Bashneft Group

Consolidated financial statements for the years ended 31 December 2012, 2011 and 2010

BASHNEFT GROUP

TABLE OF CONTENTS

BASHNEFT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Oil Company Bashneft (the "Company"), its subsidiaries and its special purpose entities (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as at 31 December 2012, 2011 and 2010, its financial performance, cash flows and changes in equity for the years then ended, in accordance with the International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards in the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 were approved by:

A.L. Korsik	**A.Y. Lisovenko**
President	Chief Accountant

Ufa, Russian Federation
15 April 2013

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Joint Stock Oil Company Bashneft:

We have audited the accompanying consolidated financial statements of Joint Stock Oil Company Bashneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2012, 2011 and 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2012, 2011 and 2010 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte + Touche

15 April 2013
Moscow, Russian Federation

Golovkina N.V., Partner
(Certificate no.01-001193 dated 14 January 2013)

ZAO Deloitte & Touche CIS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010
Millions of Russian roubles

	Notes	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
CONTINUING OPERATIONS				
Revenue	6	532,502	486,328	355,523
Export tariffs and excise		(144,307)	(124,329)	(83,597)
Cost of purchased crude oil, gas and petroleum products		(124,857)	(117,363)	(87,523)
Taxes other than income tax	8	(66,709)	(60,302)	(40,918)
Production and operating expenses		(53,640)	(49,941)	(43,895)
Transportation expenses		(26,784)	(23,152)	(16,349)
Depletion and depreciation		(18,377)	(18,097)	(18,124)
Selling, general and administrative expenses		(16,085)	(14,549)	(11,347)
Gain on reclassification of available-for-sale investments to investments in associates	12	-	-	14,041
Other operating expenses, net		(1,430)	(2,847)	(3,444)
Operating profit		**80,313**	**75,748**	**64,367**
Finance income	9	4,808	2,179	2,041
Finance costs	9	(11,883)	(14,926)	(10,806)
Foreign exchange gain/(loss), net		107	(379)	(50)
Share of (loss)/profit of associates and joint ventures, net of income tax	12	(361)	2,211	1,096
Profit before income tax		**72,984**	**64,833**	**56,648**
Income tax	10	(16,414)	(15,087)	(12,927)
Profit for the year from continuing operations		**56,570**	**49,746**	**43,721**
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	18	-	3,546	2,791
Profit for the year and total comprehensive income		**56,570**	**53,292**	**46,512**
Attributable to:				
Owners of the Company		52,088	49,846	42,960
Non-controlling interests		4,482	3,446	3,552
		56,570	**53,292**	**46,512**
EARNINGS PER SHARE				
Weighted average number of ordinary shares in issue during the year	19	151,224,401	152,275,527	162,295,807
From continuing and discontinued operations				
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		283.99	266.70	218.16
From continuing operations				
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		283.99	259.99	212.55

The accompanying notes on pages 9-59 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012, 2011 AND 2010
Millions of Russian roubles

	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets				
Property, plant and equipment	11	277,149	253,757	291,120
Advances paid for acquisition of property, plant and equipment		632	1,643	3,650
Advance payment for acquisition of license for Trebs and Titov deposit		-	-	18,191
Intangible assets		1,830	1,516	1,002
Financial assets	13	29,318	4,981	6,606
Investments in associates and joint ventures	12	28,619	35,532	20,327
Long-term inventories	14	2,351	2,006	1,526
Other non-current assets	15	1,998	105	100
		341,897	**299,540**	**342,522**
Current assets				
Inventories	14	23,839	24,073	19,050
Financial assets	13	18,635	34,546	20,592
Trade and other receivables	16	28,366	16,398	15,934
Advances to suppliers and prepaid expenses		5,649	5,087	4,794
Income tax prepaid		2,485	426	341
Other taxes receivable	23	22,534	28,511	20,867
Cash and cash equivalents	17	20,104	28,354	32,516
Other current assets		-	43	258
		121,612	**137,438**	**114,352**
TOTAL ASSETS		**463,509**	**436,978**	**456,874**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	19	2,501	2,252	2,252
Treasury shares		(38,147)	(13,241)	(7,444)
Additional paid-in capital		83,651	34,736	34,736
Retained earnings		194,975	156,870	131,222
Equity attributable to owners of the Company		**242,980**	**180,617**	**160,766**
Non-controlling interests		4,928	46,312	82,819
		247,908	**226,929**	**243,585**
Non-current liabilities				
Borrowings	20	78,201	95,454	95,021
Decommissioning provision	11	7,083	9,507	6,628
Deferred tax liabilities	10	37,561	30,487	33,490
Other non-current liabilities	21	5,931	763	1,487
		128,776	**136,211**	**136,626**
Current liabilities				
Borrowings	20	32,007	13,532	24,226
Trade and other payables	22	28,942	23,383	20,075
Dividends payable		224	259	2,223
Advances received		14,156	17,084	16,850
Provisions	24	718	3,243	2,963
Income tax payable		393	1,345	642
Other taxes payable	23	10,385	14,992	9,684
		86,825	**73,838**	**76,663**
TOTAL LIABILITIES		**215,601**	**210,049**	**213,289**
TOTAL EQUITY AND LIABILITIES		**463,509**	**436,978**	**456,874**

The accompanying notes on pages 9-59 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010
Millions of Russian roubles

	Notes	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
OPERATING ACTIVITIES				
Profit before income tax from continuing and discontinued operations		**72,984**	**69,216**	**60,725**
Adjustments for[1]:				
Depletion and depreciation		18,377	19,274	21,603
Loss on disposal of property, plant and equipment		770	1,216	1,974
Interest income		(4,808)	(1,690)	(2,041)
Finance costs		11,883	14,954	10,845
Dividends income		-	(489)	-
Impairment of property, plant and equipment	11	4,417	(84)	509
Gain on disposal of subsidiaries		-	(1,174)	-
Share of loss/(profit) of associates and joint ventures	12	361	(2,211)	(1,096)
Impairment loss recognised on trade and other receivables	16	202	1,161	832
Revaluation of previously held share in associate	4	-	464	-
Gain on reclassification of available-for-sale investment to investment in associate	12	-	-	(14,041)
Impairment of investment in associate	12	-	-	505
Foreign exchange loss, net		60	105	55
Change in other provisions and allowances, net		(2,462)	800	797
Other, net		(869)	262	16
Operating cash flows before working capital changes		**100,915**	**101,804**	**80,683**
Movements in working capital:				
Inventories		(456)	(4,834)	(7,154)
Trade and other receivables		(4,309)	(6,261)	(10,166)
Advances to suppliers and prepaid expenses		(1,765)	(509)	(1,881)
Other taxes receivable		5,923	(9,548)	(7,993)
Trade and other payables		4,875	4,172	7,046
Advances received		(2,927)	1,523	6,483
Other taxes payable		(4,489)	7,658	(2,421)
Cash generated from operations		**97,767**	**94,005**	**64,597**
Interest paid		(10,500)	(13,872)	(9,465)
Income tax paid		(16,126)	(14,519)	(12,267)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**71,141**	**65,614**	**42,865**

[1] Adjustments are presented for continuing and discontinued operations on a combined basis.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010
Millions of Russian roubles

	Notes	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
INVESTING ACTIVITIES				
Payments for acquisition of property, plant and equipment		(30,789)	(25,007)	(14,932)
Advance payment for acquisition of license for Trebs and Titov deposit		-	-	(18,191)
Proceeds from disposal of property, plant and equipment		1,441	1,860	311
Payment for acquisition of associate	12	-	-	(3,699)
Additional contribution to joint venture	12	(3,122)	-	-
Acquisition of subsidiaries net of cash acquired	4	(846)	(4,192)	-
Proceeds from disposal of subsidiaries net of cash disposed		39	83	-
Cash inflows on disposal of 25.1% share in LLC Bashneft-Polyus, net	12	-	1,333	-
Payments for acquisition of intangible assets		(802)	(588)	(971)
Payments for acquisition of financial assets		(70,365)	(4,489)	(70,629)
Proceeds from disposal of financial assets		61,622	514	45,840
Dividends received		-	489	-
Interest received		3,662	478	1,678
NET CASH USED IN INVESTING ACTIVITIES		**(39,160)**	**(29,519)**	**(60,593)**
FINANCING ACTIVITIES				
Payment for acquisition of Sistema-invest, net of cash acquired		-	-	(5,941)
Payments for acquisition of non-controlling interests		(7,964)	-	(4,323)
Proceeds from borrowings		25,388	111,051	92,442
Repayments of borrowings		(23,766)	(122,833)	(27,317)
Cash disposed on disposal of control over Bashkirenergo	18	-	(885)	-
Purchase of treasury shares	19	(15,697)	-	-
Dividends paid by the Company		(18,263)	(27,269)	(39,184)
Dividends paid by subsidiaries		(81)	(46)	(726)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(40,383)**	**(39,982)**	**14,951**
Net decrease in cash and cash equivalents		**(8,402)**	**(3,887)**	**(2,777)**
Cash and cash equivalents at beginning of the year	17	**28,354**	**32,516**	**35,270**
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		152	(275)	23
Cash and cash equivalents at end of the year	17	**20,104**	**28,354**	**32,516**

The accompanying notes on pages 9-59 form an integral part of these consolidated financial statements.

BASHNEFT GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2012, 2011 AND 2010
Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2010		**2,252**	**-**	**35,036**	**123,169**	**160,457**	**94,806**	**255,263**
Profit for the year		-	-	-	42,960	**42,960**	3,552	**46,512**
Total comprehensive income for the year		**-**	**-**	**-**	**42,960**	**42,960**	**3,552**	**46,512**
Acquisition of interest in Sistema-invest	4	-	(7,444)	-	4,814	**(2,630)**	(9,058)	**(11,688)**
Dividends		-	-	-	(41,307)	**(41,307)**	(727)	**(42,034)**
Acquisition of additional interest in subsidiaries	4	-	-	-	1,519	**1,519**	(5,559)	**(4,040)**
Other equity transactions		-	-	(300)	67	**(233)**	(195)	**(428)**
Balance at 31 December 2010		**2,252**	**(7,444)**	**34,736**	**131,222**	**160,766**	**82,819**	**243,585**
Profit for the year		-	-	-	49,846	**49,846**	3,446	**53,292**
Total comprehensive income for the year		**-**	**-**	**-**	**49,846**	**49,846**	**3,446**	**53,292**
Result from disposal of Bashkirenergo in exchange of additional interest in Sistema-invest	4,18	-	(5,797)	-	1,122	**(4,675)**	(41,062)	**(45,737)**
Non-controlling interests arising on acquisition and establishment of subsidiaries		-	-	-	-	**-**	287	**287**
Dividends		-	-	-	(25,320)	**(25,320)**	(61)	**(25,381)**
Disposal of special purpose entities	4	-	-	-	-	**-**	883	**883**
Balance at 31 December 2011		**2,252**	**(13,241)**	**34,736**	**156,870**	**180,617**	**46,312**	**226,929**
Profit for the year		-	-	-	52,088	**52,088**	4,482	**56,570**
Total comprehensive income for the year		**-**	**-**	**-**	**52,088**	**52,088**	**4,482**	**56,570**
Result of mandatory shares buy-back preceding Group reorganization	4	-	(11,070)	-	4,252	**(6,818)**	(12,216)	**(19,034)**
Transactions with the Controlling shareholder	4,25,19	-	2,977	67	-	**3,044**	3,472	**6,516**
Effect on reorganisation of the Group	4	249	(12,186)	48,594	-	**36,657**	(36,657)	**-**
Purchase of treasury shares	19	-	(4,627)	-	-	**(4,627)**	-	**(4,627)**
Dividends		-	-	-	(18,235)	**(18,235)**	(54)	**(18,289)**
Other equity transactions		-	-	254	-	**254**	(411)	**(157)**
Balance at 31 December 2012		**2,501**	**(38,147)**	**83,651**	**194,975**	**242,980**	**4,928**	**247,908**

The accompanying notes on pages 9-59 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Organisation and operations

Joint Stock Oil Company Bashneft (the "Company" or "Bashneft"), its subsidiaries and special purpose entities (together referred to as the "Group" or the "Bashneft Group") are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. The Group's oil production, refining, marketing and distribution base includes 171 oil and gas fields, 4 refineries and 488 own petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. The Company's registered office is located at 30 Karl Marx Street, Ufa, 450008, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 December 2012, 2011 and 2010:

		Group's effective interest		
Company	**Principal activities**	**31 December 2012**	**31 December 2011**	**31 December 2010**
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%	100%
LLC Bashneft-Bureniye	Construction services	100%	100%	100%
LLC Bashneft-Region	Petroleum products trading	100%	100%	n/a
OJSC Ufaorgsintez	Production of petrochemicals	67%	66%	63%
OJSC Ufimsky refinery plant	Crude oil processing	n/a	66%	63%
OJSC Novoil	Crude oil processing	n/a	72%	69%
OJSC Ufaneftekhim	Crude oil processing	n/a	63%	60%
OJSC Bashkirnefteproduct	Petroleum products trading	n/a	64%	62%
OJSC Orenburgnefteproduct	Petroleum products trading	n/a	94%	n/a
OJSC Bashkirenergo	Electricity and heat generation	n/a	n/a	35%*

* The Company and its subsidiaries jointly hold a nominal interest of 50.5% in OJSC "Bashkirenergo" ordinary voting shares, which result in control over the financial and operational policies of OJSC "Bashkirenergo".

On 1 October 2012, the Company completed a reorganization of the Group through a merger of its subsidiaries (OJSC "Ufimsky Refinery Plant" ("Ufimsky refinery plant"), OJSC "Novoil" ("Novoil"), OJSC "Ufaneftekhim" ("Ufaneftekhim"), OJSC "Bashkirnefteprodukt" ("Bashkirnefteproduct") and OJSC "Orenburgnefteprodukt" ("Orenburgnefteproduct")). As a result of the reorganization, the shares of the subsidiaries were converted into shares of Bashneft (refer to note 4).

At 31 December 2012, the Group had 10 special purpose entities ("SPEs") (31 December 2011: 31 SPEs, 31 December 2010: 93 SPEs) which were established to provide supporting services to the Company and its subsidiaries engaged in the production and refining of crude oil, and which have been consolidated. The Group performs the reorganization of its special purpose entities through purchase of controlling interest or liquidation.

JSFC "Sistema" ("Sistema") is the Controlling shareholder of Bashneft. The controlling shareholder of Sistema and the ultimate controlling party of Bashneft Group is Mr. Vladimir P. Evtushenkov.

Going concern

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these consolidated financial statements. Consequently, the Group has determined that it's appropriate to adopt the going concern basis in the preparation of these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Standards and interpretations effective in the current year

In the preparation of these consolidated financial statements the Group has adopted all revised IFRS that are mandatory for adoption in annual periods beginning on 1 January 2012.

Adoption of these standards and interpretations either have no impact or have no material impact on the accounting policies, financial position or performance of the Group.

Standards and interpretations issued but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were issued but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 Presentation of Financial Statements (amended) – Amendment to revise the way other comprehensive income is presented	1 July 2012
IAS 19 Employee Benefits (amended) – Amendment regarding post-employment and termination benefits	1 January 2013
IAS 27 Consolidated and Separate Financial Statements (amended) – Amendments to modify the consolidation principles in accordance with IFRS 10	1 January 2013
IAS 28 Investments in Associates (amended) – Amendment to reissue as "Investments in Associates and Joint Ventures"	1 January 2013
IAS 32 Financial Instruments: Presentation (amended) – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRS 7 Financial Instruments: Disclosures (amended) – Amendments enhancing disclosure about the transfer of financial assets and offsetting of financial assets and financial liabilities	1 January 2013
IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (amended) – Amendments to transition disclosures	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 10 Consolidated Financial Statements (amended) – Amendments for investment entities	1 January 2014
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities (amended) – Amendments for investment entities	1 January 2014
IFRS 13 Fair Value Measurement	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Annual improvements to IFRSs 2009-2011 Cycle	1 January 2013

Management of the Group anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of those standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the fair value of the Company's property, plant and equipment measured at the date of transition to IFRS and used as those assets' deemed cost, and those items measured at fair value in the consolidated financial statements.

The Group's principal accounting policies are set out below.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the majority of the Company’s subsidiaries as it reflects the principal economic environment of each company’s operations.

Previously the Group presented their consolidated financial statements in US Dollars. From the annual reporting period beginning 1 January 2012 the Group changed its presentational currency from US Dollars to Russian roubles, as required by a recent law change in the Russian Federation. Comparative information included in these consolidated financial statements and previously reported in US Dollars has been restated and is now presented in Russian Roubles.

Basis of consolidation

The consolidated financial statements incorporate financial statements of the Company and entities (including SPEs) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses and any unrealised profits or losses are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their respective fair values at the date of acquisition except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 *Income Taxes.*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognised in profit and loss and calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income and accumulated in equity in relation to the subsidiary's assets are accounted for as if the Group had directly disposed of the relevant assets.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of investments in an associate.

Special purpose entities

Special purpose entities are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPEs, or is exposed to risks associated with the activities of the SPEs. SPEs are consolidated in the same manner as subsidiaries.

Common control transactions

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values of the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. The net assets of the subsidiaries acquired and their results are recognised from the date on which control of the subsidiaries was obtained.

The cost of assets acquired from entities under common control is measured at cost.

When the Group disposes off subsidiaries and transfers ownership to an entity under common control, the Group recognises such transactions at carrying value and on a prospective basis. Any difference between the consideration received and carrying value of net assets disposed of is recognised as an adjustment to shareholders' equity

Foreign currencies

In preparing financial information of the individual entities, transactions in currencies other than the Russian Rouble are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Property, plant and equipment

Recognition and measurement

The Group has utilised the exemption available to first-time adopters under IFRS 1 with regard to determining the carrying value of property, plant and equipment at the transition date. Property, plant and equipment of the Company and its subsidiaries acquired or constructed before 1 January 2009 are recorded at fair value, being amounts determined by an independent valuation at 1 January 2009. The basis of valuation was fair value. In some instances, when items of property plant and equipment were of a specialised nature, they were valued at depreciated replacement cost. For each item of property plant and equipment the replacement cost, estimated as the current cost to replace the assets with a functionally equivalent asset. The estimated replacement cost was adjusted for accrued depreciation, including physical depreciation and functional and economic obsolescence. The result of this valuation comprised deemed cost at 1 January 2009.

Items of property, plant and equipment acquired after 1 January 2009 are measured at historical acquisition or construction cost.

Oil and gas exploration, evaluation and development expenditure

Oil and gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration drilling and with acquisition of rights to conduct geological exploration, prospecting, surveying and production of hydrocarbons are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss at the point at which this determination is made. Capitalisation of exploration and evaluation expenditures is made within property, plant and equipment. No depreciation or amortisation is recognised during the exploration and evaluation phase as the assets are not yet in use.

All exploration and evaluation expenditures are subject to technical, commercial, and management review, and are reviewed for indicators of impairment.

Once commercial reserves are found, and development is sanctioned by management, exploration and evaluation assets are tested for impairment and transferred to development assets. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production or intangible assets. Extraction assets are aggregated with exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Oil and gas properties and other property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the original estimate of the cost of decommissioning of wells, pipelines, other oil and gas facilities and site restoration.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of that asset.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

Depletion and depreciation

Property, plant and equipment related to oil production activities are depreciated using the unit-of-production method. Unit-of-production rates are based on proved developed producing and proved developed non-producing reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods, and do not take into account future development costs for accessing hydrocarbons from existing well-bores, where production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well. Where individually insignificant, unproved oil and gas properties may be grouped and amortised based on factors such as the average concession term and past experience of recognising proved reserves.

Acquisition costs of proved properties are depleted using the unit-of-production method based upon total proved reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon reserves in accordance with internationally recognised definitions by internationally recognised petroleum engineers to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

Assets which are not directly associated with oil production activities are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment for the current year are as follows:

Buildings and constructions	2-100 years
Machinery and equipment	2-39 years
Transport	1-40 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful life for the software is 1-5 years. Amortisation methods and useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When the Group has previously held an investment accounted for under IAS 39 Financial Instruments: Recognition and Measurement and the Group obtains significant influence over that investment, the deemed cost of the investment in the associate, accounted for under IAS 28 Investments in Associates, is the fair value of the original investment at the date that significant influence is achieved over the entity, plus any consideration paid for the additional stake. Any gains or losses arising on the reassessment to fair value of the original investment are recognized in profit or loss at the date significant influence is achieved.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

When a venturer makes a non-monetary contribution to a joint venture in exchange for an equity interest in that joint venture, profit or loss is recognised only on the portion of the gain or loss that relates to the equity interests of the other venturers.

The Group reports its interests in jointly controlled entities using the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group’s share of net assets of the joint venture.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

The interest income on loans provided to joint ventures is recognised in full within the consolidated statement of comprehensive income as a Finance income.

Impairment of tangible and finite-lived intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and finite-lived intangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specified categories: available-for-sale ("AFS") investments, held-to-maturity investments and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – assets

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or held-to-maturity investments.

Listed and unlisted shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured, which are accounted at cost.

Fair value of AFS financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market prices.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the equity. Where the investment is derecognised, the cumulative gain or loss previously accumulated in the equity is reclassified to profit or loss, except for derecognition due to transactions under common control, where the respective cumulative gain or loss is reclassified within the consolidated statement of changes in equity.

Held-to-maturity investments

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost less impairment, if any.

Interest income is recognised using the effective interest method.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Equity securities classified as AFS, a significant and prolonged decline in the fair value of the securities below its costs is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Default or delinquency in interest or principle payments; or
- It is becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities of the Group are classified into the following specified categories: financial guarantee contract liabilities and other financial liabilities.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as ‘at fair value through profit or loss', are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out below.

Other financial liabilities

Other financial liabilities, including trade and other payables, loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method – liabilities

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination.

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision relates primarily to the suspension and liquidation of wells, pipelines, other oil and gas facilities and site restoration. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning costs, discounted to net present value, are capitalised and a corresponding obligation is recognised as soon as a constructive obligation arises and the amount can be reliably estimated. The unwinding of the discount is recognised within finance costs. Oil and gas properties related to decommissioning are depreciated using the unit-of-production method based on proved developed reserves.

The Group records the long-term portion of the decommissioning provision as a separate line item in the consolidated statements of financial position. The current portion is recorded within current provisions.

The adequacy of the decommissioning provision is periodically reviewed in the light of current laws and regulations, and adjustments are made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and the corresponding asset.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social contribution, is recognised as an expense in the period when it is earned.

Defined contribution plan

Subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period and with immediate recognition of all actuarial gains and losses in the consolidated statement of comprehensive income. Past service cost is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

Share-based payment arrangements

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group’s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

Sales of crude oil and petroleum products

Revenue from the sales of crude oil and petroleum products (“goods”) is recognised when all the following conditions are satisfied:

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

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Interest income

Interest income is recognised using the effective interest method. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing – the Group as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Income tax

Income tax expense comprises current and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or assets realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Earnings per share

The Company’s preferred shares share the characteristics of ordinary shares and have no preference attributed to them. Accordingly, for purposes of computing earnings per share (“EPS”), preferred shares have been considered to be ordinary shares.

The Group presents basic and diluted EPS data for its ordinary and preferred shares, on a combined basis. Basic EPS is calculated by dividing profit or loss attributable to owners of the Company by the weighted average number of ordinary and preferred shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares. Reciprocal interests relating to Sistema-invest’s ownership in the Company are deducted from the total outstanding shares in computing the weighted average number of outstanding shares.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- control over SPEs;
- accounting for share in OJSC "Sistema-invest";
- accounting for share in OJSC "Bashkirian Power Grid Company";
- classification of investment in LLC "Bashneft-Polyus";
- useful economic lives of property, plant and equipment;
- exploration and evaluation expenditures;
- impairment of property, plant and equipment;
- decommissioning provision;
- allowances for doubtful receivables;
- allowances for obsolete and slow-moving inventories;
- legal contingencies; and
- taxation.

Control over SPEs

Management judgement is involved in the assessment of control and the consolidation of certain SPEs in the Group's consolidated financial statements. The Group does not have any direct or indirect shareholdings in these SPEs and management periodically reviews the status of each of these entities to ensure the assessment is still appropriate.

An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Accounting for OJSC "Sistema-invest"

Management judgement is involved in the determination of the appropriate accounting for OJSC "Sistema-invest" ("Sistema-invest"). As detailed in Note 4, Sistema-invest is a non-substantive entity, through which Sistema enacts certain transactions. The entity has no decision-making abilities of its own, and therefore management has determined that "look-through accounting" is appropriate in order to recognise the substance of what that entity represents, namely treasury shares (i.e. a reciprocal interest in the Company), a reduction in non-controlling interests (i.e. interests held in the entities that the Group controlled and consolidated) and intercompany balances. From 2011 onwards, Sistema-invest also held an interest in OJSC Bashkirenergo ("Bashkirenergo"), which was treated as an investment held for sale as of 31 December 2011 (Note 13). Please refer to the following paragraph "accounting for share in OJSC "Bashkirian Power Grid Company" for the accounting treatment of investment in OJSC "Bashkirian Power Grid Company" ("BESK").

Accounting for share in OJSC "Bashkirian Power Grid Company"

At 31 December 2012 the Group holds an investment in BESK through its investment in the non-substantive entity Sistema-invest. The Group's indirect interest in this investment is 45.7%, with Sistema ultimately owning the controlling shareholding. Management has concluded, however, that equity accounting for this investment is not appropriate, because they are unable to exercise significant influence over BESK. Significant influence is defined as the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies. Management believe that the control and influence pertaining to Sistema is all-encompassing, and thus the Group is unable to influence the decision making of BESK in any way. As such, BESK is treated as an available-for-sale investment held at cost, due to the inability to compute a reliable fair value for the investment (Note 13).

Classification of investment in LLC "Bashneft-Polyus"

The Group established LLC "Bashneft-Polyus" in 2011 year as an operator of the Trebs and Titov deposit. The sale of a 25.1% interest in December 2011 year involved a change in the governing principles of LLC "Bashneft-Polyus", pursuant to which significant equal decision making powers relating to key operational and financial decisions and the appointment of key management personnel of the entity were awarded to the holder of the 25.1% interest. Management considered these powers, and concluded that they had lost full control of LLC "Bashneft-Polyus", albeit retaining joint control. Subsequently, the Group's 74.9% interest in LLC "Bashneft-Polyus" has been accounted for as a joint venture, using the equity method of accounting (refer to note 12).

Useful economic lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licences and past experience, management believes oil production licences will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated licence extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Oil and gas producing assets are depreciated on a units of production basis at a rate calculated by reference to total proved developed reserves in accordance with the standards of the Petroleum Resources Management System, which was prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers, using a Constant Price Case. The Group estimates its commercial reserves on information compiled by appropriately qualified persons relation to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recover factors and future commodity prices.

As economic assumptions may change, and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, including:

- Carrying value of exploration and evaluation assets, property plan and equipment, may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in profit or loss may change where such changes are determined using the unit of production method, or where the useful life of the related assets change;

- Provisions for decommissioning may change where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities;
- Recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in the estimates of the likely recovery of such assets.

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment to determine whether it is likely that future economic benefits are probable, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of commercial reserves. The determination of reserves is itself an estimation process that requires varying degrees of uncertainty depending on the classification of the reserve. The capitalisation policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant amount in written off in profit or loss in the period the information becomes available.

Impairment of property, plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit based on a cash flows projection utilising the latest budgeted information available.

Decommissioning provision

The Group's oil and gas activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the licence agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of oil and gas reserves estimates and discount rates could affect the carrying amount of this provision.

Allowances for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables.

Allowances for obsolete and slow-moving inventories

The Group creates an allowance for obsolete and slow-moving inventories. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products, any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving inventories.

Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group's results.

Taxation

Significant judgement is required in determining the provision for taxation in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Millions of Russian roubles

4. BUSINESS COMBINATIONS, CHANGE OF OWNERSHIP IN SUBSIDIARIES AND REORGANISATION OF THE GROUP

Business combinations

As part of retail business development strategy the Group acquired controlling shares in companies engaged in petroleum products trading through chains of petrol stations and petrol facilities.

In 2012, the Group acquired subsidiaries in Marketing and Extraction segments for a total cash consideration of RUB 846 million. The fair value of the net assets acquired approximates the consideration transferred.

OJSC "Orenburgnefteproduct"

In April 2011, the Group acquired from OJSC "Russneft" a 94% stake in OJSC "Orenburgnefteproduct" ("Orenburgnefteproduct") for total cash consideration of RUB 3,393 million. Orenburgnefteproduct is a company engaged in petroleum products trading in the Orenburg region through a chain of 95 petrol stations and 16 petrol storages.

At the date of acquisition, the fair value of identifiable assets and liabilities of Orenburgnefteproduct was as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	3,370
Inventories	500
Trade and other receivables	177
Advances to suppliers and prepaid expenses	366
Cash and cash equivalents	248
	4,661
LIABILITIES	
Deferred tax liabilities	(577)
Trade and other payables	(504)
	(1,081)
Fair value of net assets acquired	**3,580**
Non-controlling interests measured at fair value	(187)
Cash consideration	**3,393**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	**-**
Net cash outflow arising on acquisition	
Consideration paid	3,393
Cash and cash equivalents acquired	(248)
Net cash outflow on acquisition	**3,145**

Orenburgnefteproduct contributed RUB 10,141 million of revenue, RUB 153 million of profit before tax and RUB 117 million of profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as Orenburgnefteproduct did not prepare standalone financial statements in accordance with IFRS before the acquisition.

Millions of Russian roubles

LLC "BN-Nefteproduct"

On 31 July 2010, the Group acquired 49.99% interest in OJSC "Aspec" from a related party for cash consideration of RUB 3,699 million. OJSC "Aspec" is the holding company of the Aspec Group ("Aspec"). Aspec is engaged in wholesale and retail of oil products, real estate development and also owns an automotive retail business. Aspec's petrol stations and storage depots are located throughout the Russian Federation, with its headquarter located in the Republic of Udmurtia.
As at 31 December 2010, the Group recognised an impairment loss in the amount of RUB 505 million on its investment in Aspec.

In July 2011, LLC "Aspec", the holding company of the Aspec Group was reorganized into two companies: LLC "BN-Nefteproduct" ("BN-Nefteproduct") and LLC "Aspec". As a result of this reorganisation, the Group swapped previously held 49.99% interest in LLC "Aspec" to 100% interest in BN-Nefteproduct, a company, which consolidated the wholesale and retail businesses of Aspec. The company's production facilities includes: 50 petrol stations and 4 petroleum storage facilities.

The remeasurement to fair value of the Group's previously held 49.99% in LLC "Aspec" resulted in a loss of RUB 464 million, which has been recognised in other operating expenses in the statement of comprehensive income.

At the date of acquisition, the fair value of identifiable assets and liabilities of BN-Nefteproduct was as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	2,521
Inventories	1,951
Trade and other receivables	336
Cash and cash equivalents	155
Other assets	346
	5,309
LIABILITIES	
Deferred tax liabilities	(347)
Trade and other payables	(2,110)
	(2,457)
Fair value of net assets acquired	**2,852**
Fair value of previously held share of investment in associate	**2,852**
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Cash inflow arising on acquisition	
Cash and cash equivalents acquired	155
Cash inflow on acquisition	**155**

BN-Nefteproduct contributed RUB 36,419 million of revenue, RUB 918 million of profit before tax and RUB 726 million of profit from the date of acquisition to 31 December 2011.

If the acquisition had taken place at the beginning of the year ended 31 December 2011 the Group's revenue would have been RUB 489,460 million, profit for the year would have been RUB 53,341 million.

Millions of Russian roubles

LLC "GP "SKON"

In December 2011, the Group acquired 100% of LLC "GP "SKON" ("SKON"), for a total cash consideration of RUB 1,202 million. SKON is a company engaged in petroleum products trading in the Sverdlovsk region through a chain of 25 petrol stations and petrol storage. As a result of acquisition the Group recognised excess of Group's share in fair value of net assets acquired over consideration transferred in the amount of RUB 120 million in the consolidated statement of comprehensive income.

As a result of acquisition, the Group consolidated Property, Plant and Equipment in the amount of RUB 1,459 million and attributable deferred tax liability in the amount of RUB 138 million.

SKON contributed RUB nil of revenue, profit before tax and profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as SKON did not prepare standalone financial statements in accordance with IFRS before the acquisition.

OJSC "Sistema-invest"

On 9 April 2010, the Group acquired 25% interest in OJSC "Sistema-invest" ("Sistema-invest") from a third party for cash consideration of RUB 5,939 million.

As a result of this transaction, the shareholding structure of Sistema-invest was as follows:

	Interest
Sistema	65%
Bashneft	25%
Third party	10%
Total	**100%**

Sistema-invest is a legal entity controlled by Sistema that owns equity interests in the Company and OJSC Ufaorgsintez ("Ufaorgsintez"). Prior to the reorganisation of the Group explained below Sistema-invest owned equity interests in the Company, Ufimsky Refinery Plant, Novoil, Ufaneftekhim, Ufaorgsintez and Bashkirnefteprodukt. The entity was and is a corporate vehicle used to facilitate transactions between Bashneft Group, Sistema and third parties and was and is used in part to accumulate non-controlling interests in the Company and Ufaorgsintez within the corporate vehicle. There have been no independent operations within Sistema-invest. It essentially holds an interest in the Company's own shares, additional interests in the aforementioned subsidiaries, and loans received from the Group and given to Sistema. Except for these items, there is no other operational or economic substance to the entity. The Group therefore 'looks-through' the non-substantive legal entity and accounts for its share of interests in the assets, liabilities, equity, revenues and expenses of Sistema-invest. The Company's interest in its own shares was accounted for as treasury shares and the increase in the Company's interest in subsidiaries was accounted for as an increase in ownership in subsidiaries acquired by the Group.

At the date of acquisition, Group's interest in the value of Sistema-invest's net assets amounted to RUB 18,243 million. The excess of the Group's interest in the net assets acquired over the consideration paid was recognised in the consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of RUB 7,848 million and RUB 4,471 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of RUB 8,136 million.

On 3 December 2010, Sistema-invest acquired all of the 10% of its own shares held by a third party for cash consideration of RUB 3,762 million. As a result of this transaction, the Group's interest in Sistema-invest increased from 25% to 27.78%, and the share owned by Sistema increased to 72.22%. The excess of the Group's interest in the value of Sistema-invest's net assets over the Group's interest in the consideration paid by Sistema-invest for its own shares was recognised in the Group's consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of RUB 590 million and RUB 343 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of RUB 922 million.

Millions of Russian roubles

At 31 December 2010, the carrying value of treasury shares held by the Company was as follows:

	1 January 2010	**Treasury shares acquired on 9 April 2010**	**Treasury shares acquired on 3 December 2010**	**31 December 2010**
Value	-	14,294	1,588	15,882
Excess of the Group's interest in the net assets acquired over the consideration paid attributable to treasury shares	-	(7,848)	(590)	(8,438)
Total	**-**	**6,446**	**998**	**7,444**

In May 2011, Sistema-invest issued an additional 28,488 shares, representing 28.49% of its own shares, in exchange for the 48.22% stake in Bashkirenergo owned by Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant. As a result of this transaction, the Group's interest in Sistema-invest increased from 27.78% to 49.41%. The excess of the additional Group's interest in Sistema-invest's net assets acquired over the disposed amount of the Group's share in Bashkirenergo's net assets was recognised in the Group's consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of RUB 5,797 million and RUB 1,122 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of RUB 41,062 million.

As a result of this transaction, the shareholding structure of Sistema-invest was as follows:

	Interest
Sistema	50.59%
Bashneft	26.73%
Ufaneftekhim	8.12%
Ufimsky refinery plant	7.28%
Novoil	7.28%
Total	**100.00%**

As a result of this transaction, the Group lost control over Bashkirenergo. The Group's effective interest in Bashkirenergo held through Sistema-invest became 23.62%, and was accounted for as investment held for sale at the lower of fair value less cost to sell and cost as at 31 December 2011.

At 31 December 2011, the carrying value of treasury shares held by the Company was as follows:

	1 January 2011	**Treasury shares acquired on 5 May 2011**	**31 December 2011**
Value	15,882	5,797	21,679
Excess of the Group's interest in the net assets acquired over the consideration paid attributable to treasury shares	(8,438)	-	(8,438)
Total	**7,444**	**5,797**	**13,241**

Millions of Russian roubles

The increase in the Group's interest in the Company and its subsidiaries as a result of the acquisitions of interest in Sistema-invest was as follows:

	Effective ownership acquired on 9 April 2010	Effective ownership acquired on 3 December 2010	Effective ownership acquired on 5 May 2011	Total
Bashneft (treasury shares)	5.19%	0.58%	4.52%	**10.29%**
Ufimsky refinery plant	5.62%	0.62%	3.13%	**9.37%**
Novoil	6.40%	0.71%	3.56%	**10.67%**
Ufaneftekhim	4.55%	0.51%	2.53%	**7.59%**
Ufaorgsintez	5.38%	0.60%	3.03%	**9.01%**
Bashkirnefteproduct	4.30%	0.48%	2.42%	**7.20%**
Bashkirenergo[1]	1.99%	0.22%	Not applicable due to the disposal	**Not applicable due to the disposal**

On 1 October 2012 the Group completed reorganisation. As a result of the Group reorganisation (which is described below), the shareholding structure of Sistema-invest changed as follows:

	Interest
Sistema	50.59%
Bashneft	49.41%
Total	**100.00%**

Change of ownership in subsidiaries in 2010

In June 2010, the Group acquired additional interests in subsidiaries as follows: 7.7% in Ufaneftekhim, 0.2% in Novoil, 0.7% in Ufimsky refinery plant, 5.0% in Ufaorgsintez and 0.8% in Bashkirnefteproduct for a total cash consideration of RUB 4,040 million. As a result of these acquisitions, the Group's effective interest in Bashkirenergo increased by 1.5%. The excess of the Group's share in net assets acquired over the consideration paid of RUB 1,519 million was recognised directly in the consolidated statement of changes in equity as an increase in retained earnings. As a result of these acquisitions, the Group recognised a decrease in net assets attributable to non-controlling interests of RUB 5,559 million.

Reorganisation of the Group

On 27 April 2012, at the Extraordinary General Meeting of Shareholders of Bashneft, shareholders approved a Group reorganisation through a legal merge of its subsidiaries (namely the Ufimsky refinery plant, Novoil, Ufaneftekhim, Bashkirnefteproduct and Orenburgnefteproduct) with Bashneft.

As a result of the decision in accordance with Russian legislation the merging entities announced an obligatory buy-back of own shares, that was completed in June 2012. As the result of the buy-back program the Group acquired the treasury shares in the amount of RUB 11,070 million and shares of subsidiaries in amount RUB 7,964 million resulted in a decrease in non-controlling interests in the amount of RUB 12,216 million, the difference between consideration paid and decrease in non-controlling interest was recognized as an increase in retained earnings.

On 28 September 2012 Sistema acquired preferred shares of Ufaneftekhim, Novoil and Ufimsky refinery plant from Bashneft Group for consideration RUB 1,918 million. As the result of this transaction the Group recognised an increase in non-controlling interests in the amount of RUB 3,472 million and decrease in additional paid-in capital in the amount of RUB 1,554 million.

[1] The Company controlled Bashkirenergo through its controlling interests in Ufimsky refinery plant, Novoil and Ufaneftekhim.

Millions of Russian roubles

On 1 October 2012 as part of the reorganisation of the Group, the shares of Ufimsky refinery plant, Novoil, Ufaneftekhim and Bashkirnefteproduct which were previously held by Sistema-invest were converted into shares of the Company (refer to note 19). The transaction resulted in a decrease in non-controlling interest and increase in treasury shares with a corresponding increase in the additional paid-in-capital and share capital. Sistema-invest's interest in the Company increased to 25.24%. The shares of Ufimsky refinery plant, Novoil, Ufaneftekhim, Bashkirnefteproduct and Orenburgnefteproduct owned by other shareholders were also converted into Bashneft Shares, as result non-controlling interests in these subsidiaries of the Group were derecognized with a corresponding increase in the additional paid-in-capital and share capital.

The result from the Reorganisation of the Group is summarised in the following table:

	1 October 2012
Decrease in non-controlling interest	36,657
Increase in treasury shares	12,186
Increase in share capital from additional share issue	(249)
Increase in additional paid-in capital	**48,594**

5. SEGMENT INFORMATION

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of allocating resources and assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 are therefore as follows:

- Extraction: The Extraction segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil and the wholesale of crude oil and oil products on export and domestic markets;
- Refining: The Refining segment comprises subsidiaries and business units of the Company engaged in processing crude oil and oil products; and
- Marketing: The Marketing segment comprises subsidiaries and business units of the Company engaged in wholesale and retail of oil products on the domestic market.

During 2012 operational and financial management of Ufaorgsintez was transferred to the management of OJSC Unified Petrochemical Company (UPC), a subsidiary of the Company. Since then Ufaorgsintez operations are not included in the reports provided to the Board of Directors and as a result operations of Ufaorgsintez are included in the "Reconciling item" column below.

Operations of subsidiaries and business units of the Company engaged in electricity and heat generation were discontinued during the year ended 31 December 2011 (refer to note 18). The segment information reported below does not include any amounts for these discontinued operations.

There are varying levels of integration between the Extraction, Refining and Marketing reportable segments. Before the Group reorganization (please refer to note 4) rendering refining services formed the inter-segment revenues of the Refining segment, transfers of oil products to the Marketing segment formed inter-segment revenues of the Extraction segment. As a result of reorganisation Ufimsky refinery plant, Novoil and Ufaneftekhim included in Refining segment, and Bashkirnefteproduct and Orenburgnefteproduct, included in Marketing segment, were merged into Joint Stock Oil Company Bashneft. From the date of reorganisation refining segment transfers refining costs to Extraction segment at cost and has no significant external revenues and in its turn oil products from Extraction segment are transferred at cost to Bashkirnefteproduct and Orenburgnefteproduct from the date of merger. Before the Reorganisation inter-segment pricing was determined on an arm's length basis.

Millions of Russian roubles

Information regarding the results of each reportable segment is reviewed by the Board of Directors. Segment OIBDA[1] is used to measure segment performance for Extraction and Marketing segment, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment Expenses is used to measure the segment performance for the Refining segment. The significant accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

Information about reportable segments for the year ended 31 December 2012 is as follows:

	Extraction	Refining	Marketing	Total reportable segments	Reconciling item	Elimina-tions	Consoli-dated
External revenues	382,513	732	136,898	**520,143**	12,359	-	**532,502**
Inter-segment revenues	121,664	35,737	3,012	**160,413**	4,918	(165,331)	**-**
External expenses	(402,331)	(23,328)	(19,386)	**(445,045)**	(7,144)	-	**(452,189)**
Inter-segment expenses	(42,120)	(6,321)	(109,350)	**(157,791)**	(7,540)	165,331	**-**
Segment OIBDA	67,581	14,730	12,336	**94,647**	4,043		**98,690**
Depletion and depreciation	(7,855)	(7,910)	(1,162)	**(16,927)**	(1,450)	-	**(18,377)**
Finance income	4,108	306	237	**4,651**	157	-	**4,808**
Finance costs	(11,836)	(37)	(7)	**(11,880)**	(3)	-	**(11,883)**
Profit before income tax	51,969	7,116	11,273	**70,358**	2,626	-	**72,984**
Income tax expense							(16,414)
Profit for the year							**56,570**

Information about reportable segments for the year ended 31 December 2011 is as follows:

	Extraction	Refining	Marketing	Total reportable segments	Reconciling item	Elimina-tions	Consoli-dated
External revenues	408,692	776	76,431	**485,899**	429	-	**486,328**
Inter-segment revenues	69,425	36,681	4,535	**110,641**	8,750	(119,391)	**-**
External expenses	(357,432)	(33,440)	(12,556)	**(403,428)**	(7,152)	-	**(410,580)**
Inter-segment expenses	(48,648)	(1,559)	(67,280)	**(117,487)**	(1,904)	119,391	**-**
Segment OIBDA	79,107	11,270	1,895	**92,272**	1,573	-	**93,845**
Depletion and depreciation	(7,070)	(8,812)	(765)	**(16,647)**	(1,450)	-	**(18,097)**
Finance income	1,333	688	104	**2,125**	54	-	**2,179**
Finance costs	(14,846)	(73)	(5)	**(14,924)**	(2)	-	**(14,926)**
Profit before tax	60,372	3,060	1,229	**64,661**	172	-	**64,833**
Income tax expense							(15,087)
Profit for the year							**49,746**

Information about reportable segments for the year ended 31 December 2010 is as follows:

	Extraction	Refining	Marketing	Total reportable segments	Reconciling item	Elimina-tions	Consoli-dated
External revenues	331,986	589	22,553	**355,128**	395	-	**355,523**
Inter-segment revenues	19,649	36,664	2,478	**58,791**	7,802	(66,593)	**-**
External expenses	(244,447)	(31,140)	(8,171)	**(283,758)**	(7,398)		**(291,156)**
Inter-segment expenses	(46,718)	(1,015)	(17,734)	**(65,467)**	(1,126)	66,593	**-**
Segment OIBDA	65,967	15,451	(323)	**81,095**	1,396	-	**82,491**
Depletion and depreciation	(5,497)	(10,353)	(551)	**(16,401)**	(1,723)	-	**(18,124)**
Finance income	1,278	585	132	**1,995**	46	-	**2,041**
Finance costs	(10,636)	(166)	(2)	**(10,804)**	(2)	-	**(10,806)**
Profit/(loss) before tax	52,162	5,513	(744)	**56,931**	(283)	-	**56,648**
Income tax expense							(12,927)
Profit for the year							**43,721**

[1] OIBDA is determined by summation of Operating profit and depletion and depreciation

Millions of Russian roubles

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any geographical disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are wholly immaterial.

The Group's revenue from external customers by geographical location is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Export outside the CIS	254,347	239,415	161,235
Russian Federation	229,434	207,720	172,228
CIS	48,721	39,193	22,060
Total	**532,502**	**486,328**	**355,523**

The following counterparties relating to the Extraction segment comprise each more than 10% of the total revenue of the Group:

	Year ended 31 December 2012	
	Revenue	% of the total Revenue
Major Customer 1	66,576	13%
Major Customer 2	54,986	10%

	Year ended 31 December 2011	
	Revenue	% of the total Revenue
Major Customer	82,695	17%

	Year ended 31 December 2010	
	Revenue	% of the total Revenue
Major Customer 1	49,615	14%
Major Customer 2	46,228	13%

6. REVENUE

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Petroleum products	406,428	382,199	284,346
Crude oil	113,043	92,348	60,581
Other revenue	13,031	11,781	10,596
Total	**532,502**	**486,328**	**355,523**

7. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	27,130	24,944	25,836
Contributions to Pension Fund of the Russian Federation (refer to note 8)	5,162	4,795	3,655
Other social contributions (refer to note 8)	1,776	1,475	1,096
Phantom shares granted (refer to note 21)	1,091	689	395
Other employee benefits	405	175	221
Total	**35,564**	**32,078**	**31,203**

Millions of Russian roubles

8. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Mineral extraction tax	57,183	51,508	33,636
Contributions to Pension Fund of the Russian Federation	5,162	4,795	3,655
Other social contributions	1,776	1,475	1,096
Property tax	1,700	1,688	1,751
Other taxes	888	836	780
Total	**66,709**	**60,302**	**40,918**

9. FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Finance income			
Interest income on cash and deposits	2,735	478	957
Interest income on loans, promissory notes and bonds	2,073	1,212	1,084
Dividend income	-	489	-
Total	**4,808**	**2,179**	**2,041**
Finance costs			
Interest expense on borrowings	10,943	12,090	9,914
Unwinding of discount	902	873	863
Other accretion expenses	38	38	29
Premium on bonds redeemed (refer to note 20)	-	1,925	-
Total	**11,883**	**14,926**	**10,806**

10. INCOME TAX

Income tax expense

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Current year income tax expense	14,668	13,793	10,507
Adjustments relating to current income tax of prior years	(1,551)	268	563
Current income tax expense	**13,117**	**14,061**	**11,070**
Deferred tax	3,297	1,026	1,857
Income tax expense	**16,414**	**15,087**	**12,927**

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit before income tax differs from income tax expense recognised in the consolidated statement of comprehensive income as a consequence of the following factors:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Profit before tax	**72,984**	**64,833**	**56,648**
Income tax at statutory rate 20%	14,597	12,967	11,330
Tax effect of permanent difference on sale of 25.1% ownership in LLC “Bashneft-Polyus”	-	706	-
Other non-deductible and non-taxable items	1,822	1,146	1,034
Temporary difference recognized as a result of prior years income tax correction	1,546	-	-
Adjustments relating to current income tax of prior years	(1,551)	268	563
Income tax expense	**16,414**	**15,087**	**12,927**

Millions of Russian roubles

Deferred tax assets and liabilities

Movements in deferred tax (assets) and liabilities for the years ended 31 December 2012, 2011 and 2010 were as follows:

	1 January 2012	Recognised in profit or loss	Transfer of Trebs and Titov oilfield license	Movements other than recognised in profit or loss	31 December 2012
Property, plant and equipment	29,796	983	3,698	87	34,564
Investments in associates and joint ventures	3,294	368	-	-	3,662
Inventories	(442)	(19)	-	-	(461)
Trade and other receivables	1,360	(167)	-	(8)	1,185
Decommissioning provision	(1,945)	830	-	-	(1,115)
Provisions	(685)	612	-	-	(73)
Trade and other payables	(868)	641	-	-	(227)
Other	(23)	49	-	-	26
Total	**30,487**	**3,297**	**3,698**	**79**	**37,561**

	1 January 2011	Recognised in profit or loss	Acquired on acquisition of subsidiaries	Disposed on disposal of subsidiaries	31 December 2011
Property, plant and equipment	32,225	2,288	1,062	(5,779)	29,796
Investments in associates and joint venture	2,817	439	-	38	3,294
Inventories	275	(780)	-	63	(442)
Trade and other receivables	747	246	-	367	1,360
Decommissioning provision	(1,449)	(496)	-	-	(1,945)
Provisions	(449)	(294)	-	58	(685)
Trade and other payables	(378)	(490)	-	-	(868)
Other	(298)	118	-	157	(23)
Total	**33,490**	**1,031**	**1,062**	**(5,096)**	**30,487**

	1 January 2010	Recognised in profit or loss	31 December 2010
Property, plant and equipment	34,047	(1,822)	32,225
Investments in associates	(82)	2,899	2,817
Inventories	(211)	486	275
Trade and other receivables	(12)	759	747
Decommissioning provision	(1,388)	(61)	(1,449)
Provisions	(25)	(424)	(449)
Trade and other payables	(257)	(121)	(378)
Other	(298)	-	(298)
Total	**31,774**	**1,716**	**33,490**

At 31 December 2012 deferred tax assets in the amount of RUB 225 million (31 December 2011: RUB 240 million, 31 December 2010: RUB 211 million) have not been recognised in respect of deductible temporary differences because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Millions of Russian roubles

11. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining	Marketing	Electricity properties	Total
Cost / deemed cost					
Balance at 1 January 2010	**110,193**	**145,724**	**11,839**	**50,874**	**318,630**
Constructions and additions	9,017	4,218	145	4,030	**17,410**
Disposals	(732)	(1,507)	(47)	(405)	**(2,691)**
Balance at 31 December 2010	**118,478**	**148,435**	**11,937**	**54,499**	**333,349**
Acquisition of subsidiaries (refer to note 4)	-	-	7,350	-	**7,350**
Disposal of Bashkirenergo (refer to note 18)	-	-	-	(54,841)	**(54,841)**
Contribution to joint venture in LLC "Bashneft-Polyus" (refer to note 12)	(20,384)	-	-	-	**(20,384)**
Other disposal of subsidiaries and SPEs	(79)	(91)	-	-	**(170)**
Constructions and additions	34,595	9,416	410	342	**44,763**
Disposals	(2,560)	(762)	(71)	-	**(3,393)**
Balance at 31 December 2011	**130,050**	**156,998**	**19,626**	**-**	**306,674**
Acquisition of subsidiaries	352	-	636	-	988
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 12)	18,490	-	-	-	18,490
Disposal of subsidiaries and SPEs	(109)	(10)	-	-	(119)
Constructions and additions	15,546	14,419	710	-	30,675
Disposals	(782)	(1,870)	(193)	-	(2,845)
Contribution to Finansoviy Alliance (refer to note 25)	-	(1,877)	(207)	-	(2,084)
Balance at 31 December 2012	**163,547**	**167,660**	**20,572**	**-**	**351,779**
Accumulated depletion, depreciation and impairment					
Balance at 1 January 2010	**(5,221)**	**(10,988)**	**(636)**	**(3,354)**	**(20,199)**
Charge for the year	(5,719)	(12,054)	(657)	(3,497)	**(21,927)**
Disposals	93	279	7	27	**406**
Impairment	(354)	(78)	(77)	-	**(509)**
Balance at 31 December 2010	**(11,201)**	**(22,841)**	**(1,363)**	**(6,824)**	**(42,229)**
Disposal of Bashkirenergo (refer to note 18)	-	-	-	7,958	**7,958**
Other disposal of subsidiaries and SPEs	29	59	-	-	**88**
Charge for the year	(6,981)	(10,230)	(790)	(1,134)	**(19,135)**
Disposals	101	205	11	-	**317**
(Impairment)/Reversal of impairment	120	20	(56)	-	**84**
Balance at 31 December 2011	**(17,932)**	**(32,787)**	**(2,198)**	**-**	**(52,917)**
Disposal of subsidiaries and SPEs	37	4	-	-	**41**
Charge for the year	(7,811)	(9,401)	(1,205)	-	**(18,417)**
Disposals	102	501	31	-	**634**
Contribution to Finansoviy Alliance (refer to note 25)	-	415	31	-	**446**
Impairment	(1,144)	(2,352)	(921)	-	**(4,417)**
Balance at 31 December 2012	**(26,748)**	**(43,620)**	**(4,262)**	**-**	**(74,630)**
Net book value					
At 1 January 2010	**104,972**	**134,736**	**11,203**	**47,520**	**298,431**
At 31 December 2010	**107,277**	**125,594**	**10,574**	**47,675**	**291,120**
At 31 December 2011	**112,118**	**124,211**	**17,428**	**-**	**253,757**
At 31 December 2012	**136,799**	**124,040**	**16,310**	**-**	**277,149**

At 31 December 2012, properties with a carrying amount of RUB nil (31 December 2011: RUB 6,142 million, 31 December 2010: RUB 6,517 million) are pledged as security for the Group's bank loans.

Millions of Russian roubles

During 2012, as a result of the unfavourable market conditions giving rise to a decrease in prices of certain petrochemical products, the Group carried out a review of the recoverable amount of certain assets which are used in the production of certain petrochemical products. This review led to the recognition of an impairment loss of RUB 2,094 million, which was recognised in the consolidated statement of comprehensive income within other operating expenses, net. The recoverable amount of the assets was determined on the basis of their value in use. The discount rate used in measuring value in use was 15.0% per annum. No impairment assessment was performed in 2011 and 2010 for these assets as there was no indication of impairment in either year.

During 2012 the Group performed an analysis of the recoverable amount of certain assets. As a result of this analysis an impairment loss of RUB 2,323 million was recognised in the consolidated statement of comprehensive income within other operating expenses, net.

Exploration and evaluation assets

Movements in the amount of capitalised exploration and evaluation assets, included in Oil and gas properties, are presented below:

Balance at 1 January 2010	**5**
Acquisition of exploration, evaluation and development rights	25
Reclassified to development assets	(13)
Balance at 31 December 2010	**17**
Acquisition of exploration, evaluation and development rights	18,490
Capitalised expenditures	2
Reclassified to development assets	(13)
Transferred as a contribution into joint-venture (refer to note 12)	(18,490)
Balance at 31 December 2011	**6**
Acquisition of exploration, evaluation and development rights	4,514
Capitalised expenditures	789
Reclassified to development assets	(4)
Transfer of Trebs and Titov oilfield license to Bashneft (refer to note 12)	18,490
Balance at 31 December 2012	**23,795**

In 2012, the Group won the auction for licences on Yangareyskiy and Sabriyaginskiy subsoil blocks in the Nenets Autonomous District. Total cost of the licences acquired amounted RUB 4,514 million.

During the year ended 31 December 2012 the Group recognised Exploration and evaluation expenses in the amount of RUB 332 million (year ended 31 December 2011: RUB 467 million, year ended 31 December 2010: RUB 281 million).

For the year ended 31 December 2012 payments for acquisition of exploration and evaluation assets included in payments for acquisition of property, plant and equipment in the consolidated statement of cash flows amounted to RUB 5,303 million (year ended 31 December 2011: RUB 301 million, year ended 31 December 2010: RUB 18,216 million, including RUB 18,191 million of advance payment for acquisition of license for Trebs and Titov deposit separately presented in the consolidated statement of cash flows).

Millions of Russian roubles

Decommissioning provision

Balance at 1 January 2010	**6,975**
Unwinding of discount	863
New obligations	89
Changes in estimates of existing obligations	(868)
Property dispositions	(7)
Balance at 31 December 2010	**7,052**
Unwinding of discount	873
New obligations	38
Changes in estimates of existing obligations	1,980
Property dispositions	(436)
Balance at 31 December 2011	**9,507**
Unwinding of discount	902
New obligations	14
Changes in estimates of existing obligations	(2,643)
Property dispositions	(93)
Balance at 31 December 2012	**7,687**

Current and non-current portions of decommissioning provision are as follows:

	31 December 2012	**31 December 2011**	**31 December 2010**
Current portion (included in Provisions)	604	-	424
Non-current portion	7,083	9,507	6,628

The Group's decommissioning provision relates primarily to the conservation and liquidation of wells, pipelines and other oil and gas facilities and site restoration. Key assumptions used in the computation of the decommissioning provision were as follows:

	31 December 2012	**31 December 2011**	**31 December 2010**
Discount rate	10.29%	9.49%	12.38%
Inflation rate	2.02%-7.42%	2.55%-10.09%	2.25%-10.81%

The Group has estimated the costs to be incurred using the cost of technology and materials that are currently available at the each reporting date.

Millions of Russian roubles

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010
	Investments in associates	**Investments in joint ventures**	**Investments in associates**	**Investments in joint ventures**	**Investments in associates**
Balance at the beginning of the year	**19,222**	**16,310**	**20,327**	**-**	**-**
Acquisition of joint venture (refer to note 25)	-	1,620	-	-	-
Unrealised gain on sale of property, plant and equipment to a joint venture (refer to note 25)	-	(343)	-	-	-
Acquisition of an associate	-	-	-	-	3,699
Reclassified from available-for-sale investments (Belkamneft)	-	-	-	-	16,037
Disposal of Aspec	-	-	(3,316)	-	-
Disposal joint venture (refer to note 25)	-	(1,429)	-	-	-
Additional contributions to joint venture	-	3,122	-	5,340	-
Establishment of Bashneft-Polyus, a joint venture with OJSC “Lukoil”	-	-	-	10,970	-
Decrease in the carrying amount of investment in joint venture due to the return of licence on Trebs and Titov deposit to Bashneft	-	(9,522)	-	-	-
Share of profit/(loss) for the period	1,988	(2,349)	2,211	-	1,096
Impairment	-	-	-	-	(505)
Balance at the end of the year	**21,210**	**7,409**	**19,222**	**16,310**	**20,327**

Joint ventures

On 27 December 2011, the Group entered into an agreement with OJSC “Lukoil” in relation to the development of the Trebs and Titov deposit through by selling 25.1% of its shares in LLC “Bashneft-Polyus” (“Bashneft-Polyus”), a wholly owned subsidiary, for cash consideration of RUB 4,768 million and entering a joint venture agreement. Although the Group has 74.9% interest in Bashneft-Polyus, this investment is classified as an investment in joint venture (refer to note 3).

As a part of the establishment of the joint venture, the Group sold exploration and evaluation assets for a cash consideration of RUB 1,874 million to Bashneft-Polyus. No gain or loss was recognised on these transactions as these assets were sold at their carrying values.

Also concurrent with the establishment of the joint venture the Group issued a loan to Bashneft-Polyus in the amount of RUB 5,340 million at 8.25% per annum which is expected to be repaid as the development and production stage of Trebs and Titov deposit commences. This loan was classified as an additional contribution to the joint venture as, in substance, it formed part of the Group’s investment in Bashneft-Polyus.

As of the date of reclassification of investment the value of the interest retained by the Group approximates the fair value.

Millions of Russian roubles

At the date on which the agreement was entered into and the 25.1% share ownership in Bashneft-Polyus was sold to Lukoil, the carrying amount of assets and liabilities in Bashneft-Polyus was as follows:

	27 December 2011
ASSETS	
Exploration and evaluation assets	1,894
Trebs and Titov oilfield license	18,490
Trade and other accounts receivable	586
Cash and cash equivalents	3,435
	24,405
LIABILITIES	
Deferred tax liabilities	(3,698)
Borrowings	(5,340)
Trade and other payables	(721)
	(9,759)
Net assets disposed of	**14,646**

The result from the sale of the ownership interest in Bashneft-Polyus is summarized in the following table:

	27 December 2011
Consideration received	4,768
Less: Carrying amount of the Group's 25.1% interest in the net assets	(3,676)
Gain on sale of ownership interest	**1,092**

This gain was recognised in other operating expenses, net in the consolidated statement of comprehensive income. The Group recognised income tax expense in the amount of RUB 951 million associated with this transaction.

The following table reconciles the carrying value of Bashneft-Polyus prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method:

	27 December 2011
Carrying value of the net assets disposed of	14,646
Less: carrying amount of the Group's 25.1% interest in the net assets disposed	(3,676)
The carrying value of equity investment	**10,970**

In 2012 the Group issued additional loan to Bashneft-Polyus in the amount of RUB 3,122 million which is expected to be repaid as the development and production stage of Trebs and Titov deposit commences. This loan was treated as additional contribution to the joint venture as, in substance, formed part of the Group’s net investment in Bashneft-Polyus. Also in the 4th quarter 2012 the interest rate for the loan was changed to 8% per annum.

On 18 May 2012 as a result of the Federal Agency for Subsoil Use order Trebs and Titov oilfield license was transferred to the Company. As a result of that the license with carrying value of RUB 18,490 million was recognised at Bashneft with the corresponding decrease in investment in Bashneft-Polyus. Cash consideration in the amount of RUB 4,768 million paid to the Group by OJSC “Lukoil” for 25.1% shares of Bashneft-Polyus was recognised in other non-current liabilities as a contingent liability with an uncertain date of set off, being equal to the amount of the original investment of Lukoil until the Group and Lukoil can negotiate a settlement for the joint venture operation and exploitation of the license.

Millions of Russian roubles

As of 31 December 2012 the Group's share in capital commitments of the joint venture was RUB 950 million (31 December 2011: RUB 470 million).

The following is a summary of the financial information of joint ventures in the Group's share:

	31 December 2012	31 December 2011
Non-current assets	1,876	16,695
Current assets	6,128	1,520
Non-current liabilities	(8,489)	(6,778)
Current liabilities	(2,097)	(467)
Group's share of net assets of the joint venture	**(2,582)**	**10,970**

	Year ended 31 December 2012
Total revenues	6,045
Total loss for the year	(3,035)
Group's share of loss of joint ventures	(2,349)

Associates

The Group holds 38.5% interest in OJSC "Belkamneft" ("Belkamneft"), a company engaged in the production of crude oil. At 1 January 2010, the Group's 38.5% interest in Belkamneft was classified as an available-for-sale investment as the Group was not able to exercise significant influence over the operating and financing activities of the investee. On 23 April 2010, Sistema (the Group's parent company) acquired 49% interest in OJSC "Russneft" (Belkamneft's parent Company). As a result of this transaction, the Group obtained significant influence over Belkamneft and reclassified the investment in Belkamneft from available-for-sale investment to investments in associates. The excess of the fair value of the investment over the carrying value in the amount of RUB 14,041 million was recognised in the statement of comprehensive income as gain on reclassification.

On 31 July 2010, the Group acquired a 49.99% interest in OJSC "Aspec" from a related party for a cash consideration of RUB 3,699 million. OJSC "Aspec" is the holding company of the Aspec Group ("Aspec"). Aspec is engaged in the wholesale and retail of oil products, real estate development and also owns an automotive retail business. Aspec's petrol stations and storage depots are located throughout the Russian Federation, with its headquarter located in the Republic of Udmurtia. As at 31 December 2010, the Group recognised an impairment loss in the amount of RUB 505 million on its investment in Aspec. On 1 July 2011, as a part of reorganisation of Aspec Group, the Group swapped its 49.99% interest in LLC "Aspec" to 100% interest in "BN-Nefteproduct" (refer to note 4).

The following is a summary of the financial information of associates:

	31 December 2012	31 December 2011	31 December 2010
Total assets	86,053	82,212	88,490
Total liabilities	(13,090)	(14,327)	(17,278)
Net assets	**72,963**	**67,885**	**71,212**
Group's share of net assets of associates	**28,091**	**26,136**	**28,125**

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue	23,023	41,782	45,974
Total profit for the year	5,191	5,831	4,199
Group's share of profit of associates	**1,988**	**2,211**	**1,096**

Millions of Russian roubles

13. FINANCIAL ASSETS

	31 December 2012	31 December 2011	31 December 2010
Non-current investments			
Loans given, at amortised cost	20,912	4,978	6,600
Available-for-sale investments in OJSC "Bashkirian Power Grid Company" held at cost	7,406	-	-
Deposits	1,000	3	-
Other financial assets	-	-	6
Total	**29,318**	**4,981**	**6,606**
Current investments			
Loans given, at amortised cost	14,491	21,504	20,246
Investments in Bashkirenergo held for sale	-	12,812	-
Deposits	4,136	129	342
Other financial assets	8	101	4
Total	**18,635**	**34,546**	**20,592**

Loans given, at amortised cost

At 31 December 2012, non-current loans given at amortised cost included loans given and promissory notes with interest rates varying from 5.0% to 7.75%.

At 31 December 2011, non-current loans given at amortised cost represent corporate bonds which are not quoted in an active market and bear interest at rate 6.0% with maturity in May 2015. In 2012 the Group sold part of these bonds in amount RUB 2,814 million and reclassified the remaining part to current loans given, due to intention to sell these bonds within 12 months period.

At 31 December 2010, non-current loans given at amortised cost represented promissory notes with interest rate 5.0% and maturity date in 2012.

At 31 December 2012, current loans given at amortised cost included promissory notes and loans given with interest rates varying from 3.5% to 8.5% (31 December 2011: 3.5% to 8.3%, 31 December 2010: 3.5% to 8.3%) and interest free promissory notes of OJSC "INTER RAO UES" held by Sistema-invest.

Held for sale and available-for-sale investments

The held for sale investment at 31 December 2011 represents the Group's investment in Bashkirenergo, recognised by looking-through the non-substantive entity Sistema-invest in order to pick up the Group's share of that entity's assets/liabilities. The investment held for sale was stated at the lower of fair value less cost to sell and carrying value at 31 December 2011.

In 2012, Bashkirenergo was reorganised and split into two entities: OJSC "Bashenergoactiv" ("Bashenergoactiv"), representing the power generation part of the business, and BESK, representing the power grid part of the business. Sistema-invest sold the investment in OJSC "Bashenergoactiv" to a third party, OJSC "INTER RAO EES" ("INTER RAO"), and increased its stake in BESK. The Group therefore also retained an investment in BESK through its interest in Sistema-invest, although recognises this investment as available-for-sale, despite its 45.7% effective ownership interest, on the basis that it has no influence over the entity, with all control and influence pertaining wholly to Sistema (see note 3). This available-for-sale investment is carried at cost, as a reliable fair value cannot be determined for the investment.

Deposits

At 31 December 2012, current deposits represent bank deposits which bear interest at rates varying from 6.75% to 8.7% (31 December 2011: 3.0% to 8.75%, 31 December 2010: 7.5% to 14.5%) per annum.

Millions of Russian roubles

14. INVENTORIES

	31 December 2012	31 December 2011	31 December 2010
Inventories expected to be recovered after twelve months			
Catalytic agents	2,351	2,006	1,339
Raw materials and other inventories	-	-	187
Total	**2,351**	**2,006**	**1,526**
Inventories expected to be recovered in the next twelve months			
Petroleum products	12,938	14,646	10,137
Crude oil	512	502	228
Raw materials and other inventories	11,487	9,771	10,222
Less: allowance for obsolete and slow-moving items	(1,098)	(846)	(1,537)
Total	**23,839**	**24,073**	**19,050**

The cost of inventories (excluding crude oil) recognised as an expense during the year ended 31 December 2012 amounted to RUB 8,127 million (year ended 31 December 2011: RUB 7,111 million, year ended 31 December 2010: RUB 8,143 million).

At 31 December 2012, 2011 and 2010, none of the Group's inventories were stated at net realisable value.

15. OTHER NON-CURRENT ASSETS

At 31 December 2012, other non-current assets included long-term accounts receivable in the amount of RUB 1,998 million (31 December 2011: RUB 105 million, 31 December 2010: RUB 100 million), net of allowance for doubtful receivables in the amount of RUB 340 million (31 December 2011: RUB 376 million, 31 December 2010: RUB 709 million).

16. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011	31 December 2010
Trade receivables	19,772	16,260	16,582
Other receivables	10,603	2,242	2,204
Total	**30,375**	**18,502**	**18,786**
Less: allowance for doubtful receivables	(2,009)	(2,104)	(2,852)
Total	**28,366**	**16,398**	**15,934**

The average credit period for the Group's customers is 5-10 days. During this period no interest is charged on the outstanding balances. Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2012, the Group's five largest customers represent 75.3% (31 December 2011: 71.3%, 31 December 2010: 67.9%) of the outstanding trade receivables balance. Creditworthiness of the existing customers is also periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group regularly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due.

Allowances for doubtful receivables are recognised against trade and other receivables older than 30 days based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing at each reporting date.

Millions of Russian roubles

Ageing of trade and other receivables was as follows:

	31 December 2012		**31 December 2011**		**31 December 2010**	
	Gross	**Impairment provision**	**Gross**	**Impairment provision**	**Gross**	**Impairment provision**
Not past due	27,317	-	14,705	-	13,521	-
Past due up to 30 days	69	(2)	447	(5)	769	(17)
Past due from 31 to 90 days	465	(10)	735	(24)	799	(178)
Past due from 91 to 180 days	202	(20)	274	(12)	381	(142)
Past due from 181 to 365 days	262	(48)	276	(123)	824	(746)
Past due over 365 days	2,060	(1,929)	2,065	(1,940)	2,492	(1,769)
Total	**30,375**	**(2,009)**	**18,502**	**(2,104)**	**18,786**	**(2,852)**

Movement in the allowance for doubtful receivables in respect of trade and other receivables was as follows:

	Year ended 31 December 2012	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Balance at the beginning of the year	**2,104**	**2,852**	**2,178**
Provided during the year	202	1,161	832
Disposed on disposal of subsidiaries and SPEs	(1)	(1,067)	-
Amounts written-off as uncollected	(296)	(842)	(158)
Balance at the end of the year	**2,009**	**2,104**	**2,852**

There is a specific allowance against trade and other receivables of RUB 1,290 million (31 December 2011: RUB 1,331 million, 31 December 2010: RUB 762 million) in respect of entities undergoing a liquidation process or that have been placed into bankruptcy, and this allowance is included in the allowance for doubtful receivables. The allowance represents the difference between the carrying amount of these receivables and the present value of expected proceeds on liquidation/bankruptcy. The Group did not hold collateral in respect of these balances.

17. CASH AND CASH EQUIVALENTS

	31 December 2012	**31 December 2011**	**31 December 2010**
Call deposits and highly liquid investments	11,320	15,195	16,753
Bank balances	8,784	13,159	15,763
Total	**20,104**	**28,354**	**32,516**

At 31 December 2012, call deposits mostly represent overnight bank deposits which are denominated in RUB with annual interest rates varying from 2.0% to 7.1% per annum (31 December 2011: 0.1% to 8.3%, 31 December 2010: 0.5% to 2.7%) and in USD with annual interest rates varying from 0.07% to 1%. Maturity dates for these deposits are within 3 months from the date they originated.

As at 31 December 2012, highly liquid investments represent interest free promissory notes of OJSC INTER RAO UES of RUB 1,717 million which are denominated in RUB, held by Sistema-invest. Maturity dates for these promissory notes are within 3 months from the date they originated.

As part of its cash and credit risk management function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and cash equivalents. Banking relationships are with large Russian banks with external credit ratings of at least B+.

Millions of Russian roubles

18. DISCONTINUED OPERATIONS

Disposal of Bashkirenergo

On 5 May 2011 Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant exchanged their 48.22% stake in Bashkirenergo for a 28.49% stake in Sistema-invest (refer to note 4). As a result of this transaction, the ability to exercise control over Bashkirenergo was transferred to Sistema, controlling shareholder of Sistema-invest, and the Group ceased to consolidate Bashkirenergo from that date. The Group's share in Sistema-invest's investment in Bashkirenergo was classified as investment held for sale. See Note 13 for further discussion.

The results of operations and net cash flows of Bashkirenergo are set out below:

	Period ended 5 May 2011	Year ended 31 December 2010
Revenue	30,356	63,306
Production and operating expenses	(22,837)	(50,974)
Depreciation	(1,177)	(3,479)
Selling, general and administrative expenses	(921)	(2,915)
Taxes other than income tax	(837)	(2,247)
Other operating (expenses)/income, net	(173)	425
Operating profit	**4,411**	**4,116**
Finance costs	(28)	(39)
Profit before income tax	**4,383**	**4,077**
Income tax	(837)	(1,286)
Profit for the period from discontinued operations	**3,546**	**2,791**
Attributable to:		
Owners of the Company	1,254	1,104
Non-controlling interests	2,292	1,687
Net cash flows for the period from discontinued operations		
Net cash generated from operating activities	1,399	5,817
Net cash used in investing activities	(996)	(2,989)
Net cash used in financing activities	(100)	(2,857)
Total	**303**	**(29)**

At the date of disposal, assets and liabilities of Bashkirenergo were as follows:

	5 May 2011
Current assets	
Cash and cash equivalents	885
Trade and other receivables	6,216
Advances to suppliers and prepaid expenses	419
Other taxes receivable	2,139
Inventories	1,349
Other current assets	164
Non-current assets	
Property, plant and equipment	46,883
Advances paid for acquisition of property, plant and equipment	3,926
Other non-current assets	270
Current liabilities	
Trade and other payables	(2,849)
Advances received	(1,369)
Other taxes payable	(2,045)
Other current liabilities	(292)
Non-current liabilities	
Deferred tax liabilities	(1,407)
Other non-current liabilities	(896)
Net assets disposed of	**53,393**

Millions of Russian roubles

Result of the disposal of Bashkirenergo

	5 May 2011
Net assets disposed of	(53,393)
Non-controlling interest	34,663
	(18,730)
Increase in proportionate share of interest in Treasury shares	5,797
Increase in proportionate share of interest in Company's subsidiaries	6,399
Increase in proportionate share of interest in other assets and liabilities of Sistema-invest	(5,156)
Lower of fair value less cost to sell and cost of the Group's 23.62% interest in Bashkirenergo held through Sistema-invest	**12,812**
Gain on disposal of Bashkirenergo attributable to the Excess of Group's increase in share of interest in Company's subsidiaries acquired over consideration paid, recognised in Retained earnings	**1,122**
Net cash outflow on disposal of subsidiary	**(885)**

The result of continuing operations' transactions with Bashkirenergo is set out below:

	Period ended 5 May 2011	Year ended 31 December 2010
Revenue	374	1,339
Production and operating expenses	(4,987)	(12,498)
Other operating expenses, net	(272)	-

19. SHARE CAPITAL

Authorised, issued and fully paid share capital

	31 December 2012	31 December 2011	31 December 2010
188,710,587 (31 December 2011 and 2010: 170,169,754) ordinary shares with a par value of RUB 1.00	2,076	1,871	1,871
38,673,878 (31 December 2011 and 2010: 34,622,686) preferred shares with a par value of RUB 1.00	425	381	381
Total	**2,501**	**2,252**	**2,252**

As a result of the Group Reorganisation on 1 October 2012 (refer to note 4) the outstanding shares of merged subsidiaries were converted into newly-issued shares: 18,540,833 ordinary shares and 4,051,192 preferred shares.

The nominal value of share capital of the Company was adjusted for hyperinflation from the date of its incorporation to 31 December 2002.

Treasury shares

In May-June 2012 the Group acquired treasury shares in the amount of RUB 11,070 million as a result of the obligatory buy-back of shares of the Company and subsidiaries participated in the Group reorganization (refer to note 4).

In October-November 2012 Bashneft Middle East Limited, a subsidiary of Bashneft, acquired 2,596,805 ordinary shares and 133,640 preferred shares of the Company for RUB 4,627 million. As a result of this transaction the corresponding amount of treasury shares was recognised.

In November 2012 Bashneft sold to Sistema 2,131,226 preferred shares for RUB 2,617 million. As a result of this transaction the loss in the amount of RUB 360 million was recognised within additional paid-in capital in consolidated statement of changes in equity.

As of 31 December 2012 the number of treasury shares was 36,647,659 shares (31 December 2011: 21,179,317 shares, 31 December 2010: 11,817,525 shares), including 28,354,604 shares held by Sistema-invest attributable to the Group (31 December 2011: 21,179,317 shares, 31 December 2010: 11,906,397 shares).

Dividends and retained earnings

The holders of the Company's ordinary shares are entitled to one vote per share at shareholders' meetings and a right to dividends, as declared periodically.

The holders of the Company's preferred shares receive a non-cumulative dividend at the Company's discretion or whenever dividends to ordinary shareholders are declared. They do not have the right to vote at shareholders' meetings if dividends are declared but, similar to ordinary shareholders' rights, have the right to one vote per share if dividends are not declared.

Ordinary and preferred shares rank equally with regard to the Company's residual assets in the event of liquidation.

On 29 June 2010, the Company declared a dividend of RUB 109.65 per share amounting to RUB 22,455 million which was fully paid during the period from 29 June 2010 to 31 December 2010.

On 17 December 2010, the Company declared a dividend of RUB 104.50 per share amounting to RUB 21,401 million, out of which RUB 2,223 million remained unpaid as of 31 December 2010.

On 29 June 2011, the Company declared a dividend of RUB 131.27 per share amounting to RUB 26,883 million out of which RUB 259 million remained unpaid as of 31 December 2011.

On 29 June 2012, the Company declared a dividend of RUB 99 per share amounting to RUB 20,274 million out of which RUB 224 million remained unpaid as of 31 December 2012.

The IFRS consolidated financial statements of the Group are the basis for the profit distribution and other appropriations.

Earnings per share

Earnings per share ("EPS") is calculated by dividing profit for the year attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for shares purchased by the Group and held as treasury shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preference shares at a ratio of 1:1 in accordance with their participation rights as described in the Company's charter. Reciprocal interests relating to Sistema-invest's ownership in the Group are deducted from the total outstanding shares in computing the weighted average number of outstanding ordinary shares.

Basic and diluted earnings per share are calculated as follows:

	31 December 2012	31 December 2011	31 December 2010
	(millions of roubles, except per share data)		
Basic and diluted weighted average number of ordinary shares outstanding	151,224,401	152,275,527	162,295,807
Basic and diluted weighted average number of preferred shares outstanding	32,188,317	34,622,686	34,622,686
Basic and diluted weighted average number of shares outstanding	**183,412,718**	**186,898,213**	**196,918,493**
Profit for the year attributable to holders of ordinary shares of the Company	42,947	39,590	34,497
Profit for the year attributable to holders of preference shares of the Company	9,141	9,002	7,359
Profit for the year from continuing operations attributable to owners of the Company	**52,088**	**48,592**	**41,856**
Profit for the year attributable to holders of ordinary shares of the Company	-	1,022	910
Profit for the year attributable to holders of preference shares of the Company	-	232	194
Profit for the year from discontinued operations attributable to owners of the Company	**-**	**1,254**	**1,104**
Basic and diluted earnings per share (Russian roubles per share):			
From continuing and discontinued operations	283.99	266.70	218.16
From continuing operations	283.99	259.99	21255

Millions of Russian roubles

20. BORROWINGS

	31 December 2012		31 December 2011		31 December 2010	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities						
Unsecured non-convertible bonds issued in December 2009	8.35%	5,266	-	-	12.5%	49,780
Unsecured non-convertible bonds issued in December 2011	-	-	9.35%	9,980	-	-
Unsecured non-convertible bonds issued in February 2012	9.0%	9,985	-	-	-	-
Secured floating rate borrowings	Libor 1M + 1.55%	3,022	Libor 1M + 1.55%	7,989	-	-
Secured fixed interest rate borrowings	-	-	8.0%	121	8.75%	587
Unsecured fixed interest rate borrowings	8.9%-9.53%	59,928	7.75%-8.95%	77,364	11.9%-12.0%	44,654
Total		**78,201**		**95,454**		**95,021**
Current liabilities						
Unsecured non-convertible bonds issued in December 2009	-	-	12.5%	11,454	-	-
Current portion of unsecured fixed interest rate borrowings	7.75%	17,483	-	-	-	-
Unsecured non-convertible bonds issued in December 2011	9.35%	9,990	-	-	-	-
Current portion of secured floating rate borrowings	Libor 1M + 1.55%	4,534	Libor 1M + 1.55%	1,610	-	-
Current portion of secured fixed interest rate borrowings	-	-	8.0%	468	8.75%	424
Short-term unsecured fixed interest rate borrowings	-	-	-	-	3.6%-7.2%	23,560
Short-term fixed interest rate secured borrowings	-	-	-	-	4.5%-20.0%	242
Total		**32,007**		**13,532**		**24,226**

Unsecured non-convertible bonds

On 22 December 2009, the Group issued 50,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds had a coupon rate of 12.5% from issuance date to 21 December 2012 per annum, payable semi-annually.

In October 2011, the Group filed a voluntary buy-back offer, as a result of which 38,496,306 bonds were bought back at par value of RUB 1,050. The excess of the purchase price over the par value of bonds in the amount of RUB 1,925 million was recognised in the consolidated statement of comprehensive income in finance costs. The remaining balance was reported within current liabilities pending the results of mandatory buy-back execution in 2012.

In December 2012, the Group exercised a mandatory buy-back from bondholders willing to redeem the bonds at par value, as a result of which 6,220,765 bonds were bought back at par value and a new maturity date of December 2016 was established for the remaining bonds, and the coupon rate was set at 8.35%.

In December 2011, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in December 2014. The bonds have a coupon rate of 9.35 % from issuance date to 6 December 2013 per annum, payable semi-annually. Subsequent coupon rates are to be determined in December 2013 at which point bondholders have the right to redeem the bonds at par value.

In February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in February 2022. The bonds have a coupon rate of 9.00% from issuance date to February 2015 per annum payable semi-annually. Subsequent coupon rates are to be determined in February 2015 at which point bondholders have the right to redeem the bonds at par value.

Millions of Russian roubles

Secured borrowings

At 31 December 2012 and 2011, secured floating interest rate borrowing is denominated in USD and repayable in equal instalments from September 2012 till September 2014. The borrowing is secured by assignment rights for proceeds from the crude oil export sales.

At 31 December 2010, secured fixed interest rate borrowings were denominated in RUB and repayable in 2011 and 2012. The borrowings were secured by pledged property, plant and equipment. Loans were paid in full in 2012 year.

Unsecured borrowings

At 31 December 2012, unsecured fixed interest rate borrowings are denominated in RUB and were obtained from a variety of lenders. The borrowings mature from 2013 through 2018 (31 December 2011: denominated in RUB with maturity from 2013 to 2018, 31 December 2010: denominated in RUB and USD with maturity from 2011 to 2017).

21. OTHER NON-CURRENT LIABILITIES

	31 December 2012	31 December 2011	31 December 2010
Constructive obligation to Lukoil (refer to note 12)	4,768	-	-
Defined benefit obligation	899	471	1,132
Non-current portion of phantom share plan	-	292	273
Other non-current liabilities	264	-	82
Total	**5,931**	**763**	**1,487**

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. In accordance with these plans, the employees are entitled to certain benefits in accordance with the terms of collective agreements (such as retirement bonus, anniversary bonus, reimbursement of funeral costs).

Phantom share plan

In 2010, the Company granted share appreciation rights to key management personnel of the Group. In accordance with the terms of the plan, the eligible employees are entitled to a cash payment based on a number of vested phantom shares, the value of which is to be determined by an independent appraiser at each vesting date. The program has 3 stages and is effective during the period from 2010 to 2012. Liabilities under the phantom share plan were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Balance at the beginning of the year	**904**	**395**	**-**
Granted during the year	1,091	689	395
Paid during the year	(689)	(180)	-
Forfeited during the year	(178)	-	-
Balance at the end of the year	**1,128**	**904**	**395**

Current and non-current portions of liability under phantom share plan are as follows:

	31 December 2012	31 December 2011	31 December 2010
Current portion (refer to note 22)	1,128	612	122
Non-current portion	-	292	273
Total	**1,128**	**904**	**395**

Millions of Russian roubles

22. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011	31 December 2010
Financial liabilities			
Trade payables and other payables	22,441	17,966	14,453
Interest payable	516	193	629
Total	**22,957**	**18,159**	**15,082**
Non-financial liabilities			
Salary payable and accrued vacation liabilities	4,857	4,612	4,871
Current portion of phantom share plan (refer to note 21)	1,128	612	122
Total	**5,985**	**5,224**	**4,993**
Total trade and other payables	**28,942**	**23,383**	**20,075**

The average credit period on purchase of the majority of inventories and services consumed is 38 days (31 December 2011: 36 days, 31 December 2010: 35 days). No interest is charged on the outstanding balance of trade and other payables during this period.

23. TAXES

	31 December 2012	31 December 2011	31 December 2010
Other taxes receivable			
VAT recoverable	9,851	11,903	8,676
Custom duties prepaid	11,866	11,197	7,665
Other taxes receivable	817	5,411	4,526
Total	**22,534**	**28,511**	**20,867**
Other taxes payable			
VAT payable	1,955	3,680	3,648
Mineral extraction tax	4,770	4,735	3,127
Excise tax	1,995	4,671	1,565
Other taxes payable	1,665	1,906	1,344
Total	**10,385**	**14,992**	**9,684**

24. PROVISIONS

Provisions at 31 December 2012 include an amount of RUB 15 million (31 December 2011: RUB 2,581 million, 31 December 2010: RUB 2,530 million) in relation to legal claims brought against the Group. The provision charge is recognised in other operating expenses, net. In management's opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2012.

25. RELATED PARTIES

At 31 December 2012, 2011 and 2010, the Group had the following outstanding balances with related parties:

	Amount owed by related parties		
	31 December 2012	31 December 2011	31 December 2010
Sistema-invest	23,920	22,486	23,955
Other Sistema Group companies	20,868	15,171	3,596
Associates and joint ventures of the Group	1,617	238	-
Total	**46,405**	**37,895**	**27,551**

Millions of Russian roubles

	Amount owed to related parties		
	31 December 2012	**31 December 2011**	**31 December 2010**
Associates and joint ventures of the Group	1,701	934	-
Sistema Group companies	537	617	1,335
Other related parties	-	-	477
Total	**2,238**	**1,551**	**1,812**

The amounts outstanding were unsecured and are expected to be settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

No expense has been recognised in the current year for bad debts in respect of amounts owed by related parties.

As a result of exchange of Bashkirenergo's stake to share in Sistema-invest which is common control entity (refer to note 4), transactions with Bashkirenergo were included in the table below from the date of disposal untill the date of its reorganization in form of demerger into two entities: Bashenergoactiv and BESK. Bashenergoactiv is not a related party of the Group.

The Group entered into the following transactions with related parties:

	Year ended 31 December 2012	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Sistema-invest			
Dividends declared	2,160	2,788	8,361
Loans issued	10,927	-	50,428
Proceeds from repayment of loans issued	10,169	-	18,422
Interest income	744	867	873
Other Sistema Group companies and its affiliates			
Dividends declared	10,561	14,003	22,848
Loans issued	4,256	-	8,818
Proceeds from repayment of loans issued	-	-	8,818
Cash placed on bank deposits	24,775	-	-
Proceeds from repayment of bank deposits	19,691	-	-
Sale of goods and services	2,648	1,887	972
Purchase of goods and services	12,578	11,560	798
Purchase of property	4,277	796	1,667
Interest income	1,510	157	300
Dividends received	-	489	-
Sale of joint venture	3,410	-	-
Acquisition of subsidiaries	-	3,393	-
Associates and joint ventures of the Group			
Sale of goods and services	2,421	14,624	12,910
Purchase of property	260	-	-
Purchase of goods and services	2,885	70	-
Interest income	542	-	-
Key management personnel			
Acquisition of associate	-	-	3,699
Other related parties			
Sale of goods and services	8	3,266	9,812
Purchase of goods and services	6	-	-

Millions of Russian roubles

LLC "Finansoviy Alliance"

On 28 August 2012 the Group acquired 50% into LLC "Finansoviy Alliance" ("Finansoviy Alliance"), a Company engaged in railroad transportation, from a third party. Consideration transferred for this acquisition consisted of railroad wagons and cisterns which were transferred by the Group to Finansoviy Alliance charter capital with carrying and fair value of the property transferred of RUB 1,638 million and RUB 3,358 million, correspondingly.

As a result of the acquisition of 50% interest in Finansoviy Alliance the Group recognised the loss in the amount of RUB 18 million and the deferred tax asset in the amount of RUB 348 million associated with this transaction.

In September 2012 the Group sold property to Finansoviy Alliance with a carrying amount of RUB 654 million for consideration amounting to RUB 1,341 million, gain of RUB 343 million was recognized net of unrealized gain.

On 27 December 2012 the Group sold its 50% interest in Finansoviy Alliance with the carrying value of RUB 1,429 million to Sistema for a cash consideration of RUB 3,410 million. The Group recognised a gain on the sale of RUB 1,981 million within additional paid-in capital in the consolidated statement of changes in equity, being the result of a transaction with the Group's parent company.

Acquisition of the real estate asset

In December 2012 the Group acquired a real estate asset from Sistema, for a cash consideration of RUB 3,414 million. The asset was recognized in the statement of financial position at cost.

Charity

During the year ended 31 December 2012, the Group transferred RUB 603 million (year ended 31 December 2011: RUB 896 million, 31 December 2010: RUB 577 million) as a donation to Charity Fund Sistema, a related party of the Group.

Compensation of key management personnel

The remuneration of directors and other key management personnel was as follows:

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	749	692	1,276
Share-based payments	356	164	121
Termination benefits	130	-	-
Total	**1,235**	**856**	**1,397**

At 31 December 2012, outstanding balances in respect of wages and salaries of key management personnel were RUB 471 million (31 December 2011: RUB 115 million, 31 December 2010: RUB 1,039 million).

Millions of Russian roubles

26. FINANCIAL RISK MANAGEMENT

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 for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may adjust the amount of dividends paid to shareholders and return on capital to shareholders, issue new shares or sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the return on capital, which the Group defines as a total net borrowings divided by OIBDA. The Group defines total net borrowings as total borrowings less cash and cash equivalents and OIBDA as operating profit adjusted for depletion and depreciation. Since OIBDA is not a standard IFRS measure, the Group's definition of OIBDA and total net borrowings may differ from that of other companies.

The Group's gearing ratio was as follows:

	31 December 2012	31 December 2011	31 December 2010
Total net borrowings	90,104	80,632	86,731
OIBDA	98,690	93,845	82,491
Net borrowings to OIBDA ratio	**0.91**	**0.86**	**1.05**

Major categories of financial instruments

	31 December 2012	31 December 2011	31 December 2010
Financial assets			
Cash and cash equivalents	20,104	28,354	32,516
Trade and other receivables, excluding prepayments	28,366	16,398	15,934
Loans given, at amortised cost	35,403	26,482	26,846
Available-for-sale investments in OJSC "Bashkirian Power Grid Company" held at cost	7,406	-	-
Investments in Bashkirenergo held for sale	-	12,812	-
Other financial assets	8	101	10
Deposits	5,136	132	342
Other non-current assets	798	105	100
Total financial assets	**97,221**	**84,384**	**75,748**
Financial liabilities			
Borrowings	110,208	108,986	119,247
Trade and other payables	22,957	18,159	15,082
Dividends payable	224	259	2,223
Total financial liabilities	**133,389**	**127,404**	**136,552**

Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations. The Group's overall strategy in production and sales of crude oil and related products is centrally managed.

The main risks arising from the Group's financial instruments are foreign currency and liquidity risks.

Millions of Russian roubles

Foreign currency risk

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. The Group undertakes certain transactions denominated in foreign currencies and is exposed primarily with respect to the US Dollar and EUR.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Rouble, US Dollar and EUR. The Group does not use derivatives to manage its foreign currency risk exposure.

The carrying amount of the Group's US-dollar and EUR denominated monetary assets and liabilities at 31 December 2012, 2011 and 2010 were as follows:

	31 December 2012	31 December 2011	31 December 2010
Assets			
Trade and other receivables, excluding prepayments	15,078	11,102	8,934
Loans given, at amortised cost	2,953	4,978	-
Cash and cash equivalents	4,128	1,127	13,092
Total assets	**22,159**	**17,207**	**22,026**
Liabilities			
Loans and borrowings	7,556	9,599	6,114
Trade and other payables	974	208	92
Total liabilities	**8,530**	**9,807**	**6,206**

The table below details the Group's sensitivity to the strengthening of the US Dollar and EUR against the Russian Rouble by 10%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the end of the period denominated in the respective currencies.

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Increase in profit before tax	1,363	740	1,582

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar and EUR is approximately equal and opposite.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2012, 2011 and 2010. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

31 December 2012	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	77,411	102,443	3,443	20,636	63,156	15,208
Secured borrowings	7,556	7,723	2,341	2,320	3,062	-
Unsecured non-convertible bonds	25,241	30,199	1,154	11,138	17,907	-
Dividends payable	224	224	224	-	-	-
Trade and other payables	22,957	22,957	22,957	-	-	-
Total	**133,389**	**163,546**	**30,119**	**34,094**	**84,125**	**15,208**

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31 December 2011	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	77,364	108,311	3,364	3,348	69,403	32,196
Secured borrowings	10,188	10,639	364	1,959	8,316	-
Unsecured non-convertible bonds	21,434	24,800	1,188	12,683	10,929	-
Dividends payable	259	259	259	-	-	-
Trade and other payables	18,159	18,159	18,159	-	-	-
Total	**127,404**	**162,168**	**23,334**	**17,990**	**88,648**	**32,196**

31 December 2010	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
Unsecured borrowings	68,214	104,536	3,383	26,637	21,456	53,060
Secured borrowings	1,253	1,402	275	274	853	-
Unsecured non-convertible bonds	49,780	62,500	3,125	3,125	56,250	-
Dividends payable	2,223	2,223	2,223	-	-	-
Trade and other payables	15,082	15,082	15,082	-	-	-
Total	**136,552**	**185,743**	**24,088**	**30,036**	**78,559**	**53,060**

For the management of its day to day liquidity requirements the management had following unused credit facilities.

	31 December 2012	31 December 2011	31 December 2010
Committed credit facilities	70,485	62,500	28,900
Less: amounts withdrawn	(37,500)	(39,059)	(1,709)
Total unused credit facilities	**32,985**	**23,441**	**27,191**

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The table below detail's the Group's annualised sensitivity to change of floating LIBOR rate by 1% which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statements of financial position was outstanding from the whole period.

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Profit/Loss	76	88	-

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

As at 31 December 2012, 2011 and 2010 management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds with carrying value of RUB 25,283 million and fair value RUB 25,477 million (31 December 2011: carrying value of RUB 21,504 million and fair value RUB 20,937 million, 31 December 2010: carrying value of RUB 49,780 million and fair value RUB 46,252 million).

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Management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings were obtained in 2010-2012.

The Group does not have any financial instruments that are measured at fair value subsequent to initial recognition.

28. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 December 2012, contractual capital commitments of the Group amounted to RUB 9,799 million (31 December 2011: RUB 6,171 million, 31 December 2010: RUB 5,375 million). These commitments are expected to be settled during 2013.

Operating leases: Group as a lessee

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from one to 10 years with no renewal option at the end of the lease term. In addition to the above, the Group’s extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2061.

The amount of rental expenses for the year ended 31 December 2012 were RUB 2,700 million (year ended 31 December 2011: RUB 1,091 million, year ended 31 December 2010: RUB 1,121 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 December 2012	31 December 2011	31 December 2010
Due in one year	1,371	1,046	1,138
Due from one to five years	4,461	3,308	3,202
Thereafter	19,536	15,297	15,676
Total	**25,368**	**19,651**	**20,016**

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group’s tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group’s previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated nil possible tax exposure at 31 December 2012 (31 December 2011: RUB 17,708 million, 31 December 2010: RUB 5,606 million).

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group’s management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. At 31 December 2012, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Legal contingencies

At 31 December 2012, unresolved legal claims against the Group amounted to RUB 49 million (31 December 2011: RUB 1,298 million, 31 December 2010: RUB 1,524 million). Management estimates the unfavourable outcome of the legal claims to be possible.

Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group does not have full coverage for property damage, for business interruption and third party liabilities in respect of environmental damage arising from accidents on the Group’s property or relating to the Group’s operations. Until the Group obtains adequate insurance coverage, there is a risk that the losses could have a material adverse effect on the Group’s operations and financial position.

Russian Federation economic environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the country’s economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, country’s economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2012, 2011 and 2010.

29. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 12 February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds Series 06, 10,000,000 non-convertible RUB-denominated bonds Series 07, 5,000,000 non-convertible RUB-denominated bonds Series 08 and 5,000,000 non-convertible RUB-denominated bonds Series 09 at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2020. The Series 07 and 09 have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2018. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.