SLAVNEFT GROUP
IFRS CONSOLIDATED
INTERIM CONDENSED
FINANCIAL INFORMATION
(UNAUDITED)
AS OF AND FOR THE THREE MONTHS ENDED
31 MARCH 2013

pwc

Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of OAO NGK Slavneft:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NGK Slavneft and its subsidiaries (the "Group") as of 31 March 2013 and the related consolidated interim condensed statements of profit and loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed 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 consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

07 May 2013
Moscow, Russian Federation

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Slavneft Group
Consolidated Interim Condensed Statement of Financial Position as of 31 March 2013 (Unaudited)
(in million of Russian Roubles, unless noted otherwise)

	Notes	31 March 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	6	215,595	212,490
Investments		314	353
Deferred income tax assets	16	4,287	3,922
Other non-current assets	7	2,835	2,824
Total non-current assets		**223,031**	**219,589**
Current assets			
Inventories	8	6,542	6,157
Accounts receivable and prepayments	9	8,790	9,267
Loans receivable	24	35	33
Income tax receivables		1,552	2,359
Cash and cash equivalents	10	33,514	32,117
Other current assets		1	6
Total current assets		**50,434**	**49,939**
Total assets		**273,465**	**269,528**
Equity			
Ordinary share capital		70	70
Retained earnings		28,908	26,757
Additional paid-in capital		54,812	54,812
Total equity attributable to OAO NGK Slavneft's shareholders		83,790	81,639
Non-controlling interest	27	71,684	69,706
Total equity		**155,474**	**151,345**
Liabilities			
Non-current liabilities			
Non-current debt	11	32,074	36,956
Deferred income tax liabilities	16	9,545	9,620
Decommissioning and environmental liabilities	12	16,525	15,807
Other non-current liabilities		346	571
Total non-current liabilities		**58,490**	**62,954**
Current liabilities			
Current debt and current portion of non-current debt	11	22,481	21,092
Trade payables	13	13,815	12,916
Advances received		1,092	405
Dividends payable	26	1,707	1,714
Taxes payable	14	18,768	17,445
Other current liabilities	15	1,638	1,657
Total current liabilities		**59,501**	**55,229**
Total liabilities		**117,991**	**118,183**
Total equity and liabilities		**273,465**	**269,528**

Trukhachev A.N.
Vice President on corporate relations
OAO «NGK «Slavneft»

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Vice-president on economics and finance
OAO «NGK «Slavneft»

07 May 2013

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

Slavneft Group
Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income for the three months ended 31 March 2013 (Unaudited)
(in million of Russian Roubles, unless noted otherwise)

	Notes	Three months ended 31 March 2013	Three months ended 31 March 2012
Revenue	**17**	**47,974**	**53,843**
Production expenses	**18**	(9,688)	(8,465)
Selling, general and administrative expenses	**18**	(1,458)	(1,352)
Cost of other sales	**18**	(821)	(731)
Taxes other than income taxes	**19**	(23,722)	(24,621)
Depreciation, depletion and amortization	**6**	(5,870)	(6,612)
Exploration expenses		(237)	(110)
Impairment and loss on disposal of assets	**20**	(189)	(489)
Total operating expenses and costs		**(41,985)**	**(42,380)**
Operating profit		**5,989**	**11,463**
Finance income	**21**	376	187
Finance costs	**21**	(364)	(322)
Foreign exchange (loss)/gain	**21**	(872)	4,661
Profit before income tax		**5,129**	**15,989**
Income tax expense	**16**	(999)	(3,174)
Profit for the period		**4,130**	**12,815**
Other comprehensive income		**-**	**-**
Total comprehensive income		**4,130**	**12,815**
attributable to:			
OAO NGK Slavneft shareholders		2,151	8,390
Non-controlling interest	**27**	1,979	4,425

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

Slavneft Group

Consolidated Interim Condensed Statement of Changes in Equity for the three months ended 31 March 2013 (Unaudited)

(in million of Russian Roubles, unless noted otherwise)

	Equity attributable to Group shareholders					
	Ordinary share capital	Additional paid-in capital	Retained earnings	Total	Non-controlling Interest	Total equity
At 1 January 2012	**70**	**54,812**	**22,834**	77,716	**61,786**	**139,502**
Profit for the period	-	-	8,390	8,390	4,425	12,815
Total comprehensive income	**-**	**-**	**8,390**	**8,390**	**4,425**	**12,815**
At 31 March 2012	**70**	**54,812**	**31,224**	**86,106**	**66,211**	**152,317**
At 1 January 2013	**70**	**54,812**	**26,757**	**81,639**	**69,706**	**151,345**
Profit for the period	-	-	2,151	2,151	1,979	4,130
Total comprehensive income	-	-	**2,151**	**2,151**	**1,979**	**4,130**
At 31 March 2013	**70**	**54,812**	**28,908**	**83,790**	**71,684**	**155,474**

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

Consolidated Interim Condensed Statement of Cash Flows for the three months ended 31 March 2013 (Unaudited)

(in million of Russian Roubles, unless noted otherwise)

	Three months ended 31 March 2013	Three months ended 31 March 2012
Cash flows from operating activities		
Profit for the period from continued operations	**4,130**	**12,815**
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation, depletion and amortization	5,870	6,612
Impairment and loss on disposal of assets	189	489
Finance costs/(income), net	860	(4,526)
Income tax expense	999	3,174
Change in provisions	719	389
Other	271	(164)
Cash flow from operating activities before working capital changes	**13,038**	**18,789**
Changes in working capital:		
Decrease/(Increase) in accounts receivable and prepayments	442	(1,194)
Increase in inventories	(777)	(555)
Increase in other current and non-current assets	(4)	(506)
Increase in accounts payable	1,578	610
Increase in other current liabilities	126	118
Decrease in other non-current liabilities	(78)	(6)
Increase in taxes payable	1,381	3,459
Income tax paid	(739)	(1,053)
Net cash provided by operating activities – continued operations	**14,967**	**19,662**
Net cash used in operating activities – discontinued operations	**-**	**(36)**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	64	69
Interest received	376	187
Purchases of property, plant and equipment	(9,244)	(8,529)
Net cash used in investing activities – continued operations	**(8,804)**	**(8,273)**
Net cash used in investing activities – discontinued operations	**-**	**-**
Cash flows from financing activities		
Repayments of current debt	-	(9)
Repayments of non-current debt	(4,573)	(226)
Interest payments	(186)	(125)
Dividends paid	(7)	(3)
Net cash used in financing activities – continued operations	**(4,766)**	**(363)**
Net cash used in financing activities – discontinued operations	**-**	**-**
Net increase in cash and cash equivalents – continued operations	**1,397**	**11,026**
Net decrease in cash and cash equivalents – discontinued operations	**-**	**(36)**
Cash and cash equivalents at beginning of period – continued operations	**32,117**	**6,888**
Cash and cash equivalents at beginning of period – discontinued operations	**-**	**36**
Cash and cash equivalents at end of period – continued operations	**33,514**	**17,914**
Cash and cash equivalents at end of period – discontinued operations	**-**	**-**

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

NOTE 1. GENERAL INFORMATION

OAO NGK Slavneft (the "Company") and its subsidiaries (jointly referred to as the "Group") are engaged in oil exploration, development, production, refining and selling activities for oil in the Russian Federation.

The Company was established as an open joint-stock company in August 1994 in accordance with the Decree of the Government of the Russian Federation № 305, issued April 8, 1994, the Decree of the Council of Ministers of Byelorussia # 589-r, issued June 15, 1994 and the Charter agreement from June 27, 1994. Under the provisions of the decrees and the Charter agreement, the Russian Federation transferred to the Company 60.5% of voting shares of OAO Slavneft-Megionneftegaz, currently the principal oil producing subsidiary of the Group, and 50.7% of voting shares of OAO Megionneftegazgeologiya, Byelorussia transferred to the Company 17.6% of OAO Mozyrsky NPZ and another 15% of OAO Mozyrsky NPZ was transferred to the Company by a number of individuals in exchange for the Company's shares. Upon formation of the Company, 86.3% of its share capital was owned by the Russian Federation, 7.2% by Byelorussia and 6.5% by a number of individuals.

The authorized capital of the Company is 4,754,238,000 common shares with a par value of RR 0.001 per share. The carrying value of share capital as at 31 March 2013 and 31 December 2012 differs from its historic value due to the effect of hyperinflation in Russian Federation till 31 December 2002.

In a series of transactions through January 2003, including participation in privatization auctions in the Russian Federation and Byelorussia, 99% of the Company's shares were ultimately acquired together by OAO Siberian Oil Company (currently known as OAO Gazprom Neft) and TNK-BP Group (the "Primary Shareholders"). The Primary shareholders jointly control the Group. There is no single controlling party of the Group.

The Company's registered address: 125047, Russian Federation, Moscow, 4, 4th Lesnoy side-street.

NOTE 2. BASIS OF PRESENTATION

Statement of compliance

The Consolidated Interim Condensed Financial Information is prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). This Consolidated Interim Condensed Financial Information should be read together with the Consolidated Financial Statements for the year ended 31 December 2012 prepared in accordance with IFRSs.

The Group's subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation. Subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations.

The accompanying Consolidated Interim Condensed Financial Information have been prepared from these accounting records and adjusted as necessary in order to comply with IFRSs.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Consolidated Interim Condensed Financial Information, the Group has adopted all these new and revised IFRSs, except for any new standards or interpretations that are not yet effective as at 1 January 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2013 are set out in Note 3.

Basis of measurement

These Consolidated Interim Condensed Financial Information have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

NOTE 2. BASIS OF PRESENTATION (CONTINUED)

Functional and presentation currency

The Group's functional currency is the Russian Roubles (RR) because it reflects the economic substance of the underlying events and circumstances of the Company and its subsidiaries. The Consolidated Interim Condensed Financial Information are presented in Russian Roubles, and all values are rounded to the nearest million, except when otherwise indicated.

Going concern

Management prepared this Consolidated Interim Condensed Financial Information on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the situation in the financial markets on the operations of the Group.

The Group believes that its operating cash flows, refinancing capabilities and ability to manage the timing of settlement of transactions with Primary Shareholders provide adequate liquidity for the foreseeable future. Thus the Group continues to use the going concern basis of accounting in preparing the annual consolidated financial statements.

Changes in accounting policies and presentation

The accounting policies and judgements applied by the Group in this Consolidated Interim Condensed Financial Information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2012, except for the change in accounting policy as explained in Note 3.

NOTE 3. APPLICATION OF NEW AND REVISED IFRS

In 2013 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2013 and which are relevant to its operations.

Standards, Amendments or Interpretations effective in 2013

- IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, 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 and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. 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 classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. 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 to be no recycling of fair value gains and losses to profit or loss. 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 mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

The following other new pronouncements did not impacted material effect on the Group when adopted:

- IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC 12 "Consolidation – special purpose entities".

NOTE 3. APPLICATION OF NEW AND REVISED IFRS (CONTINUED)

- IFRS 11 "Joint Arrangements", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers".

- IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

- IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve disclosures and achieve consistency by providing a revised definition of fair value.

- IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), which were changed by IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements".

- Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income (OCI).

- Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

- "Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013), which requires disclosures that will enable users to better evaluate the effect of netting arrangements, including rights of set-off.

- "Disclosures – Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014), which clarifies the meaning of 'currently has a legally enforceable right of set-off'.

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013), which consists of improvements to five standards.

NOTE 3. APPLICATION OF NEW AND REVISED IFRS (CONTINUED)

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Non-controlling interests

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

In acquisitions of subsidiaries, the Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposals of subsidiaries and associates

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

If the ownership interest in an associate / joint venture is reduced but significant influence / joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Functional currency and 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 Effect of Changes in Foreign Exchange Rates the Group has analyzed several factors which influenced on the assessment of functional currency and based on the analysis has determined the functional currency for each entity of the Group.

The functional currency and the presentation currency of the Group is the Russian rouble (RR).

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into RR at the official exchange rates of the Central Bank of the Russian Federation at that date. Non monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cashflows 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 the profit or loss.

(in million of Russian Roubles, unless noted otherwise)

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following exchange rates determined by the Central Bank of the Russian Federation have been applied at 31 March 2013 and 2012, 31 December 2012 and for the three months ended 31 March 2013 and 2012 (in RR):

	At 31 March	At 31 December	At 31 March	Average rates for the three months ended 31 March	
	2013	2012	2012	2013	2012
For one currency unit to equivalent Russian rouble					
US dollar (“USD”)	31.0834	30.3727	29.3282	30.4142	30.2642
Euro (“EUR”)	39.8023	40.2286	39.1707	40.1908	39.6784

Property, plant and equipment

Basis of carrying value of property, plant and equipment

Property, plant and equipment are stated at historical cost of acquisition or construction adjusted for accumulated depreciation, depletion, amortization and impairment, except for property, plant and equipment acquired prior to 1 January 2003, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Subsequent expenditures are capitalised if future economic benefits will arise from the expenditure. All other expenditures are recognised in the in profit or loss for the year.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the reporting period.

Oilfield licenses

Oil and gas licenses include expenditures incurred in acquiring mineral and development rights. Oil and gas licenses rights are classified as property, plant and equipment. Amortization of oil and gas licenses is calculated using the unit-of-production method based upon proved developed and undeveloped reserves.

Depreciation

Depreciation, depletion and amortization of capitalised costs of proved oil and gas properties and equipment is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a “life of field” basis as the Company believes it will continue to be successful in the renewal of its oil and gas licenses.

Property, plant and equipment which is not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line method basis as follows:

Buildings and constructions	30 years
Machinery and equipment	10-25 years
Motor vehicles and other equipment	5 years

Exploration, evaluation and development of oil wells

The “successful efforts” principle is used to account for oil and gas exploration and evaluation activities.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The successful efforts method allows the capitalisation of only those expenses associated with successfully locating new oil and natural gas reserves. For unsuccessful (or "dry hole") results, the associated exploration costs are immediately charged to expenses for that period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Impairment and loss on disposal of assets' in the profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortization or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

Impairment

The Group reviews the carrying amounts of its non-current assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A recoverable amount is the higher of fair value less costs to sell and value-in-use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount, and an impairment loss is recognised immediately in profit and loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount unless it is solely related to the time value of money. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Inventories

Crude oil and petroleum products. Crude oil and petroleum products are measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Other inventories. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provision is made for obsolete, slow-moving and defective inventories.

Catalysts are consumed and amortized during 3-5 years; therefore they are presented within "Other non-current assets".

Financial assets

The Company recognises financial assets on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When financial assets are recognised initially, they are classified as following:

1. financial assets at fair value through profit or loss;
2. financial assets measured at amortized cost.

The Group does not hold financial assets at fair value through profit or loss and financial assets held to maturity.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

Dividends and interest income are recognised in the profit or loss on an accrual basis. The amount of accrued interest income is calculated using effective interest rate.

Cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less and bank overdrafts. In the consolidated Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Financial liabilities

The Company recognises financial liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognised initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognised initially, they are classified as following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. However, subsequent to initial recognition, the liability cannot be reclassified.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the profit or loss. Other financial liabilities are carried at amortized cost.

The Group does not hold financial liabilities held for trading and financial liabilities measured at fair value through profit or loss.

The Group does not use derivative financial instruments.

Offsetting.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Discontinued operations. Assets/liabilities classified as held for sale.

Primarily non-current assets and liabilities expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease.

Non-current asset are classified as held for sale when all of the following criteria must be satisfied:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions);
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value;
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

These are measured at the lower of their carrying amount and fair value less costs to sell. A potential gain or loss is offset against the carrying amount of the assets and liabilities classified as held for sale. Assets classified as held for sale are not depreciated.

Discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Earnings and cash flows of discontinued operations, if any, are separately presented from continuing operations with comparatives being re-presented.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the Group has classified an asset (or disposal group) as held for sale, but the criteria are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale. The Group shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

The Group shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the criteria are no longer met.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning and restoration costs. The Group recognises provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives.

Provisions for the future decommissioning are recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the statement of financial position date:

- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of oil production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision due to the passage of time is recognised as finance costs in the profit or loss.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit and loss.

Gains from the expected disposal of oil and gas assets at the end of the life of field are not taken into account when determining the provision.

The estimated discounted costs of dismantling and removing these facilities are accrued on the installation of those facilities, reflecting legal obligations of the Group at that time. Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal event actually occurs are uncertain. Asset removal technologies and costs are constantly changing, as well as

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

political, environmental, safety and public expectations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty.

Decommissioning provisions associated with downstream and petrochemical facilities are generally not provided for as such potential obligations cannot be measured given their indeterminate settlement dates.The Group performs periodic reviews of its downstream and petrochemical long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

Liabilities for environmental remediation costs (environmental provision) not related to retirements of oil and natural gas properties, and arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reliably estimated.

Taxation

Income tax expense comprises current and deferred tax.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and includes any adjustment to tax payable in respect of previous years.

The interim income tax rate reflects management's best estimate of the expected annual tax rate for the Group.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred taxation is calculated at enacted or substantively enacted rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case deferred taxation is also recognised in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value-added tax (VAT) receivable and payable is recognised, respectively, as Accounts receivable and prepayments and other current assets and Taxes payable in the consolidated statement of financial position. Provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Tax provisions

Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances.

A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in profit and loss for the period in which the change occurs.

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in profit and loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Equity

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in-capital in equity.

Dividends declared

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Retained earnings

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory Financial Information of the individual Group entities. These amounts may differ significantly from the amounts recognised in the Group's consolidated IFRS Financial Statements.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue represents the invoiced value for crude oil and petroleum products, excluding value-added tax, and is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes.

Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other on the consolidated statements of income. When the Group companies act as an agent for purchases and sales of inventory, they are also reported on a net basis. Revenue is shown net of discounts, value-added tax and export duties.

Operating lease payments

Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit and loss in the period in which they are due on straight-line basis in accordance with the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies management has made the following critical accounting judgments, estimates and assumptions that have a significant effect on the amounts recognised in this financial information.

Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Estimation of oil and gas reserves

Oil and gas development and production assets are depreciated on a unit-of-production ("UOP") basis for each field at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of impairment charges and reversals. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be recognised.

NOTE 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recorded in profit and loss in that period.

Useful life 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.

Decommissioning and restoration costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingencies

Certain conditions may exist as of the date of these Consolidated Interim Condenced Financial Information which may further result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group's management makes an assessment of such contingent liabilities which 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 or 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 reliably, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated reliably, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

(in million of Russian Roubles, unless noted otherwise)

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Plant and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2012	**191,584**	**70,539**	**34,261**	**296,384**
Transfers from Assets held for sale	-	9,314	171	9,485
Additions	408	-	8,435	8,843
Transfers	14,872	488	(15,360)	-
Disposals	(831)	(108)	(60)	(999)
Balance at 31 March 2012	**206,033**	**80,233**	**27,447**	**313,713**
Balance at 1 January 2013	**227,126**	**73,848**	**34,953**	**335,927**
Additions	185	-	9,383	9,568
Transfers	6,735	5,885	(12,620)	-
Disposals	(599)	(73)	(252)	(924)
Balance at 31 March 2013	**233,447**	**79,660**	**31,464**	**344,571**
Accumulated depreciation, depletion, amortization and impairment				
Balance at 1 January 2012	**73,018**	**18,481**	**1,480**	**92,979**
Transfers from Assets held for sale	-	6,098	-	6,098
Depreciation, depletion and amortization	5,705	907	-	6,612
Impairment	-	-	577	577
Disposals	(810)	(107)	-	(917)
Balance at 31 March 2012	**77,913**	**25,379**	**2,057**	**105,349**
Balance at 1 January 2013	**97,090**	**24,290**	**2,057**	**123,437**
Depreciation, depletion and amortization	4,968	902	-	5,870
Impairment	(1)	78	209	286
Disposals	(577)	(40)	-	(617)
Balance at 31 March 2013	**101,480**	**25,230**	**2,266**	**128,976**
Net book value at 1 January 2012	**118,566**	**52,058**	**32,781**	**203,405**
Net book value at 31 December 2012	**130,036**	**49,558**	**32,896**	**212,490**
Net book value at 31 March 2013	**131,967**	**54,430**	**29,198**	**215,595**

As at 31 March 2013 the Company recognised impairment of certain of the Group's upstream assets. The impairment recognised was based on the difference between the net book value of the assets and their recoverable amount at 31 March 2013. During the three months ended 31 March 2013 impairment loss associated with continued operations in the amount of RR 286 million was recognised in line "Impairment and loss on disposal of assets" in the consolidated interim condensed statement of profit and loss and other comprehensive income (during the three months ended 31 March 2012 – RR 577 million).

As at 31 March 2013 the Group's assets include advances issued for capital expenditures of RR 230 million (at 31 December 2012 – RR 197 million).

During the three months ended 31 March 2013 borrowing costs of RR 242 million were capitalised into Group's assets (during the three months ended 31 March 2012 – RR 202 million).

(in million of Russian Roubles, unless noted otherwise)

NOTE 7. OTHER NON-CURRENT ASSETS

	31 March 2013	31 December 2012
Catalysts	2,257	2,118
Other	582	710
Allowance for impairment of non-current assets	(4)	(4)
	2,835	**2,824**

NOTE 8. INVENTORIES

	31 March 2013	31 December 2012
Materials and supplies	2,921	2,306
Crude oil	2,823	2,974
Petroleum products	754	335
Other	448	563
Allowance for inventory impairment	(404)	(21)
	6,542	**6,157**

NOTE 9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2013	31 December 2012
Trade receivables (net of allowance for doubtful accounts of RR 94 million and RR 63 million as of at 31 March 2013 and 31 December 2012)	5,795	5,695
Other accounts receivable (net of allowance for doubtful accounts of RR 70 million and RR 70 million as of at 31 March 2013 and 31 December 2012)	573	444
Trade and other financial receivables, net	**6,368**	**6,139**
Advances to suppliers and prepayments	1,626	2,382
VAT recoverable	796	746
Tax prepayments and advances issued	**2,422**	**3,128**
Total trade and other receivables, net	**8,790**	**9,267**

As at 31 March 2013 accounts receivable of RR 19 million (31 December 2012 – RR 4 million) were past due but not impaired. These receivables relate to a number of unrelated customers without a recent history of default. The ageing analysis of these trade receivables is as follow:

	31 March 2013	31 December 2012
Less than 6 months	5	3
Between 6 and 12 months	1	1
Between 1 and 3 years	13	-
More than 3 years	-	-
	19	**4**

The allowance for impairment of trade and other receivables has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. The Group believes that the Group's subsidiaries will be able to realize the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

(in million of Russian Roubles, unless noted otherwise)

NOTE 9. ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

Movements in the allowance for impairment of trade and other receivables are as follows:

	31 March 2013		31 December 2012	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Opening balance	63	70	5	12
Charge for the year	32	1	80	103
Reversal of impairment	(1)	(1)	(12)	(39)
Trade receivables written-off as uncollectable	-	-	(10)	(6)
Closing balance	**94**	**70**	**63**	**70**

NOTE 10. CASH AND CASH EQUIVALENTS

	31 March 2013	31 December 2012
Cash held in banks – Russian Roubles	515	66
Cash held in banks – other currencies	146	128
Short-term deposits – Russian Roubles	24,044	18,255
Short-term deposits – other currencies	8,809	13,668
	33,514	**32,117**

The table below shows analysis of the Group's cash and cash equivalents according to Fitch's long-term credit rating.

	31 March 2013		31 December 2012	
ZAO ING Bank (Eurasia)	BBB	8,779	BBB	17,657
OAO Nordea Bank	BBB+	3,626	BBB+	5,663
ZAO UniCreditbank	BBB	9,143	BBB+	4,921
ZAO AKB Absolut Bank	BB+	5,122	-	-
OAO AKB Evrofinance Mosnarbank	B+	2,927	B+	2,899
OAO AKB Rosbank	BBB+	2,882	-	-
ZAO NatixisBank	BB-	291	BB-	740
Other		744		237
		33,514		**32,117**

NOTE 11. NON-CURRENT DEBT

		31 March 2013	31 December 2012
ZAO ING Bank London branch	USD	39,076	39,442
ZAO UniCreditbank	USD	6,591	7,136
ZAO ING Bank Eurasia	USD	2,266	2,866
ZAO Vnesheconombank	JPY	1,987	2,089
OAO Rosbank (ex. BSGV)	USD	1,866	2,279
ZAO AKB Absolut Bank	USD	468	457
ZAO Natixis bank	USD	466	683
ZAO Raiffeisenbank	USD	545	1,065
ZAO BNP Paribas bank	USD	117	874
Less current portion		(21,308)	(19,935)
		32,074	**36,956**

The interest rate for these borrowings vary from floating rate LIBOR +1.75% to LIBOR +3.5%.

The Group's non-current debt have restrictive covenants calculated based on the Consolidated Interim Condensed Financial Information on a quarterly basis including, but not limited to, the requirement to maintain the following minimum ratios: Net debt/EBITDA, Debt/EBITDA, EBITDA/Interest expense, Net debt /Total shareholders capital, Debt /Net Tangible Assets, Net Tangible Assets. The Group was in compliance with these covenants based on its Consolidated Interim Condensed Financial Information as at the reporting date.

(in million of Russian Roubles, unless noted otherwise)

NOTE 11. NON-CURRENT DEBT (CONTINUED)

The Group's short-term borrowings are secured by sales and related receivables.

Current debt and current portion of non-current debt

	31 March 2013	31 December 2012
Current loans in foreign currencies	1,173	1,157
Current portion of non-current loans in foreign currencies	21,308	19,935
	22,481	21,092

NOTE 12. DECOMMISSIONING AND ENVIRONMENTAL LIABILITIES

Decommissioning liabilities

The Group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2025. These provisions have been created based on Groups's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

The expected amount of decommissioning cost is discounted to their present values using a market risk adjusted discount rate 4.8% as of 31 March 2013 (31 December 2012: 4.8%). The impact of inflation is estimated yearly while determining of estimates of decommissioning cost. At the end of each reporting year, the Group revises its estimate of the inflation and discount rates.

As of 31 March 2013 and 31 December 2012, the Group has recorded decommissioning liabilities in the amount of RR 14,375 milion and RR 14,041 million, respectively.

Environmental liabilities

The Group's estimated environmental liability was 2,523 RR million and RR 2,275 million as of 31 March 2013 and 31 December 2012 respectively. The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation, and the standards that will constitute an acceptable remediation. As additional information becomes available, management will continue to adjust its estimated provision to an appropriate level.

The table below presents movement of decommissioning and environmental provisions (including current part of environmental liability: RR 373 million and RR 509 million as of 31 March 2013 and 31 December 2012 respectively).

	31 March 2013	31 December 2012
Decommissioning and environmental provisions, opening balance (including current portion)	**16,316**	**12,780**
Additions	417	1,042
Change of the discount rate	-	2,178
Unwinding of the present value discount	165	725
Disposal of Mendeleyev YaNPZ (Rusoil)	-	(409)
Decommissioning and environmental provisions, closing balance	**16,898**	**16,316**
Less current portion	(373)	(509)
Decommissioning and environmental provisions, non-current portion, closing balance	**16,525**	**15,807**

(in million of Russian Roubles, unless noted otherwise)

NOTE 13. TRADE PAYABLES

	31 March 2013	31 December 2012
Trade payables (to suppliers, contractors)	12,462	12,066
Payables for purchased non-current assets	1,353	837
Trade and other financial payables	**13,815**	**12,903**
Other	-	13
Non-financial payables	-	**13**
Total trade payables	**13,815**	**12,916**

NOTE 14. TAXES PAYABLE

	31 March 2013	31 December 2012
Unified production tax	7,303	7,261
Value added tax	6,969	6,602
Excise	2,231	2,060
Property tax	1,489	797
Social payments	403	320
Income tax	157	233
Individual Income tax	62	49
Provision for tax risks (other than income tax)	17	17
Other	137	106
	18,768	**17,445**

Unified production tax

Under the Tax Code of the Russian Federation, the rate of the unified natural resources production tax for crude oil is calculated by reference to the average market price of the Urals blend and the average RUR/USD exchange rate over the relevant tax period. Average tax rates for the three months ended 31 March 2013 and 31 March 2012 were RR 5,261 per ton and RR 5,284 per ton, respectively.

NOTE 15. OTHER CURRENT LIABILITIES

	31 March 2013	31 December 2012
Accrual for vacation payments	439	346
Wages and salaries	401	305
Environmental liabilities (current portion)	373	509
Accrual for bonus payments	302	403
Other current liabilities	116	87
Accrued liabilities	7	7
	1,638	**1,657**

(in million of Russian Roubles, unless noted otherwise)

NOTE 16. INCOME TAX

The Group is taxable in various jurisdictions within the Russian Federation and Byelorussia. The Group is subject to a statutory tax rate of 20% in Russian and 24% in Byelorussian jurisdictions.

In 2012 certain subsidiaries of the Group producing mineral resources, incurring exploration expenses and making capital investments in the territory of Khanty-Mansiysk Autonomous District applied up to 4% relief to their statutory corporate income tax rate as provided by the regional tax law. For the three months ended 31 March 2013 the Group's income tax expense includes a tax benefit relating to these tax incentives of RR 208 million (for the three month ended 31 March 2012 - RR 123 million).

The components of income taxes were as follows:

	Three months ended 31 March 2013	Three months ended 31 March 2012
Current income tax expense	1,439	3,721
Deferred income tax benefit	(440)	(547)
Total income tax expense	**999**	**3,174**

As at 31 March 2013 the Group has not recognised the deferred tax liability in respect of RR 7,471 million (31 December 2012 – RR 7,189 million) temporary difference associated in subsidiaries as the Group believes that 0% withholding taxes on dividend distribution will be applied when such dividends are distributed.

Classification of deferred income tax assets and liabilities on the consolidated statement of financial position are presented in the table below:

	31 March 2013	31 December 2012
Deferred income tax assets - current	117	825
Deferred income tax assets – non-current	4,170	3,097
Total deferred income tax asset	**4,287**	**3,922**
Deferred income tax liabilities - current	(5)	(464)
Deferred income tax liabilities – non-current	(9,540)	(9,156)
Total deferred income tax liabilities	**(9,545)**	**(9,620)**
Net deferred income tax liability	**(5,258)**	**(5,698)**

Effective rate of income tax for the three months ended 31 March 2013 – 19.5%, and for the three months ended 31 March 2012 –19.9% .

NOTE 17. REVENUES

	Three months ended 31 March 2013	Three months ended 31 March 2012
Crude oil	41,168	48,199
Processing services	5,228	4,344
Other sales (mainly oilfield services)	1,491	1,205
Oil products and associated gas	87	95
	47,974	**53,843**

(in million of Russian Roubles, unless noted otherwise)

NOTE 18. PRODUCTION EXPENSES

	Three months ended 31 March 2013	Three months ended 31 March 2012
Electricity, heating	2,951	2,541
Repairs and maintenance	1,649	2,027
Materials and supplies	1,426	1,200
Payroll expenses	710	691
Transportation expenses	620	589
Other	2,332	1,417
	9,688	**8,465**

Selling, general and administrative expenses for the three months ended 31 March 2013 and 31 March 2012 also include: payroll expenses in the amount of RR 720 million and RR 580 million, consulting expenses in the amount of RR 67 million and RR 59 million, charity in the amount of RR 24 million and RR 82 million respectively.

Costs of other sales for the three months ended 31 March 2013 and 31 March 2012 also include: payroll expenses in the amount of RR 234 million and RR 167 million, raw materials in the amount of RR 351 million and RR 193 million respectively.

NOTE 19. TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes were as follows:

	Three months ended 31 March 2013	Three months ended 31 March 2012
Unified production tax	22,216	23,616
Property taxes	827	777
Social payments	538	466
Other	141	(238)
	23,722	**24,621**

NOTE 20. IMPAIRMENT AND LOSS ON DISPOSAL OF ASSETS

	Three months ended 31 March 2013	Three months ended 31 March 2012
Impairment of PPE	(286)	(577)
Gain on disposal of PPE	112	87
Loss/gain of purchase and sale of foreign currency	(6)	1
Other loss	(9)	-
	(189)	**(489)**

NOTE 21. FINANCE INCOME / (COSTS), NET

	Three months ended 31 March 2013	Three months ended 31 March 2012
Finance income	376	187
Interest expense	(191)	(153)
Foreign exchange gain / (loss)	(872)	4,661
Bank commissions and charges	(8)	(7)
Unwinding of discount on decommissioning and environmental liabilities	(165)	(162)
	(860)	**4,526**

(in million of Russian Roubles, unless noted otherwise)

NOTE 22. RELATED PARTY TRANSACTIONS

For the purposes of this Consolidated Interim Condensed Financial Information, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the three months ended 31 March 2013 were Primary Shareholders (Note 1) – TNK-BP Group and Gazprom Neft Group.

Subsidiaries of the Company

Subsidiaries	31 March 2013		31 December 2012	
	Ownership	Voting rights	Ownership	Voting rights
OAO Slavneft-Megionneftegazgeologiya	94.72%	97.51%	94.72%	97.51%
OAO Slavneft-Megionneftegaz	56.42%	69.12%	56.42%	69.12%
OAO Slavneft Yaroslavnefteorgsintez	39.79%	50.78%	39.79%	50.78%
OOO MUBR	56.42%	69.12%	56.42%	69.12%
OOO MegionEnergoNeft'	56.42%	69.12%	56.42%	69.12%
OAO Sobol'	83.69%	88.45%	83.69%	88.45%
ZAO Ob'neftegeologiya	100.00%	100.00%	100.00%	100.00%
OAO Ob'Neftegazgeologiya	80.24%	80.24%	80.24%	80.24%
OOO Slavneft'-Nizhnevartovsk	100.00%	100.00%	100.00%	100.00%
OOO Slavneft'-Krasnoyarskneftegaz	100.00%	100.00%	100.00%	100.00%
OOO BNGRE	100.00%	100.00%	100.00%	100.00%
OOO Megion Geologiya	94.72%	97.89%	94.72%	97.89%

Remuneration of key management personnel of the Group (members of the Company's Board of Directors and the Group Management Board) was as follows:

	Three monts ended 31 March 2013	Three months ended 31 March 2012
Short-term employee benefits	291	42
Long-term bonus scheme and other long-term employee benefits	124	-
	415	**42**

Sales (including other sales) to related parties were as follows:

Customer	Description	Three monts ended 31 March 2013	Three months ended 31 March 2012
ZAO SL Trading*	Crude oil	20,494	24,028
OAO Gazprom Neft**	Crude oil	20,494	24,028
OAO Gazprom Neft**	Processing services	2,624	1,983
OAO TNK-BP Holding*	Processing services	2,624	1,983
Other	Oil products and other	564	646
		46,800	**52,668**

For the three months ended 31 March 2013 the Company incurred operating expenses with related parties representing purchases in the amount of 77 RR million (for the three months ended 31 March 2012 – RR 94 million).

** Entities related to TNK-BP Group*
*** Entities related to Gazprom Neft Group*

(in million of Russian Roubles, unless noted otherwise)

NOTE 22. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash and cash equivalents with banks which are the related parties were as follows:

	31 March 2013	31 December 2012
OAO Gazprombank**	436	2
	436	**2**

Receivables from related parties were as follows:

	31 March 2013	31 December 2012
OAO TNK-BP Holding*	1,351	1,267
OAO Gazprom Neft**	1,468	1,687
ZAO SL Trading*	212	321
Other	81	72
	3,112	**3,347**

Accounts payable to related parties were as follows:

	31 March 2013	31 December 2012
OAO Gazprom Neft**	2,057	1,775
OAO TNK-BP Holding*	2,224	1,714
Other	512	149
	4,793	**3,638**

Dividends payable to Shareholders were as follows:

	31 March 2013	31 December 2012
OAO TNK-BP Holding*	853.5	857
OAO Gazprom Neft**	853.5	857
	1,707	**1,714**

** Entities related to TNK-BP Group*
*** Entities related to Gazprom Neft Group*

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. For the three months ended 31 March 2013 and 31 March 2012, the Group had the following transactions with the Government and parties under control of the Government:

	Three monts ended 31 March 2013	Three months ended 31 March 2012
Purchases of electricity	2,347	2,097
Purchase of raw materials	32	33
	2,379	**2,130**

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. CONTINGENCIES AND COMMITMENTS

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and its distribution network. The budgets for these projects are generally set on a 3-year basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

The Company has approved contractual capital expenditure commitments for construction and fixed assets acquisition as of 31 March 2013 in the amount of RR 11,670 million (31 December 2012 - RR 3,104 million).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is mostly owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2059. Future minimum lease payments due under non-cancellable operating land rent lease agreements are:

	31 March 2013	31 December 2012
Not later than 1 year	522	535
Later than 1 year and not later than 5 years	1,782	1,455
Later than 5 years	14,191	11,930
	16,495	**13,920**

Social commitments

The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group's social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group's employees. Contributions are expensed in the period during which they are incurred.

NOTE 23. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

The Group has limited coverage for its mining, processing and transportation for business interruption or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Litigation

The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle such liabilities.

Amended Russian transfer pricing legislation took effect from 1 January 2012. 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 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Management believes the transfer pricing documentation that the Group has prepared, as required by the new Russian tax legislation, provides sufficient evidence to support the Group's tax positions and related tax returns. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations.

However, the interpretations of the relevant authorities could differ and the effect on these Consolidated Interim Condensed Financial Information, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment, potential impact to flora and fauna, and other environmental concerns.

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Operating environment

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 24).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. The future economic and regulatory situation may differ from management's current expectations.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

NOTE 24. FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments, as described in Note 4, have been applied to these Financial Statements line items below:

	31 March 2013	31 December 2012
Financial assets		
Current		
Cash and cash equivalents (Note 10)	33,514	32,117
Trade and other financial receivables, net (Note 9)	6,368	6,139
Loans receivable	35	33
Total carrying amount	**39,917**	**38,289**

Financial liabilities	**31 March 2013**	**31 December 2012**
Non-current		
Non-current debt (Note 11)	32,074	36,956
Current		
Trade and other financial payables (Note 13)	13,815	12,903
Current debt and current portion of non-current debt (Note 11)	22,481	21,092
Total carrying amount	**68,370**	**70,951**

In the normal course of its operations, the Group is exposed to market (including foreign currency, interest rate and commodity price), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Management Board on a monthly basis and the central treasury department. The Management Board jointly with Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk.

(in million of Russian Roubles, unless noted otherwise)

NOTE 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, foreign currency exchange rates, interest rates and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. The primary objective of mitigating these market risks is to manage and control risk exposure, while optimizing the return on risk.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues and costs are denominated in RR, whereas the majority of the Group's finance liabilities are denominated in USD, accordingly, profit may be impacted by the changes of the RR against the USD.

The Group does not use forward contracts to mitigate the risk of negative fluctuations in the USD/RR exchange rate, as believes that benefits from low interest rate for loans denominated in USD exceed cost of using forward contracts.

The Group has the following financial assets and financial liabilities denominated in foreign currencies:

	31 March 2013						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	5,192	-	1,174	-	2	**1,176**	**6,368**
Cash and cash equivalents	24,577	8,806	30	-	101	**8,937**	**33,514**
Loans receivable	34	-	1	-	-	**1**	**35**
Non-current liabilities							
Non-current debt	-	(30,906)	-	(1,168)	-	**(32,074)**	**(32,074)**
Current liabilities							
Current debt	-	(21,572)	(90)	(819)	-	**(22,481)**	**(22,481)**
Trade accounts payable and accruals	(12,596)	(74)	(1,144)	-	(1)	**(1,219)**	**(13,815)**
Net exposure	**17,207**	**(43,746)**	**(29)**	**(1,987)**	**102**	**(45,660)**	**(28,453)**

	31 December 2012						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	4,712	1	1,424	-	2	**1,427**	**6,139**
Cash and cash equivalents	18,577	13,429	18	-	93	**13,540**	**32,117**
Loans receivable	33	-	-	-	-	**-**	**33**
Non-current liabilities							
Non-current debt	-	(35,713)	-	(1,243)	-	**(36,956)**	**(36,956)**
Current liabilities							
Current debt	-	(20,173)	(90)	(829)	-	**(21,092)**	**(21,092)**
Trade accounts payable and accruals	(11,458)	-	(1,445)	-	-	**(1,445)**	**(12,903)**
Net exposure	**11,864**	**(42,456)**	**(93)**	**(2,072)**	**95**	**(44,526)**	**(32,662)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

A 10% change in foreign exchange rates at the reporting date would have following effect on pre-tax profit:

	Three months ended 31 March 2013		Three months ended 31 March 2012	
	USD	**JPY**	**USD**	**JPY**
Effect on pre-tax profit	4,375	199	419	48

Commodity price risk

The Group's overall commercial trading strategy in crude oil and related products is centrally managed. Changes in commodity prices could negatively or positevly affect the Group's results of operations. The Group sells all its crude oil and related products to the Primary Shareholders.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

The Group's interest rate risk arises primarily from non-current debt. The Group's debt at variable interest rates is primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk, but doesn't consider the increase in Libor rates on loans for the significant risk of its cash flows.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 March 2013	31 December 2012
Fixed rate financial instruments (net)	**30,866**	**29,851**
Bank deposits	32,853	31,923
Non-current debt	(1,168)	(1,243)
Current debt	(819)	(829)
Variable rate financial instruments	**(52,568)**	**(55,976)**
Non-current debt	(30,906)	(35,713)
Current debt	(21,662)	(20,263)

As at 31 March 2013 and 31 March 2012, the Group's risk policy does not provide for any interest risk hedging.
A 1% increase in interest rates at the reporting date would have the following effect on pre-tax profit:

	Three months ended 31 March 2013	Three months ended 31 March 2012
Effect on pre-tax profit	(135)	(111)

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by sale on credit to customers after rigid credit approval procedures.

The Group is dependent on a limited number of customers Primary Shareholders. The Group's top trade debtors are entities associated with the Primary Shareholders: OAO TNK-BP Holding, ZAO SL Trading, OAO Gazprom Neft. And so the credit quality of trade receivables is not deemed a significant risk as the debtors (Primary Shareholders and other than Primary Shareholders) with no history of defaults. Disclosure regarding trade receivables that are either past due or impaired is presented in Note 9.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its financial liabilities as they fall due. During the three months ended 31 March 2013 and during the year 2012 global and Russian capital markets experienced significant volatility, including lack of available sources of financing, significant

(in million of Russian Roubles, unless noted otherwise)

NOTE 24. FINANCIAL RISK MANAGEMENT (CONTINUED)

fluctuation of Russian Rouble against USD and Euro and increase in interest rates. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group's liquidity in 2013 and will be sufficient to cover the capital expenditures program of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to re-finance the existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by maintaining availability of credit lines facilities, the unused portion of these lines at 31 March 2013 totalled RR 6,217 million (31 December 2012 – RR 6,075 million).

The table below analyses the Group's financial liabilities that include financial payables (e.g. trade payables, borrowings into relevant maturity groupings based on the contractual undiscounted cash flows to maturity), including interest payments.

	31 March 2013	31 December 2012
Not later than 1 year	36,296	33,995
Later than 1 year and not later than 5 years	32,074	36,956
Later than 5 years	-	-
	68,370	**70,951**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as shareholders' equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The Group's overall strategy for 2013 remained unchanged from prior years.

The Group has complied with all externally imposed capital requirements during the three month ended 31 March 2013 and 31 March 2012. These are set out in the Group's loan agreements on various basis.

Consistent with others in industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as Net debt divided by the Total Group shareholders' equity plus Net debt. Net debt is calculated as total interest bearing loans and borrowings less cash and cash equivalents. Total capital is determined as Total Group shareholders' equity as shown in the consolidated statement of financial position.

	31 March 2013	31 December 2012
Net debt	21,041	25,931
Total Group Shareholders'equity	155,474	151,345
Total Group Shareholders'equity and Net debt	176,515	177,276
Gearing ratio	**11.9%**	**14.6%**