SLAVNEFT GROUP
IFRS CONSOLIDATED INTERIM CONDENSED
FINANCIAL INFORMATION (UNAUDITED)
AS OF AND FOR THE THREE AND THE SIX MONTHS ENDED
30 JUNE 2014

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 30 June 2014 and the related consolidated interim condensed statements of profit and loss and other comprehensive income for the three-month and six-month periods then ended, and of changes in equity and cash flows for the six-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

6 August 2014
Moscow, Russian Federation

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Slavneft Group
Consolidated Interim Condensed Statement of Financial Position as of 30 June 2014 (Unaudited)
(in million of Russian Roubles, unless noted otherwise)

	Notes	30 June 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	4	237,672	228,214
Investments		313	313
Deferred income tax assets		4,243	3,966
Other non-current assets	5	3,835	2,927
Total non-current assets		**246,063**	**235,420**
Current assets			
Inventories	6	7,178	6,026
Accounts receivable and prepayments	7	9,612	11,218
Income tax receivables		1,132	1,366
Cash and cash equivalents	8	14,950	28,208
Other current assets		16	20
Total current assets		**32,888**	**46,838**
Total assets		**278,951**	**282,258**
Equity			
Ordinary share capital		70	70
Retained earnings		31,716	36,019
Additional paid-in capital		54,812	54,812
Total equity attributable to OAO NGK Slavneft's shareholders		**86,598**	**90,901**
Non-controlling interest	26	74,063	69,895
Total equity		**160,661**	**160,796**
Liabilities			
Non-current liabilities			
Non-current debt	9	23,937	33,271
Deferred income tax liabilities		10,769	10,253
Decommissioning and environmental liabilities	10	7,900	13,016
Other non-current liabilities	11	2,101	547
Total non-current liabilities		**44,707**	**57,087**
Current liabilities			
Current debt and current portion of non-current debt	9	22,603	24,010
Trade payables	12	18,735	19,310
Advances received		78	849
Dividends payable	25	12,048	438
Taxes payable	13	17,273	17,107
Other current liabilities	14	2,846	2,661
Total current liabilities		**73,583**	**64,375**
Total liabilities		**118,290**	**121,462**
Total equity and liabilities		**278,951**	**282,258**

Sukhanov Yu.E.
President
OAO NGK Slavneft

Kovalenko A.V.
Vice-president on economics and finance
OAO NGK Slavneft

6 August 2014

The accompanying notes are an integral part of this consolidated interim condensed financial information.

Slavneft Group

Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income for the three and the six months ended 30 June 2014 (Unaudited)

(in million of Russian Roubles, unless noted otherwise)

	Notes	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Revenue	**16**	**55,282**	**106,870**	**43,960**	**91,567**
Production expenses	**17**	(10,582)	(21,256)	(9,381)	(19,069)
Selling, general and administrative expenses	**17**	(1,527)	(2,890)	(1,524)	(2,982)
Cost of other sales	**17**	(972)	(1,880)	(717)	(1,538)
Taxes other than income tax	**18**	(25,856)	(51,143)	(21,217)	(44,939)
Depreciation, depletion and amortization	**4**	(7,411)	(14,230)	(6,468)	(12,338)
Exploration expenses		(356)	(619)	(572)	(809)
Impairment and gain/(loss) on disposal of assets	**19**	(62)	188	(352)	(541)
Total operating expenses and costs		**(46,766)**	**(91,830)**	**(40,231)**	**(82,216)**
Other operating income		226	401	141	508
Operating profit		**8,742**	**15,441**	**3,870**	**9,859**
Finance income	**20**	458	836	478	854
Finance costs	**20**	(179)	(429)	(362)	(726)
Foreign exchange gain/(loss)	**20**	2,881	(1,644)	(2,426)	(3,298)
Finance costs, net	**20**	**3,160**	**(1,237)**	**(2,310)**	**(3,170)**
Profit before income tax		**11,902**	**14,204**	**1,560**	**6,689**
Income tax expense	**15**	(2,173)	(2,501)	(203)	(1,202)
Profit for the period		**9,729**	**11,703**	**1,357**	**5,487**
attributable to:					
- OAO NGK Slavneft shareholders		6,522	7,535	543	2,694
- Non-controlling interest	**26**	3,207	4,168	814	2,793
Other comprehensive income					
Total comprehensive income		**9,729**	**11,703**	**1,357**	**5,487**
attributable to:					
- OAO NGK Slavneft shareholders		6,522	7,535	543	2,694
- Non-controlling interest	**26**	3,207	4,168	814	2,793

The accompanying notes are an integral part of this consolidated interim condensed financial information.

Slavneft Group

Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2014 (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 2013	**70**	**54,812**	**26,757**	**81,639**	**69,706**	**151,345**
Profit for the period	-	-	2,694	**2,694**	**2,793**	**5,487**
Total comprehensive income	**-**	**-**	**2,694**	**2,694**	**2,793**	**5,487**
Dividends	**-**	**-**	(285)	**(285)**	**(7,369)**	**(7,654)**
At 30 June 2013	**70**	**54,812**	**29,166**	**84,048**	**65,130**	**149,178**
At 1 January 2014	**70**	**54,812**	**36,019**	**90,901**	**69,895**	**160,796**
Profit for the period	-	-	7,535	**7,535**	**4,168**	**11,703**
Total comprehensive income	-	**-**	**7,535**	**7,535**	**4,168**	**11,703**
Dividends	-	**-**	(11,838)	**(11,838)**	**-**	**(11,838)**
At 30 June 2014	**70**	**54,812**	**31,716**	**86,598**	**74,063**	**160,661**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

Slavneft Group

Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2014 (Unaudited)

(in million of Russian Roubles, unless noted otherwise)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Operating activities			
Profit for the period		**11,703**	**5,487**
Adjustments to reconcile profit for the six months to net cash provided by operating activities:			
Depreciation, depletion and amortization	**4**	14,230	12,338
Impairment and (gain)/loss on disposal of assets	**19**	(188)	541
Finance costs, net	**20**	1,237	3,170
Income tax expense	**15**	2,501	1,202
Pension expense	**11**	1,733	-
Change in provisions		115	323
Other		(19)	309
Cash flow from operating activities before working capital changes		**31,312**	**23,370**
Changes in working capital:			
Decrease/(Increase) in accounts receivable and prepayments		1,643	(254)
Increase in inventories		(1,143)	(225)
(Increase)/Decrease in other current and non-current assets		(895)	78
(Decrease)/Increase in accounts payable		(2,153)	520
Increase in other current liabilities		172	107
Decrease in other non-current liabilities		(156)	(50)
Increase/(Decrease) in taxes payable		93	(1,852)
Income tax paid		(1,979)	(1,409)
Net cash provided by operating activities		**26,894**	**20,285**
Investing activities			
Proceeds from sale of property, plant and equipment		134	159
Purchases of property, plant and equipment		(28,235)	(18,884)
Interest received		798	779
Net cash used in investing activities		**(27,303)**	**(17,946)**
Financing activities			
Repayments of non-current debt		(12,839)	(9,014)
Interest payments		(305)	(366)
Dividends paid	**25**	(77)	(32)
Net cash used in financing activities		**(13,221)**	**(9,412)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		**372**	**347**
Net decrease in cash and cash equivalents		**(13,258)**	**(6,726)**
Cash and cash equivalents at beginning of the period	**8**	**28,208**	**32,117**
Cash and cash equivalents at end of the period	**8**	**14,950**	**25,391**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

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 the Republic of Belarus # 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, the Republic of Belarus 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 the Republic of Belarus 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 30 June 2014 and 31 December 2013 differs from its historic value due to the effect of hyperinflation in the Russian Federation till 31 December 2002.

In a series of transactions through January 2003, including participation in privatization auctions in the Russian Federation and the Republic of Belarus, 99% of the Company’s shares were ultimately acquired together by OAO Siberian Oil Company (currently known as OAO Gazprom Neft) and TNK-BP (subsequently acquired by Rosneft Oil Company).

OAO Gazprom Neft and Rosneft Oil Company (the “Primary Shareholders”) are the Primary shareholders and jointly control the Group. On March 21, 2013, Rosneft Oil Company completed the acquisition of an aggregate 100% interest in TNK-BP Group, one of the Primary Shareholders of Slavneft Group. As a result of this acquisition, Rosneft Oil Company obtained 49.9% interest in Slavneft Group.

As the Primary shareholders are state controlled entities, the Government of the Russian Federation is the ultimate controlling party of OAO NGK Slavneft.

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

NOTE 2. BASIS OF PRESENTATION

Statement of compliance

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Interim Condensed Financial Information was primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present it in accordance with International Financial Reporting Standards (“IFRS”).

The Consolidated Interim Condensed Financial Information has been prepared in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting”. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2013, such as significant accounting policies, significant estimates and judgement, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in this Consolidated Interim Condensed Financial Information are adequate to make the information presented not misleading if this Consolidated Interim Condensed Financial Information is read in conjunction with the Group’s Consolidated Financial Statements for 2013.

(in million of Russian Roubles, unless noted otherwise)

NOTE 2. BASIS OF PRESENTATION (CONTINUED)

The results reported in this Consolidated Interim Condensed Financial Information for the six months ended 30 June 2014 and 30 June 2013 are not necessarily indicative of the results expected for the full year.

Basis of measurement

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

Functional and presentation currency

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

Functional currency and foreign currency translation

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the reporting date, are translated into RR at the official exchange rates of the Central Bank of the Russian Federation ("CBRF") 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.

The following exchange rates determined by the Central Bank of the Russian Federation have been applied at 30 June 2014 and 31 December 2013 and for six months ended 30 June 2014 and 2013 (in RR):

	At 30 June	At 31 December	Average rates for the six months ended 30 June	
	2014	**2013**	**2014**	**2013**
For one currency unit to equivalent Russian Rouble				
US dollar ("USD")	33.6306	32.7292	34.9796	31.0169
Euro ("EUR")	45.8251	44.9699	47.9875	40.7444

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 Consolidated Interim Condensed Financial Information.

NOTE 2. BASIS OF PRESENTATION (CONTINUED)

Seasonality of operations

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

Changes in accounting policies, estimates 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 2013, except for the change in accounting policy and estimates as explained below and in Notes 3 and 11.

In the first quarter ended 31 March 2014 the Group examined the assumptions used by other companies in the industry and critically reviewed the inflation and discount rates applied for the purposes of the Group’s decommissioning liabilities calculation. As a result of this review, the management of the Group concluded that revision of inflation and discount rates would increase the comparability of the Group’s financial data with financial data of peer companies and would result in a more reliable estimation of decommissioning liabilities. The discount rate has been changed from 7.09% at 31 December 2013 to 5.3% at 30 June 2014. The expected useful life of fields have also been refined, in connection with which the discount period for the decommissioning and environmental liabilities calculation have been changed.

On 30 June 2014 the Group applied amended IAS 19 “Employee benefits” perspectively in the current period. The Group’s management estimated that the impact of recognition of the provision for post-employment benefit obligations in the Consolidated Financial Statements in prior periods was insignificant, so as of 30 June 2014 the Group recognized the changes in accounting estimates in accordance with IFRS (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors” prospectively. The disclosure about the nature and the impact of changes in accounting estimates have been provided in Note 11.

NOTE 3. APPLICATION OF NEW AND REVISED IFRS

In 2014 the Group has adopted all IFRS, amendments and interpretations to which are effective for the periods beginning on or after 1 January 2014 and which are relevant to its operations.

- **Amended IAS 19 "Employee Benefits"** (issued in September 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.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

- **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. Application of IFRS 9 is mandatory for the periods beginning on or after 1 January 2015, earlier adoption is permitted. The Group does not plan to adopt the standard before 2015 and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

- **"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'.

- **IFRIC Interpretation 21 "Levies"** (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014), which clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached.

- **Amendments to IFRS 10, IFRS 12 and IAS 27** – **Investment entities** (issued on 31 October 2012 and effective for annual periods beginning on or after 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.

- **Amendments to IAS 36 "Recoverable amount disclosures for non-financial assets"** (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

- **Amendments to IAS 19 – "Defined benefit plans: Employee contributions"** (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

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

- **IFRS 15 "Revenue from Contracts with Customers"** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2017, earlier application is permitted). IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. The Group is currently assessing the impact of the standard on its Consolidated Financial Statements.

- **Amendment to IFRS 11 - "Accounting for Acquisitions of Interests in Joint Operations"** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016, earlier application is permitted). The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires application of IFRS 3 Business Combinations, for such acquisitions. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

- **Amendments to IAS 16 and IAS 38 - "Clarification of Acceptable Methods of Depreciation and Amortization"** (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016, earlier application is permitted). Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group does not expect the amendments to have a material impact on the Consolidated Financial Statements.

(in million of Russian Roubles, unless noted otherwise)

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Plant and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2013	**227,126**	**73,848**	**34,953**	**335,927**
Additions	743	-	20,136	20,879
Transfers	10,620	6,800	(17,420)	-
Disposals	(1,661)	(257)	(880)	(2,798)
Balance at 30 June 2013	**236,828**	**80,391**	**36,789**	**354,008**
Balance at 1 January 2014	**253,933**	**84,497**	**36,124**	**374,554**
Additions	59	-	29,215	29,274
Transfers	17,606	1,195	(18,801)	-
Change in decommissioning liabilities	(5,032)	-	-	(5,032)
Disposals	(1,394)	(236)	(463)	(2,093)
Balance at 30 June 2014	**265,172**	**85,456**	**46,075**	**396,703**
Accumulated depreciation, depletion, amortization and impairment				
Balance at 1 January 2013	**97,090**	**24,290**	**2,057**	**123,437**
Depreciation, depletion and amortization	10,348	1,990	-	12,338
Impairment	(1)	150	282	431
Disposals	(1,478)	(121)	-	(1,599)
Balance at 30 June 2013	**105,959**	**26,309**	**2,339**	**134,607**
Balance at 1 January 2014	**116,130**	**28,135**	**2,075**	**146,340**
Depreciation, depletion and amortization	11,980	2,250	-	14,230
Impairment	-	-	80	80
Change in decommissioning liabilities	(149)	-	-	(149)
Transfers	6	(6)	-	-
Disposals	(1,328)	(142)	-	(1,470)
Balance at 30 June 2014	**126,639**	**30,237**	**2,155**	**159,031**
Net book value at 1 January 2013	**130,036**	**49,558**	**32,896**	**212,490**
Net book value at 31 December 2013	**137,803**	**56,362**	**34,049**	**228,214**
Net book value at 30 June 2014	**138,533**	**55,219**	**43,920**	**237,672**

As at 30 June 2014 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 30 June 2014. During the six months ended 30 June 2014 impairment loss in the amount of RR 80 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 six months ended 30 June 2013 – RR 431 million).

As at 30 June 2014 the Group assets include advances issued for capital expenditures of RR 298 million (at 31 December 2013 – RR 851 million).

During the six months ended 30 June 2014 borrowing costs of RR 539 million were capitalized into Group assets (during the six months ended 30 June 2013 – RR 511 million). During the six months ended 30 June 2014 the borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.91% (during the six months ended 30 June 2013- 3.11%).

(in million of Russian Roubles, unless noted otherwise)

NOTE 5. OTHER NON-CURRENT ASSETS

	30 June 2014	31 December 2013
Catalysts	2,775	1,935
Other intangible assets	685	710
Other	378	282
Allowance for impairment of non-current assets	(3)	-
	3,835	**2,927**

NOTE 6. INVENTORIES

	30 June 2014	31 December 2013
Crude oil	3,684	3,053
Materials and supplies	2,659	2,443
Petroleum products	805	446
Other	482	510
Allowance for inventory impairment	(452)	(426)
	7,178	**6,026**

NOTE 7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2014	31 December 2013
Trade receivables (net of provision for impairment of RR 618 million and RR 618 million at 30 June 2014 and 31 December 2013)	6,256	7,130
Other accounts receivable (net of provision for impairment of RR 5 million and RR 4 million at 30 June 2014 and 31 December 2013)	421	407
Trade and other financial receivables, net	**6,677**	**7,537**
Advances to suppliers and prepayments	2,260	3,023
VAT recoverable	675	658
Tax prepayments and advances issued	**2,935**	**3,681**
Total trade and other receivables, net	**9,612**	**11,218**

The provision 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.

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

	30 June 2014		30 June 2013	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Opening balance	**618**	**4**	**63**	**70**
Charge for the six months	4	3	19	1
Transfers	-	-	57	(63)
Reversal of impairment	(2)	(2)	(42)	-
Trade receivables written-off as uncollectable	(2)	-	-	-
Closing balance	**618**	**5**	**97**	**8**

(in million of Russian Roubles, unless noted otherwise)

NOTE 8. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Cash held in banks – Russian Roubles	97	109
Cash held in banks – other currencies	271	178
Short-term deposits – Russian Roubles	13,282	19,608
Short-term deposits – other currencies	1,300	8,313
	14,950	**28,208**

NOTE 9. NON-CURRENT DEBT

		30 June 2014	31 December 2013
ZAO ING Bank London branch	USD	24,246	33,021
ZAO UniCreditbank	USD	8,002	9,285
ZAO Raiffeisenbank	USD	5,048	4,910
ZAO BNP Paribas bank	USD	2,197	2,138
OAO Rosbank (ex. BSGV)	USD	2,018	2,456
ZAO Natixis bank	USD	2,018	1,964
ZAO Vnesheconombank	JPY	788	1,107
ZAO Commerzbank (Eurasija)	USD	841	818
ZAO Absolutbank	USD	-	329
Other		146	-
Less current portion		(21,367)	(22,757)
		23,937	**33,271**

The interest rate for these borrowings vary from floating rate LIBOR +1.75% to LIBOR +3.25%. The interest rate of loans received in Japanese Yen is 4.9%.

The Group's non-current debt have restrictive covenants calculated based on the Consolidated Interim Condensed Financial Information on a quarter basis including, but not limited to, the requirement to maintain the following minimum ratios: Net debt/EBITDA, Debt/EBITDA, EBITDA/Interest expense, 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.

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

Current debt and current portion of non-current debt

	30 June 2014	31 December 2013
Current loans in foreign currencies	1,236	1,253
Current portion of non-current loans in foreign currencies	21,367	22,757
	22,603	**24,010**

(in million of Russian Roubles, unless noted otherwise)

NOTE 10. 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 2063. These provisions have been created based on Group'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 5.3% as of 30 June 2014 (31 December 2013: 7.09%). 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 30 June 2014 and 31 December 2013 the Group has recorded decommissioning liabilities in the amount of RR 6,155 million and RR 11,322 million, respectively.

Environmental liabilities

The Group's estimated environmental liability was RR 2,804 million and RR 2,986 million as of 30 June 2014 and 31 December 2013 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 1,059 million and RR 392 million as of 30 June 2014 and 30 June 2013 respectively).

	Three months ended 30 June 2014	**Six months ended 30 June 2014**	**Three months ended 30 June 2013**	**Six months ended 30 June 2013**
Decommissioning and environmental provisions, opening balance (including current portion)	**8,844**	**14,309**	**16,898**	**16,316**
Additions	206	281	836	1,440
Disposal	(107)	(337)	(178)	(365)
Change of the discount rate and the period	-	(5,359)	-	-
Unwinding of the present value discount	16	65	211	376
Decommissioning and environmental provisions, closing balance	**8,959**	**8,959**	**17,767**	**17,767**
Less current portion	(1,059)	(1,059)	(392)	(392)
Decommissioning and environmental provisions, non-current portion, closing balance	**7,900**	**7,900**	**17,375**	**17,375**

(in million of Russian Roubles, unless noted otherwise)

NOTE 11. OTHER NON-CURRENT LIABILITIES

	30 June 2014	31 December 2013
Provision for post-employment benefit obligations	1,796	-
Other non-current liabilities	305	547
	2,101	**547**

The Group operates post-employment benefits, which are recorded in the Consolidated Interim Condensed Financial Information under IAS 19 (Revised). Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund “Mega” (“NPF”), lump sum payment upon retirement, financial aid provided to pensioners, financial aid and compensation to cover funeral expenses in the event of an employee’s or pensioner's death.

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

The amounts associated with post-employment benefit obligations recognized in the Consolidated Interim Condensed Statement of Financial Position are as follows:

	30 June 2014	31 December 2013
Present value of benefit obligations	2,205	-
Fair value of plan assets	(409)	-
Net balance liability	**1,796**	**-**

The amounts recognized under the cost of the defined benefit pension plan in the Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income are as follows:

	Three months ended 30 June 2014	Six months ended 30 June 2014
Production expenses	-	1,733
Finance costs	32	63
	32	**1,796**

The movement in the defined benefit obligation is as follows:

	Three months ended 30 June 2014	Six months ended 30 June 2014
Production expenses	-	1,733
Finance costs	32	63
	32	**1,796**

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. The significant actuarial assumptions were as follows: discount rate – 7.9%, inflation rate – 5.0%, salary growth rate – 7.0%, expected pension age – 57.5 years for man and 55 years for woman.

As a rule, the above benefits increase in line with inflation rate or salary growth for benefits that are fixed in monetary terms or depend on salary level respectively, excluding the retirement benefits payable through NPF. Increase in pensions, payable through NPF to current pensioners, depends on amount of investment return on plan assets. All retirement benefit plans of the Group are exposed to inflation risk. In addition to the inflation risk, the Group is exposed to mortality risk under life pension payable through NPF.

(in million of Russian Roubles, unless noted otherwise)

NOTE 11. OTHER NON-CURRENT LIABILITIES (CONTINUED)

The sensitivity of the defined obligation to changes in the weighted principal assumptions is:

	Change in assumption	**Impact on defined benefit obligation**
Discount rate	+/- 0.5%	-/+ 96
Inflation	+/- 0.5%	+/- 47
Salary growth rate	+/- 0.5%	+/- 75
Turnover	+/- 1.5%	-/+ 58

NOTE 12. TRADE PAYABLES

	30 June 2014	**31 December 2013**
Trade payables (to suppliers, contractors)	17,110	18,600
Payables for purchased non-current assets	1,448	674
Trade and other financial payables	**18,558**	**19,274**
Other	177	36
Non-financial payables	**177**	**36**
Total trade payables	**18,735**	**19,310**

NOTE 13. TAXES PAYABLE

	30 June 2014	**31 December 2013**
Mineral extraction tax	8,082	7,531
Value added tax	5,936	5,906
Excise	1,530	2,192
Property tax	850	849
Social payments	463	346
Income tax	240	163
Individual Income tax	70	57
Other	102	63
	17,273	**17,107**

Mineral extraction tax

Under the Tax Code of the Russian Federation, the rate of the mineral extraction 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 six months ended 30 June 2014 and 30 June 2013 were RR 6,109 per ton and RR 5,108 per ton, respectively.

NOTE 14. OTHER CURRENT LIABILITIES

	30 June 2014	**31 December 2013**
Environmental liabilities (current portion)	1,059	1,293
Accrual for bonus payments	542	404
Accrual for vacation payments	522	414
Wages and salaries	411	355
Accrued liabilities	11	15
Other current liabilities	301	180
	2,846	**2,661**

(in million of Russian Roubles, unless noted otherwise)

NOTE 15. INCOME TAX

The Group is taxable in various jurisdictions within the Russian Federation and the Republic of Belarus. The Group is subject to a statutory tax rate of 20% in Russian and 18% in Belarus jurisdictions.

In 2014 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 six months ended 30 June 2014 the Group's income tax expense includes a tax benefit relating to these tax incentives of RR 388 million (for the six months ended 30 June 2013 – RR 242 million).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets relating to OOO Slavneft'-Krasnoyarskneftegaz of RR 201 million (31 December 2013: RR 211 million) in respect of losses amounting to RR 1,006 million (31 December 2013: RR 1,057 million) that cannot be carried forward against future taxable income. Losses amounting to RR 30 million and RR 48 million expire in 2014 and 2015 respectively.

The components of income taxes were as follows:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Current income tax expense	1,340	2,245	313	1,752
Deferred income tax expense/(benefit)	833	256	(110)	(550)
Total income tax expense	**2,173**	**2,501**	**203**	**1,202**

As at 30 June 2014 the Group has not recognised the deferred tax liability in respect of RR 6,757 million (31 December 2013: RR 6,261 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.

Effective rate of income tax for the six months ended 30 June 2014 – 17.61%, and for the six months ended 30 June 2013 – 17.97%.

NOTE 16. REVENUES

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Crude oil	47,922	91,976	37,875	79,044
Processing services	5,928	12,045	4,891	10,140
Other sales (mainly oilfield services)	1,301	2,603	1,128	2,230
Oil products and associated gas	131	246	66	153
	55,282	**106,870**	**43,960**	**91,567**

(in million of Russian Roubles, unless noted otherwise)

NOTE 17. PRODUCTION EXPENSES

	Three months ended 30 June 2014	**Six months ended 30 June 2014**	**Three months ended 30 June 2013**	**Six months ended 30 June 2013**
Electricity, heating	2,975	6,129	2,778	5,729
Repairs and maintenance	2,482	4,007	2,613	4,262
Materials and supplies	1,866	3,458	1,198	2,624
Pension expenses	-	1,733	-	-
Payroll expenses	844	1,661	702	1,412
Transportation expenses	608	1,208	644	1,264
Security	168	329	146	294
Lease	98	229	156	265
Other	1,541	2,502	1,144	3,219
	10,582	**21,256**	**9,381**	**19,069**

Selling, general and administrative expenses for the six months ended 30 June 2014 and 30 June 2013 also include: payroll expenses in the amount of RR 1,650 million and RR 1,552 million, consulting expenses in the amount of RR 164 million and RR 122 million and charity expenses in the amount of RR 99 million and RR 138 million respectively.

Costs of other sales for the six months ended 30 June 2014 and 30 June 2013 also include: payroll expenses in the amount of RR 283 million and RR 451 million and raw materials in the amount of RR 412 million and RR 361 million respectively.

NOTE 18. TAXES OTHER THAN INCOME TAX

Taxes other than income tax were as follows:

	Three months ended 30 June 2014	**Six months ended 30 June 2014**	**Three months ended 30 June 2013**	**Six months ended 30 June 2013**
Mineral extraction tax	24,410	47,953	19,684	41,900
Property tax	880	1,766	830	1,657
Social payments	586	1,268	504	1,042
Other	(20)	156	199	340
	25,856	**51,143**	**21,217**	**44,939**

NOTE 19. IMPAIRMENT AND GAIN/(LOSS) ON DISPOSAL OF ASSETS

	Three months ended 30 June 2014	**Six months ended 30 June 2014**	**Three months ended 30 June 2013**	**Six months ended 30 June 2013**
Impairment of PPE	(52)	(80)	(145)	(431)
Gain/(loss) on disposal of PPE	(48)	219	(228)	(116)
Other gain	38	49	21	6
	(62)	**188**	**(352)**	**(541)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 20. FINANCE INCOME/(COSTS), NET

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Finance income	458	836	478	854
Foreign exchange gain/(loss)	2,881	(1,644)	(2,426)	(3,298)
Interest expense	(115)	(268)	(145)	(336)
Unwinding of discount on decommissioning and environmental liabilities	(16)	(65)	(209)	(374)
Bank commissions and charges	(16)	(33)	(8)	(16)
Other	(32)	(63)	-	-
	3,160	**(1,237)**	**(2,310)**	**(3,170)**

NOTE 21. 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 six months ended 30 June 2014 were the Primary Shareholders (Note 1) – Rosneft Oil Company and Gazprom Neft Group.

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 months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Short-term employee benefits	142	181	-	271
Long-term bonus scheme and other long-term employee benefits	80	80	16	140
	222	**261**	**16**	**411**

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

Customer	**Description**	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Entities related to Rosneft Oil Company	Crude oil	23,898	45,878	18,896	39,390
Entities related to Gazprom Neft Group	Crude oil	23,898	45,878	18,896	39,390
Entities related to Rosneft Oil Company	Processing services	2,964	6,022	2,446	5,070
Entities related to Gazprom Neft Group	Processing services	2,964	6,022	2,446	5,070
Other	Oil products and other	1,489	2,950	1,175	1,739
		55,213	**106,750**	**43,859**	**90,659**

(in million of Russian Roubles, unless noted otherwise)

NOTE 21. RELATED PARTY TRANSACTIONS (CONTINUED)

For the six months ended 30 June 2014 the Group incurred operating expenses with related parties representing purchases in the amount of 157 RR million (for the six months ended 30 June 2013 – RR 156 million).

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities being controlled by the Russian Government. In accordance with IAS 24 "Related Party Disclosures" and as the Primary Shareholders of the Company are effectively being controlled by the Russian Government, the following disclosure was made.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the Primary shareholders are effectively being controlled by the Russian Government.
In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the Federal Tariffs Service. Bank loans with related parties are provided on the basis of market rates.
Taxes are accrued and settled in accordance with Russian tax legislation.

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable are related to major State controlled companies.

In the normal course of business the Group incurs electricity and heating expenses. A part of these expenses related to purchases from the entities under Government control. Due to specifics of the electricity market in the Russian Federation, these purchases cannot be accurately separated from the purchases from private companies.

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

	30 June 2014	31 December 2013
Entities related to Gazprom Neft Group	3	49
	3	**49**

Receivables from related parties were as follows:

	30 June 2014	31 December 2013
Entities related to Rosneft Oil Company	1,847	2,465
Entities related to Gazprom Neft Group	1,982	2,219
Other	68	52
	3,897	**4,736**

Accounts payable to related parties were as follows:

	30 June 2014	31 December 2013
Entities related to Gazprom Neft Group	1,355	2 606
Entities related to Rosneft Oil Company	617	1,063
Other	192	141
	2,164	**3,810**

Dividends payable to Shareholders were as follows:

	30 June 2014	31 December 2013
Entities related to Gazprom Neft Group	5,902	100
Entities related to Rosneft Oil Company	5,902	100
	11,804	**200**

(in million of Russian Roubles, unless noted otherwise)

NOTE 22. CONTINGENCIES AND COMMITMENTS

Capital expenditure 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 six months basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

The Group has approved contractual capital expenditure commitments for construction and fixed assets acquisition as of 30 June 2014 in the amount of RR 16,475 million (31 December 2013 – RR 7,702 million). The increase of contractual capital expenditure commitments for construction is due to the development of oil fields.

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 2062. The decrease of minimum lease payments under non-cancellable operating leases was caused by the signing new lease agreements and the extension of the lease on the previously signed agreements by OAO Slavneft-Megionneftegaz. Future minimum lease payments under non-cancellable operating leases are:

	30 June 2014	**31 December 2013**
Less than 1 year	568	568
Between 1 and 5 years	2,110	2,050
More than 5 years	8,374	9,740
	11,052	**12,358**

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 22. 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 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 tax authorities.

Currently the Russian 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 six months preceding the six months 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 Organization for Economic Cooperation and Development. 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 procedures to be in compliance with the new transfer pricing legislation. Management believes that its pricing methodology is in compliance with the transfer pricing legislation and applied intra-Group prices are arm's length.

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 of the Group.

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 22. 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

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, the current impact and ongoing threat of sanctions, uncertainty and volatility of the financial markets and other risks could have negative effects on the Russian financial and corporate sectors. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment.

Management believes it is taking all necessary measures to support the sustainability of development of the Group's business in the current business and economic environment.

NOTE 23. FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to these Financial Statements line items below:

	30 June 2014	31 December 2013
Financial assets		
Current		
Cash and cash equivalents (Note 8)	14,950	28,208
Trade and other financial receivables, net (Note 7)	6,677	7,537
Loans receivable	42	55
Total carrying amount	**21,669**	**35,800**
Financial liabilities		
Non-current		
Non-current debt (Note 9)	23,937	33,271
Current		
Trade and other financial payables (Note 11)	18,558	19,274
Current debt and current portion of non-current debt (Note 9)	22,603	24,010
Total carrying amount	**65,098**	**76,555**

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 23. 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 the Group 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:

	30 June 2014						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	5,728	-	948	-	1	**949**	**6,677**
Cash and cash equivalents	13,378	1,444	16	-	112	**1,572**	**14,950**
Loans receivable	42	-	-	-	-	**-**	**42**
Non-current liabilities							
Non-current debt	-	(23,937)	-	-	-	**(23,937)**	**(23,937)**
Current liabilities							
Current debt	-	(21,715)	(100)	(788)	-	**(22,603)**	**(22,603)**
Trade accounts payable and accruals	(17,456)	(11)	(1,090)	-	(1)	**(1,102)**	**(18,558)**
Net exposure	**1,692**	**(44,219)**	**(226)**	**(788)**	**112**	**(45,121)**	**(43,429)**

	31 December 2013						
	RUR	**USD**	**EURO**	**JPY**	**BYR**	**Subtotal for foreign currency**	**Total**
Current assets							
Trade accounts receivable	6,114	-	1,418	-	5	**1,423**	**7,537**
Cash and cash equivalents	19,717	8,324	65	-	102	**8,491**	**28,208**
Loans receivable	54	-	1	-	-	**1**	**55**
Non-current liabilities							
Non-current debt	-	(32,905)	-	(366)	-	**(33,271)**	**(33,271)**
Current liabilities							
Current debt	-	(23,167)	(102)	(741)	-	**(24,010)**	**(24,010)**
Trade accounts payable and accruals	(17,858)	(1)	(1,415)	-	-	**(1,416)**	**(19,274)**
Net exposure	**8,027**	**(47,749)**	**(33)**	**(1,107)**	**107**	**(48,782)**	**(40,755)**

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	USD	**JPY**	**USD**	**JPY**
Effect on pre-tax profit	4,407	79	4,888	157

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 substantionally 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 does not consider the increase in LIBOR rates as a significant risk of its cash flows.

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

	30 June 2014	31 December 2013
Fixed rate financial instruments (net)	**13,794**	**26,814**
Bank deposits	14,582	27,921
Non-current debt	-	(366)
Current debt	(788)	(741)
Variable rate financial instruments	**(45,752)**	**(56,174)**
Non-current debt	(23,937)	(32,905)
Current debt	(21,815)	(23,269)

At 30 June 2014 and 31 December 2013, the Group's risk policy does not provide for any interest risk hedging.
A 1% change in interest rates at the reporting date would have the following effect on pre-tax profit:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Effect on pre-tax profit	(272)	(262)

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 related to Primary Shareholders. The Group's top trade debtors are entities associated with the Primary Shareholders: Rosneft Oil Company and OAO Gazprom Neft. And so the credit quality of trade receivables not impaired at 30 June 2014 is not a significant risk as the debtors (Primary Shareholders and other than Primary Shareholders) have no history of defaults. Disclosure regarding trade receivables that are either past due or impaired is presented in Note 7.

(in million of Russian Roubles, unless noted otherwise)

NOTE 23. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 six months ended 30 June 2014 and 30 June 2013, global and Russian capital markets experienced significant volatility, significant fluctuation of Russian Rouble against USD and Euro and increase in interest rates. Despite stabilization 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 2014 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 30 June 2014 totalled RR 10,726 million (31 December 2013 – RR 6,546 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.

	30 June 2014	**31 December 2013**
Not later than 1 year	41,161	43,284
Later than 1 year and not later than 5 years	23,937	33,271
	65,098	**76,555**

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 2014 remained unchanged from prior years.

The Group has complied with all externally imposed capital requirements during the six months ended 30 June 2014 and 30 June 2013. 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 Interim Condensed Statement of Financial Position.

	30 June 2014	**31 December 2013**
Net debt	31,590	29,073
Total Group Shareholders’equity	160,661	160,796
Total Group Shareholders’equity and Net debt	192,251	189,869
Gearing ratio	**16,4%**	**15.3%**

(in million of Russian Roubles, unless noted otherwise)

NOTE 24. FAIR VALUE FOR FINANCIAL INSTRUMENTS

At 30 June 2014 and 31 December 2013 the fair values of financial instruments held by the Group did not materially differ from the carrying values.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable. The carrying amounts of these items are a reasonable approximation of their fair value.

Current debt. Loan arrangements have variable interest rates that reflect the currently available terms for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Non-current debt. Loans under bank arrangements have variable and fixed interest rates that reflect currently available terms and conditions for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

NOTE 25. DIVIDENDS

The shareholders approved dividends of RR 2.49 per ordinary share in the amount of RR 11,838 million during the annual general meeting of Company's held on 30 June 2014 and RR 0.06 per ordinary share in the amount of RR 285 million during the annual general meeting of Company's held on 28 June 2013.
The Company paid during the six months ended 30 June 2014 and 30 June 2013 in the amount of RR 77 million and RR 32 million respectively, or up to the date of issuance of this Consolidated Interim Condensed Financial Information.

NOTE 26. NON-CONTROLLING INTEREST

The table below presents information regarding subsidiaries that are not wholly owned by the Group (non-controlling interest – NCI) as at 30 June 2014.

		30 June 2014		**Six months ended 30 June 2014**	**31 December 2013**		**Six months ended 30 June 2013**
Subsidiaries	**Core activity**	**NCI share, %**	**NCI in the net assets**	**NCI in the net profit**	**NCI share, %**	**NCI in the net assets**	**NCI in the net profit**
OAO Slavneft-Megionneftegaz	Oil and gas development and production	43.58%	49,202	2,374	43.58%	46,757	1,129
OAO Slavneft Yaroslavnefteorgsintez *	Petroleum refining	60.17%	20,797	1,443	60.17%	19,348	1,377
OAO Ob'Neftegazgeologiya	Oil and gas development and production	19.76%	2,812	306	19.76%	2,527	258
OOO MUBR	Field survey and exploration	43.58%	929	31	43.58%	899	10
OAO Slavneft-Megionneftegazgeologiya	Oil and gas development and production	5.28%	266	(7)	5.28%	274	8
OOO MegionEnergoNeft'	Field survey and exploration	43.58%	133	17	43.58%	116	22
OOO Megion Geologiya	Field survey and exploration	11.87%	(130)	8	11.87%	(138)	-
OAO Sobol'	Oil and gas development and production	16.31%	(7)	(3)	16.31%	(3)	(22)
Other	-		61	(1)		115	11
Total			**74,063**	**4,168**		**69,895**	**2,793**

(in million of Russian Roubles, unless noted otherwise)

NOTE 26. NON-CONTROLLING INTEREST (CONTINUED)

* The voting rights of the Group comprise 39.83% as of 30 June 2014 and 51,46% as of 31 December 2013. The directors have concluded that the Group controls OAO Slavneft Yaroslavnefteorgsintez, even though it holds less than half of the ownership interest of this subsidiary. This judgement has been made as the reduction in the voting power was as a result of a technical change in voting rights that occurred in late June 2014. Such a change is expected to be temporary. The Primary Shareholders who have the majority of the remaining share (together 54,97%) have confirmed to the Group that there has been no effective change, nor is one expected, in the ownership nor any change in how the subsidiary is controlled and operated.

The Group's Primary Shareholders hold financial interests in a number of the Group's subsidiaries.

Share of the Primary Shareholders in non-controlling interest of the Group comprises the following amounts: non-controlling interest in the Consolidated Interim Condensed Financial Information as of 30 June 2014 and 31 December 2013 includes RR 67,454 million and RR 63,492 million respectively, attributable to the Primary Shareholders' interests.

Consolidated Interim Condensed Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 June 2014 and 2013 comprises RR 3,887 million and RR 2,559 million as profit respectively, attributable to the Primary Shareholders' interest.

NOTE 27. PRINCIPAL SUBSIDIARIES

The Consolidated Interim Condensed Financial Information of the Group include the following subsidiaries in addition to those, presented in Note 26:

Subsidiaries of the Company

		30 June 2014		**31 December 2013**	
Subsidiaries	**Core activity**	**Ownership**	**Voting rights**	**Ownership**	**Voting rights**
ZAO Ob'neftegeologiya	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'-Nizhnevartovsk	Oil and gas development and production	100%	100%	100%	100%
OOO Slavneft'-Krasnoyarskneftegaz	Oil and gas development and production	100%	100%	100%	100%
OOO BNGRE	Field survey and exploration	100%	100%	100%	100%
OOO Slavneft Logistika	Transportation services	100%	100%	100%	100%

NOTE 28. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period have been evaluated through 6 August 2014, the date of issuance of this Consolidated Interim Condensed Financial Information. Dividends were paid in the amount of RR 10,268 million including taxes on 28 July and 30 July 2014. No other significant events were identified.