	(5,621)
Other comprehensive income for the period	-	-	-	-	-	-	(5,621)	-	(427)	(6,048)	(6,048)
Total comprehensive income for the period	**1,218**	**34,087**	**-**	**973**	**(2,522)**	**(163)**	**508**	**(109)**	**1,136**	**(177)**	**33,910**
Attributable to:											
- Gazprom Neft shareholders	1,167	32,660	-	973	(2,522)	(163)	508	(109)	1,234	(79)	32,581
- Non-controlling interest	51	1,427	-	-	-	-	-	-	(98)	(98)	1,329

Reconciliation of comprehensive income for the six months ended June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Sales	21,341	609,911	-	-	-	-	-	-	(545)	(545)	609,366
Less export duties and excise tax	(3,870)	(110,572)	(11,286)	-	-	-	-	-	(8)	(11,294)	(121,866)
Total revenue from sales	**17,471**	**499,339**	**(11,286)**	**-**	**-**	**-**	**-**	**-**	**(553)**	**(11,839)**	**487,500**
Costs and other deductions											
Purchases of oil, gas and petroleum products	(5,284)	(150,732)	926	-	(1,820)	-	-	-	410	(484)	(151,216)
Production and manufacturing expenses	(1,471)	(42,060)	(8,317)	-	-	-	-	-	41	(8,276)	(50,336)
Selling, general and administrative expenses	(854)	(24,485)	62	-	-	-	-	-	(303)	(241)	(24,726)
Transportation expenses	(1,696)	(48,491)	7,726	-	-	-	-	-	5	7,731	(40,760)
Depreciation, depletion and amortization	(929)	(26,543)	-	1,414	(709)	-	-	-	-	705	(25,838)
Taxes other than income tax	(3,885)	(111,000)	11,463	-	-	-	-	-	104	11,567	(99,433)
Exploration expenses	(34)	(980)	(88)	-	-	-	-	-	187	99	(881)
Total operating expenses	**(14,153)**	**(404,291)**	**11,772**	**1,414**	**(2,529)**	**-**	**-**	**-**	**444**	**11,101**	**(393,190)**
Other income, net	62	1,760	720	-	(1,035)	-	-	-	524	209	1,969
Operating profit	**3,380**	**96,808**	**1,206**	**1,414**	**(3,564)**	**-**	**-**	**-**	**415**	**(529)**	**96,279**
Share of profit of equity accounted investments	128	3,635	863	-	-	-	-	-	(16)	847	4,482
Net foreign exchange gain	60	1,893	(720)	-	-	-	(866)	-	7,554	5,968	7,861
Finance income	58	1,665	(863)	-	-	-	-	-	(47)	(910)	755
Finance expense	(169)	(4,849)	(486)	-	-	(224)	-	(208)	84	(834)	(5,683)
Total other income/expense	**77**	**2,344**	**(1,206)**	**-**	**-**	**(224)**	**(866)**	**(208)**	**7,575**	**5,071**	**7,415**
Profit before income tax	**3,457**	**99,152**	**-**	**1,414**	**(3,564)**	**(224)**	**(866)**	**(208)**	**7,990**	**4,542**	**103,694**
Current profit tax expense	(729)	(20,936)	-	-	-	-	-	-	(1)	(1)	(20,937)
Deferred profit tax expense	(57)	(1,599)	-	183	(570)	(45)	-	-	-	(432)	(2,031)
Total income tax expenses	**(786)**	**(22,535)**	**-**	**183**	**(570)**	**(45)**	**-**	**-**	**(1)**	**(433)**	**(22,968)**
Profit for the period	**2,671**	**76,617**	**-**	**1,597**	**(4,134)**	**(269)**	**(866)**	**(208)**	**7,989**	**4,109**	**80,726**
Attributable to:											
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	(866)	(208)	7,607	3,727	78,449
- Non-controlling interest	67	1,895	-	-	-	-	-	-	382	382	2,277

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Other comprehensive income:											
Currency translation differences	-	-	-	-	-	-	-	-	(3,905)	(3,905)	(3,905)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	1,724	-	-	1,724	1,724
Other comprehensive income for the period	-	-	-	-	-	-	1,724	-	(3,898)	(2,174)	(2,174)
Total comprehensive income for the period	**2,671**	**76,617**	**-**	**1,597**	**(4,134)**	**(269)**	**858**	**(208)**	**4,091**	**1,935**	**78,552**
Attributable to:											
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	858	(208)	4,890	2,734	77,456
- Non-controlling interest	67	1,895	-	-	-	-	-	-	(799)	(799)	1,096

The Group's office is:

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

Telephone:	7 (812) 63-3152
Hotline:	8-800-700-3152
Fax:	7 (812) 363-31-51

www.gazprom-neft.ru

Investor Relations

Tel.: +7 (812) 385-9548
Email: ir@gazprom-neft.ru