OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2013 and 2012
and for each of the years in the three-year period
ended December 31, 2013

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Auditors' Report

To the Board of Directors

OAO LUKOIL

We have audited the accompanying consolidated financial statements of OAO LUKOIL and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the consolidated statements of comprehensive income, stockholders' equity and cash flows for 2013, 2012 and 2011, and the related notes to the consolidated financial statements.

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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits 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. Accordingly, we express no such opinion. 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.

Audited entity: Open Joint Stock Company "Oil company "LUKOIL"

Registered by Moscow Registration Chamber on 22 of April 1993, Registration No. 024020.

Entered in the Unified State Register of Legal Entities on 17 July 2002 by Department of the Ministry of Taxes and Duties, Registration No. 1027700035769, Certificate series 77 No 007892347

11, Sretensky Boulevard, Moscow, Russia, 101000

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for 2013, 2012 and 2011 in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the Supplementary Information on Oil and Gas Exploration and Production Activities on pages 40 through 46 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sloutsky E.A.

Director, power of attorney No. 86/13 dated October 1, 2013

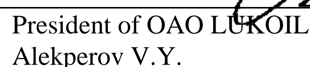
ZAO KPMG

February 17, 2014

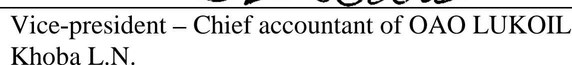
Moscow, Russian Federation

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2013 and 2012
(Millions of US dollars, unless otherwise noted)

	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents	3	1,712	2,914
Short-term investments		363	286
Accounts receivable, net	5	7,943	8,667
Inventories	6	8,801	8,098
Prepaid taxes and other expenses		3,801	3,541
Other current assets		775	767
Total current assets		**23,395**	**24,273**
Investments	7	4,255	4,124
Property, plant and equipment	8, 9	78,466	66,883
Deferred income tax assets	13	684	569
Goodwill and other intangible assets	10	1,300	1,964
Other non-current assets		1,339	1,148
Total assets		**109,439**	**98,961**
Liabilities and equity			
Current liabilities			
Accounts payable		7,335	7,263
Short-term borrowings and current portion of long-term debt	11	1,338	658
Taxes payable		2,501	2,802
Other current liabilities		1,923	1,730
Total current liabilities		**13,097**	**12,453**
Long-term debt	12, 16	9,483	5,963
Deferred income tax liabilities	13	4,724	3,651
Asset retirement obligations	8	2,764	2,195
Other long-term liabilities		516	511
Total liabilities		**30,584**	**24,773**
Equity	15		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(5,189)	(5,189)
Equity-linked notes		(2,500)	(2,500)
Additional paid-in capital		4,574	4,734
Retained earnings		81,733	76,216
Accumulated other comprehensive loss		(55)	(69)
Total OAO LUKOIL stockholders' equity		**78,578**	**73,207**
Non-controlling interests		277	981
Total equity		**78,855**	**74,188**
Total liabilities and equity		**109,439**	**98,961**



President of OAO LUKOIL
Alekperov V.Y.



Vice-president – Chief accountant of OAO LUKOIL
Khoba L.N.

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

OAO LUKOIL
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2013, 2012 and 2011
(Millions of US dollars, unless otherwise noted)

	Note	2013	2012	2011
Revenues				
Sales (including excise and export tariffs)	21	141,452	139,171	133,650
Costs and other deductions				
Operating expenses		(10,086)	(9,359)	(9,055)
Cost of purchased crude oil, gas and products		(65,924)	(64,148)	(59,694)
Transportation expenses		(6,290)	(6,171)	(6,121)
Selling, general and administrative expenses		(3,849)	(3,755)	(3,822)
Depreciation, depletion and amortization		(5,756)	(4,832)	(4,473)
Taxes other than income taxes	13	(13,803)	(13,666)	(12,918)
Excise and export tariffs		(22,334)	(22,836)	(22,217)
Exploration expenses		(602)	(364)	(532)
(Loss) gain on disposals and impairments of assets		(2,561)	30	(1,663)
Income from operating activities		**10,247**	**14,070**	**13,155**
Interest expense		(488)	(538)	(694)
Interest and dividend income		239	257	211
Equity share in income of affiliates	7	575	518	690
Currency translation loss		(443)	(512)	(301)
Other non-operating income (expense)		328	(72)	58
Income before income taxes		**10,458**	**13,723**	**13,119**
Current income taxes		(2,051)	(2,738)	(2,678)
Deferred income taxes		(780)	(60)	(615)
Total income tax expense	13	**(2,831)**	**(2,798)**	**(3,293)**
Net income		**7,627**	**10,925**	**9,826**
Net loss attributable to non-controlling interests		205	79	531
Net income attributable to OAO LUKOIL		**7,832**	**11,004**	**10,357**
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):	15			
Basic		10.38	14.47	13.30
Diluted		10.18	14.17	13.04
Other comprehensive income, net of tax:				
Defined benefit pension plan:				
Prior service cost arising during the period		8	-	22
Actuarial gain (loss)		6	(15)	(9)
Other comprehensive income (loss)		**14**	**(15)**	**13**
Comprehensive income		**7,641**	**10,910**	**9,839**
Comprehensive loss attributable to non-controlling interests		205	79	531
Comprehensive income attributable to OAO LUKOIL		**7,846**	**10,989**	**10,370**

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

OAO LUKOIL
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2013, 2012 and 2011
(Millions of US dollars, unless otherwise noted)

	2013		2012		2011	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance as of January 1	15		15		15	
Balance as of December 31	**15**		**15**		**15**	
Treasury stock						
Balance as of January 1	(5,189)		(4,081)		(3,683)	
Stock purchased	-		(128)		(398)	
Equity-linked notes conversion	-		(980)		-	
Balance as of December 31	**(5,189)**		**(5,189)**		**(4,081)**	
Equity-linked notes						
Balance as of January 1	(2,500)		(980)		(980)	
Equity-linked notes purchased	-		(2,500)		-	
Equity-linked notes conversion	-		980		-	
Balance as of December 31	**(2,500)**		**(2,500)**		**(980)**	
Additional paid-in capital						
Balance as of January 1	4,734		4,798		4,700	
Effect of stock compensation plan	-		(197)		98	
Changes in non-controlling interests	(160)		133		-	
Balance as of December 31	**4,574**		**4,734**		**4,798**	
Retained earnings						
Balance as of January 1	76,216		67,940		59,212	
Net income	7,832	7,832	11,004	11,004	10,357	10,357
Dividends on common stock	(2,315)		(2,728)		(1,629)	
Balance as of December 31	**81,733**		**76,216**		**67,940**	
Accumulated other comprehensive loss, net of tax						
Balance as of January 1	(69)		(54)		(67)	
Pension benefits:						
Prior service cost	8	8	-	-	22	22
Actuarial gain (loss)	6	6	(15)	(15)	(9)	(9)
Balance as of December 31	**(55)**		**(69)**		**(54)**	
Total comprehensive income		7,846		10,989		10,370
Total OAO LUKOIL stockholders' equity as of December 31	**78,578**		**73,207**		**67,638**	
Non-controlling interests						
Balance as of January 1	981		(172)		411	
Net loss attributable to non-controlling interests	(205)		(79)		(531)	
Changes in non-controlling interests	(499)		1,232		(52)	
Balance as of December 31	**277**		**981**		**(172)**	
Total equity as of December 31	**78,855**		**74,188**		**67,466**	

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

	Share activity		
	2013	**2012**	**2011**
	(thousands of shares)	**(thousands of shares)**	**(thousands of shares)**
Common stock, issued			
Balance as of January 1	850,563	850,563	850,563
Balance as of December 31	**850,563**	**850,563**	**850,563**
Treasury stock			
Balance as of January 1	(95,697)	(76,101)	(69,208)
Purchase of treasury stock	-	(2,096)	(6,893)
Equity-linked notes conversion	-	(17,500)	-
Balance as of December 31	**(95,697)**	**(95,697)**	**(76,101)**

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

OAO LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2013, 2012 and 2011
(Millions of US dollars)

	Note	2013	2012	2011
Cash flows from operating activities				
Net income attributable to OAO LUKOIL		**7,832**	**11,004**	**10,357**
Adjustments for non-cash items:				
Depreciation, depletion and amortization		5,756	4,832	4,473
Equity share in income of affiliates, net of dividends received		(20)	102	185
Dry hole write-offs		314	127	417
Loss (gain) on disposals and impairments of assets		2,561	(30)	1,663
Deferred income taxes		780	60	615
Non-cash currency translation (gain) loss		(207)	293	(214)
Non-cash investing activities		(5)	(18)	(6)
All other items – net		501	334	(210)
Changes in operating assets and liabilities:				
Trade accounts receivable		816	641	(758)
Inventories		(1,105)	(126)	(1,420)
Accounts payable		(366)	820	648
Taxes payable		(313)	468	177
Other current assets and liabilities		(95)	490	(413)
Net cash provided by operating activities		**16,449**	**18,997**	**15,514**
Cash flows from investing activities				
Acquisition of licenses		(849)	(921)	(25)
Capital expenditures		(14,957)	(11,647)	(8,249)
Proceeds from sale of property, plant and equipment		99	412	156
Purchases of investments		(559)	(453)	(101)
Proceeds from sale of investments		315	252	79
Sale of subsidiaries and equity method affiliates, net of cash disposed		97	27	227
Acquisitions of subsidiaries and equity method affiliates, net of cash acquired		(2,785)	(886)	(1,100)
Net cash used in investing activities		**(18,639)**	**(13,216)**	**(9,013)**
Cash flows from financing activities				
Net movements of short-term borrowings		25	(32)	(633)
Proceeds from issuance of long-term debt		5,049	597	1
Principal repayments of long-term debt		(949)	(1,831)	(1,372)
Dividends paid on Company common stock		(2,383)	(2,800)	(1,714)
Dividends paid to non-controlling interest stockholders		(126)	(113)	(116)
Financing received from non-controlling interest stockholders		2	2	3
Purchases of Company's stock		-	(128)	(398)
Purchases of equity-linked notes		-	(740)	(1,760)
Purchases of non-controlling interest		(589)	(635)	(34)
Net cash provided by (used in) financing activities		**1,029**	**(5,680)**	**(6,023)**
Effect of exchange rate changes on cash and cash equivalents		(41)	60	(93)
Net (decrease) increase in cash and cash equivalents		**(1,202)**	**161**	**385**
Cash and cash equivalents at beginning of year		2,914	2,753	2,368
Cash and cash equivalents at end of year	3	**1,712**	**2,914**	**2,753**

	2013	2012	2011
Supplemental disclosures of cash flow information			
Interest paid	405	497	683
Income taxes paid	2,452	1,585	2,508

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

Note 1. Organization and environment

The primary activities of OAO LUKOIL (the “Company”) and its subsidiaries (together, the “Group”) are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The accompanying consolidated financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management’s assessment.

Basis of preparation

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Note 2. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless non-controlling stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where non-controlling stockholders have substantive participating rights are also accounted for using the equity method of accounting. Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in “Investments” in the consolidated balance sheet.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Note 2. Summary of significant accounting policies (continued)

Revenues

Revenues are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair value of the crude oil and petroleum products sold.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company's functional currency is the US dollar and the Group's reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in profit or loss.

For certain other operations, where the US dollar is not the functional currency and the economy is not highly inflationary, assets and liabilities are translated into US dollars at period-end exchange rates and revenues and expenses are translated at average exchange rates for the period. Resulting translation adjustments are reflected as a separate component of other comprehensive income.

In all cases, foreign currency transaction gains and losses are included in profit or loss.

As of December 31, 2013, 2012 and 2011, exchange rates of 32.73, 30.37 and 32.20 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts receivable

Accounts receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Inventories

The cost of finished goods and purchased products is determined using the first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using the "average cost" method.

Investments

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Note 2. Summary of significant accounting policies (continued)

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in profit or loss when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to profit or loss and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in profit or loss.

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group’s share of operators’ expenses during the development stage of production sharing and risk service contracts), and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells for more than one year after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress towards assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	5 – 20 years

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

Note 2. Summary of significant accounting policies (continued)

Asset retirement obligations

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquired entity over the fair value of net assets acquired. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires assessing qualitative factors and then, if it is necessary, estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Income taxes

Deferred income tax assets and liabilities are recognized in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in profit or loss in the reporting period which includes the enactment date.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

Note 2. Summary of significant accounting policies (continued)

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense.

Interest-bearing borrowings

Interest-bearing borrowings from third parties (except convertible notes) are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in profit or loss and the carrying amounts are adjusted as amortization accumulates.

For borrowings from related parties (except convertible notes) issued with an interest rate lower than the market interest rate, the Group determines book value using a market interest rate at the moment the borrowing is made. The resulting difference is allocated to additional paid-in capital and is amortized at a constant rate over the term of the borrowings. Amortization is included in profit or loss each period and the carrying amounts are adjusted as amortization accumulates.

For convertible notes issued with a cash conversion option, the Group allocates the proceeds from issuance between a liability component and an equity component. The Group records the equity component at an amount equal to the difference between the proceeds received and the fair value of the liability component, measured as the fair value of a similar liability that does not have an associated equity component. The Group recognizes the interest cost in subsequent periods at its borrowing rate for non-convertible debt.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in profit or loss in the period in which the repurchase or settlement occurs.

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by management based on the amount of pension obligations for the previous financial year calculated by an independent actuary. Obligations in respect of each employee are accrued over the periods during which the employee renders service in the Group.

Treasury stock

Purchases by Group companies of the Company’s outstanding stock are recorded at cost and classified as treasury stock within Stockholders’ equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available for distribution to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

Contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

Note 2. Summary of significant accounting policies (continued)

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

Use of derivative instruments

The Group's derivative activity is limited to certain petroleum products' marketing and trading operations and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

Comparative amounts

Certain prior period amounts have been reclassified to conform with the current period's presentation.

Changes in accounting policy

In February 2013, the FASB issued ASU No. 2013-02, "*Comprehensive Income (Topic 220)*," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The Group adopted the requirements of ASU No. 2013-02 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 2. Summary of significant accounting policies (continued)

In January 2013, the FASB issued ASU No. 2013-01 *"Balance Sheet (Topic 20). Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities."* This ASU clarifies that scope of ASU No. 2011-11 *"Disclosures about Offsetting Assets and Liabilities"* applies to derivatives accounted for in accordance with Topic 815 *"Derivatives and Hedging,"* including derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The purpose of ASU No. 2013-01 and ASU No. 2011-11 is to require entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The Group adopted the requirements of ASU No. 2013-01 and ASU No. 2011-11 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Recent accounting pronouncements

In July 2013, the FASB issued ASU No. 2013-11, *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,"* which clarifies Topic 740 of the Codification. This ASU states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2013-11 and does not expect any material impact on its results of operations, financial position or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, *"Foreign Currency Matters (Topic 830)*," that requires entities to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity ceases to have financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon occurrence of those events. ASU No. 2013-05 is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods, and should be applied prospectively. The Group is evaluating the effect of the adoption of ASU No. 2013-05 and does not expect any material impact on its results of operations, financial position or cash flows.

Note 3. Cash and cash equivalents

	As of December 31, 2013	**As of December 31, 2012**
Cash held in Russian rubles	260	571
Cash held in US dollars	1,120	1,816
Cash held in other currencies	241	403
Cash held in related party banks in Russian rubles	78	117
Cash held in related party banks in other currencies	13	7
Total cash and cash equivalents	**1,712**	**2,914**

Note 4. Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Non-cash investing activity	5	18	6
Total non-cash transactions	**5**	**18**	**6**

The following table shows the effect of non-cash transactions on investing activity:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net cash used in investing activity	18,639	13,216	9,013
Non-cash investing activity	5	18	6
Total investing activity	**18,644**	**13,234**	**9,019**

Note 5. Accounts receivable, net

	As of December 31, 2013	As of December 31, 2012
Trade accounts receivable (net of provisions of $217 million and $247 million as of December 31, 2013 and 2012, respectively)	6,030	6,431
Current VAT and excise recoverable	1,518	1,862
Other current accounts receivable (net of provisions of $53 million and $57 million as of December 31, 2013 and 2012, respectively)	395	374
Total accounts receivable, net	**7,943**	**8,667**

Note 6. Inventories

	As of December 31, 2013	As of December 31, 2012
Crude oil and petroleum products	7,461	6,765
Materials for extraction and drilling	411	387
Materials and supplies for refining	110	93
Other goods, materials and supplies	819	853
Total inventories	**8,801**	**8,098**

Note 7. Investments

	As of December 31, 2013	As of December 31, 2012
Investments in equity method affiliates and joint ventures	2,872	2,794
Long-term loans to equity method affiliates and joint ventures	1,369	1,312
Other long-term investments	14	18
Total long-term investments	**4,255**	**4,124**

Note 7. Investments (continued)

Investments in equity method affiliates and corporate joint ventures

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

	Year ended December 31, 2013		Year ended December 31, 2012		Year ended December 31, 2011	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	29,821	3,011	29,618	4,160	32,770	4,777
Income before income taxes	13,572	848	13,617	945	13,832	1,005
Less income taxes	(4,414)	(273)	(5,387)	(427)	(4,241)	(315)
Net income	**9,158**	**575**	**8,230**	**518**	**9,591**	**690**

	As of December 31, 2013		As of December 31, 2012	
	Total	Group's Share	Total	Group's share
Current assets	6,352	924	6,399	983
Property, plant and equipment	21,105	4,260	18,738	4,015
Other non-current assets	572	169	523	167
Total assets	28,029	5,353	25,660	5,165
Short-term debt	1,241	334	1,182	277
Other current liabilities	3,525	454	3,409	496
Long-term debt	7,949	1,409	7,717	1,256
Other non-current liabilities	1,574	284	1,406	342
Net assets	**13,740**	**2,872**	**11,946**	**2,794**

In April 2011, the Company and OAO ANK Bashneft signed an agreement to establish a joint venture and to develop two oil fields named after R.Trebs and A.Titov, located in the Nenets Autonomous District of Russia. According to the agreement, the mineral rights for the development of the fields were re-issued by OAO ANK Bashneft in favor of its 100% subsidiary OOO Bashneft-Polus. In December 2011, the Company acquired 25.1% of OOO Bashneft-Polus for $153 million, and OOO Bashneft-Polus acquired 29 exploration wells located on these fields from a Group company for $60 million. The parties agreed to transport oil extracted from the fields via the Group's transportation infrastructure and to consider the exploitation of certain other nearby infrastructure owned by the Group. In May 2012, state authorities cancelled the order to transfer the mineral rights for the development of the fields named after R.Trebs and A.Titov to the joint venture and the license was returned to OAO ANK Bashneft. Management does not believe that this matter will have a material adverse effect on the Group's financial condition. The Company and OAO ANK Bashneft are continuing cooperation within the project and are carrying out actions for re-issuance of the mineral rights by the state authorities in favor of OOO Bashneft-Polus.

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of December 31, 2013	**As of December 31, 2012**	**As of December 31, 2013**	**As of December 31, 2012**
Exploration and Production:				
Russia	72,944	61,541	47,957	39,391
International	12,770	9,700	10,052	7,487
Total	85,714	71,241	58,009	46,878
Refining, Marketing, Distribution and Chemicals:				
Russia	14,684	13,182	8,631	7,841
International	10,577	10,297	7,274	7,375
Total	25,261	23,479	15,905	15,216
Power generation and other:				
Russia	5,655	5,621	4,285	4,501
International	411	429	267	288
Total	6,066	6,050	4,552	4,789
Total property, plant and equipment	**117,041**	**100,770**	**78,466**	**66,883**

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually. The fair value of tested assets is determined using the present value of the expected cash flows. Fair value measurements models used in the impairment tests were Level 3 (unobservable inputs) fair value measurements.

As a result of the test, during the year ended December 31, 2013, the Company recognized an impairment loss for its exploration and production assets in the amount of $942, including $510 million related to the Yuzhnoye Khylchuyu oil field in the Timan-Pechora region of the Russian Federation, due to a revision of geological models.

An impairment loss of $178 million was recognized in the international refining, marketing and distribution segment due to unfavorable market conditions.

The Company recognized an impairment loss for assets of OOO Karpatnaftochim, a petrochemical plant in Ukraine, in the amount of $411 million due to unfavorable economic conditions.

The Company also recognized an impairment loss for assets of OOO LUKOIL-Ecoenergo, a power generating company in European Russia, in the amount of $270 million due to unfavorable market conditions in the energy sector in Southern Russia.

During the year ended December 31, 2011, the Company recognized an impairment loss for exploration and production assets on the Yuzhnoye Khylchuyu oil field in the amount of $1,175 million, as well as an impairment loss of $175 million for assets related to the international refining, marketing and distribution segment.

The following table sets out values of property, plant and equipment measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Fair value	**Level 3 fair value measurements**	**Before-tax loss**
Year ended December 31, 2013			
Property, plant and equipment	374	374	1,801
Year ended December 31, 2012			
Property, plant and equipment	**-**	**-**	**-**
Year ended December 31, 2011			
Property, plant and equipment	1,195	1,195	1,350

Note 8. Property, plant and equipment and asset retirement obligations (continued)

As of December 31, 2013 and 2012, the asset retirement obligations amounted to $2,769 million and $2,200 million, respectively, of which $5 million was included in "Other current liabilities" in the consolidated balance sheets as of each balance sheet date.

During 2013 and 2012, asset retirement obligations changed as follows:

	2013	**2012**
Asset retirement obligations as of January 1	2,200	2,126
Accretion expense	181	172
New obligations	814	147
Changes in estimates of existing obligations	(270)	(263)
Spending on existing obligations	(4)	(5)
Property dispositions	(2)	(10)
Foreign currency translation and other adjustments	(150)	33
Asset retirement obligations as of December 31	**2,769**	**2,200**

The asset retirement obligations incurred during 2013 and 2012 were Level 3 (unobservable inputs) fair value measurements.

Note 9. Suspended wells

Net changes in capitalized exploratory suspended well costs during 2013, 2012 and 2011 were as follows:

	2013	**2012**	**2011**
Balance as of January 1	524	542	478
Additions pending the determination of proved reserves	62	25	97
Charged to expenses	(92)	-	-
Reclassification to proved properties	(24)	(43)	(33)
Balance as of December 31	**470**	**524**	**542**

Aging of capitalized suspended exploratory well costs were as follows:

	As of December 31, 2013	**As of December 31, 2012**	**As of December 31, 2011**
Exploratory well costs capitalized			
for a period of one year or less	56	21	78
for two years	11	66	144
for three years	66	133	72
for four years	41	67	82
for five years or more	296	237	166
for a period of greater than one year	414	503	464
Total exploratory well costs capitalized	**470**	**524**	**542**
Number of projects that have exploratory well costs capitalized for a period greater than one year	7	8	14

Note 9. Suspended wells (continued)

Aging of the exploratory wells that have been capitalized for more than one year since completion of drilling as of December 31, 2013:

Project name (field name)	Location	As of December 31, 2013	Years wells drilled
Block A	Saudi Arabia	255	2007-2010
Centralno-Astrakhanskoe	European Russia	73	2007-2009
Independence	Cote d'Ivoire	66	2011
Aral	Uzbekistan	9	2010-2012
Yuzho-Volodarskaya ploschad	European Russia	5	2012
Dzherskoe	European Russia	3	2012
Lyaelskaya ploschad	European Russia	3	2007
Total of 7 projects		**414**	

Capitalized exploratory well costs of $255 million that are related to two fields in the "Block A" area in Saudi Arabia are represented by four wells drilled in 2007-2010. The wells were suspended pending final assessment of the operational and economic viability of the project. During 2011, the Group engaged an international engineering survey company to evaluate recompletion options for the wells, to prove the commercialization potential of the appraisal area and to optimize the stimulation technology for its development. During 2012, the Group and its project partner, Saudi Arabian Oil Company, agreed the approach to reserves estimation, products yield as well as pricing and marketing matters and possible ways of project cost efficiency improvement. During 2013, the Group held a meeting with the representatives of the Ministry of Petroleum and Mineral Resources of Saudi Arabia. Based on the meeting results, the Group management decided to proceed further with the project and commence preparatory works for the first stage of field evaluation.

Capitalized exploratory well costs of $73 million that are related to the Centralno-Astrakhanskoe gas field in the European part of Russia are represented by one exploratory well. Seismic and geophysical works, as well as drilling of structural wells are planned on the field during 2014-2015 in order to determine the position of future exploratory wells.

Capitalized exploratory well costs of $66 million that are related to block "CI-401" in Cote d'Ivoire are represented by one exploratory well. During 2012, the Group, together with other participants, began appraisal activities. One appraisal well was drilled in 2013, and the presence of reserves within the block and its complex field structure was confirmed. Management plans to drill a second appraisal well in 2014.

The Company is evaluating the development plans for the other projects.

Note 10. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2013 and 2012 was as follows:

	As of December 31, 2013	As of December 31, 2012
Amortized intangible assets		
Software	382	419
Licenses and other assets	311	276
Goodwill	607	1,269
Total goodwill and other intangible assets	**1,300**	**1,964**

All goodwill relates to the refining, marketing and distribution segment. In December 2013, the Group recognized an impairment loss of $646 million relating to goodwill on the acquisition of the ISAB refining complex due to changes in the economic environment. There were other minor changes in goodwill relating to the international refining, marketing and distribution segment in the amount of $16 million. The fair value of ISAB and other tested assets was determined using the present value of the expected cash flows.

Note 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2013	As of December 31, 2012
Short-term borrowings from third parties	124	113
Short-term borrowings from related parties	32	13
Current portion of long-term debt	1,182	532
Total short-term borrowings and current portion of long-term debt	**1,338**	**658**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $66 million and $54 million, amounts repayable in euros of $9 million and $11 million and amounts repayable in other currencies of $49 million and $48 million as of December 31, 2013 and 2012, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.71% and 5.75% per annum as of December 31, 2013 and 2012, respectively.

Note 12. Long-term debt

	As of December 31, 2013	As of December 31, 2012
Long-term loans and borrowings from third parties (including loans from banks in the amount of $2,660 million and $885 million as of December 31, 2013 and 2012, respectively)	2,662	1,287
7.40% Russian ruble bonds, maturing 2013	-	198
6.375% non-convertible US dollar bonds, maturing 2014	899	898
2.625% convertible US dollar bonds, maturing 2015	1,462	1,436
6.356% non-convertible US dollar bonds, maturing 2017	500	500
3.416% non-convertible US dollar bonds, maturing 2018	1,500	-
7.250% non-convertible US dollar bonds, maturing 2019	597	596
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
4.563% non-convertible US dollar bonds, maturing 2023	1,500	-
Capital lease obligations	47	82
Total long-term debt	10,665	6,495
Current portion of long-term debt	(1,182)	(532)
Total non-current portion of long-term debt	**9,483**	**5,963**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $2,121 million and $1,037 million, amounts repayable in euros of $521 million and $230 million and amounts repayable in other currencies of $20 million and $20 million as of December 31, 2013 and 2012, respectively. This debt has maturity dates from 2014 through 2024. The weighted-average interest rate on long-term loans and borrowings from third parties was 2.94% and 2.28% per annum as of December 31, 2013 and 2012, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 21% of total long-term loans and borrowings from third parties are secured by export sales and property, plant and equipment.

The Company has an unsecured loan agreement with Sberbank with an outstanding amount of $1,500 million as of December 31, 2013, maturing up to 2018. Borrowings under this agreement bear interest at twelve month LIBOR plus 2.50% per annum.

The Company has an unsecured loan agreement with ING Bank, a branch of ING-DIBA AG, Societe Generale, UniCredit Bank Austria AG, UniCredit S.p.A. and BNP Paribas Fortis SA/NV with an outstanding amount of $337 million as of December 31, 2013, maturing up to 2023. Borrowings under this agreement bear interest at six month EURIBOR plus 2.50% per annum.

Note 12. Long-term debt (continued)

A Group company has a secured loan agreement with Asian Development bank, BNP Paribas (Suisse), Credit Agricole Corporate and Investment bank, the Korea Development bank and Islamic Development bank with an outstanding amount of $289 million as of December 31, 2013, maturing up to 2017. Borrowings under this agreement, depending on the tranche, bear interest at a floating rate of three month LIBOR plus 3.00%, three month LIBOR plus 4.50% or fixed rate of 6.08% per annum.

A Group company has a secured loan agreement with Bank of China Limited, Industrial and Commercial Bank of China (London) and Sumitomo Mitsui Banking Corporation with an outstanding amount of $100 million as of December 31, 2013, maturing up to 2018. Borrowings under this agreement bear interest at three month LIBOR plus 3.00% per annum.

As of December 31, 2013, the Group has a number of other loan agreements with fixed rates with a number of banks and other organizations totaling $5 million, maturing up to 2023. The weighted average interest rate under these loans was 2.92% per annum.

As of December 31, 2013, the Group has a number of other floating rate loan agreements with a number of banks and other organizations totaling $431 million, maturing up to 2024. The weighted average interest rate under these loans was 1.66% per annum.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling $1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and as of December 31, 2013 had a conversion price of $69.39 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds after December 31, 2013.

US dollar non-convertible bonds

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion. The first tranche totaling $1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling $1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1 billion with a coupon yield of 6.125% and maturity in 2020. The first tranche totaling $800 million was placed at a price of 99.081% of the bond’s face value with a resulting yield to maturity of 6.250%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond’s face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion. The first tranche totaling $900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond’s face value with a resulting yield to maturity of 6.500%. The second tranche totaling $600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond’s face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1 billion. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Note 12. Long-term debt (continued)

Russian ruble bonds

In December 2006, the Company issued 6 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 7 years and a coupon yield of 7.40% per annum. The bonds had a half year coupon period. In December 2013, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $1,182 million in 2014, $1,708 million in 2015, $218 million in 2016, $638 million in 2017, $3,090 million in 2018 and $3,829 million thereafter.

Note 13. Taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statements of comprehensive income as “Total income tax expense” for income taxes, as “Excise and export tariffs” for excise taxes, export tariffs and petroleum products sales taxes and as “Taxes other than income taxes” for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

As of January 1, 2013 and 2012, and during 2013, 2012 and 2011, the Group did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued.

The Company and its Russian subsidiaries file income tax returns in Russia. With a few exceptions, income tax returns in Russia are open to examination by the Russian tax authorities for tax years beginning in 2011. Tax losses may be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss. Until January 1, 2012, there were no provisions in the tax legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers’ group (“CTG”). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and paid income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended to take account of any time spent within a CTG when the losses were unavailable for use.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Domestic	11,387	12,458	12,561
Foreign	(929)	1,265	558
Income before income taxes	**10,458**	**13,723**	**13,119**

Note 13. Taxes (continued)

Domestic and foreign components of income taxes were:

	Year ended December 31, 2013	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Current			
Domestic	1,608	2,178	2,159
Foreign	443	560	519
Current income tax expense	2,051	2,738	2,678
Deferred			
Domestic	804	131	581
Foreign	(24)	(71)	34
Deferred income tax expense	780	60	615
Total income tax expense	**2,831**	**2,798**	**3,293**

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to income before income taxes to total income taxes:

	Year ended December 31, 2013	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Income before income taxes	10,458	13,723	13,119
Notional income tax at the Russian statutory rate	2,091	2,745	2,624
Increase (reduction) in income tax due to:			
Non-deductible items, net	900	227	693
Foreign rate differences	(67)	(60)	169
Domestic regional rate differences	(242)	(311)	(328)
Change in valuation allowance	149	197	135
Total income tax expense	**2,831**	**2,798**	**3,293**

Taxes other than income taxes were:

	Year ended December 31, 2013	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Mineral extraction tax	12,410	12,354	11,594
Social taxes and contributions	640	604	587
Property tax	571	535	573
Other taxes and contributions	182	173	164
Taxes other than income taxes	**13,803**	**13,666**	**12,918**

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2013	**As of December 31, 2012**
Other current assets	71	153
Deferred income tax assets – non-current	684	569
Other current liabilities	(325)	(284)
Deferred income tax liabilities – non-current	(4,724)	(3,651)
Net deferred income tax liability	**(4,294)**	**(3,213)**

Note 13. Taxes (continued)

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	As of December 31, 2013	As of December 31, 2012
Accounts receivable	4	5
Long-term liabilities	539	399
Inventories	9	6
Property, plant and equipment	311	344
Accounts payable	4	9
Operating loss carry forwards	1,003	758
Other	128	195
Total gross deferred income tax assets	1,998	1,716
Less valuation allowance	(899)	(750)
Deferred income tax assets	**1,099**	**966**
Property, plant and equipment	(4,911)	(3,751)
Accounts payable	(24)	(12)
Accounts receivable	(5)	(2)
Long-term liabilities	(33)	(39)
Inventories	(107)	(103)
Investments	(53)	(38)
Other	(260)	(234)
Deferred income tax liabilities	**(5,393)**	**(4,179)**
Net deferred income tax liability	**(4,294)**	**(3,213)**

As a result of acquisitions during 2013 the Group recognized a net deferred tax liability of $466 million.

As of December 31, 2013, retained earnings of foreign subsidiaries included $19,413 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be indefinitely invested. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with Topic 830, *"Foreign currency matters"* of the Codification and Topic 740, *"Income Taxes*" of the Codification deferred tax assets and liabilities are not recognized for the changes in exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with Topic 740 of the Codification, no deferred tax assets or liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the levels of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2013 and 2012.

As of December 31, 2013, the Group had operating loss carry forwards of $1,905 million of which $90 million expire during 2014, $84 million expire during 2015, $106 million expire during 2016, $88 million expire during 2017, $58 million expire during 2018, $57 million expire during 2019, $57 million expire during 2020, $1 million expire during 2021, $1 million expire during 2022, $1 million expire during 2023, $24 million expire during 2036 and $1,338 million have an indefinite carry forward.

Note 14. Pension benefits

The Group sponsors a postretirement defined benefit pension program that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on the salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payoffs are managed by a non-state pension fund, LUKOIL-GARANT. The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age and invalidity.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2013 and 2012.

The following table provides information about the benefit obligations and plan assets as of December 31, 2013 and 2012. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2013	**2012**
Benefit obligations		
Benefit obligations as of January 1	294	260
Effect of exchange rate changes	(21)	17
Service cost	18	14
Interest cost	21	19
Plan amendments	5	12
Actuarial loss	(12)	18
Benefits paid	(40)	(45)
Curtailment gain	(3)	(1)
Other	32	-
Benefit obligations as of December 31	**294**	**294**
Plan assets		
Fair value of plan assets as of January 1	120	105
Effect of exchange rate changes	(9)	7
Return on plan assets	6	8
Employer contributions	43	45
Benefits paid	(40)	(45)
Fair value of plan assets as of December 31	**120**	**120**
Funded status	(174)	(174)
Amounts recognized in the consolidated balance sheet as of December 31, 2013 and 2012		
Accrued benefit liabilities included in "Other long-term liabilities"	(157)	(158)
Accrued benefit liabilities included in "Other current liabilities"	(17)	(16)

Weighted average assumptions used to determine benefit obligations as of December 31, 2013 and 2012:

	2013	**2012**
Discount rate	7.70%	7.10%
Rate of compensation increase	7.12%	7.10%

Note 14. Pension benefits (continued)

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2013 and 2012:

	2013	2012
Discount rate	7.10%	7.80%
Rate of compensation increase	7.10%	7.30%
Expected rate of return on plan assets	8.14%	8.63%

Included in accumulated other comprehensive loss as of December 31, 2013 and 2012, are the following before-tax amounts that have not yet been recognized in net periodic benefit cost:

	2013	2012
Prior service cost	51	59
Net loss	15	21
Total costs	**66**	**80**

Amounts recognized in other comprehensive loss during the year ended December 31, 2013 and 2012:

	2013	2012
Additional (gain) loss arising during the period	(6)	15
Additional prior service cost from plan amendment	4	10
Re-classified prior service cost amortization	(12)	(10)
Net amount recognized for the period	**(14)**	**15**

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group's contributions to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

Type of assets	As of December 31, 2013	As of December 31, 2012
Eurobonds	7%	8%
Russian corporate bonds	25%	4%
Bank deposits	54%	74%
Shares in investment funds	12%	11%
Cash	1%	1%
Other assets	1%	2%
	100%	100%

Note 14. Pension benefits (continued)

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of investments: bank deposits and securities with fixed yield. The securities with fixed yield include mainly high yield corporate bonds with low and medium risk ratings. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Service cost	18	14	15
Interest cost	21	19	22
Less expected return on plan assets	(9)	(9)	(10)
Amortization of prior service cost	15	13	17
Curtailment gain	(2)	-	(2)
Total net periodic benefit cost	**43**	**37**	**42**

Total employer contributions for 2014 are expected to be $33 million. An amount of $17 million before-tax is included in other comprehensive income and expected to be recognized in the net periodic benefit cost in 2014.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2014	2015	2016	2017	2018	5-year period 2014 – 2018	5-year period 2019 – 2023
Pension benefits	25	16	16	16	16	89	72
Other long-term employee benefits	17	15	14	13	13	72	55
Total expected benefits to be paid	**42**	**31**	**30**	**29**	**29**	**161**	**127**

Note 15. Stockholders' equity

Common stock

	As of December 31, 2013 (thousands of shares)	As of December 31, 2012 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Treasury stock	(95,697)	(95,697)
Outstanding common stock	**754,866**	**754,866**

Dividends and dividend limitations

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

The Company's net profits were 209,871 million Russian rubles, 217,807 million Russian rubles and 271,934 million Russian rubles respectively for 2013, 2012 and 2011, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2013, 2012 and 2011, amounted to $6,412 million, $7,171 million and $8,446 million, respectively.

Note 15. Stockholders' equity (continued)

At the extraordinary stockholders' meeting on September 30, 2013, interim dividends for the first half of 2013 were declared in the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.55. Dividends payable of $10 million and $12 million are included in "Other current liabilities" in the consolidated balance sheets as of December 31, 2013 and 2012, respectively.

At the annual stockholders' meeting on June 27, 2013, dividends for 2012 were declared in the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.52. At the extraordinary stockholders' meeting on December 18, 2012, interim dividends for 2012 were declared in the amount of 40.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.30. Total dividends for 2012 were declared in the amount of 90.00 Russian rubles per common share, which was equivalent to $2.82.

At the annual stockholders' meeting on June 27, 2012, dividends for 2011 were declared in the amount of 75.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.26.

Earnings per share

The calculation of basic and diluted earnings per share for these years was as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net income	7,832	11,004	10,357
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	65	64	63
Total diluted net income	7,897	11,068	10,420
Weighted average number of outstanding common shares (thousands of shares)	754,866	760,588	778,964
Add back treasury shares held in respect of convertible debt (thousands of shares)	21,189	20,509	20,383
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	776,055	781,097	799,347
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):			
Basic	10.38	14.47	13.30
Diluted	10.18	14.17	13.04

Note 16. Financial and derivative instruments

Fair value

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

The fair value of long-term debt (Level 3) differs from the carrying amount in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2013 and 2012 was $11,077 million and $7,035 million, respectively, determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the year ended December 31, 2013, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Note 16. Financial and derivative instruments (continued)

Derivative instruments

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using hedge accounting, defined by Topic 815, *"Derivative and hedging,"* of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts. However, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of a purchase or sales contract but hedge accounting will not be applied; in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group's derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of December 31, 2013				As of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	645	-	**645**	-	417	-	**417**
Total assets	-	**645**	-	**645**	-	**417**	-	**417**
Liabilities								
Commodity derivatives	-	(761)	-	**(761)**	-	(459)	-	**(459)**
Total liabilities	-	**(761)**	-	**(761)**	-	**(459)**	-	**(459)**
Net liabilities	-	**(116)**	-	**(116)**	-	**(42)**	-	**(42)**

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by Topic 820, *"Fair Value Measurements and Disclosures,"* of the Codification. Therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Commodity derivatives are valued using quotations provided by brokers and price index developers. These quotes are corroborated with market data and are classified as Level 2 fair value measurements. Commodity derivatives are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures.

Commodity derivative contracts

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do an immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

Note 16. Financial and derivative instruments (continued)

The fair value of commodity derivative assets and liabilities was:

	As of December 31, 2013	As of December 31, 2012
Assets		
Accounts receivable	645	417
Liabilities		
Accounts payable	(761)	(459)

Hedge accounting has not been used for items in the table.

As required under Topic 815 of the Codification the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of $6 million and accounts payable in the amount of $122 million.

Financial results from commodity derivatives were included in the consolidated statements of comprehensive income in “Cost of purchased crude oil, gas and products” and during the year ended December 31, 2013 and 2012 amounted to net loss of $200 million (of which realized loss was $132 million and unrealized loss was $68 million) and net loss of $321 million (of which realized loss was $300 million and unrealized loss was $21 million), respectively.

For each Group trading company there is a limit (being a combination of quantity and value-at-risk) to the amount of unhedged fixed-price commodity positions permissible. The Group’s net commodity position is reviewed daily.

Financial and commodity-based derivative contracts are subject to fluctuations in value. These fluctuations are generally offset by the value of the underlying exposures being hedged. Future changes in the market values of certain financial instruments may result in off-balance-sheet risk in excess of the amounts currently recognized in the consolidated balance sheets.

Currency exchange rate derivative contracts

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivative assets and liabilities open as of December 31, 2013 was not significant.

The impact from foreign currency derivatives during the year ended December 31, 2013 on the consolidated statement of comprehensive income was not significant. The net position of outstanding foreign currency swap contracts as of December 31, 2013 also was not significant.

Credit risk

The Group’s financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

Note 16. Financial and derivative instruments (continued)

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the IntercontinentalExchange (ICE Futures).

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group's credit rating falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position as of December 31, 2013. The Group posted $3 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating were lowered one level from its "BBB" rating (per Standard and Poors) as of December 31, 2013, and it would be below investment grade, the Group would be required to post additional collateral of $5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be $25 million in total.

Note 17. Business combinations

In December 2013, after approval by European regulatory authorities, the Group acquired the remaining 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy) for €426 million (approximately $583 million) after final adjustments increasing its stake in the joint venture from 80% to 100%. This transaction was exercised in line with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG S.p.A. a step-by-step put option to sell its share in the joint venture to the Group. The Group obtained control over this joint venture in September 2012, when within this agreement it acquired a 20% interest in the joint venture for €494 million (approximately $621 million) and increased its stake to 80%. The Group allocated $646 million to goodwill, $2,914 million to property, plant and equipment, $747 million to deferred tax liability, $1,024 million to current assets and $444 million to current liabilities. The value of property, plant and equipment was determined by an independent appraiser.

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for $2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in the Samara and Uljanovsk regions of the Russian Federation. The Group preliminarily allocated $2,384 million to property, plant and equipment, $183 million to current assets, $311 million to deferred tax liability and $142 million to current liabilities.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil for $400 million increasing the Group's ownership up to 100%. As a result of this acquisition the Group obtained control and consolidated ZAO Kama-oil, an exploration and production company operating in the Perm region of the Russian Federation.

Note 18. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

In February 2013, the Group started to construct a vacuum gasoil refinery complex at OOO LUKOIL-Volgogradneftepererabotka. Completion is expected at the end of 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as $1,328 million.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. As of December 31, 2013, the amount of capital commitment related to this construction is evaluated as $518 million.

Group companies have commitments for capital expenditure contributions in the amount of $318 million related to various production sharing agreements over the next 24 years.

The Company has signed a three-year agreement for the years 2013-2015 for drilling services with EDC Group Advisory Company Limited. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as $1,482 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. As of December 31, 2013, the amount of capital commitment under this agreement for 2014 is evaluated as $215 million.

The Group has signed a number of agreements for the years 2013-2015 for construction of offshore platforms in the Caspian region. As of December 31, 2013, the amount of this capital commitment is evaluated as $1,371 million.

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with a total capacity of 890 MW should be constructed. As of December 31, 2013, the amount of this commitment is evaluated as $87 million.

Operating lease obligations

Group companies have commitments of $453 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $295 million, $218 million and $175 million during the years ended December 31, 2013, 2012 and 2011, respectively. Commitments for minimum rentals under these leases as of December 31, 2013 are as follows:

	As of December 31, 2013
2014	154
2015	82
2016	57
2017	43
2018	37
beyond	80

Note 18. Commitments and contingencies (continued)

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor entities have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognized in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized (only to the extent that they are expected to result in future economic benefits to the Group) or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

Note 18. Commitments and contingencies (continued)

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues. The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OAO Arkhangelskgeoldobycha ("AGD"), a Group company, and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. However, on November 21, 2005, due to a procedural error, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals and the Colorado Court of Appeals remanded the case to the District Court. On October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On August 23, 2012, the Colorado Court of Appeals affirmed this decision. On July 1, 2013, the Colorado Supreme Court denied ADC's Petition for Writ of Certiorari. The case in the state court is therefore over.

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. In a Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. ADC has appealed the decision to stay discovery to the US District Court. The court hearing took place on November 19, 2013. The ruling of the judge is expected to be issued soon. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Note 19. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from affiliated companies. Related party processing services were provided by affiliated refineries.

Below are related party transactions not disclosed elsewhere in the consolidated financial statements. Refer also to Notes 3, 7, 11 and 20 for other transactions with related parties.

Sales of oil and oil products to related parties were $487 million, $1,038 million and $1,298 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Note 19. Related party transactions (continued)

Other sales to related parties were $62 million, $50 million and $54 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Purchases of oil and oil products from related parties were $1,426 million, $1,368 million and $1,022 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Purchases of processing services from related parties were $228 million, $702 million and $901 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other purchases from related parties were $195 million, $92 million and $73 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Amounts receivable from related parties, including short-term loans and advances, were $470 million and $496 million as of December 31, 2013 and 2012, respectively. Amounts payable to related parties were $176 million and $159 million as of December 31, 2013 and 2012, respectively.

Note 20. Compensation plan

During the period from 2010 to 2012, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts.

The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses were contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common stock appreciation from 2010 to 2012, with rights vested in December 2012. The number of assigned shares for this compensation plan was approximately 17.3 million shares.

For the first part of the share plan the Group recognized a liability based on expected dividends and number of assigned shares. The second part of the share plan originally was classified as equity settled. In 2012, this compensation plan was amended in relation to all participants, which resulted in reclassification of the plan as a liability settled. Liability for this part of the share plan was settled in January-April 2013.

In late December 2012, the Company introduced a new compensation plan to certain members of management for the period from 2013 to 2017. Its conditions are similar to the conditions of the previous compensation plan after modification. The number of assigned shares is approximately 19 million shares.

For the first part of the new share plan the Group recognized a liability based on expected dividends and number of assigned shares.

The second part of the new share plan was classified as liability settled. The grant date and reporting date fair value of this part of the plan was estimated at $249 million and $229 million, respectively, using the Black-Scholes-Merton option-pricing model. The reporting date fair value was estimated assuming a risk-free interest rate of 7.0% per annum, an expected dividend yield of 4.67% per annum, an expected time to maturity of four years and a volatility factor of 16.8%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous seven year period up to January 2013.

Related to these plans the Group recorded $109 million, $182 million and $137 million of compensation expense during the years ended December 31, 2013, 2012 and 2011, respectively, of which $98 million was recognized as an increase in additional paid-in capital during the year ended December 31, 2011. As of December 31, 2013 and 2012, $52 million and $380 million related to these plans are included in "Other current liabilities" of the consolidated balance sheets, respectively.

As of December 31, 2013, there was $183 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2017.

Note 21. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2013, 2012 and 2011, in accordance with Topic 280, *"Segment reporting,"* of the Codification.

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group's traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

Operating segments

2013	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Power generation**	**Other**	**Elimination**	**Consolidated**
Sales							
Third parties	2,900	135,189	1,681	1,573	109	-	141,452
Inter-segment	43,555	1,686	302	1,779	3,205	(50,527)	-
Total sales	46,455	136,875	1,983	3,352	3,314	(50,527)	141,452
Operating expenses	5,759	3,718	784	2,156	2,730	(5,061)	10,086
Depreciation, depletion and amortization	3,698	1,545	66	362	118	(33)	5,756
Interest expense	719	527	46	103	712	(1,619)	488
Income tax expense	1,640	1,146	35	(60)	(5)	75	2,831
Net income (net loss)	7,528	1,166	(501)	(415)	(224)	278	7,832
Total assets	80,182	71,883	665	4,098	20,744	(68,133)	109,439
Capital expenditures	11,808	2,715	113	285	513	-	15,434

2012	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Power generation**	**Other**	**Elimination**	**Consolidated**
Sales							
Third parties	3,471	132,798	1,362	1,411	129	-	139,171
Inter-segment	43,998	1,845	307	1,557	2,926	(50,633)	-
Total sales	47,469	134,643	1,669	2,968	3,055	(50,633)	139,171
Operating expenses	5,245	3,579	568	1,867	2,299	(4,199)	9,359
Depreciation, depletion and amortization	3,085	1,347	65	248	124	(37)	4,832
Interest expense	854	698	47	73	557	(1,691)	538
Income tax expense	1,935	696	57	34	52	24	2,798
Net income (net loss)	8,447	3,518	(279)	(278)	(363)	(41)	11,004
Total assets	68,058	69,769	1,166	4,530	20,512	(65,074)	98,961
Capital expenditures	8,973	2,007	90	503	277	-	11,850

Note 21. Segment information (continued)

2011	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,801	126,313	1,944	1,472	120	-	133,650
Inter-segment	41,416	1,910	500	1,520	2,467	(47,813)	-
Total sales	45,217	128,223	2,444	2,992	2,587	(47,813)	133,650
Operating expenses	4,377	3,920	459	2,098	2,029	(3,828)	9,055
Depreciation, depletion and amortization	2,896	1,217	63	224	129	(56)	4,473
Interest expense	741	711	20	47	505	(1,330)	694
Income tax expense	2,109	1,057	43	(5)	10	79	3,293
Net income (net loss)	6,742	3,610	(27)	(127)	(370)	529	10,357
Total assets	60,838	61,792	1,488	4,220	21,201	(58,347)	91,192
Capital expenditures	6,677	1,306	89	196	224	-	8,492

Geographical segments

	2013	2012	2011
Sales of crude oil within Russia	3,071	1,634	1,571
Export of crude oil and sales of crude oil by foreign subsidiaries	24,270	26,036	32,522
Sales of refined products within Russia	17,476	16,803	15,242
Export of refined products and sales of refined products by foreign subsidiaries	87,796	86,604	76,335
Sales of chemicals within Russia	886	418	914
Export of chemicals and sales of chemicals by foreign subsidiaries	936	992	1,095
Other sales within Russia	3,475	3,281	3,213
Other export sales and other sales by foreign subsidiaries	3,542	3,403	2,758
Total sales	**141,452**	**139,171**	**133,650**

2013	Russia	International	Elimination	Consolidated
Sales				
Third parties	26,552	114,900	-	141,452
Inter-segment	39,193	151	(39,344)	-
Total sales	65,745	115,051	(39,344)	141,452
Operating expenses	8,117	2,048	(79)	10,086
Depletion, depreciation and amortization	4,607	1,149	-	5,756
Interest expense	34	547	(93)	488
Income tax expense	2,390	419	22	2,831
Net income (net loss)	8,724	(1,234)	342	7,832
Total assets	87,469	37,176	(15,206)	109,439
Capital expenditures	10,859	4,575	-	15,434

Note 21. Segment information (continued)

2012	**Russia**	**International**	**Elimination**	**Consolidated**
Sales				
Third parties	25,370	113,801	-	139,171
Inter-segment	39,355	200	(39,555)	-
Total sales	64,725	114,001	(39,555)	139,171
Operating expenses	7,333	2,113	(87)	9,359
Depletion, depreciation and amortization	3,834	998	-	4,832
Interest expense	194	504	(160)	538
Income tax expense	2,316	489	(7)	2,798
Net income	10,238	776	(10)	11,004
Total assets	78,515	36,108	(15,662)	98,961
Capital expenditures	9,343	2,507	-	11,850

2011	**Russia**	**International**	**Elimination**	**Consolidated**
Sales				
Third parties	24,674	108,976	-	133,650
Inter-segment	39,567	143	(39,710)	-
Total sales	64,241	109,119	(39,710)	133,650
Operating expenses	6,999	2,094	(38)	9,055
Depletion, depreciation and amortization	3,692	781	-	4,473
Interest expense	338	477	(121)	694
Income tax expense	2,715	554	24	3,293
Net income	9,769	4	584	10,357
Total assets	73,150	34,384	(16,342)	91,192
Capital expenditures	6,516	1,976	-	8,492

The Group’s international sales to third parties include sales in Switzerland of $66,070 million, $67,057 million and $66,884 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Group’s international sales to third parties include sales in the USA of $12,865 million, $12,649 million and $9,496 million for the years ended December 31, 2013, 2012 and 2011, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 22. Subsequent events

In accordance with the requirements of Topic 855, *“Subsequent events,”* of the Codification, the Group evaluated subsequent events through the date the consolidated financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to February 17, 2014.

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with Topic 932, *"Disclosures About Oil and Gas Producing Activities,"* of the Codification in six separate tables:

I. Capitalized costs relating to oil and gas producing activities.
II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
III. Results of operations for oil and gas producing activities.
IV. Reserve quantity information.
V. Standardized measure of discounted future net cash flows.
VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	1,450	3,441	4,891	635
Proved oil and gas properties	11,320	69,341	80,661	2,493
Accumulated depreciation, depletion, and amortization	(2,718)	(24,923)	(27,641)	(973)
Net capitalized costs	10,052	47,859	57,911	2,155

As of December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	1,145	2,393	3,538	551
Proved oil and gas properties	8,555	59,054	67,609	2,436
Accumulated depreciation, depletion, and amortization	(2,213)	(22,150)	(24,363)	(838)
Net capitalized costs	7,487	39,297	46,784	2,149

As of December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	659	1,192	1,851	166
Proved oil and gas properties	7,479	52,891	60,370	2,315
Accumulated depreciation, depletion, and amortization	(1,762)	(19,656)	(21,418)	(718)
Net capitalized costs	6,376	34,427	40,803	1,763

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	2,200	2,200	-
Acquisition of properties – unproved	15	1,914	1,929	10
Exploration costs	234	543	777	18
Development costs	3,234	7,782	11,016	162
Total costs incurred	3,483	12,439	15,922	190

Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	97	-	97	-
Acquisition of properties – unproved	37	937	974	-
Exploration costs	144	525	669	16
Development costs	1,621	6,560	8,181	490
Total costs incurred	1,899	8,022	9,921	506

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	41	41	-
Acquisition of properties – unproved	70	164	234	-
Exploration costs	507	358	865	8
Development costs	968	4,774	5,742	123
Total costs incurred	1,545	5,337	6,882	131

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with Topic 932 of the Codification, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2013	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,722	22,233	24,955	1,632
Transfers	-	17,776	17,776	49
Total revenues	2,722	40,009	42,731	1,681
Production costs (excluding production taxes)	(314)	(4,021)	(4,335)	(141)
Exploration expense	(384)	(218)	(602)	(3)
Depreciation, depletion, and amortization, and valuation provision	(544)	(3,150)	(3,694)	(140)
Taxes other than income taxes	(352)	(23,092)	(23,444)	(527)
Related income taxes	(278)	(1,717)	(1,995)	(355)
Total results of operations for producing activities	850	7,811	8,661	515

Year ended December 31, 2012	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	2,910	23,011	25,921	1,728
Transfers	-	17,165	17,165	34
Total revenues	2,910	40,176	43,086	1,762
Production costs (excluding production taxes)	(299)	(3,562)	(3,861)	(126)
Exploration expense	(159)	(205)	(364)	(6)
Depreciation, depletion, and amortization, and valuation provision	(500)	(2,568)	(3,068)	(126)
Taxes other than income taxes	(399)	(24,247)	(24,646)	(564)
Related income taxes	(428)	(1,618)	(2,046)	(423)
Total results of operations for producing activities	1,125	7,976	9,101	517

Year ended December 31, 2011	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	2,656	25,373	28,029	1,924
Transfers	-	14,107	14,107	14
Total revenues	2,656	39,480	42,136	1,938
Production costs (excluding production taxes)	(242)	(3,529)	(3,771)	(93)
Exploration expense	(439)	(93)	(532)	(2)
Depreciation, depletion, and amortization, and valuation provision	(324)	(2,542)	(2,866)	(125)
Taxes other than income taxes	(460)	(23,817)	(24,277)	(640)
Related income taxes	(531)	(1,824)	(2,355)	(407)
Total results of operations for producing activities	660	7,675	8,335	671

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with Topic 932 of the Codification existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies both to newly issued and old licenses and the Group has currently renewed more than 50% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2013, 2012 and 2011, are shown in the tables set out below.

Millions of barrels	**Consolidated subsidiaries**			**Group's share in equity companies**
	International	Russia	Total	
Crude oil				
January 1, 2011	371	12,654	13,025	294
Revisions of previous estimates	(12)	246	234	7
Purchase of hydrocarbons in place	-	7	7	-
Extensions and discoveries	4	515	519	1
Production	(26)	(636)	(662)	(22)
December 31, 2011	337	12,786	13,123	280
Revisions of previous estimates	(1)	67	66	(1)
Purchase of hydrocarbons in place	42	-	42	-
Extensions and discoveries	40	511	551	2
Production	(25)	(631)	(656)	(21)
Sales of reserves	(2)	(3)	(5)	-
December 31, 2012	391	12,730	13,121	260
Revisions of previous estimates	11	(38)	(27)	(2)
Purchase of hydrocarbons in place*	-	194	194	(7)
Extensions and discoveries	14	585	599	7
Production	(24)	(640)	(664)	(20)
December 31, 2013	**392**	**12,831**	**13,223**	**238**
Proved developed reserves				
December 31, 2011	197	8,397	8,594	178
December 31, 2012	136	8,241	8,377	160
December 31, 2013	**129**	**7,972**	**8,101**	**136**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 74 million barrels, 71 million barrels and 163 million barrels as of December 31, 2013, 2012 and 2011, respectively. The non-controlling interest share included in the above proved developed reserves was 40 million barrels, 43 million barrels and 96 million barrels as of December 31, 2013, 2012 and 2011, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

Billions of cubic feet	**Consolidated subsidiaries**			**Group's share in equity companies**
	International	Russia	Total	
Natural gas				
January 1, 2011	6,507	16,833	23,340	275
Revisions of previous estimates	(487)	253	(234)	25
Purchase of hydrocarbons in place	-	1	1	-
Extensions and discoveries	240	309	549	1
Production	(189)	(545)	(734)	(27)
December 31, 2011	6,071	16,851	22,922	274
Revisions of previous estimates	(155)	602	447	12
Purchase of hydrocarbons in place	1	-	1	-
Extensions and discoveries	93	595	688	5
Production	(248)	(571)	(819)	(26)
Sales of reserves	(17)	-	(17)	-
December 31, 2012	5,745	17,477	23,222	265
Revisions of previous estimates	325	529	854	17
Purchase of hydrocarbons in place*	-	9	9	(2)
Extensions and discoveries	-	168	168	3
Production	(247)	(618)	(865)	(29)
December 31, 2013	**5,823**	**17,565**	**23,388**	**254**
Proved developed reserves:				
December 31, 2011	3,250	6,065	9,315	163
December 31, 2012	2,505	6,066	8,571	156
December 31, 2013	**1,476**	**5,942**	**7,418**	**129**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The non-controlling interest share included in the above total proved reserves was 26 billion cubic feet, 23 billion cubic feet and 31 billion cubic feet as of December 31, 2013, 2012 and 2011, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet, 14 billion cubic feet and 21 billion cubic feet as of December 31, 2013, 2012 and 2011, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of Topic 932 of the Codification. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation, prescribed under Topic 932 of the Codification, requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2013				
Future cash inflows	62,620	676,195	738,815	22,027
Future production and development costs	(38,292)	(461,998)	(500,290)	(11,947)
Future income tax expenses	(3,239)	(37,321)	(40,560)	(2,154)
Future net cash flows	21,089	176,876	197,965	7,926
Discount for estimated timing of cash flows (10% p.a.)	(9,669)	(105,503)	(115,172)	(4,196)
Discounted future net cash flows	11,420	71,373	82,793	3,730
Non-controlling share in discounted future net cash flows	-	383	383	-

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2012				
Future cash inflows	58,747	619,743	678,490	24,279
Future production and development costs	(36,468)	(424,260)	(460,728)	(12,469)
Future income tax expenses	(4,156)	(34,573)	(38,729)	(2,592)
Future net cash flows	18,123	160,910	179,033	9,218
Discount for estimated timing of cash flows (10% p.a.)	(9,964)	(96,015)	(105,979)	(4,723)
Discounted future net cash flows	8,159	64,895	73,054	4,495
Non-controlling share in discounted future net cash flows	-	397	397	-

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2011				
Future cash inflows	51,665	616,290	667,955	25,773
Future production and development costs	(26,242)	(416,403)	(442,645)	(12,897)
Future income tax expenses	(6,056)	(35,768)	(41,824)	(2,896)
Future net cash flows	19,367	164,119	183,486	9,980
Discount for estimated timing of cash flows (10% p.a.)	(10,930)	(97,394)	(108,324)	(5,145)
Discounted future net cash flows	8,437	66,725	75,162	4,835
Non-controlling share in discounted future net cash flows	-	937	937	-

VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Consolidated companies	**2013**	**2012**	**2011**
Discounted present value as at January 1	73,054	75,162	43,637
Net changes due to purchases and sales of minerals in place	1,266	256	39
Sales and transfers of oil and gas produced, net of production costs	(14,350)	(14,215)	(13,515)
Net changes in prices and production costs estimates	21,515	(8,480)	69,089
Net changes in mineral extraction taxes	(15,355)	627	(32,678)
Extensions and discoveries, less related costs	4,677	3,174	3,492
Previously estimated development cost incurred during the period	4,003	7,241	6,182
Revisions of previous quantity estimates	975	377	620
Net change in income taxes	(999)	1,337	(7,467)
Other changes	(138)	(735)	224
Accretion of discount	8,145	8,310	5,539
Discounted present value at December 31	**82,793**	**73,054**	**75,162**

Group's share in equity companies	**2013**	**2012**	**2011**
Discounted present value as at January 1	4,495	4,835	3,363
Net changes due to purchases and sales of minerals in place	(29)	-	-
Sales and transfers of oil and gas produced, net of production costs	(1,010)	(1,066)	(1,203)
Net changes in prices and production costs estimates	(487)	(101)	3,820
Net changes in mineral extraction taxes	77	(7)	(1,720)
Extensions and discoveries, less related costs	109	20	8
Previously estimated development cost incurred during the period	132	88	66
Revisions of previous quantity estimates	(80)	(3)	179
Net change in income taxes	200	139	(365)
Other changes	(207)	17	267
Accretion of discount	530	573	420
Discounted present value at December 31	**3,730**	**4,495**	**4,835**