



Gazprom Neft Group

Interim Condensed Consolidated Financial Statements (Unaudited)

June 30, 2014

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JSC Gazprom Neft and its subsidiaries (the "Group") as of 30 June 2014 and the related interim condensed consolidated statements of profit and loss and other comprehensive income for the three- and six-month periods then ended, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim financial reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

11 August 2014

Moscow, Russian Federation

	Notes	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	6	130,269	91,077
Short-term financial assets	7	26,564	55,870
Trade and other receivables	8	91,236	87,348
Inventories	9	96,773	90,223
Current income tax prepayments		4,347	7,671
Other current assets	10	111,702	100,882
Total current assets		460,891	433,071
Non-current assets			
Property, plant and equipment	11	995,960	895,543
Goodwill and other intangible assets		55,552	55,386
Investments in associates and joint ventures	12	152,688	120,358
Long-term trade and other receivables		177	106
Long-term financial assets	14	15,273	22,406
Deferred income tax assets		20,429	18,508
Other non-current assets	15	29,495	18,255
Total non-current assets		1,269,574	1,130,562
Total assets		1,730,465	1,563,633
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	16	56,331	52,413
Trade and other payables	17	86,433	68,035
Other current liabilities		29,655	26,650
Current income tax payable		3,904	3,872
Other taxes payable	18	55,696	46,783
Provisions for liabilities and charges		15,653	10,158
Total current liabilities		247,672	207,911
Non-current liabilities			
Long-term debt	19	313,210	261,455
Other non-current financial liabilities		9,589	7,028
Deferred income tax liabilities		66,429	59,729
Provisions for liabilities and charges		31,105	25,881
Other non-current liabilities		2,089	3,608
Total non-current liabilities		422,422	357,701
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		18,958	19,293
Retained earnings		992,945	930,304
Other reserves		2,791	4,087
Equity attributable to the Company's owners		1,013,622	952,612
Non-controlling interest		46,749	45,409
Total equity		1,060,371	998,021
Total liabilities and shareholders' equity		1,730,465	1,563,633


A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft


A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

Gazprom Neft Group
Interim Condensed Consolidated Statement of
Profit and Loss and Other Comprehensive Income (Unaudited)

Currency – RUB millions (except per share data)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Sales		429,338	359,080	814,508	715,034
Less export duties and sales related excise tax		(60,920)	(60,260)	(126,080)	(124,319)
Total revenue from sales	26	368,418	298,820	688,428	590,715
Costs and other deductions					
Purchases of oil, gas and petroleum products		(104,825)	(77,545)	(180,587)	(148,305)
Production and manufacturing expenses		(43,652)	(34,873)	(81,170)	(66,402)
Selling, general and administrative expenses		(20,660)	(16,966)	(37,850)	(31,242)
Transportation expenses		(27,035)	(27,463)	(55,765)	(55,478)
Depreciation, depletion and amortization		(21,120)	(19,134)	(41,215)	(37,127)
Taxes other than income tax	18	(88,779)	(73,626)	(174,059)	(150,928)
Exploration expenses		(528)	(123)	(618)	(835)
Total operating expenses		(306,599)	(249,730)	(571,264)	(490,317)
Other (loss) / gain, net		(1,812)	494	(1,505)	(449)
Operating profit		60,007	49,584	115,659	99,949
Share of profit of associates and joint ventures	12	4,196	302	4,492	2,639
Net foreign exchange gain / (loss)	20	2,189	(1,328)	(5,311)	(2,500)
Finance income	21	1,065	1,191	2,635	2,702
Finance expense	22	(2,946)	(2,820)	(5,842)	(5,910)
Total other income / (expense)		4,504	(2,655)	(4,026)	(3,069)
Profit before income tax		64,511	46,929	111,633	96,880
Current income tax expense		(10,734)	(7,219)	(18,758)	(14,618)
Deferred income tax (expense) / benefit		(2,561)	240	(2,375)	(1,785)
Total income tax expense		(13,295)	(6,979)	(21,133)	(16,403)
Profit for the period		51,216	39,950	90,500	80,477
Other comprehensive (loss) / income					
Currency translation differences		(10,181)	7,654	1,292	9,129
Cash flow hedge, net of deferred tax		4,020	(3,889)	(2,446)	(4,698)
Other comprehensive income		7	-	7	-
Other comprehensive (loss) / income for the period		(6,154)	3,765	(1,147)	4,431
Total comprehensive income for the period		45,062	43,715	89,353	84,908
Profit attributable to:					
- Gazprom Neft shareholders		49,783	38,054	87,599	77,621
- Non-controlling interest		1,433	1,896	2,901	2,856
Profit for the period		51,216	39,950	90,500	80,477
Total comprehensive income / (loss) attributable to:					
- Gazprom Neft shareholders		46,836	39,539	86,303	79,507
- Non-controlling interest		(1,774)	4,176	3,050	5,401
Total comprehensive income for the period		45,062	43,715	89,353	84,908
Earnings per share attributable to Gazprom Neft shareholders					
Basic earnings (RUB per share)		10.55	8.07	18.57	16.45
Diluted earnings (RUB per share)		10.55	8.07	18.57	16.45
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,718	4,718

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

	Attributable to equity holders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves			
Balance as of January 1, 2014	98	(1,170)	19,293	930,304	4,087	952,612	45,409	998,021
Profit for the period	-	-	-	87,599	-	87,599	2,901	90,500
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	1,143	1,143	149	1,292
Cash flow hedge, net of deferred tax	-	-	-	-	(2,446)	(2,446)	-	(2,446)
Other comprehensive income	-	-	-	-	7	7	-	7
Total comprehensive income / (loss) for the period	-	-	-	87,599	(1,296)	86,303	3,050	89,353
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(24,958)	-	(24,958)	(2,656)	(27,614)
Transaction under common control	-	-	1,213	-	-	1,213	-	1,213
Acquisition of non-controlling interest	-	-	(1,548)	-	-	(1,548)	946	(602)
Total transactions with owners	-	-	(335)	(24,958)	-	(25,293)	(1,710)	(27,003)
Balance as of June 30, 2014	98	(1,170)	18,958	992,945	2,791	1,013,622	46,749	1,060,371

	Attributable to equity holders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves			
Balance as of January 1, 2013	98	(1,170)	16,125	815,731	(1,402)	829,382	40,547	869,929
Profit for the period	-	-	-	77,621	-	77,621	2,856	80,477
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	6,584	6,584	2,545	9,129
Cash flow hedge, net of deferred tax	-	-	-	-	(4,698)	(4,698)	-	(4,698)
Total comprehensive income for the period	-	-	-	77,621	1,886	79,507	5,401	84,908
Transactions with owners, recorded in equity								
Dividends to equity holders	-	-	-	(43,877)	-	(43,877)	(2,685)	(46,562)
Acquisition of non-controlling interest and other	-	-	1,604	-	-	1,604	(1,997)	(393)
Total transactions with owners	-	-	1,604	(43,877)	-	(42,273)	(4,682)	(46,955)
Balance as of June 30, 2013	98	(1,170)	17,729	849,475	484	866,616	41,266	907,882

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

	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from operating activities		
Profit before income tax	111,633	96,880
Adjustments for:		
Share of profit of associates and joint ventures	(4,492)	(2,639)
Loss on foreign exchange differences	5,556	7,484
Finance income	(2,635)	(2,702)
Finance expense	5,842	5,910
Depreciation, depletion and amortization	41,215	37,127
Allowance for doubtful accounts	21	(34)
Other non-cash items	(282)	1,085
Changes in working capital:		
Accounts receivable	4,602	(4,297)
Inventories	(2,944)	2,677
Other assets	1,024	8,322
Accounts payable	(3,667)	1,014
Taxes payable	8,958	3,710
Other liabilities	2,450	(9,489)
Income taxes paid	(15,432)	(14,179)
Interest paid	(7,846)	(5,962)
Dividends received	1,556	978
Net cash provided by operating activities	145,559	125,885
Cash flows from investing activities		
Acquisition of subsidiaries and joint operations, net of cash acquired	(7,063)	(2,197)
Acquisition of associates and joint ventures	(45,135)	(369)
Bank deposits placement	(33,518)	(20,680)
Repayment of bank deposits	48,495	14,789
Acquisition of other investments	-	(281)
Proceeds from sales of other investments	-	890
Short-term loans issued	(756)	(1,587)
Repayment of short-term loans issued	160	142
Long-term loans issued	(6,450)	(6,530)
Repayment of long-term loans issued	714	466
Capital expenditures	(107,585)	(90,497)
Proceeds from sale of property, plant and equipment	777	3,254
Interest received	1,766	2,049
Net cash used in investing activities	(148,595)	(100,551)
Cash flows from financing activities		
Proceeds from short-term borrowings	6,493	9,254
Repayment of short-term borrowings	(4,098)	(21,901)
Proceeds from long-term borrowings	84,083	43,197
Repayment of long-term borrowings	(28,509)	(38,906)
Transaction costs directly attributable to the borrowings received	(1,457)	(194)
Dividends paid to the Company's shareholders	(6,826)	-
Dividends paid to non-controlling interest	(407)	(678)
Acquisition of non-controlling interest in subsidiaries	(485)	(378)
Net cash provided by / (used in) financing activities	48,794	(9,606)
Increase in cash and cash equivalents	45,758	15,728
Effect of foreign exchange on cash and cash equivalents	(6,566)	3,254
Cash and cash equivalents as of the beginning of the period	91,077	79,199
Cash and cash equivalents as of the end of the period	130,269	98,181

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

1. General

Description of Business

JSC Gazprom Neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. JSC Gazprom (“Gazprom”, that is a state controlled entity), the Group’s ultimate parent company, owns 95.68% shares in the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Subsequent events occurring after June 30, 2014 were evaluated through August 11, 2014 the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the period ended June 30, 2014 are not necessarily indicative of the results expected for the full year.

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

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

Changes in Significant Accounting Policies

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

Foreign Currency Translation

The following exchange rates for Russian Roubles to US dollars, EURO and Serbian Dinars applied during the period:

	Average rate				Reporting date spot rate	
	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013	June 30, 2014	December 31, 2013
USD 1	35.00	31.61	34.98	31.02	33.63	32.73
EUR 1	48.03	41.29	47.99	40.74	45.83	44.97
RSD 1	0.41	0.38	0.42	0.36	0.40	0.39

3. Application of New IFRS

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

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

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

4. New Accounting Standards

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

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

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

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

The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment has no significant impact on Group's Interim Condensed Consolidated Financial Statements.

5. Acquisition of Subsidiaries

Acquisition of LLC Gazprom neft shelf

In May 2014 the Group acquired 100% share of LLC Gazprom neft shelf from JSC Gazprom. The acquired company holds exploration and production licenses for Prirazlomnoye oil field. The transaction was treated as common control transaction and accounted for using predecessor accounting method. The difference between the cash consideration paid of RUB 2.7 billion and the value of assets and liabilities acquired of RUB 4 billion was accounted for as additional paid-in-capital for the period ended June 30, 2014.

LLC Gazprom neft shelf has 18.3% share in joint operation with JSC Gazprom. The arrangement is designed for joint exploration and production on Prirazlomnoye oil field located in the Russian Federation. According to the agreement each partner is assigned for the respective share in profit. The following table presents information of LLC Gazprom neft shelf as of acquisition date (including share in assets and liabilities of joint operation):

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

Acquisition of Gazpromneft-Aero Sheremetyevo

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

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

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

6. Cash and Cash Equivalents

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

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Cash on hand	570	504
Cash in bank	40,981	21,034
Deposits with original maturity of less than three months	85,474	66,463
Cash equivalents	3,244	3,076
Total cash and cash equivalents	130,269	91,077

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

7. Short-term Financial Assets

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

	June 30, 2014	December 31, 2013
Deposits with original maturity more than 3 months less than 1 year	22,668	36,869
Short-term loans issued	3,896	18,991
Forward contracts - cash flow hedge	-	10
Total short-term financial assets	26,564	55,870

8. Trade and Other Receivables

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

	June 30, 2014	December 31, 2013
Trade receivables	92,852	94,860
Other financial receivables	7,458	1,479
Less impairment provision	(9,074)	(8,991)
Total trade and other receivables	91,236	87,348

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

9. Inventories

Inventories as of June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014	December 31, 2013
Crude oil and gas	20,951	20,328
Petroleum products and petrochemicals	48,229	44,836
Materials and supplies	23,652	21,280
Other	6,610	6,359
Less inventory provision	(2,669)	(2,580)
Total inventory	96,773	90,223

As part of the management of crude inventory, the Group may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy / sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken for the period ended June 30 is as follows:

	2014	2013
Buy / sell crude oil transactions for the period ended June 30	21,313	44,334

10. Other Current Assets

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

	June 30, 2014	December 31, 2013
Prepaid custom duties	15,916	22,530
Advances paid	32,415	31,618
Prepaid expenses	958	311
Value added tax receivable	40,073	35,223
Other assets	33,543	21,661
Less impairment provision	(11,203)	(10,461)
Total other current assets	111,702	100,882

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

11. Property, Plant and Equipment

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

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
Cost						
As of January 1, 2014	865,828	217,000	102,443	10,706	60,271	1,256,248
Additions	80,641	173	257	3,984	17,878	102,933
Acquisitions through business combinations	23,297	-	9,222	22	582	33,123
Changes in decommissioning obligations	2,947	-	-	-	-	2,947
Capitalised borrowing costs	2,260	-	-	-	540	2,800
Transfers	-	12,283	9,104	629	(22,016)	-
Internal movement	2,197	(2,717)	(1,858)	(21)	2,288	(111)
Disposals	(2,838)	(325)	(1,019)	(110)	(369)	(4,661)
Translation differences	2,933	154	(565)	3	40	2,565
As of June 30, 2014	977,265	226,568	117,584	15,213	59,214	1,395,844
Depreciation and impairment						
As of January 1, 2014	(281,435)	(56,211)	(21,829)	(1,230)	-	(360,705)
Depreciation charge	(30,626)	(4,512)	(4,500)	(337)	-	(39,975)
Acquisitions through business combinations	(335)	-	-	-	-	(335)
Internal movement	6	(4)	109	-	-	111
Disposals	1,296	53	489	8	-	1,846
Translation differences	(988)	10	152	-	-	(826)
As of June 30, 2014	(312,082)	(60,664)	(25,579)	(1,559)	-	(399,884)
Net book value						
As of January 1, 2014	584,393	160,789	80,614	9,476	60,271	895,543
As of June 30, 2014	665,183	165,904	92,005	13,654	59,214	995,960

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
As of January 1, 2013	709,528	183,290	84,292	7,757	59,278	1,044,145
Additions	61,716	1,042	9	271	18,732	81,770
Acquisitions through business combinations	-	-	1,367	-	-	1,367
Changes in decommissioning obligations	374	-	-	-	-	374
Capitalised borrowing costs	240	166	-	-	236	642
Transfers	-	3,858	6,006	334	(10,198)	-
Internal movement	887	(114)	(1,041)	268	-	-
Reclassification from assets classified as held for sale	1,217	-	-	-	-	1,217
Disposals	(2,407)	(247)	(1,544)	(34)	(386)	(4,618)
Translation differences	9,390	2,056	1,922	7	352	13,727
As of June 30, 2013	780,945	190,051	91,011	8,603	68,014	1,138,624
Depreciation and impairment						
As of January 1, 2013	(221,754)	(48,021)	(15,604)	(554)	-	(285,933)
Depreciation charge	(28,140)	(3,857)	(2,680)	(470)	-	(35,147)
Internal movement	32	-	68	(100)	-	-
Reclassification from assets classified as held for sale	(1,017)	-	-	-	-	(1,017)
Disposals	1,138	63	225	13	-	1,439
Translation differences	(2,867)	(216)	(285)	(6)	-	(3,374)
As of June 30, 2013	(252,608)	(52,031)	(18,276)	(1,117)	-	(324,032)
Net book value						
As of January 1, 2013	487,774	135,269	68,688	7,203	59,278	758,212
As of June 30, 2013	528,337	138,020	72,735	7,486	68,014	814,592

12. Investments in Associates and Joint Ventures

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

		Ownership percentage	June 30, 2014	December 31, 2013
Slavneft	Joint venture	49.9	84,807	85,015
SeverEnergy	Joint venture	45.1	60,005	24,165
Others			7,876	11,178
Total investments			152,688	120,358

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

The reconciliation of carrying amount of investments in associates and joint ventures as of the beginning of the reporting period and as of the end of the reporting period is shown below:

	2014	2013
Carrying amount as of January 1	120,358	105,643
Share of profit of associates and joint ventures	4,492	2,639
Dividends declared	(7,418)	(4,324)
Increase in associates and joint ventures	35,959	1,887
Other changes in cost of associates and joint ventures	(703)	(99)
Carrying amount as of June 30	152,688	105,746

Slavneft

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of legal entities. Slavneft is engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and Rosneft.

SeverEnergy

The Group's investment in SeverEnergy LLC (SeverEnergy) is held through Yamal Razvitie LLC (Yamal Razvitie, a 50%:50% joint venture between the Group and JSC Novatek) owning a 51% equity interest in SeverEnergy. In December 2013 and March 2014 Yamal Razvitie acquired 60% interest and 20% interest, respectively, in Artic Russia B.V. owning 49% stake in SeverEnergy. SeverEnergy is developing the Samburgskoye and Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The Group and Novatek negotiated a series of linked transactions that aim to simplify ownership structure and achieve parity shareholdings in SeverEnergy upon completion. The Group provided several long-term loans to Yamal Razvitie of which Yamal Razvitie financed RUB 34.9 billion on acquisition of additional 20% share in Artic Russia B.V. (effective share of the Group in SeverEnergy increased from 40.2% to 45.1% respectively). The loans will form the Group's contribution in equity of Yamal Razvitie upon completion of the restructuring of the joint venture. The carrying amount of the Group's investment exceeds the Group's share in the underlying net assets of SeverEnergy by RUB 12.7 billion as of June 30, 2014 due to complex holding structure and current financing scheme .

The summarized financial information for the significant joint ventures as of June 30, 2014 , December 31, 2013 and for the periods ended June 30, 2014 and 2013 is presented in the table below. The summarized financial information refers to amounts included in the IFRS financial statements of the joint ventures. Summarized financial information on SeverEnergy includes assets and liabilities of Yamal Razvitie LLC as holding company.

	Slavneft		SeverEnergy	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Cash and cash equivalents	14,950	28,208	1,688	3,321
Other current assets	17,938	18,630	10,678	11,586
Non-current assets	246,063	235,420	413,279	349,199
Current financial liabilities	(53,386)	(43,758)	(116,799)	(119,595)
Other current liabilities	(20,197)	(20,617)	(750)	(486)
Non-current financial liabilities	(23,937)	(33,271)	(140,316)	(82,645)
Other non-current liabilities	(20,770)	(23,816)	(62,857)	(51,916)
Net assets	160,661	160,796	104,923	109,464
	Six months ended June 30, 2014	Six months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue	106,870	92,075	9,763	6,625
Depreciation, depletion and amortization	(14,230)	(12,338)	(3,489)	(3,116)
Finance income	836	854	(51)	26
Finance expense	(429)	(726)	(5,898)	(1,669)
Total income tax expense	(2,501)	(1,202)	(2,719)	(131)
Profit / (loss) for the period	11,422	5,487	(5,666)	(632)
Other comprehensive income / (loss)	11,422	5,487	(5,666)	(632)

Current and non-current financial liabilities of SeverEnergy include RUB 145 billion Yamal Razvitie payables to Sberbank and the Group under the loan agreements.

Others

The aggregate carrying amount of all individually immaterial joint ventures and associates as well as the Group's share of those joint ventures' and associates' profit or loss and other comprehensive income are not significant.

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

13. Joint Operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development (SPD) as Joint operations. Tomskneft and Salym Petroleum development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partner).

18.3% share of the Group in joint arrangement with Gazprom (see note 5) is considered to be joint operation under IFRS 11 Joint Arrangements as decisions about relevant activities require the unanimous consent of both participants. The joint operation is not structured as a separate legal entity.

14. Long-term Financial Assets

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

	June 30, 2014	December 31, 2013
Long-term loans issued	7,678	15,335
Forward contracts - cash flow hedge	839	283
Available for sale financial assets	7,447	7,478
Less impairment provision	(691)	(690)
Total long-term financial assets	15,273	22,406

15. Other Non-Current Assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 26,667 million and RUB 15,867 million as of June 30, 2014 and December 31, 2013, respectively).

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

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

	June 30, 2014	December 31, 2013
Bank loans	3,483	119
Other borrowings	14,197	17,706
Current portion of long-term debt	38,651	34,588
Total short-term debt and current portion of long-term debt	56,331	52,413

Current portion includes interest payable on long-term borrowings.

17. Trade and Other Payables

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

	June 30, 2014	December 31, 2013
Trade accounts payable	53,497	61,003
Dividends payable	22,282	1,943
Other accounts payable	8,886	3,999
Other current financial liabilities	1,768	1,090
Total trade and other payables	86,433	68,035

18. Other Taxes Payable

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

	June 30, 2014	December 31, 2013
Mineral extraction tax	20,349	19,608
VAT	21,478	15,649
Excise tax	8,195	5,826
Property tax	2,235	2,425
Other taxes	3,439	3,275
Total other taxes payable	55,696	46,783

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Mineral extraction tax	61,763	49,112	122,245	99,970
Property tax	2,306	1,896	4,587	3,725
Excise tax	21,299	18,796	40,247	38,104
Other taxes	3,411	3,822	6,980	9,129
Total taxes other than income tax	88,779	73,626	174,059	150,928

19. Long-term Debt

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

	June 30, 2014	December 31, 2013
Bank loans	151,497	98,397
Bonds	61,576	61,583
Loan Participation Notes	135,419	132,534
Other borrowings	3,369	3,529
less current portion of debt	(38,651)	(34,588)
Total long-term debt	313,210	261,455

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

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

20. Net foreign exchange gain / (loss)

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net foreign exchange gain / (loss) on financing activities	8,370	(5,737)	(6,856)	(7,988)
Net foreign exchange (loss) / gain on operating activities	(6,181)	4,409	1,545	5,488
Net foreign exchange gain / (loss)	2,189	(1,328)	(5,311)	(2,500)

21. Finance Income

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest income on cash and cash equivalents	297	198	603	337
Interest on bank deposits	325	603	1,089	1,443
Interest income on loans issued	443	390	943	922
Total finance income	1,065	1,191	2,635	2,702

22. Finance Expense

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest expense	4,016	2,660	7,876	5,742
Decommissioning provision: unwinding of the present value discount	392	422	766	810
Less: capitalized interest	(1,462)	(262)	(2,800)	(642)
Total finance expense	2,946	2,820	5,842	5,910

23. Fair Value Measurement

The following assets and liabilities are measured at fair value in the Interim Condensed Consolidated Financial Statements: derivative financial instruments (forward exchange contracts used as hedging instruments), Stock Appreciation Rights plan (SARs) and financial investments classified as available for sale except for unquoted equity instruments whose fair value cannot be measured reliably that are carried at cost less any impairment losses. Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of December 31, 2013. There were no transfers between the levels of the fair value hierarchy during the interim period. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. Carrying value of other financial assets and liabilities approximate their fair value.

24. Commitments and Contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal and regional budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, significant additional taxes, penalties and interest may be accrued. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years from the year when the tax authorities make decision regarding tax reviews. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2011, 2012 and 2013 are currently open for review. Management believes it has adequately provided for any probable additional tax accruals that might arise from these reviews.

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

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

Economic Environment in the Russian Federation

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

Environmental Matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and the Group does not therefore have any material environmental liabilities.

Capital Commitments

As of June 30, 2014 the Group has entered into contracts to purchase property, plant and equipment for RUB 143,178 million (December 31, 2013: RUB 109,314 million).

25. Related Party Transactions

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

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

June 30, 2014	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	8,841	-
Short-term financial assets	-	1,637	2,819
Trade and other receivables	1,856	2,261	13,847
Other assets	372	11,812	402
Long-term financial assets	-	-	6,595
Total assets	2,228	24,551	23,663
Short-term debt and other current financial liability	-	-	1,218
Trade and other payables	18,005	5,353	2,267
Other current liabilities	2,145	99	14
Long-term debt and other non-current financial liability	3,935	-	-
Total liabilities	24,085	5,452	3,499

As of June 30, 2014 other assets within parent's subsidiaries and associates contain Rub 8.5 billion prepayment to Gazprombank for the share in LLC Gazprom Resource Northgaz (see note 27).

December 31, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	32,965	-
Short-term financial assets	-	16,248	2,869
Trade and other receivables	2,760	3,178	3,497
Other assets	635	3,010	1,326
Long-term financial assets	-	2,587	6,494
Total assets	3,395	57,988	14,186
Short-term debt and other current financial liability	-	-	1,246
Trade and other payables	1,277	3,432	2,488
Other current liabilities	1	761	413
Long-term debt and other non-current financial liability	3,897	-	1,000
Total liabilities	5,175	4,193	5,147

For the periods ended June 30, 2014 and 2013 the following transactions occurred with related parties:

Six months ended June 30, 2014	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	7,491	11,088	21,887
Other revenue	-	170	4,689
Purchases of crude oil, gas and oil products	-	18,068	46,413
Production related services	34	7,369	10,973
Transportation costs	2,634	1,338	1,630
Interest income	-	544	260

Six months ended June 30, 2013	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and oil products sales	3,810	9,900	22,009
Other revenue	-	88	3,409
Purchases of crude oil, gas and oil products	-	12,757	39,672
Production related services	-	5,881	8,288
Transportation costs	2,037	1,133	3,708
Interest income	-	297	221

Transactions with Key Management Personnel

Key Management received remunerations: salaries, bonuses and other contributions amounting to RUB 551 million for the period ended June 30, 2014 and to RUB 578 million for the period ended June 30, 2013.

26. Segment Information

Presented below is information about the Group's operating segments for the periods ended June 30, 2014 and 2013. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

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

Six months ended June 30, 2014

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	9,546	678,882	-	688,428
Inter-segment	248,390	4,190	(252,580)	-
Total revenues	257,936	683,072	(252,580)	688,428
Segment results				
Adjusted EBITDA	105,883	72,500	-	178,383
Depreciation, depletion and amortisation	30,756	10,459	-	41,215
Capital expenditure	86,692	20,893	-	107,585

Six months ended June 30, 2013

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External customers	11,628	579,087	-	590,715
Inter-segment	203,016	3,581	(206,597)	-
Total revenues	214,644	582,668	(206,597)	590,715
Segment results				
Adjusted EBITDA	74,423	76,144	-	150,567
Depreciation, depletion and amortisation	28,551	8,576	-	37,127
Capital expenditure	65,139	25,358	-	90,497

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

Six months ended June 30, 2014	Russian Federation	CIS	Export and international sales	Total
Sales of crude oil	18,707	8,331	106,422	133,460
Sales of petroleum products	339,416	28,197	279,353	646,966
Sales of gas	12,027	-	866	12,893
Other sales	18,825	616	1,748	21,189
Less custom duties and sales related excises	-	(398)	(125,682)	(126,080)
Revenues from external customers, net	388,975	36,746	262,707	688,428
Six months ended June 30, 2013				
Sales of crude oil	5,544	22,059	104,229	131,832
Sales of petroleum products	282,191	26,090	247,057	555,338
Sales of gas	10,363	-	900	11,263
Other sales	14,772	430	1,399	16,601
Less custom duties and sales related excises	-	(1,425)	(122,894)	(124,319)
Revenues from external customers, net	312,870	47,154	230,691	590,715

	Russian Federation	CIS	Export and international sales	Total
Non-current assets as of June 30, 2014	1,065,930	9,676	158,266	1,233,872
Capital expenditures for period ended June 30, 2014	89,107	695	17,783	107,585
Non-current assets as of December 31, 2013	935,843	10,233	143,572	1,089,648
Capital expenditures for period ended June 30, 2013	80,774	785	8,938	90,497

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Profit for the period	51,216	39,950	90,500	80,477
Total income tax expense	13,295	6,979	21,133	16,403
Finance expense	2,946	2,820	5,842	5,910
Finance income	(1,065)	(1,191)	(2,635)	(2,702)
Depreciation, depletion and amortization	21,120	19,134	41,215	37,127
Net foreign exchange gain / (loss)	(2,189)	1,328	5,311	2,500
Other (loss) / gain, net	1,812	(494)	1,505	449
EBITDA	87,135	68,526	162,871	140,164
less share of profit of associates and joint ventures	(4,196)	(302)	(4,492)	(2,639)
add Share of EBITDA of associates and joint ventures	11,411	5,650	20,004	13,042
Total adjusted EBITDA	94,350	73,874	178,383	150,567

27. Subsequent Events

On July 1, 2014 the Group acquired 18.2% share in LLC Gazprom Resource Northgaz which owns 50% share in CJSC "Northgaz". As a result of the transaction the Group has effective share in CJSC Northgaz of 9.1%.

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