OJSC “SURGUTNEFTEGAS”

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

31 December 2012

Contents

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

(in millions of Russian rubles, unless otherwise stated)

Note		At 31 December 2012	At 31 December 2011	At 1 January 2011
	ASSETS			
	Current assets			
10	Cash and cash equivalents	40,964	19,010	24,403
10	Restricted cash	664	528	312
11	Deposits placed	327,533	380,212	278,197
14	Loans granted	4,814	2,744	2,938
19	Other financial assets	2,979	838	1,317
12	Receivables	79,742	82,311	65,463
15	Inventories	52,534	44,678	35,125
13	Advances issued	28,067	32,995	21,836
	VAT recoverable	6,930	7,837	6,190
	Income tax receivable	4,606	29	189
	Other taxes recoverable	149	120	170
	Total current assets	**548,982**	**571,302**	**436,140**
	Non-current assets			
16	Property, plant and equipment	920,476	810,119	715,806
17	Intangible assets	8,319	8,405	8,502
11	Deposits placed	552,072	460,346	330,893
19	Other financial assets	7,950	14,522	75,200
18	Investments in associates	9,806	10,033	7,791
28	Deferred tax assets	639	618	428
14	Loans granted	17,458	15,786	13,621
12	Receivables	1,160	1,466	888
	Other long-term assets	4,101	3,457	3 850
	Total non-current assets	**1,521,981**	**1,324,752**	**1,156,979**
	Total assets	**2,070,963**	**1,896,054**	**1,593,119**
	LIABILITIES AND EQUITY			
	Current liabilities			
20	Payables and accrued liabilities	36 688	34,146	29,929
21	Other financial liabilities	18,322	15,080	12,929
	Advances received	9,947	18,210	6,178
22	Other tax liabilities	29,963	27,227	22,929
	Income tax liabilities	31	5 246	17
	Other current liabilities	240	149	514
23	Provisions for liabilities and charges	2,923	2,485	2,338
	Total current liabilities	**98,114**	**102,543**	**74,834**
	Non-current liabilities			
23	Provisions for liabilities and charges	67,611	52,643	37,747
21	Other financial liabilities	8,498	4,975	10,226
28	Deferred tax liabilities	81,791	63,922	46,954
	Other non-current liabilities	1,601	827	56
	Total non-current liabilities	**159,501**	**122,367**	**94,983**
	Equity			
24	Share capital	154,666	154,666	154,666
24	Treasury shares	(111)	(111)	(111)
24	Share premium	57,809	57,809	57,809
	Retained earnings	1,600,926	1,458,838	1,210,812
	Other reserves	(111)	(199)	-
	Total shareholders’ equity	**1,813,179**	**1,671,003**	**1,423,176**
	Non-controlling interests	169	141	126
	Total equity	**1,813,348**	**1,671,144**	**1,423,302**
	Total liabilities and equity	**2,070,963**	**1,896,054**	**1,593,119**

V.G.Barankov

First Deputy Director General of
OJSC “Surgutneftegas”
on Finance and Taxation
29 April 2013

A.V.Druchinin

Chief Accountant of
OJSC “Surgutneftegas”

29 April 2013

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

(in millions of Russian rubles, unless otherwise stated)

Note		2012	2011
8	**Sales**	1,307,350	1,209,541
25	less: export duties	(457,775)	(414,345)
8	**Total sales revenue:**	**849,575**	**795,196**
	sale of crude oil	488,119	445,911
	sale of oil products	319,663	306,369
	sale of gas and gas products	26,047	27,002
	sale of other products and finished goods	8,163	9,422
	other sales	7,583	6,492
26	**Operating expenses**	**(619,014)**	**(540,684)**
	Operating income	**230,561**	**254,512**
27	Finance income	46,722	32,077
27	Finance expenses	(2,655)	(3,133)
	Exchange differences	(50,460)	49,319
	Gain / (loss) on sale and other disposal of financial assets	59	8,576
	Share of profit / (loss) of associates	(227)	2,242
	Other income / (expenses)	(322)	165
	Profit before tax	**223,678**	**343,758**
	Income tax		
	Current income tax	(25,698)	(51,941)
	Changes in deferred income tax	(17,835)	(16,828)
28	**Total income tax expense**	**(43,533)**	**(68,769)**
	Net income	**180,145**	**274,989**
	Other comprehensive income		
	Changes in fair value of available-for-sale financial assets	48	(199)
	Total other comprehensive income	**48**	**(199)**
	Total comprehensive income	**180,193**	**274,790**
	Net income		
	attributable to shareholders	180,115	274,979
	attributable to non-controlling interests	30	10
	Total comprehensive income		
	attributable to shareholders	180,162	274,780
	attributable to non-controlling interests	31	10
	Net earnings attributable to shareholders per ordinary share (RUB)		
29	basic and diluted	4.72	7.23

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

(in millions of Russian rubles, unless otherwise stated)

Note		2012	2011
	Operating activities		
	Profit before tax	223,678	343,758
	Adjustments:		
26	Depreciation, depletion and amortisation expenses	47,344	40,320
26	Expenses on disposal of prospecting and exploration properties	2,681	2,675
	Provisions	3,785	3,317
	Exchange differences	49,364	(45,206)
	(Gain) / loss on revaluation of financial assets	(140)	44
	(Gain) / loss on sale and other disposal of financial assets	(59)	(8,576)
18	Share of (profit) / loss of associates	227	(2,242)
27	Discounts	1,249	1,883
27	Interest receivable	(46,233)	(31,835)
27	Interest payable	917	1,008
	(Gain) / loss on sale and disposal of property, plant and equipment, and intangible assets	3,075	1,652
	Other	(3)	1
	Cash flows from operating activities before changes in working capital	**285,885**	**306,799**
	Change in receivables	3,265	(17,507)
	Change in advances issued	4,928	(11,159)
	Change in inventories	(7,255)	(10,955)
	Change in other assets	(673)	500
	Change in trade and other payables	2,448	3,482
	Change in advances received	(8,263)	12,032
	Change in restricted cash	(136)	(216)
	Change in other taxes (other than income tax)	3,912	2,701
	Change in other liabilities	595	774
	Cash from operating activities	**284,706**	**286,451**
	Income tax paid	(35,786)	(46,552)
	Net cash from operating activities	**248,920**	**239,899**
	Investing activities		
	Capital expenditures	(139,701)	(125,953)
	Advance issued for acquisition of a subsoil license, including the part of the Shpilman field	(14,000)	-
	Deposits	(436,447)	(466,228)
	Deposits refunded	364,342	288,778
	Loans granted	(22,026)	(57,511)
	Loans collected	18,446	54,718
	Interest received	30,971	21,952
19	Proceeds from sale of MOL Magyar shares	-	75,785
	Proceeds from sale of financial assets	10,107	8,662
	Acquisition of financial assets	(5,537)	(14,886)
	Proceeds from sale of property, plant and equipment	334	624
	Net cash used for investing activities	**(193,511)**	**(214,059)**
	Financing activities		
	Net proceeds from (repayments of) borrowings (funds of ZAO SNGB clients)	6,888	(2,852)
	Dividends paid (incl. dividend tax)	(37,767)	(27,152)
	Interest paid	(925)	(1,624)
	Net cash used for financing activities	**(31,804)**	**(31,628)**
	Net change in balances of cash and cash equivalents	**23,605**	**(5,788)**
	Effect of exchange rate changes against ruble on cash and cash equivalents	(1,651)	395
	Cash and cash equivalents at the beginning of the year	**19,010**	**24,403**
	Cash and cash equivalents at the end of the year	**40,964**	**19,010**

OJSC “Surgutneftegas”
Consolidated Statement of Changes in Equity
(in millions of Russian rubles, unless otherwise stated)

	Note	Share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	24	**154,666**	**57,809**	**(111)**	**1,210,812**	**-**	**1,423,176**	**126**	**1,423,302**
Net income for the year					274,979		274,979	10	274,989
Changes in fair value of available-for-sale financial assets		-	-	-	-	(199)	(199)	-	(199)
Change in ownership interests in subsidiaries		-	-	-	(5)	-	(5)	5	-
Dividends declared		-	-	-	(26,948)	-	(26,948)		(26,948)
Balance at 31 December 2011		**154,666**	**57,809**	**(111)**	**1,458,838**	**(199)**	**1,671,003**	**141**	**1,671,144**
Net income for the year					180,115		180,115	30	180,145
Changes in fair value of available-for-sale financial assets		-	-	-	(41)	88	47	1	48
Change in ownership interests in subsidiaries		-	-	-	-	-	-	(3)	(3)
Dividends declared		-	-	-	(37,986)	-	(37,986)	-	(37,986)
Balance at 31 December 2012		**154,666**	**57,809**	**(111)**	**1,600,926**	**(111)**	**1,813,179**	**169**	**1,813,348**

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

1 General information

Open Joint Stock Company “Surgutneftegas” (the Company), a leading Russian oil company, is one of ten world’s largest private hydrocarbon producers.

The Company began its oil and gas production history back in 1964 when it was established as oil producing division “Surgutneft”. In 1977, the Company was recognised as a diversified production association. In 1993, pursuant to Decree of the President of the Russian Federation No. 1403 dated 17.11.1992, Production Association “Surgutneftegas” was transformed into Joint Stock Company of Open Type “Surgutneftegas”.

The Company’s shares are allocated to shareholders, neither of them being an ultimate controlling party or a party exercising a significant influence.

The core activities of the Company and its subsidiaries (together, “the Group”) are

hydrocarbon exploration and production: prospecting, exploration, and operation of oil and gas fields;

manufacturing and marketing of petroleum and petrochemical products, gas processing, crude oil refining and associated petroleum gas processing, production of different types of petroleum and petrochemical products, wholesale and retail sales of fuel and related goods and services.

Other financial and business activities include banking and insurance activities, and provision of other goods, works and services.

The Group incorporates the refinery in the city of Kirishi (the Russian Federation) – LLC “KINEF” – which accounts for almost 8% of Russia’s refining capacity. Wholesale and retail business is represented by five marketing subsidiaries located in the northwest of Russia. In the reporting period, the Group was still engaged in the construction of hydrocracking complex performed by LLC “KINEF”. In 2013, the Company plans to commission the hydrocracking complex facilities on a phase-by-phase basis which will allow the Company to process fuel oil into high-quality diesel and jet fuel in compliance with the most stringent requirements to environmental and operational performance, without increasing stock consumption.

In 2012, the Company produced 61.4 million tonnes of oil (or 12% of Russia’s crude output), 1% up from 2011. The volume of gas produced in 2012 reached 12.3 billion cubic meters demonstrating the industry’s highest utilisation rate of 99.2%; compared to 13 billion cubic meters and 97.8% in 2011, respectively .

The Company holds a leadership position in exploratory and development drilling in Russia. In 2012, development and exploratory meterage drilled totaled 4,687 thousand meters and 229.8 thousand meters (or industry share of 24 % and 28 %), respectively. In 2011, the total meterage of wells drilled for development and exploration totaled 4,530 thousand meters and 216.3 thousand meters, correspondingly. In 2012, these figures rose by 3.5% and 6%, respectively.

Currently, the Company explores and produces oil and gas in three oil and gas regions – Western Siberia, Eastern Siberia and Timano-Pechora.

To expand and improve the quality of its resource base, the Company conducts exploration in existing license areas and acquires new prospects. In 2011 and 2012, the Company discovered 2 and 6 new oil fields, correspondingly. In 2011–2012, the Company increased its C1 reserves by 219 million tonnes which fully replenished the crude output for this period (a 179% replacement ratio).

On the marketing side, the Group uses the best available transportation routes, and strives to diversify its distribution channels by establishing its presence in different markets.

Compared to 2011, the crude oil supply plan for 2012 did not change substantially – 31% of crude was supplied to the Company’s refinery as a top priority destination, and 44% was delivered to non-CIS countries. The remaining oil was delivered to domestic markets and CIS countries – Byelorussia and Kazakhstan.

In 2011–2012, the Company exported crude oil to non-CIS countries primarily via ports, including Primorsk, Novorossiysk, Kozmino (used to deliver oil from Eastern Siberia), and Ust-Luga (launched in 2012) as major sea ports.

Totally, in 2012 deliveries via ports accounted for almost 70% (61% in 2011), and deliveries to European markets via Druzhba pipeline operated by OJSC “AK “Transneft” accounted for almost 30% (39% in 2011).

Refined products were sold in the domestic market in the north-west of Russia, and exported largely via Baltic ports, including ports of Saint-Petersburg, Vysotsk, Ust-Luga and Primorsk. The Company sells its products mainly in the European markets.

The Company’s location: 628415 Russian Federation, Tyumenskaya Oblast, Khanty-Mansiysky Autonomous Okrug – Yugra, Surgut, ul.Grigoriya Kukuyevitskogo 1, bld. 1.

The average number of the Group’s employees in 2010, 2011 and 2012 was 112,000, 115,000 and 117,000 people, respectively.

2 Basic principles of financial reporting

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including all IFRS standards and interpretations adopted by the International Accounting Standards Board (IASB) and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on the basis of the actual cost principle, as modified by the revaluation of available-for-sale financial assets, certain other financial assets and liabilities at fair value, except for deemed cost of property, plant and equipment (Note 6).

For all previous periods and for the year ended 31 December 2011, the Group prepared its consolidated accounting statements in accordance with Russian Accounting Standards (RAS). These consolidated financial statements for the year ended 31 December 2012 are the first IFRS statements prepared by the Group as required by IFRS 1 “First-time adoption of International Financial Reporting Standards”.

3 Summary of significant accounting policies

These consolidated financial statements have been prepared on the basis of the accounting data as set out in the accounting and reporting regulations of the Russian Federation, adjusted for the purpose of fair presentation under IFRS. Information about the Group’s transition from RAS to IFRS as well as quantitative effect of the adjustments and description of the most significant ones is presented in Note 6.

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future which means that the amount of assets shall be duly recovered and liabilities shall be duly settled.

The summary of significant accounting policies used to prepare these consolidated financial statements is presented below. These accounting policies have been consistently applied to all periods defined in these consolidated financial statements.

Subsidiaries

The consolidated financial statements include data on the operations of the Company and its subsidiaries. Subsidiaries are all entities (including special purpose entities) in which the Group, directly or indirectly, has more than one half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated from the date on which they are acquired and are deconsolidated from the date that control ceases.

The acquisition date is a date on which control is transferred to the Company.

Investments in subsidiaries are recorded based on the acquisition method. The cost of an acquisition is evaluated as the aggregate of the consideration transferred, measured at its fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree. For each acquisition, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed.

Transactions eliminated during consolidation

The following is eliminated from the consolidated financial statements:

carrying value of the parent entity’s investments in each subsidiary, the amount of share capital of each subsidiary, as well as interests in other equity and retained profit items from the date on which the control over a subsidiary becomes effective;

intragroup cash flows;

balances, intragroup transactions as well as unrealised gains and losses on such transactions.

Associates

Associates are entities over which the Group has significant influence but not control.

Investments in associates are accounted for using the equity method of accounting. Investments are recognised at the acquisition cost, then their carrying amount changes as the Group’s share in profit or loss of an associate is recognised after the acquisition date. When the Group’s share of losses in an associate equals or exceeds its investments in the associate (including long-term receivables recorded as part of investments) the Group ceases to further recognise its share in losses, unless it has incurred obligations or made payments on behalf of the associate.
If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Application of uniform accounting policies

The Group’s entities use uniform accounting policies and consistent reporting periods. If entities of the Group use different accounting policies, their financial statements are duly adjusted and included in the consolidated financial statements of the Group.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in current accounts, cash held at call with correspondent banks, and other short-term highly liquid investments (with an original maturity of less than three months) which are readily convertible to previously known amounts of cash and which are subject to an insignificant risk of changes in value. Restricted cash is excluded from cash and cash equivalents, and is shown separately in the consolidated statement of financial position.

Inventories

Inventories consisting primarily of materials and supplies, crude oil and petroleum products are presented in the consolidated statement of financial position at the lower of cost and net realisable value, and are accounted for at the weighted average cost. The cost of finished goods and work in progress comprises the cost of raw materials and supplies, direct costs as well as related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and disposal.

Property, plant and equipment

Property, plant and equipment is stated at actual cost of acquisition or construction less accumulated depreciation and impairment losses. The cost of property, plant and equipment also includes the initial estimate of the costs of removal of an item of property, plant and equipment and the estimate of obligations for land remediation and restoration.

Minor renewals which do not contribute to any quality improvements are charged to expenses in the current period. The costs of replacing major parts or components of property, plant and equipment are capitalised, and the cost of the parts to be replaced is concurrently written off. Enhancement or renovation of an asset which has already been recognised as an item of property, plant and equipment increases its carrying amount, if future economic benefits to be most likely obtained by the Group exceed the initial asset standard estimates.

Oil and gas properties

Exploration and evaluation costs

Oil and gas exploration and evaluation at fields not brought into commercial production is recognised using the successful efforts method. Accordingly, costs associated with acquisition of licenses for oil and gas reserves exploration and evaluation, prospecting and exploratory drilling, costs of equipment for exploratory wells and prospecting and appraisal wells, and topographical, geological and geophysical surveys costs are designated as exploration and evaluation assets until development of a field is proved to be commercially feasible, and are capitalised within respective license areas.

These costs are recognised to be written off pending the results of the works performed. Capitalised costs which have been ineffective are recognised within loss for the period.

Annually, all costs are measured for impairment from technical, economic and management perspectives. If any indications of impairment exist, an estimated amount is expensed and an asset is written down.

If reserves have been discovered and a decision on bringing a field into development has been made, the capitalised costs, less losses from impairment of the respective exploration and evaluation assets, are classified as corresponding assets.

Other costs associated with protection of lands, minerals and other natural resources, as well as costs of regional geological and geophysical works, engineering and geological surveys are expensed as incurred.

Development and production costs

Costs incurred at fields brought into commercial production which include expenses required to access recoverable reserves, produce oil and gas, and construct exploratory wells, and costs paid to construct, install and equip other facilities directly associated with development of a field are capitalised as part of oil and gas assets.

Oil and gas exploration and production licenses

Oil and gas exploration and production licenses are recorded within oil and gas exploration and production assets at actual cost less accumulated amortisation.

Depletion, depreciation and amortisation

Oil and gas properties and oil and gas exploration and production licenses are depreciated using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production.

Items of other property, plant and equipment and their respective estimated useful lives are as follows:

Land	-
Buildings and structures	10-40 years
Vehicles	5-20 years
Machinery and equipment	5-25 years
Other property, plant and equipment	2-25 years

Capitalised costs are amortised over the useful life or the remaining life of an asset or its parts, whichever is shorter.

Abandoned, idle items of other property, plant and equipment (except for those classified as held for sale) are depreciated subject to general rules applied to the respective classes of assets. Items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations” and the date that the asset becomes idle or is retired from active use unless the asset is fully depreciated. Construction in progress is not depreciated until ready for service.

The cumulative gain or loss on disposal of property, plant and equipment is the difference between the consideration received and the carrying amount recognised as incurred in the consolidated statement of income and other comprehensive income.

Construction in progress

Construction in progress includes expenses directly related to the construction of items of property, plant and equipment, including overhead costs allocated to such construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by the management.

Advances for acquisition of items of property, plant and equipment and construction projects are accounted for in construction in progress.

Recognition of decommissioning and environmental protection liabilities

The Group has liabilities related to decommissioning of facilities engaged in its core activities.

The Group’s core activities are oil and gas exploration, development and production associated with operation of wells, equipment and adjacent sites, oil gathering and initial treatment facilities, pipelines and oil trunk lines. Exploration rights include requirements for decommissioning of oil production facilities and other facilities related to the Group’s core activities. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group’s estimates of these liabilities are subject to actual decommissioning obligations in respect of such facilities fulfilled to the extent that the Group is obliged to perform restoration works, and include discounted costs which are expected to be incurred to fulfill such liabilities. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

This liability is analysed at the end of each reporting period. Changes in the estimates of the decommissioning liabilities in accordance with the interpretations of IFRIC 1 “Changes in existing decommissioning, restoration and similar liabilities” are subject to recognition as follows:.

upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or a discount rate, changes in the estimates of the liability are included in the amount of the item of plant, property and equipment, whereby the amount of this adjustment may not exceed the carrying amount of the item, and in case of an increase in the liability the amount of the adjusted item of property, plant and equipment may not exceed the recoverable amount of this item;

changes in the amount of the liability due to its nearing maturity (change in the discount) are included in finance expenses.
Future events that may affect the amount required to settle decommissioning and environmental protection liabilities are reflected in the estimates of this liability where there is sufficient objective evidence that they will occur. Due to changes in the law of the Russian Federation, there could be future changes to the potential decommissioning liabilities.

Intangible assets

Costs incurred to develop an intangible asset are capitalised only if they can be measured with a reasonable degree of accuracy, the technical and economic feasibility of such product or process can be proved, the asset will likely generate future economic benefits, and the Group has adequate resources to complete the development and to further use or sell the asset.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by the management. Previously, expenditures on creation of an asset have been recognised as expenses in that period. Expenditures on creation of an intangible asset that was initially recognised as an expense are not recognised by the Group as part of the cost of an intangible asset at a later date.

The cost of acquired intangible assets is an aggregate of expenditures incurred to acquire and put them into service.

Advances issued for acquisition of intangible assets are classified as non-current assets irrespective of the date when such assets have been delivered.

After initial recognition, the Group chooses the cost model where an intangible asset is carried at its cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of intangible assets begins when they are available for use. Intangible assets are amortised on a straight-line basis over their expected useful lives, and amortisation charges are recognised in expenses in the current period. The amortisation methods and expected useful lives are reviewed at each reporting date, and all the changes in the estimates are accounted for in future periods.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset which are to be recognised in profit or loss as other income or expense when the asset is derecognised.
Research expenditures are charged to expenses as incurred. Expenditures on development projects are recognised as intangible assets only when such expenditures are expected to generate certain economic benefits in future. Other development expenditures are charged to expenses as incurred. Development expenditures that were initially recognised as expenses are not subsequently capitalised even if complying with conditions for the recognition of assets.

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

The excess of the consideration transferred, value of the acquired non-controlling interest and fair value of any interest previously held by the Group at the acquisition date over the fair value of the Group’s interest in the acquired net identifiable assets is recognised as Goodwill within Intangible assets in the consolidated statement of financial position. If the actual cost of acquisition is lower than the fair value of the net assets of the subsidiary acquired, and in case the acquisition proves beneficial, the difference is directly recognised in the consolidated statement of income and other comprehensive income. Goodwill is reviewed for potential impairment at each reporting date.

Cash-generating units (CGU) to which the goodwill is allocated represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and within the segment only.

Impairment of non-current non-financial assets

The carrying amount of the Group’s non-financial assets, except for inventories and deferred tax assets, is reviewed for any indication of impairment at each reporting date. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated at each reporting date.

For the purpose of impairment testing, assets are grouped into the smallest group of cash-generating units that are independent of the cash inflows from other cash-generating units.

The recoverable amount of the CGU is the higher of its value in use and its fair value less costs to sell.

The CGU value in use is determined using discounted cash flow models. Estimates of the CGU value in use are made using future cash flows projections.

The CGU future cash flows projections are based on external and internal factors forecasted in relation to the Group.

Forecasted external factors include: forecast of the market macroeconomic environment (oil, gas and products prices, inflation and interest rates) and tax environment (tax rates, export duties, fees and charges). These forecasts are based on the management‘s assessments and macroeconomic forecasts available at the reporting date.

The expected future cash flows are discounted to their present value using a pre-tax discount rate estimated on the basis of the weighted average cost of capital.

Cash-generating units to which the goodwill is allocated represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and within the segment only.

An impairment loss is recognised if the carrying amount of an asset or its unit (CGU) exceeds its recoverable amount. An impairment loss is recorded in profit or loss. The CGU impairment losses are allocated first to reduce the carrying amount of the goodwill allocated to such CGU, and then to reduce the carrying amount of other assets of the CGU on a pro rata basis. Goodwill impairment is not reversed.
Impairment losses relating to other assets recognised in prior periods are assessed at each reporting date to confirm whether there is any indication that they may exist or may have decreased. An impairment

loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed in the manner that the carrying amount of an asset shall not exceed the value of an asset (net of amortisation) had no impairment loss been recognised.

Financial assets

Financial assets are recognised in the consolidated statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to purchase or sell a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; it is recognised in profit or loss for assets classified as financial assets at fair value through profit or loss; and it is recognised in equity for assets classified as available for sale.

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss (financial assets at FVTPL), loans granted and receivables, held-to-maturity investments, and available-for-sale financial assets.

Financial assets at FVTPL are initially recognised at fair value. All other financial assets including transaction costs are recorded at fair value. Fair value at initial recognition is best evidenced by the transaction price.

Financial assets at FVTPL include financial assets at FVTPL held for trading and other financial assets classified as recorded at FVTPL at initial recognition.

A financial asset is recognised in financial assets at FVTPL if the Group has an intention to purchase or sell it in the near term, or if it is part of a single portfolio of identified financial instruments for which there is evidence of an actual pattern of short-term profit-taking.

Upon initial recognition the fair value of financial assets of this category is measured as a quoted market price at the measurement date.

Financial assets at FVTPL are recorded as current assets in the consolidated statement of financial position; gains or losses arising from changes in the fair value are recognised within other operating expenses in the consolidated statement of income and other comprehensive income.

Placed deposits are classified by the Group as loans and receivables. Granted loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that arise when providing money, goods or services to a borrower with no intention of selling them. Granted loans and receivables are further measured at amortised cost using the effective interest method less provision for impairment. Amortised cost of discounts or premiums for granted loans and receivables based on effective interest method is stated within finance income in the consolidated statement of income and other comprehensive income. An impairment loss on granted loans and receivables is recognised within finance expenses in the consolidated income statement and other comprehensive income.

Held-to-maturity investments include non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. On subsequent recognition, financial assets of this category are measured at amortised cost.

All other financial assets are recognised by the Group within available-for-sale financial assets. On initial recognition available-for-sale financial assets are measured at fair value.

On subsequent recognition available-for-sale financial assets are measured either at fair value or historical cost unless fair value can be determined.

Gain or loss on available-for-sale financial assets is recognised in other comprehensive income less impairment losses and foreign exchange gains and losses.

Impairment of financial assets

At each reporting period the Group assesses whether there are any indications that financial assets of all categories are impaired except for those recognised at FVTPL. Evidence that financial assets are impaired includes a significant or prolonged decline in the fair value of financial assets below acquisition cost.

Derecognition of financial assets

The Group derecognises financial assets when these assets are redeemed or the rights to cash flows from these assets expired, or when the Group has transferred the rights to the cash flows from the financial assets or entered into a pass-through arrangement while also transferring substantially all the risks and rewards of ownership of the assets, or neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control in respect to these assets.

Financial liabilities

Financial liabilities of the Group are trade and other payables, as well as loans and borrowings received. Financial liabilities are recognised at amortised cost.

The Group derecognises a financial liability (or a part of a financial liability) if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the redemption amount, including any non-cash assets transferred or liabilities assumed is recognised in profit or loss.

Value added tax

Value added tax (VAT) related to revenue is payable to the tax authorities on delivery (rendering of the services) to customers. The VAT rate is 18%. VAT on valuables acquired is normally set off against VAT charged on deliveries. The VAT settlement system permits to set off VAT recoverable against VAT payable. VAT related to sales and purchases which have not be paid for at the reporting date (VAT deferred) is detailed in the consolidated statement of financial position with assets and liabilities presented separately. Where a provision has been made for receivables, the impairment loss also includes the VAT charged on this transaction.

Zero rate is applicable to export of goods. This application is substantiated by the documents which are submitted to the tax authorities as required under the law of the Russian Federation. Input VAT related to zero-rated transactions is deductible.

Sales of certain goods (works, services) are not subject to VAT (exempt from VAT). Input VAT payable on purchases of goods (works, services) related to VAT-exempt transactions is totally non-deductible and included in the cost of goods (works, services) purchased.

Mineral extraction tax

Mineral extraction tax (MET) related to crude oil production is levied based on the quantities of mineral resources extracted and calculated on a monthly basis as a quantity of mineral resources produced per fixed tax rate (in 2012: RUB 446/tonne, in 2011: RUB 419/tonne) adjusted depending on the monthly average world market prices of the Urals oil and RUB/USD exchange rate for the preceding month.

The Company qualifies for certain MET reliefs, including zero rate applied to quantities produced from subsoil areas within the Republic of Sakha (Yakutia), discounts applied to fixed rate subject to reserves depleted and available at a subsoil area. MET is recorded within operating expenses.

Export duties

Hydrocarbons exported outside the territory of the Customs Union are subject to customs export duties, the amount of which are adopted on a monthly basis by the Government of the Russian Federation and reviewed depending on the average world market prices of the Urals oil for the preceding period.

Income tax

The income tax expenses for the reporting period comprise current tax and deferred tax. Income tax is fully recognised in profit or loss, except if it arises from a business combination or transactions which are directly recorded in equity or other comprehensive income.

Currently, the Group applies the concept of the consolidated group of taxpayers which was introduced in the Russian law in 2012. Income tax in relation to companies which do not belong to the consolidated group of taxpayers is calculated based on income stated in their individual tax returns. These consolidated financial statements include deferred income tax assets and liabilities accounted for by the Group under IAS 12 “Income taxes”.

Current tax is the accounts payable or receivable in respect of the taxable profit or loss for a year calculated using the tax rates which are effective or fixed as of the reporting date, including income tax adjustments made for prior tax periods. Current tax also includes any tax liabilities for dividends declared.

Deferred tax is recorded in respect of temporary differences arising between accounting data and data used for tax purposes. Deferred taxes are not recorded for:

- temporary differences on initial recognition of assets or liabilities in transactions other than business combinations and which do not affect neither accounting nor taxable profit or loss;
- temporary differences associated with investments in subsidiaries and joint ventures to the extent where it is probable that they will not reverse in the foreseeable future;
- temporary differences arising from the initial recognition of goodwill.

Deferred tax is measured at tax rates which are expected to apply to the period when the temporary differences will reverse based on the legal provisions enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities to the extent when they intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

In accordance with the law of the Russian Federation, loss incurred in prior reporting periods and used to reduce the amount of income tax for the current period is recognised as deferred tax asset.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the occurred temporary difference could be utilised. The amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the respective benefit will be derived from its utilisation.
Deferred tax assets and liabilities are classified as non-current deferred tax assets and non-current deferred tax liabilities, respectively.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Such assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits

Pensions and other retirement benefits

Pension expenses are accrued so as to allocate regular costs over employees’ service periods, and recognised in payroll expenses. Pension liabilities are measured at current cost of the estimated cash outflows using the interest rates applicable to government securities which maturity is near the same as that of the liabilities. Costs related to pension liabilities are measured using the projected unit credit method. Actuarial gains and losses are shown in profit or loss in the period in which they occur.

In the course of its ordinary business, the Group contributes to the Pension Fund of the Russian Federation on behalf of its employees. Liabilities in respect to such contributions are recognised as employee benefits expenses incurred during the period when the respective services have been rendered by employees under employment agreements.

In accordance with its collective bargaining agreements, the Group pays additional pension contributions and other post-employment benefits to its employees. Pursuant to its corporate plan, the Group makes employee contributions to Non-State Pension Fund “Surgutneftegas”. Once contributions to Non-State Pension Fund “Surgutneftegas” have been made and benefits due to employees have been paid, pension liabilities to the employees are regarded as covered, hence the Group does not incur actuarial and investment risks and does not have assets attributed to pension plans.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments inclusive of payments due to expected lease termination are charged to the consolidated statement of income and other comprehensive income on a straight-line basis over the period of the lease. Leased operating assets including property, plant and equipment are not accounted for in the consolidated statement of financial position.

Revenue Recognition

Revenue from the sale of goods is measured at the fair value of consideration received or receivable, net of reimbursements, discounts and volume rebates. Revenue is recognised when all significant risks and rewards of ownership have been transferred to the buyer, consideration can be received, costs incurred can be measured reliably and return of goods can be assured, the seller retains no effective control over the goods sold and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs at a different time subject to the relevant terms of each sale and purchase agreement.

Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognised when title passes.

Export sales of crude oil (transfer of title and risks of accidental loss) are normally FOB based (the seller fulfills its obligations to deliver when the goods have passed over the ship’s rail in the designated port), DAF (delivered at frontier) or DAP based (delivered at place, named place). The title passes at the time when goods pass the tanker’s permanent hose connection at the port of loading, the border of the Russian Federation, or when the seller places the goods at the disposal of the buyer on the means of transport ready for unloading, at the named place, subject to delivery conditions. Oil products are normally sold on FCA basis, and the respective sales proceeds are recognised once the goods have been cleared through customs and delivered to the buyer. The Company covers transportation expenses, duties and taxes on such sales.

Sales of other services are recognised at the time such services have been rendered provided that the cost of services is determinable and no significant uncertainty in respect of potential proceeds exists.

Functional and presentation currency

The national currency of the Russian Federation is Russian Ruble (RUB), which is the functional currency of the Group’s entities and used by the Group as the presentation currency of these consolidated financial statements.

All values presented in rubles are rounded to the nearest million except when otherwise indicated.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into the functional currency of the Group’s entities at the exchange rate effective at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate effective at this date. Non-monetary assets and liabilities in foreign currencies measured at fair value are translated into the functional currency at the exchange rate effective at the date when their fair value has been determined. Exchange differences resulting from the translation of currencies are recognised in other income and expense, except for exchange differences resulting from the translation of the cost of the available-for sale equity instruments, which are recognised in other comprehensive income.

Net earnings per share

Earnings per share are calculated by dividing net income attributable to the holders of the Company’s ordinary shares by the weighted average number of ordinary shares outstanding during the reporting period, net of average number of treasury shares repurchased by the Group’s entities.

Equity

Ordinary and preference shares

Ordinary and preference shares are classified as equity. Preference shares are entitled to vote on matters in respect of reorganisation and liquidation of the Company, and matters related to: releasing the Company from an obligation to disclose or provide information required under the law of the Russian Federation on securities; introducing amendments and addenda to the Company’s Charter which restrict the rights of holders of the preference shares of this type; filing an application for listing or delisting of preference shares of this type.
If dividends on preference shares per year have not been declared or paid, preference shares are entitled to vote on a par with ordinary shares unless dividends on preference shares are declared and paid.

Treasury shares

If the Group purchases the Company’s shares, these shares are deducted from equity. Treasury shares are recorded at the cost of acquisition. Gains and losses associated with purchase, sale, issue or cancellation of treasury shares are not recognised in profit and loss for the reporting period but must be recorded directly within treasury shares in equity.

Share premium

Share premium represents the excess of contributions received over the nominal value of the Company’s ordinary shares issued, less flotation costs.

Non-controlling interests

Non-controlling interest is the part of profit or loss and net assets of a subsidiary attributable to equity interests which are not owned, directly or indirectly through subsidiaries, by the Company.

Non-controlling interests are presented within equity, separately from the Group’s equity, in the consolidated statement of financial position.

Dividends

Dividends are recognised as liability attributable to the period when they have been declared.

4 Significant judgements, estimates and assumptions

The Group makes estimates and assumptions that affect assets and liabilities recognised in the financial statements within the next financial year. Estimates and judgments are continuously evaluated and are based on management‘s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements that significantly affect the amounts recognised in the financial statements and estimates that may require adjustments of assets and liabilities book value within the next financial year, include:

Estimation of oil and gas reserves

Estimates of oil and gas recoverable reserves are imprecise as they require application of personal judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Management makes certain assumptions while estimating actual volumes of available recoverable oil and gas reserves. Oil and gas reserves are estimated for the purpose of the present statements in accordance with the provisions of Federal Budgetary Institution "State Reserves Committee" (FBU GKZ).

Oil and gas estimation is used for depreciation of oil and gas assets and for impairment determination. Oil and gas estimation is made based on possible assumptions and is reviewed on an annual basis.

Assumptions and estimates may vary as new information about oil and gas field reserves, change in economic forecast and assumptions become available.

Reserve estimations have an impact on certain amounts of financial statements – oil and gas assets depreciation value, and impairment losses. Depreciation of oil and gas assets is calculated using the unit-of-production method for each field based upon initial recoverable reserves (under Russian classification - A, B, C1 categories). Oil and gas estimation (under Russian classification - A, B, C1, C2 categories) is also used for calculations of future cash flows to be the main evidence of asset impairment.

Useful life of other property, plant and equipment, and intangible assets

The Group estimates the remaining useful life of other property at least once a year at the end of financial year. If expected values differ from previous estimations, changes are recognised as changes in accounting estimates in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The management of the Group determines useful life periods for property, plant and equipment, and intangible assets subject to physical properties and terms during which they bring benefit to the Group.

Impairment of goodwill and other assets

When assessed for possible impairment, forecast of cash flows requires a number of significant assumptions and estimates of such assessments as production output, natural gas, oil and refined products prices, operating expenses, capital expenditures, hydrocarbon reserves including such marcoeconomic indicators as inflation rate and discount rate. Besides, assumptions are applied for determining generating group of assets subject to assessment for impairment. *Value of assets and group of generating assets related to oil and gas production is determined based on production output projections.*

Decommissioning and environmental protection liability

Production and exploration operations of the Group are governed by a number of environmental safety regulations and statutory acts. The Group assesses environmental protection liabilities based on the Group's management awareness of the current legislation of different jurisdictions, license agreements and in-house engineering judgements. Decommissioning liabilities are recognised on a net discounted basis at the moment at which the relevant liability arose. Actual deferred expenses may significantly differ from the amount of liability formed. Additionally, such provision may be influenced by future changes in environmental safety legislation and statutory acts, discount rates and expected terms of field development.

Tax laws

The Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently.

Pension benefit obligations

Pension benefit liabilities are assessed based on assumptions. Actual amounts may differ from the estimated values of the Group and may be adjusted in the future based on modified expectations of the Group.

Expected survival assumptions are based on published statistics and demographic tables of mortality. At present, age of retirement in the Russian Federation is 60 and 55 years for men and women, respectively.

Contractual assets and contingencies

Certain conditions that may exist at the date of issuing these consolidated statements may later result in losses and liabilities of the Group depending on the fact of occurrence of one or more events in the future. In assessing such contingencies the Group’s management applies assumptions as a part of professional judgement. While assessing potential losses caused by contingent business factors relating to court and tax proceedings in which the Group is involved or unasserted claims that may lead to such proceedings, the Group estimates the likelihood of a negative outcome for the Group and defines economic benefits outflow with the help of tax and legal experts.

If assessment of contingent business factor is indicative of the likelihood of a calculable loss, the relevant liability is recorded in the consolidated statements of the Group among other liabilities in the consolidated statement of financial position. If assessment of contingent business factor is indicative of a reasonable opportunity of a significant loss or of the likelihood of an unmeasurable loss, the Group discloses information about the nature of the contingency and estimated amount of a potential loss if it is measurable and significant.

Information about contingencies with low-probability is not disclosed in the statements. If there is unusual information about contingencies which in the judgement of the management is of interest to the users of financial statements, the Group may disclose the fact of such information of its own accord (Note 30).

Financial assets

Shares of MOL Magyar were classified as “Financial assets held for sale” as the Group had no significant influence on the investee.

5 New standards and interpretations

Newly issued standards and interpretations are mandatory for annual periods beginning on or after January 1, 2013 and have not been adopted by the Group in advance.

IFRS 9 “Financial instruments: classification and measurement”. IFRS 9 was issued in November 2009 and replaced the parts of IAS 39 relating to classification and measurement of financial assets. Amendments to IFRS issued on 9 October 2010 apply to classification and measurement of financial assets and financial liabilities, and those issued in December 2011 reflect the following: (i) IFRS is effective for annual periods beginning on or after 1 January 2015 and (ii) requirements to information disclosure in IFRS 9 were added. Adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is currently considering the impact of adopting the standard and the timing of its adoption by the Group. These amendments have not been adopted for use in RF.

IFRS 10 “Consolidated financial statements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation of IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation – special purpose entities”. The standard changes the definition of control so that the same criteria are applied to all entities to determine control. The definition is backed up with a detailed application guide. The Group's management does not expect this standard to have a material impact on the Group‘s consolidated financial statements.

IFRS 11 “Joint arrangements” (issued in May 2011 and effective for annual periods beginning on or after

1 January 2013). IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC-13 "Jointly controlled entities —non-monetary contributions by ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of interests in other entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). This standard is used by entities with interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. This standard replaces requirements on disclosure currently specified in IAS 28 "Investments in associates". IFRS 12 requires to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires from entities disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

IFRS 13 "Fair value measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). It provides a unified approach to definition of fair value of financial and non-financial instruments which are required or allowed by other IFRS standards to be measured at fair value. This new standard also defines disclosure requirements related to fair value of the said assets. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

IAS 27 "Separate financial statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

IAS 28 "Investments in associates and joint ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the IASB Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

Amended IAS 19 "Employee benefits" (issued in June 2011 and effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

IFRS 7 "Disclosures — offsetting financial assets and financial liabilities" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

IAS 32 “Offsetting financial assets and financial liabilities” (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of “currently has a legally enforceable right of set-off”’ and that some gross settlement systems may be considered equivalent to net settlement. The Group’s management is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group. These amendments have not been adopted for use in RF.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs, retrospectively by first-time adopters”. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of dividend payments to owners should be accounted for in the income statement and other comprehensive income as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group’s management is considering the impact of the amendment on the consolidated financial statements of the Group.

Amendments to transition period guidance introduced to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). These amendments include clarifying the transition period guidance specified by IFRS 1 “Consolidated financial statements”. Upon transition to IFRS 10, entities have to estimate control as of the first date of the relevant annual period in which IFRS 10 was adopted. If resolution on consolidation as per IFRS 10 differs from the resolution under IAS 27 and SIC 12, then amounts of the last preceding period (i.e. 2012 for entities whose financial year is consistent with calendar year if they apply IFRS 10 in 2013) are subject to restatement except when it is practically impossible. These amendments allow for additional exemptions for the period of transition to IFRS 10, IFRS 11 “Joint arrangements” and IFRS 12 “Disclosure of interests in other entities” by limiting requirements on disclosure of adjusted comparative data to the preceding period only. In addition, these amendments result in exemption from presenting comparative data as part of disclosure of data relating to unconsolidated structured entities for periods preceding the first application of IFRS 12. The Group's management does not expect this standard to have a material impact on the Group‘s consolidated financial statements. These amendments have not been adopted for use in RF.

Amendments to IFRS 1 “First time adoption of International Financial Reporting Standards” – “State borrowings” (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). These amendments relating to borrowings given by the government at the rates below market rate exempt the first-time adopters of IFRS from applying IFRS retrospectively when recognizing such borrowings upon transition to IFRS. This gives the first-time adopters of IFRS the same exemption as to the entities already preparing IFRS. The Group's management does not expect this standard to have a material impact on the Group‘s consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment entities” (issued on 31 October 2012 and effective for annual periods beginning on 1 January 2014). This amendment introduces a definition of investment entity as an organisation which (i) attracts funds from investors with a purpose of providing investment management services to them; (ii) assumes obligations to its investors that its commercial purpose is investing funds to increase capital growth and return on investment; and (iii) estimates and assesses its investments based on fair value. Investment entity is to account for its subsidiaries at fair value with allocation of changes to profit and loss and is to consolidate only those entities that provide services relating to investment operations.

As per revised IFRS 12 it is required to disclose significant judgements used to determine if the entity is an investment one and also disclose information about its financial or other support to non-consolidated subsidiary whether granted or planned. The Group's management does not expect this standard to have a material impact on the Group's consolidated financial statements.

Other revised standards and interpretations: Amendments to IFRC 20 "Stripping Costs in the Production Phase of a Surface Mine" considers when and how to account benefits arising from the stripping activity. This interpretation has no impact on the Group's consolidated financial statements.

6 First-time adoption of IFRS

The Group prepared IFRS consolidated financial statements for the first time. 1 January 2001 is the date of adopting IFRS.

The principles of financial reporting set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2012, the comparative information presented in these consolidated financial statements and in the preparation of an opening IFRS consolidated statement of financial position at the Company's date of transition to IFRS.

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS standards effective as of 31 December 2012 in the preparation of an opening IFRS consolidated statement of financial position as of 1 January 2011 and during the succeeding periods before the reporting date of the first IFRS statements.

The following optional exemptions applied by the Group are presented below.

Business combination

The Group does not retrospectively apply IFRS 3 "Business combination" to business combinations existing before transition to IFRS. The entity applies the same classification as in RAS financial statements and recognises all its assets and liabilities at the date of transition to IFRS which were purchased or accepted as a result of the past combination (Note 17).

Fair value or value resulting from remeasurement used as deemed historical cost of the property, plant and equipment

The Group has evaluated fair value of property, plant and equipment at the date of transition to IFRS which is used as deemed historical cost of property, plant and equipment in initial consolidated statement of financial position as of 1 January 2011.

Classification of previously recognised financial instruments

The Group classifies financial instruments (not belonging to "assets held-to-maturity" and "receivables") as financial instruments at FVTPL or available for sale (in meeting IAS 39 recognition requirements).

Decommissioning and environmental protection liabilities included in the cost of the property, plant and equipment

The Group applies exemptions for liabilities covered by IFRS 1 "Amendments to current decommissioning and environmental protection liabilities and similar liabilities": estimates the amount which was included in the cost of the relevant asset when the obligation occurred by discounting liability at the date of transition to IFRS using the best estimate of historical discount rate which would be applied to the liability in the incoming period and calculates depreciation accumulated at this amount at the date of transition based on the current estimate of assets useful life period while applying depreciation method accepted by the Group for IFRS.

Operational and financial lease

The Group analyses all lease agreements (classified by RAS as operational or financial lease) with regards to change in classification in accordance with IFRS (IFRIC) 4 "Determining whether an arrangement contains a lease" at the date of transition to IFRS.

(in millions of Russian rubles, unless otherwise stated)

The Group applied the following mandatory exemptions:

Estimates made

Estimates made by the Group’s management as of the date of an opening consolidated statement of financial position are used in opening IFRS consolidated statement of financial position if there is no evidence of faulty estimates.
Estimates under RAS are reconsidered to correspond to IFRS based on the information as of the dated of an opening consolidated statement of financial position.

Hedge accounting
The Group does not apply hedge accounting.

Information about data conformity and assessment of transition from RAS to IFRS is presented below. As 31 December 2011 is the last period for which RAS consolidated statements were prepared, reconciliation is presented as of 31 December 2011 and as of the dated of transition to IFRS – 01 January 2011.

	Notes	**At 31 December 2011**	**At 1 January 2011**
Equity in consolidated statements under RAS		**1,592,807**	**1,354,093**
Effects of transition to IFRS:			
Property, plant and equipment	i	174,160	142,398
Gain / loss from associates	ii	2,242	-
Deferred taxes	iii	(35,265)	(25,910)
Property, plant and equipment decommissioning liabilities	iv	(43,164)	(29,573)
Liabilities to employees	v	(9,967)	(8,585)
Consolidation of subsidiaries	vi	(5,326)	(3,532)
Placed deposits	vii	(2,377)	(2,513)
Other	viii	(2,107)	(3,202)
Equity under IFRS		**1,671,003**	**1,423,176**

Bringing the gain reflected in the Consolidated profit and loss account under RAS for 2011 in line with gain reflected in the income statement and other comprehensive income under IFRS.

	Notes	**For 2011**
Net income / (loss) in consolidated statements under RAS		237,768
Effects of transition to IFRS:		
Property, plant and equipment	i	46,278
Gain / loss from associates	ii	2,242
Deferred taxes	iii	(9,405)
Property, plant and equipment decommissioning liabilities	iv	(816)
Liabilities to employees	v	(1,382)
Consolidation of subsidiaries	vi	(820)
Placed deposits	vii	136
Other	viii	789
Total effects of transition to IFRS		**37,022**
Total comprehensive income under IFRS		**274,790**

Impacts on Statement of cash flows

At the date of transition to IFRS, reconciliation of cash flow statement results under RAS was performed.

Significant differences are mainly related to the reflection of cash used to finance capital investments as a part of investment operations for the purpose of IFRS. For the purpose of RAS the use of this cash was reflected in cash flows from operations.

Clarifications of the main differences between statements under RAS and IFRS are presented below:

Property, plant and equipment (i)

The Group applied optional exemption under IFRS 1“First time adoption of International Financial Reporting Standards”, and applies fair value as deemed historical cost of property, plant and equipment items. The Group assessed fair value of property, plant and equipment as of 01 January 2011.

Fair value of property, plant and equipment determined by an independent appraiser is RUB 595,692 million subject to property, plant and equipment decommissioning liabilities.

The principal amount of property, plant and equipment adjustment for 2011 is related to difference in depreciation methods.

Capitalised costs related to recoverable reserves increase

For the purpose of IFRS some wells costs are capitalised (in case of increase in recoverable reserves resulting from tapping a new oil pay zone), other costs are charged to expenses. The Group analyzed such costs and recognised them in costs for the purpose of IFRS in the amount of RUB 18,331 million. For the purpose of RAS these costs were capitalised.

Exploration and evaluation assets

As of 1 January 2011 the Group recognised exploration and evaluation assets in the amount of RUB 21,171 million.

Gain / (loss) from associates (ii)

To meet requirements of IAS 28 “Investments in associates” the Group reflected share in profits from associates amounting to RUB 2,242 million.

Deferred taxes (iii)

For the purpose of IFRS, deferred taxes were recalculated based on deemed historical cost. Significant difference between deferred taxes under RAS and IFRS results from measuring property, plant and equipment items based on fair value and difference in charging of depreciation.

Property, plant and equipment decommissioning liabilities (iv)

Decommissioning liability was not recognised in the consolidated statements under RAS.

The Group applies exemptions for liabilities covered by IFRS 1 “Amendments to current decommissioning and environmental protection liabilities and similar liabilities” and recognised decommissioning liability as of 1 January 2011 amounting to RUB 29,573 million, recognised liabilities for 2011 amounted to RUB 12,775.

Liabilities to employees (v)

The Group has not recognised pension benefit obligations in the consolidated statements under RAS. In accordance with IAS 19 “Employee benefits”, the Group calculated pension benefit liabilities and recognised them in the present statements. Recognised liability of the Group as of 1 January 2011 is RUB 8,585 million, recognised liabilities for 2011 amounted to RUB 1,382.

Consolidation of subsidiaries (vi)

Some subsidiaries consolidated for the purpose of IFRS are not included in the consolidated statements under RAS. As of 1 January 2011 (at the date of transition to IFRS) goodwill of RUB 6,258 million is reflected in the Consolidated statements under RAS. The Company applied exemption from retrospective application of IFRS 3 “Business combination” covering subsidiaries acquired before the date of transition to IFRS. In applying such condition, goodwill recognised in initial consolidated statement of financial position under IFRS equals goodwill book value recognised in the consolidated statements under RAS. As of the first-time adoption date the Company assessed goodwill impairment and recognised impairment of RUB 470 million at the date of first-time adoption. Goodwill in initial statements under IFRS amounts to RUB 5,788 million.

Placed deposits (vii)

Placed deposits are accounted for in the consolidated statement of financial position under IAS 39 "Financial instruments: recognition and measurement” at amortised cost. Adjusted book value of deposits amounted to RUB 2,513 million.

Other (viii)

Other adjustments are related to recognition of other income, expenses and liabilities for the purpose of IFRS.

(in millions of Russian rubles, unless otherwise stated)

7 Subsidiaries

The Company has the following subsidiaries registered and doing business in the Russian Federation.

Description	Area of activity	At 31 December 2012 Ownership interest (%)	At 31 December 2011 Ownership interest (%)	At 1 January 2011, Ownership interest (%)
Oil and gas exploration and production				
OJSC “Surgutneftegas”	Oil and gas exploration and production	Parent company	Parent company	Parent company
Oil refining				
“KINEF” LLC	Oil refining	100%	99.99997%	99.99997%
Oil products sale				
OJSC “Lennefteproduct”	Oil products sale (winding-up stage)	-	97.9642%	97.9642%
“Novgorodnefteproduct” LLC	Oil products sale	100%	100%	100%
“Pskovnefteproduct” LLC	Oil products sale	100%	100%	100%
“Kaliningradnefteproduct” LLC	Oil products sale	100%	100%	100%
“MA”Tvernefteproduct” LLC	Oil products sale	100%	100%	100%
“KIRISHIAVTOSERVIS” LLC	Oil products sale	100%	100%	100%
Other companies				
“Insurance Company “Surgutneftegas” LLC	Insurance	99.976%	99.97%	99.97%
“Insurance Company “Surgutneftegas-Life” LLC	Insurance	99.976%	99.97%	99.97%
ZAO SNGB	Banking operations	97.7591%	97.7591%	96.9871%
“Surgutmebel” LLC	Manufacture of wood construction items	100%	100%	100%
OJSC “Sovkhoz “Chervishevsky””	Agriculture	94.9996%	94.9996%	94.9996%
“Media-invest” LLC	Television broadcasting	100%	100%	100%
“Lengiproneftekhim” LLC	Engineering	100%	100%	100%
“Investsibirstroy” LLC	Construction and repair of trunk pipelines	-	-	100%
“Surgutenergosbyt” LLC	Electricity and heat wholesale	-	-	100%

The presented list of subsidiaries is complete, the Group has no subsidiaries outside the Russian Federation.

As a result of additional issue of ZAO Surgutneftegasbank (ZAO SNGB) shares in 2011, the Group received ownership interest of 0.77%.

In 2012, the Company bought out stakes in 'KINEF" LLC to bring its ownership interest to 100%.

In December 2012, the charter capital of “Insurance Company “Surgutneftegas” LLC was increased to further develop and strengthen the presence of the Group at the insurance market.

The Group dissolved “Investsibirstroy” LLC in 2011 and OJSC “Lennefteproduct” in 2012. Winding up of the company is not a discontinuing operation and had no material impact on consolidated financial statements amounts.

In 2011, the Group’s equity interest in “Surgutenergosbyt” LLC was decreased to 4.76%. The loss of control had no material impact on consolidated financial statements amounts.

8 Segment information

The information about the Group is considered by individual executive body represented by director general of the Company and deputies of director general covering different operations to comprise the following operating segments:

“Exploration and production” comprises the Company's operations in exploration, evaluation, production of oil and gas, and oil sale;
“Refining and sale” segment includes the Company’s operations in oil and gas processing, and sale of refined products, in addition to subsidiaries of the Group involved in refining and refined products sale, and engineering services.
“Other activity” includes all other non-significant segments having no similar economic performance and represents subsidiaries of the Group engaged in banking operations, insurance and production of other goods, jobs and services. This information was not presented separately as the management does not make allowance for the performance of this segment when making decision regarding neither resource distribution nor the total operating efficiency of the Group.

On a monthly basis the management estimates performance results of the segments based on the revenue, profit and operating expenses to resolve on resource distribution and operating efficiency which are assessed under RAS. Reconciliation with IFRS consolidated financial statements is performed. Performance results of operational segments in consolidated financial statements under IFRS do not significantly differ from those under RAS.

Results of separate significant operations and a number of adjustments required to bring RAS statements in line with the relevant IFRS amounts are considered by the management across the whole Group without breakdown by segments.

Sales operations among operational segments recorded as inter-segment sales are performed based on market prices.

(in millions of Russian rubles, unless otherwise stated)

Performance results of production segments for 2012:

	Exploration and production	Refining and sale	Other activity	Inter-segment sales	Total segment information
Sales revenue					
Export including	**382,075**	**201,853**	**-**	**-**	**583,928**
revenues from crude sales	381,988	-	-	-	381,988
revenues from oil products sales	-	201,577	-	-	201,577
revenues from gas products sales	-	276	-	-	276
other sales	87	-	-	-	87
Domestic market, including:	**146,980**	**150,077**	**1,757**	**(33,167)**	**265,647**
revenues from crude sales	119,009	-	-	(12,878)	106,131
revenues from oil products sales	-	137,279	-	(19,193)	118,086
revenues from gas and gas products sales	17,540	8,236	-	(5)	25,771
sale of other products and finished goods	3,875	3,241	1,047	-	8,163
other sales	6,556	1,321	710	(1,091)	7,496
Total sales revenue	**529,055**	**351,930**	**1,757**	**(33,167)**	**849,575**
Costs and expenses					
Costs and expenses	391,015	270,064	6,291	(48,356)	619,014
Total costs and expenses	**391,015**	**270,064**	**6,291**	**(48,356)**	**619,014**
Operating income	**138,040**	**81,866**	**(4,534)**	**15,189**	**230,561**
Finance income					46,722
Finance expenses					(2,655)
Exchange differences					(50,460)
Gain/loss on sale and other disposal of financial assets					59
Other income / (expenses)					(322)
Share in profits of associates and joint ventures					**(227)**
Profit before tax					**223,678**
Income tax					(43,533)
Net income					**180,145**

(in millions of Russian rubles, unless otherwise stated)

Performance results of production segments for 2011:

	Exploration and production	**Refining and sale**	**Other activity**	**Inter-segment sales**	**Total segment information**
Sales revenue					
Export including	**358,392**	**202,234**	**-**	**-**	**560,626**
revenues from crude sales	358,311	-	-	-	358,311
revenues from oil products sales	-	202,234	-	-	202,234
revenues from gas products sales	-	-	-	-	-
other sales	81	-	-	-	81
Domestic market, including:	**125,623**	**135,003**	**1,978**	**(28,034)**	**234,570**
revenues from crude sales	98,633	-	-	(11,033)	87,600
revenues from oil products sales	-	121,071	-	(16,936)	104,135
revenues from gas and gas products sales	17,862	9,148	-	(8)	27,002
sale of other products and finished goods	4,367	3,655	1,400	-	9,422
other sales	4,761	1,129	578	(57)	6,411
Total sales revenue	**484,015**	**337,237**	**1,978**	**(28,034)**	**795,196**
Costs and expenses					
Costs and expenses	328,920	246,958	6,093	(41,287)	540,684
Total costs and expenses	**328,920**	**246,958**	**6,093**	**(41,287)**	**540,684**
Operating income	**155,095**	**90,279**	**(4,115)**	**13,253**	**254,512**
Finance income					32,077
Finance expenses					(3,133)
Exchange differences					49,319
Gain / (loss) on sale and other disposal of financial assets					8,576
Other income / (expenses)					165
Share in profits of associates and joint ventures					**2,242**
Profit before tax					**343,758**
Income tax					(68,769)
Net income					**274,989**

(in millions of Russian rubles, unless otherwise stated)

Sales comprise the following (based on the buyer’s registration country):

Sales	For 2012	For 2011
export of crude oil - Europe	528,088	522,255
export of crude oil - Asia	132,877	98,881
export of crude oil - CIS, other than Russia	49,261	45,064
export of crude oil - USA	4,982	4,789
domestic sales of crude oil	106,131	87,600
domestic sales of gas	17,657	18,032
Total oil and gas sales	**838,996**	**776,621**
export of oil products - Europe	325,950	303,880
domestic sales of oil products	118,086	104,156
export of gas products - Europe	458	-
domestic sales of gas products	8,114	8,970
Total oil and gas products sales	**452,608**	**417,006**
Other international market sales	87	81
Other domestic sales	15,659	15,833
Total sales	**1,307,350**	**1,209,541**
less: export duties	**(457,775)**	**(414,345)**
Total sales revenue	**849,575**	**795,196**

Information about sales to the main buyers

The Company has one buyer accounting for over 10% of total revenues of the Group. Aggregate amount of revenues from this buyer for 2012 and 2011 is RUB 194,473 million and RUB 193,481 million, respectively. Sales revenue for this buyer is included in “Refining and sale”.
The management does not believe that the Group depends on any individual buyer.

9 Related party transactions

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

Related parties may enter into transactions, which unrelated parties might not. And transactions between related parties may not be affected on the same terms and conditions as transactions between unrelated parties.

Within 2012 and 2011 the Group entered into transactions with Non-State Pension Fund “Surgutneftegas” to finance pensions of employees retired within the year and other related parties.

In 2012 and 2011 payments to Non-State Pension Fund “Surgutneftegas” amounted to RUB 602 million and RUB 417 million, respectively.

As of December 31, 2012 and 2011 the Group had RUB 2,153 and RUB 2,206 of loans received from the related parties (funds of CJSC “SNGB” customers).

The Group has no significant operations and balances on operations with other related parties.
Management compensation

The amount of compensation subject to regional coefficient and Northern allowance (salary for the reporting period with taxes and other obligatory budget and non-budget payments accrued, annual paid leave for the work performed in the reporting period and similar payments) to the key management personnel (9,262 people in 2012 and 9,008 people in 2011), including subsidiaries and structural units of the company, authorised to plan and control the Group's operations. In 2012 and 2011, compensation equaled RUB 26,665 million and RUB 19,873 million, respectively. Pension benefits are provided to management personnel on a non-preferential basis.

(in millions of Russian rubles, unless otherwise stated)

10 Cash and cash equivalents

Cash and cash equivalents represent the following:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Cash in hand and at current accounts	12,660	10,648	11,840
- rubles	4,656	5,090	4,827
- foreign currency	8,004	5,558	7,013
Deposits with original maturity under contract less than 3 months	28,304	8,362	12,563
Total	**40,964**	**19,010**	**24,403**

Interest rate range (annual) used to allocate cash and cash equivalents subject to currency rates are presented below.

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Cash at current and correspondent accounts:			
US Dollars	0.10% - 1.00%	0.05% - 1.00%	0.10% - 1.00%
Euro	0.10% - 1.00%	0.10% - 1.00%	0.10% - 1.00%
Rubles	0.10% - 4.52%	0.10% - 5.00%	0.10% - 3.00%
Deposits with original maturity under contract less than 3 months:			
US Dollars	0.10% - 0.40%	0.25% - 1.65%	0.20%
Euro	0.20%	0.55% - 1.80%	0.30%
Rubles	2.70% - 7.75%	2.00% - 9.00%	0.50% - 7.50%

As of 31 December 2012, 2011 and 1 January 2011 cash in the amount of RUB 6,297 million, RUB 5,089 million, RUB 6,470 million or 50%, 48% and 55%, respectively, was placed at current (correspondent) accounts with one high rated bank with international rating A.

As of 31 December 2012, 2011 and 1 January 2011 deposits in the amount of RUB 11,165 million, RUB 3,462 million, RUB 5,444 million or 39%, 41% and 43%, respectively, was placed at current (correspondent) accounts with one high rated bank with international rating BBB.

Analysis of credit quality of the banks used by the Group to allocated cash and equivalents based on external credit ratings assigned to the banks where cash is placed is presented in the table below. The relevant ratings are published by Standard & Poor’s and other credit agencies. The ratings are reconciled with classifications of Standard & Poor’s.

(in millions of Russian rubles, unless otherwise stated)

	At 31 December 2012	At 31 December 2012	At 1 January 2011.
Cash in hand	1,929	1,793	1,659
Central bank	2,854	814	2,670
Commercial banks			
Rating from A- to A+	9,099	7,467	8,813
Rating from BBB- to BBB+	24,450	6,992	7,416
Rating from BB- to BB+	1,948	974	1,300
Rating from B- to B+	276	559	2,384
No rating	408	411	161
Total	**40,964**	**19,010**	**24,403**

Cash with limited use represent obligatory reserves of the Group's bank at RF Central Bank accounts.

Cash and equivalents analysis based on currency breakdown is presented in Note 32.

11 Placed deposits

Placed deposits comprise the following:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Bank deposits			
short-term	327,533	380,212	278,197
long-term	552,072	460,346	330,893
Total	**879,605**	**840,558**	**609,090**

Placed cash represents short-term and long-terms bank deposits. Interest is paid mainly together with return of the principal amount to the current account. In accordance with deposit agreement, the Group loses its right for rebate in case of early return of the principal amount.

The amount of deposits interest received at current accounts of the Group for 2012 is RUB 27,661 million (for 2011: RUB 19,390 million).

The fair value of deposits is disclosed in Note 33.

The banks used to allocate deposits are disclosed below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
OJSC “Sberbank Of Russia”	383,921	286,961	216,325
CJSC Unicredit Bank	168,891	168,469	70,037
“Gazprombank” OJSC	168,813	173,538	151,217
“VTB Bank” OJSC	135,597	170,918	90,192
Other commercial banks of Russia	22,383	40,672	81,319
Total	**879,605**	**840,558**	**609,090**

The Group’s risk management in placing temporarily free cash into deposits is presented in Note 32.

Analysis of credit quality of the banks used by the Group to allocated deposits based on external credit ratings assigned to the banks where cash is placed is presented in the table below. The relevant ratings are published by Standard & Poor’s and other credit-rating agencies. The ratings are reconciled with classifications of Standard & Poor’s:

(in millions of Russian rubles, unless otherwise stated)

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Rating BB and higher	877,154	838,844	598,345
Rating B	2,231	1,714	10,575
No rating	220	-	170
Total	**879,605**	**840,558**	**609,090**

Since the Group places cash in deposits with high rated banks, there are no evidences of investment impairment related to the mentioned deposits.

Interest rate range (annual) used to place deposits subject to currency rates are presented below.

	At 31 December 2012	At 31 December 2011	At 1 January 2011
US Dollars	3.64% - 6.35%	2.42% - 6.35%	1.6% - 5.8%
Euro	3% - 4.41%	3% - 4.5%	3% - 4.6%
Rubles	5.18% - 9.6%	3% - 9%	2.2% - 13.5%

The classification of deposits by currency and time remained till deposit withdrawal as of 31 December 2012 is presented below: Ruble denominated amounts of deposits are presented as of the reporting date.

	US Dollars	Euro	Rubles
with maturity less than 30 days	21,778	96,381	216
with maturity more than 30 days, but less than 90 days	12,154	20,354	1,046
with maturity more than 90 days, but less than 180 days	110,160	13,369	1,016
with maturity more than 180 days, but less than 270 days	22,844	5,128	1,161
with maturity more than 270 days, but less than 365 days	21,267	-	659
with maturity more than 365 days	551,976	-	96
Total bank deposits	**740,179**	**135,232**	**4,194**

The classification of deposits by currency and time remained till deposit withdrawal as of 31 December 2011 is presented below:

	US Dollars	Euro	Rubles
with maturity less than 30 days	29,000	-	188
with maturity more than 30 days, but less than 90 days	17,594	571	662
with maturity more than 90 days, but less than 180 days	89,324	34,917	1,385
with maturity more than 180 days, but less than 270 days	129,938	26,475	260
with maturity more than 270 days, but less than 365 days	27,387	21,627	884
with maturity more than 365 days	325,379	134,967	0
Total bank deposits	**618,622**	**218,557**	**3,379**

The classification of deposits by currency and time remained till deposit withdrawal as of 01 January 2011 is presented below:

	US Dollars	Euro	Rubles
with maturity less than 30 days	433	10,485	320
with maturity more than 30 days, but less than 90 days	26,660	18,044	531
with maturity more than 90 days, but less than 180 days	37,657	4,178	6,685
with maturity more than 180 days, but less than 270 days	96,736	27,638	478
with maturity more than 270 days, but less than 365 days	45,757	2,009	586
with maturity more than 365 days	293,574	37,319	-
Total bank deposits	**500,817**	**99,673**	**8,600**

The management believes that in the foreseeable future the Group will not need to withdraw funds from financial instruments including those needed to fund expenses which were not recorded in the consolidated budget for the year of 2013 (Note 32).

(in millions of Russian rubles, unless otherwise stated)

12 Receivables

Accounts receivable include:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Trade receivable	77,992	79,423	63,844
Impairment provision	(261)	(221)	(197)
Other receivable	3,338	4,998	3,215
Impairment provision	(167)	(423)	(511)
Total accounts receivable	**80,902**	**83,777**	**66,351**

As at 31 December 2012, 2011 and 1 January 2011, trade receivable to the amount of 77,730 million rubles, 79,201 million rubles, 63,647 million rubles respectively is not overdue or impaired. This receivable consists mainly of trade receivables for oil and refined products.

A provision for impairment of trade receivables and other receivables is estimated to suit the individual customers, speakers fees, subsequent payment of the reporting date (on an individual basis).

Analysis of trade receivables as at 31 December 2012 and period of delay from the due date of repayment is below.

	Amount receivable as at 31 December 2012	Amount of personal provision as at 31 December 2012	Amount receivable excluding provision as at 31 December 2012
Receivables from customers			
not past due	77,917	(187)	77,730
up to 6 months	10	(9)	1
from 6 months to 1 year	16	(16)	-
More than 1 year	49	(49)	-
Total	**77,992**	**(261)**	**77,731**
Other receivable			
not past due	3,188	(17)	3,171
up to 6 months	2	(2)	-
from 6 months to 1 year	2	(2)	-
More than 1 year	146	(146)	-
Total	**3,338**	**(167)**	**3,171**

Analysis of trade receivables as at 31 December 2011 and period of delay from the due date of repayment is below:

	Amount receivable as at 31 December 2011	Amount of personal provision as at 31 December 2011	Amount receivable excluding provision as at 31 December 2011
Receivables from customers			
not past due	79,393	(192)	79,201
up to 6 months	1	-	1
from 6 months to 1 year	-		-
More than 1 year	29	(29)	-
Total	**79,423**	**(221)**	**79,202**
Other receivable			
not past due	4,760	(185)	4,575
up to 6 months	-	-	-
from 6 months to 1 year	193	(193)	-
More than 1 year	45	(45)	-
Total	**4,998**	**(423)**	**4,575**

(in millions of Russian rubles, unless otherwise stated)

Analysis of trade receivables as at 1 January 2011 and period of delay from the due date of repayment is below:

	Amount receivable as at as at 1 January 2011	**Amount of personal provision as at 1 January 2011**	**Amount receivable excluding provision as at 1 January 2011**
Receivables from customers			
not past due	63,814	(167)	63,647
up to 6 months	-	-	-
from 6 months to 1 year	-	-	-
More than 1 year	30	(30)	-
Total	**63,844**	**(197)**	**63,647**
Other receivable			
not past due	3,173	(469)	2,704
up to 6 months	5	(5)	-
from 6 months to 1 year	-	-	-
More than 1 year	37	(37)	-
Total	**3,215**	**(511)**	**2,704**

As at 31 December 2012, 2011 and 1 January 2011 trade and other receivables were denominated in the following currencies:

	At 31 December 2012	**At 31 December 2011**	**At 1 January 2011**
Russian ruble	10,567	12,437	9,192
US Dollars	70,293	71,287	57,058
Euro	42	53	101
Total	**80,902**	**83,777**	**66,351**

Receivable distributed geographically as follows:

	At 31 December 2012	**At 31 December 2011**	**At 1 January 2011**
Russia	10,567	12,437	9,192
Europe	58,017	57,838	52,656
Asia	12,269	13,501	4,132
CIS countries	49	1	371
Total	**80,902**	**83,777**	**66,351**

Analysis of changes in the impairment provision of trade and other receivables for 2012 and 2011 is presented below:

	Trade receivable	**Other receivable**
Impairment provision of accounts receivable as at 1 January 2011	**(197)**	**(511)**
Impairment provision of accounts receivable charged	(25)	(93)
Impairment provision of accounts receivable used	1	8
Impairment provision of accounts receivable recovered	-	173
Impairment provision of accounts receivable as at 31 December 2011	**(221)**	**(423)**
Impairment provision of accounts receivable charged	(45)	(41)
Impairment provision of accounts receivable used	3	135
Impairment provision of accounts receivable recovered	2	162
Impairment provision of accounts receivable as at 31 December 2012	**(261)**	**(167)**

(in millions of Russian rubles, unless otherwise stated)

On 31 December, 2012 the Group had four (2011: three) main debtors, with at least 10 percent of total accounts receivable. These debtors provide about 10% of Group's revenue for 2012 (for 2011: 20%).

13 Advances issued

Advances issued include:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Export custom duties	19,354	19,005	14,573
Oil transport	4,399	8,625	3,696
Other advances issued	4,314	5,365	3,567
Total	**28,067**	**32,995**	**21,836**

14 Loans granted

Long-term and short-term loans granted are represented by loans of Group's Bank ZAO "SNGB":

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Current loans	19,789	18,116	15,109
Overdue credits	5,567	3,654	4,666
Impairment provision	(3,084)	(3,240)	(3,216)
Total loans granted	**22,272**	**18,530**	**16,559**

Analysis of changes in loan impairment provision is presented below:

	2012	2011
Impairment provision at 1 January	**3,240**	**3,216**
allocations to provision / (impairment recovery)	(156)	24
Impairment provision at 31 December	**3,084**	**3,240**

Interest loan cost by currency is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Rubles	11,87%	11,78%	11,65%
US Dollars	4,83%	7,89%	7,81%
Euro	9,50%	9,50%	9,50%

Analysis of loans by currency and maturity, analysis of the credit quality and analysis of the fair value of the collateral are disclosed in Note 32.

(in millions of Russian rubles, unless otherwise stated)

15 Inventories

Inventories include:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Oil and refined products	10,154	8,966	6,251
Impairment provision	(11)	(29)	(17)
Materials and supplies	35,575	30,411	23,399
Impairment provision	(1,942)	(2,260)	(1,052)
Other reserves	6,599	5,954	4,651
Impairment provision	(126)	(393)	(204)
Goods for resale	1,163	1,005	1,280
Impairment provision	(3)	(1)	(8)
Work in progress	1,067	937	790
Gas and gas processing products	58	88	35
Total	**52,534**	**44,678**	**35,125**

(in millions of Russian rubles, unless otherwise stated)

16 Property, plant and equipment

	Oil and gas exploration and production	Refining and sale	Other properties	Construction in progress	Total
Deemed cost at 1 January 2011	466,842	100,169	84,372	64,423	715,806
Construction and proceeds	106,178	4,499	883	32,499	144,059
Reclassifications	-	6,024	7,173	(13,197)	-
Change in provision for liabilities related to disposals of assets	12,775	-	-	-	12,775
Disposals, retirements and other movements	(4,236)	(152)	(1,735)	(1,418)	(7,541)
Historical cost at 31 December 2011	581,559	110,540	90,693	82,307	865,099
Construction and proceeds	138,958	1,719	449	30,530	171,656
Reclassifications	-	21,880	4,821	(26,701)	-
Change in provision for liabilities related to disposals of assets	8,985	-	-	-	8,985
Disposals, retirements and other movements	(5,557)	(237)	(1,616)	(354)	(7,764)
Historical cost at 31 December 2012	723,945	133,902	94,347	85,782	1,037,976
Accumulated depletion, depreciation and amortisation at 1 January 2011					
Charge for the period	(35,351)	(9,192)	(11,302)	-	(55,845)
Disposals, retirements and other movements	281	49	535	-	865
Accumulated depletion, depreciation and amortisation at 31 December 2011	(35,070)	(9,143)	(10,767)	-	(54,980)
Charge for the period	(40,107)	(11,910)	(11,197)	-	(63,214)
Disposals, retirements and other movements	339	81	274	-	694
Accumulated depletion, depreciation and amortisation at 31 December 2012	(74,838)	(20,972)	(21,690)	-	(117,500)
Carrying value at 1 January 2011	466,842	100,169	84,372	64,423	715,806
Carrying value at 31 December 2011	546,489	101,397	79,926	82,307	810,119
Carrying value at 31 December 2012	649,107	112,930	72,657	85,782	920,476

Construction in progress mainly refers to the process of capital construction. As at 31 December 2012, 2011 and 1 January 2011 property, plant and equipment included advances for purchase and construction of plant and equipment in the amount 17,816 million rubles, 3,457 million rubles and 4,460 million rubles, respectively.

(in millions of Russian rubles, unless otherwise stated)

At each date of the consolidated financial statements, management estimates of a decline of the recoverable value of the assets at their carrying value. As of 31 December, 2012 and 2011, no impairment of property, plant and equipment has been identified.

Depreciation on Property, plant, and equipment includes the amount capitalised in construction in progress for 2012 and 2011 in the amount of 16,886 million rubles and 16,227 million rubles respectively.

Assets of exploration and evaluation included in the cost of property, plant and equipment over the period changed as follows:

	2012	2011
As of 1 January	**28,233**	**21,171**
Capitalised costs	11,778	13,528
Reclassified to property, plant and equipment	(3,216)	(3,791)
Written off for current expenses	(2,681)	(2,675)
As of 31 December	**34,114**	**28,233**

The cost of oil and gas exploration and production licenses included in property, plant and equipment for exploration and production changed as follows:

	2012	2011
Historical cost at 1 January	15,355	15,674
Accumulated depreciation	(1,349)	(1,257)
Carrying value at 1 January	**14,006**	**14,417**
Proceeds	14,604	14
Disposals	(1,069)	(333)
Depreciation charge	(128)	(92)
Carrying value at 31 December	**27,413**	**14,006**

(in millions of Russian rubles, unless otherwise stated)

17 Intangible assets

	Software	Goodwill	Other	Total
Historical cost				
At 1 January 2011	4,667	5,788	316	10,771
Proceeds	579	-	88	667
Disposal	(148)	-	(60)	(208)
At 31 December 2011	5,098	5,788	344	11,230
Proceeds	962	-	32	994
Disposal	(826)	-	(45)	(871)
At 31 December 2012	5,234	5,788	331	11,353
Depreciation and Impairment loss				
At 1 January 2011	(2,189)	-	(80)	(2,269)
Accumulated depreciation	(677)	-	(27)	(704)
Disposal	146	-	2	148
At 31 December 2011	(2,720)	-	(105)	(2,825)
Accumulated depreciation	(955)	-	(66)	(1,021)
Disposal	765	-	47	812
At 31 December 2012	(2,910)	-	(124)	(3,034)
Net carrying value at 1 January 2011	**2,478**	**5,788**	**236**	**8,502**
Net carrying value at 31 December 2011	**2,378**	**5,788**	**239**	**8,405**
Net carrying value at 31 December 2012	**2,324**	**5,788**	**207**	**8,319**

At each date of the consolidated financial statements, management estimates of a decline of the recoverable value of the assets at their carrying value. As of 31 December, 2012 and 2011, no impairment of intangible assets has been identified.

Goodwill

As at 31 December 2012, 2011 and 1 January 2011 the amount goodwill was allocated to "Refining and distribution" segment. This goodwill is recognised in connection with the merger of the Company with its subsidiaries (Note 6).

The discount rate used reflects the current balance sheet date market assessments of the time value of money and CGU industry risks which for 2012 and 2011 amounted to: 10.6% and 9.7% respectively.

As of 31 December, 2012 and 2011, no impairment of goodwill has been identified.

As of 31 December, 2012 and 2011 and 1 January, 2011, the Company had no intangible assets with indefinite useful lives (excluding goodwill).

18 Investments in associates

As at 31 December 2012, 2011 and 1 January 2011 the Group has the following equity-accounted investments in associated companies:

(in millions of Russian rubles, unless otherwise stated)

JSC "National Media Group" (NMG)

The Group's interest in the capital of NMG as at 31 December 2012, 2011 and 1 January, 2011 was 26.22%. NMG is an investment company with investments in companies involved in television and radio broadcasting in Russian Federation, printing of periodicals (newspaper) as well as in other companies. The carrying amount of the investment at 31 December 2012, 2011 and 1 January 2011 amounted to 6,199 million rubles, 6,426 million rubles and 4,184 million rubles respectively.

LLC “National Oil Consortium” (NOC)

The Group's interest in the capital of NOC as at 31 December 2012, 2011 and 1 January, 2011 was 20%. LLC “National Oil Consortium” provides the financial support to the project of geological exploration of Junin-6 block in Venezuela, which is implemented jointly with the subsidiary of Venezuela's state oil company - Petroleos de Venezuela S.A. The carrying amount of the investment at 31 December 2012, 2011 and 1 January 2011 amounted to 3,607 million rubles. For 2012 and 2011 the Group’s share of profit and loss in the associate was not recognised (Note 34).

19 Other financial assets

Short-term and long-term financial assets include:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Short-term financial assets			
Financial assets recorded at fair value with allocation of changes to profit and loss	421	367	54
Financial assets available-for-sale	1,142	272	1,019
Held-to-maturity investments	1,416	199	244
Total short-term financial assets	**2,979**	**838**	**1,317**
Long-term financial assets			
Financial assets recorded at fair value with allocation of changes to profit and loss	500	606	1,015
Financial assets available-for-sale	7,450	7,510	74,185
Held-to-maturity investments	-	6,406	-
Total long-term financial assets	**7,950**	**14,522**	**75,200**

Financial assets recorded at fair value with allocation of changes to profit and loss

The structure of financial assets recorded at fair value with allocation of changes to profit and loss is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Corporate bonds	345	239	247
Corporate eurobonds	274	490	532
Government bonds	257	243	254
Municipal bonds	44	-	35
Shares	1	1	1
Total financial assets recorded at fair value with allocation of changes to profit and loss	**921**	**973**	**1,069**

Corporate shares are presented by securities denominated in Russian rubles issued by Russian companies and are listed on Moscow Interbank Currency Exchange (MICEX).

Corporate Eurobonds are presented by interest bearing securities denominated in US dollars and euro issued by major Russian companies and are freely tradable on the international market.

(in millions of Russian rubles, unless otherwise stated)

Government securities are federal loan bonds (FLB), issued by the Ministry of Finance of the Russian Federation denominated in Russian rubles.

As of 31 December, 2012, 2011, and 1 January, 2011 the value of securities held in trust was 183 million rubles, 316 million rubles and 199 million rubles respectively.

Analysis of securities recorded at fair value with allocation of changes to profit and loss by currency and maturity is presented Note 32.

Financial assets available-for-sale

The structure of financial assets available-for-sale is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Shares			
«MOL Magyar jiaj Gazipari Hyilvanosan Mukado Reszvenytarsasag» (MOL Magyar)	-	-	67,170
JSC "National Telecommunications"	-	-	3,554
other	5,475	5,680	1,881
Contributions into charter capitals	74	74	74
Corporate bonds	1,782	450	64
Government bonds	610	614	485
Corporate eurobonds	444	393	315
Municipal bonds	207	264	238
Investments into mutual investment funds	-	307	411
Bank of Russia bonds	-	-	1,012
Total financial assets available-for-sale	**8,592**	**7,782**	**75,204**

At 1 January 2011 The Company had a stake in the equity capital of the company MOL Magyar in the amount of 21,2% and a share in JSC "National Telecommunications" in the amount of 10%. The Group had no significant influence on investees. The Group’s management has classified this investment in the category "Financial assets available-for-sale".

The movement on financial assets available-for-sale is presented below:

	2012	2011
Carrying value at 1 January	**7,782**	**75,204**
Acquisition	2,755	5,295
Redemption / sale	(2,012)	(72,570)
Accrued interest income	116	144
Interest received	(115)	(123)
Exchange differences	(34)	40
Gains / Losses from revaluation at fair value	100	(208)
Carrying value at 31 December	**8,592**	**7,782**

In 2011 the shares of MOL Magyar were sold. Revenue from sales of these shares amounted to 75,785 million rubles, and is reflected in the consolidated income statement and other comprehensive income for 2011. Profit from the sale is stated in the consolidated income statement and other comprehensive income in the amount of 8,615 million rubles.

In 2011 the Group sold the shares of JSC "National Telecommunications". Revenue from sales of these shares amounted to 3,889 million rubles, and is reflected in the consolidated income statement and other comprehensive income for 2011. Profit from the sale is stated in the consolidated income statement and other comprehensive income in the amount of 335 million rubles.

(in millions of Russian rubles, unless otherwise stated)

The movement on financial assets available-**for-**sale is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Government bonds	122	113	118
Central Bank of Russia bonds	-	-	1,012
Russian banks			
With rating from BBB- to BBB+ (S&P)	861	324	240
With rating from B- to BB+ (S&P)	1,272	1,067	1,067
Without rating	1	1	1
Foreign companies without rating	4,218	4,218	67,170
Russian companies			
With rating from BBB- to BBB+ (S&P)	1,404	849	496
With rating from B- to BB+ (S&P)	275	330	234
With rating from CCC to CCC+ (S&P)	157	-	-
Without rating	282	880	4,866
Total financial assets available-for-sale	**8,592**	**7,782**	**75,204**

During 2012 and 2011 there was no impairment of securities.

Analysis of financial assets available-for-sale, by currency is presented in Note 32.

Held-to-maturity investments

Structure of investments held to maturity is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Government bonds	888	-	-
Corporate eurobonds	498	66	-
Corporate bonds	6	69	25
Municipal bonds	24	64	-
Bills of exchange	-	6,406	219
Total Held-to-maturity investments	**1,416**	**6,605**	**244**

The movement in investments held to maturity is presented below:

	2012	2011
Carrying value at 1 January	**6,605**	**244**
Proceeds	2,021	7,738
Disposal / redemption	(7,151)	(1,441)
Accrued interest income	339	44
Interest received	(370)	(23)
Exchange differences	(71)	87
Gains (losses) from reflection at ammortised cost	43	(44)
Carrying value at 31 December	**1,416**	**6,605**

(in millions of Russian rubles, unless otherwise stated)

The information on credit risk on investments held to maturity is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Government and municipal bonds	912	66	-
Russian banks			
With rating from BBB- to BBB+ (S&P)	246	-	-
With rating from B- to BB+ (S&P)	86	-	170
Without rating	-	-	48
Russian companies			
With rating from BBB- to BBB+ (S&P)	172	133	26
With rating from B- to BB+ (S&P)	-	-	-
Without rating	-	6,406	-
Total held-to-maturity investments	**1,416**	**6,605**	**244**

The information on fair value of investments held to maturity is presented in Note 33.

Analysis of investments held to by maturity by, currency is presented in Note 32.

20 Payables and accrued liabilities

Accounts payable and accrued liabilities include:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Accounts payable to employees of the Company	22,151	20,118	17,465
Trade payables	8,006	7,514	6,924
Accounts payable for acquired fixed assets	5,302	5,291	4,300
Other accounts payable	765	842	739
Accounts payable for dividends	464	381	501
Total accounts payable and accrued liabilities	**36,688**	**34,146**	**29,929**
Including the financial part of the accounts payable	14 537	14 028	12 464

Accounts payable are denominated mainly in rubles.

Analysis of the financial part of the accounts payable by currency and maturity is disclosed in Note 32.

(in millions of Russian rubles, unless otherwise stated)

21 Other financial liabilities

Other short-term and long-term financial liabilities are current accounts and customer deposits of ZAO SNGB. Detailed information is presented below:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Current/settlement accounts and demand accounts	8,892	8,252	8,011
Fixed deposits and long-term deposits	8,498	4,975	10,226
Fixed deposits and short-term deposits	9,430	6,828	4,918
Total other financial liabilities	**26,820**	**20,055**	**23,155**

Interests on deposits are charged at rates ranging from 0.1 to 10.7% in rubles and from 0.3 to 5% in foreign currency. Interests on operating and current accounts are from 0 to 1.5% in rubles and from 0 to 0.1% in foreign currency.

As of 31 December, 2012, 2011, and 1 January, 2011 liabilities denominated in U.S. dollars, amounted to 1,363 million rubles, 1,789 million rubles, 5,843 million rubles respectively, liabilities denominated in euro - 683 million rubles, 465 million rubles, 705 million rubles respectively.

Analysis of other financial liabilities by currency and maturity is disclosed in Note 32.

22 Other tax liabilities

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Value added tax	1,825	1,396	1,964
Property tax	2,403	2,119	1,968
Mineral extraction tax	20,825	20,265	16,487
Other	4,910	3,447	2,510
Total other tax liabilities	**29,963**	**27,227**	**22,929**

23 Provisions for liabilities and charges

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Liabilities related to disposals of assets	53,081	43,164	29,573
Pension obligations	15,382	9,967	8,585
Other liabilities	2,071	1,997	1,927
Total	**70,534**	**55,128**	**40,085**

(in millions of Russian rubles, unless otherwise stated)

Asset retirement obligations

Asset retirement obligations represent estimate cost of land recultivation of soil, wells liquidation and liquidation of field facilities.

	2012	2011
Obligations at the beginning of the period	**43,164**	**29,573**
Proceeds	7,006	3,425
Changes in discount rate	-	8,890
Changes in estimates	1,979	460
Change in discount rate	932	816
Obligations at the end of the period	**53,081**	**43,164**

Obligations recognised as of 31 December 2012, 2011 and 1 January 2011 are long-term.

The management assessed the estimated costs based on information available at the reporting date. Upon changes of data the calculations made are adjusted.

Pension obligations

Pension obligations are performed by the Group at the time the employee retired. The right to pension benefits is given to workers who are employed by the Group for not less than 5 years and retired on or after retirement age. The contribution to Non-State Pension Fund “Surgutneftegas” and lump-sum payments depends on length of service, salary level and is defined in the collective agreement.

Expenses recognised in the consolidated income statement and other comprehensive income and liabilities recognised in the consolidated statement of financial position are as follows:

	2012	2011
Obligations at the beginning of the period	**9,967**	**8,585**
Interest liability expenses	578	426
Current service cost	329	279
Benefits paid	(722)	(531)
Actuarial (gain) / loss	5,230	1,208
Obligations at the end of the period	**15,382**	**9,967**

Obligations by maturity are as follows:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Short-term portion	853	490	413
Long-term portion	14,529	9,477	8,172
Total liabilities	**15,382**	**9,967**	**8,585**

Expenses allocated to payrolls:

	2012	2011
Current service cost	329	279
Interest liability expenses	578	426
Actuarial (gain) / loss recognised in the financial year	5,230	1,208
Net expenses on pension benefits	**6,137**	**1,913**

(in millions of Russian rubles, unless otherwise stated)

The main actuarial assumptions at the reporting period have the following weighted averages:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Discount rate	8.56%	8.75%	7.52%
Average long-term increase in employee compensation	4%	4%	5.12%
Rate of inflation and growth of pension	4%	4%	5.12%

24 Equity

Share equity and share premium

As of 31 December 2012, 2011 and 1 January 2011:

Share capital	
Ordinary shares	
Quantity, thousands	35,725,995
Par value (1 ruble per share), million rubles	35,726
Amount adjusted for inflation, million rubles	121,203
Preference shares:	
Quantity, thousands	7,701,998
Par value (1 ruble per share), million rubles	7,702
Amount adjusted for inflation, million rubles	33,463
Share premium	
the amount by which the fair value of funds received exceeded the par value, million rubles	**35,245**
Amount adjusted for inflation, million rubles	**57,809**

At the date of the opening consolidated statement of financial position the charter capital is fully paid. For 2012 and 2011, changes in the capital structure did not occur. The Company did not place any shares.

Treasury shares

As of 31 December, 2012, 2011, and 1 January, 2011, the Group owned 650 thousands of voting shares or less than 1% of the total number of shares repurchased in 2006 for 111 million rubles. Management of the Group controls the voting rights on these shares.

Retained earnings

Retained earnings include the result of recalculation of consolidated financial statement in order to bring to the equivalent the buying capacity of Russian ruble as at 31 December 2002 in accordance with International Financial Reporting Standards (IAS) 29 “Accounting for the effects of hyperinflation”.

Dividends

The Company’s accounting statement prepared in accordance with Russian accounting standards which differ significantly from IFRS consolidated statement serves as basis for the distribution of profits to shareholders. Net profit available for distribution is the net profit for the current year calculated in accordance with the applicable law of Russian Federation and recognised in the Company’s RAS consolidated statement.

On 29 June 2012 the Company declared dividends for the year ended 31 December 2011 in amount of 0.6 ruble for one common share and 2.15 rubles for one preferrence share.

(in millions of Russian rubles, unless otherwise stated)

On 24 June 2011 the annual general meeting of shareholders of the Company declared dividends for the year ended 31 December 2011 in amount of 0.5 ruble for one common share and 1.18 rubles for one preference share.

At the date of this consolidated financial statement, the Company did not declare any dividend for the year ended 31 December 2012.

25 Export duties

	2012	**2011**
Export customs duty on oil and gas sales	333,220	312,678
Export customs duty on oil and gas products	124,555	101,667
Total export customs duty	**457,775**	**414,345**

26 Operating expenses

	2012	**2011**
Taxes excluding income tax	278,076	248,630
Production services	77,460	70,851
Depreciation, depletion and amortisation	47,344	40,320
Selling and storage expenses	63,112	54,558
Employee benefits	73,783	62,556
Utility and electricity expenses	27,420	24,204
Goods for resale	24,846	18,645
Supplies	21,885	17,308
Expenses from disposal of exploration and development assets	2,681	2,675
Changes in inventory and work in progress	(8,514)	(8,932)
Other expenses	10,921	9,869
Total operating expenses	**619,014**	**540,684**

Employee benefits include:

	2012	**2011**
Salary and charges	69,095	60,857
Provision for vacation	1,361	564
Liabilities for benefit plans	3,327	1,135
Total employee benefits	**73,783**	**62,556**

Taxes, other than income tax include:

	2012	**2011**
Mineral extraction tax	253,983	228,146
Excise	14,231	10,724
Property tax	9,174	9,184
Other taxes	688	576
Total taxes excluding income tax	**278,076**	**248,630**

27 Finance income and expenses

	2012	**2011**
Interest receivable	46,233	31,835
Interest income from discounting	489	242
Total finance income	**46,722**	**32,077**

	2012	**2011**
Interest expense from discounting	(1,738)	(2,125)
Interest payable	(917)	(1,008)
Total finance expenses	**(2,655)**	**(3,133)**

In the article “Interest expense from discounting” the amount of discount for placed deposits for 2012 in the amount of 726 million rubles is recognised. (for 2011: 1,207 million rubles).

(in millions of Russian rubles, unless otherwise stated)

28 Income tax

	2012	2011
Current income tax	25,698	51,941
Changes in deferred tax assets/liabilities	17,835	16,828
Income tax expense	**43,533**	**68,769**

In 2012 and 2011, the official rate of Russian income tax was 20%.

Profit before tax recognised in the financial statement refers to income tax expenses as follows:

	2012	2011
Profit before tax	223,678	343,758
Provisional profits tax expense	44,736	68,752
The tax effect of the preferential tax rate	(7,739)	(11,597)
Tax effect of items which are not accounted for tax purposes	6,536	11,614
Income tax expense	**43,533**	**68,769**

Temporary differences arising between the differences of these consolidated financial statements and tax accounting resulted in the following deferred assets and liabilities for income tax for 2012:

	At 31 December 2012	Changes for the period in the income statement	Changes for the period in the other income statement	At 31 December 2011
The tax effect of deductible temporary differences				
Inventories	1,190	(1,383)	-	2,573
Property, plant and equipment	24,397	6,406	-	17,991
Intangible assets	488	180	-	308
Financial assets	1,369	207	-	1,162
Receivables	1,046	32	-	1,014
Accounts payable	95	46	-	49
Other accruals and additional charges	4,362	1,729	-	2,633
Deferred tax assets	**32,947**	**7,217**	**-**	**25,730**
Set off deferred tax assets / (liabilities)	(32,308)	(7,196)	-	(25,112)
Total deferred tax assets	**639**	**21**	**-**	**618**
The tax effect of taxable temporary differences				
Inventories	(978)	732	-	(1,710)
Property, plant and equipment	(103,259)	(23,977)	-	(79,282)
Intangible assets	(3,008)	(145)	-	(2,863)
Financial assets	(888)	(283)	(13)	(592)
Receivables	(5,084)	(952)	-	(4,132)
Accounts payable	(132)	(49)	-	(83)
Other accruals and additional charges	(750)	(378)	-	(372)
Deferred tax liabilities	**(114,099)**	**(25,052)**	**(13)**	**(89,034)**
Set off deferred tax assets / (liabilities):	32,308	7,196	-	25,112
Total deferred tax assets	**(81,791)**	**(17,856)**	**(13)**	**(63,922)**

(in millions of Russian rubles, unless otherwise stated)

Temporary differences arising between the differences of these consolidated financial statements and tax accounting resulted in the following deferred assets and liabilities for income tax for 2011:

	At 31 December 2011	Changes for the period in the income statement	Changes for the period in the other income statement	At 1 January 2011
The tax effect of deductible temporary differences				
Inventories	2,573	802	-	1,771
Property, plant and equipment	17,991	12,162	-	5,829
Intangible assets	308	199	-	109
Financial assets	1,162	283	50	829
Receivables	1,014	552	-	462
Accounts payable	49	34	-	15
Other accruals and additional charges	2,633	280	-	2,353
Deferred tax assets	**25,730**	**14,312**	**50**	**11,368**
Set off deferred tax assets / (liabilities)	(25,112)	(14,172)	-	(10,940)
Total deferred tax assets	**618**	**140**	**50**	**428**

The tax effect of taxable temporary differences				
Inventories	(1,710)	(357)	-	(1,353)
Property, plant and equipment	(79,282)	(28,476)	-	(50,806)
Intangible assets	(2,863)	(670)	-	(2,193)
Financial assets	(592)	(581)	-	(11)
Receivables	(4,132)	(985)	-	(3,147)
Accounts payable	(83)	(38)	-	(45)
Other accruals and additional charges	(372)	(33)	-	(339)
Deferred tax liabilities	**(89,034)**	**(31,140)**	**-**	**(57,894)**
Set off deferred tax assets / (liabilities)	25,112	14,172	-	10,940
Total deferred tax assets	**(63,922)**	**(16,968)**	**-**	**(46,954)**

On 31 December 2012, 2011 and January 1, 2011 the Group did not recognise a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as management believes that the zero rate of tax levied at source of income in respect of a dividend will be applied in the distribution of dividends.

(in millions of Russian rubles, unless otherwise stated)

29 Earnings per share

The calculation of rate of basic earnings per share as of 31 December 2012 and 2011 was made based on the profit attributable to ordinary shareholders and the weighted average number of outstanding common shares, which amounted to 35,725,995 thousand shares, as shown below. The Company has no potential ordinary shares that have a dilutive effect.

	2012	**2011**
Shares outstanding at 31 December, thousands	35,725,995	35,725,995
Effect of treasury shares, thousands	(650)	(650)
Weighted average number of shares for the year ended 31 December, thousands	**35,725,345**	**35,725,345**
Profit for the year attributable to shareholders	**180,115**	**274,979**
Amount of dividends payable on preferred shares, million rubles	(11,399)	(16,559)
Basic and diluted earnings per share, rubles	4.72	7.23

30 Contractual assets and contingencies

Court proceedings

As of the reporting date the Group is a party to legal proceedings related to Group's operations. The Group's management believes that the results of these lawsuits will not affect the business operations and financial condition of the Group.

Tax exposure

Due to the constant changes in the tax system of the Russian Federation relating to the improvement of tax control mechanisms and regulation, the Group is exposed to tax risks associated with the occurrence of uncertain tax positions as a result of uncertainty in the interpretation of tax legislation.

Due to changes in legislation relating to transfer pricing, from 1 January 2012, the Group complies with the requirements of the new law and is subject to risks related to transfer pricing. Management believes that the risks associated with transfer pricing does not have a material impact on the consolidated financial statements.

In accordance with the tax legislation in 2012 for the calculation and payment of income tax The Group has established a consolidated group of taxpayers above the tax. The participants of the consolidated group of taxpayers are the Company and its 6 subsidiaries. The Company is a responsible member of the consolidated group of taxpayers, who is given the responsibility for the calculation and payment of corporate income tax for the consolidated group of taxpayers. Management believes that the redistribution of the tax burden in the total for the Group for the purposes of the consolidated financial statements in connection with the creation of a consolidated group of taxpayers has not changed significantly.

Management believes that the Group fully complies with applicable tax legislation, so the results of tax audits are not affected and cannot be significantly affected the business activities and financial position of the Group.

Capital expenditure commitments

On 31 December 2012, 2011 and January 1, 2011 the Group had capital commitments related to the construction of integrated refining LLC "KINEF" in the amount of 8,259 million rubles, 13,305 million rubles, 23,203 million rubles respectively.
The obligations existing as of 31 December 2012 are subject to execution within 2013.

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Operating lease commitments

Operating leases have varying terms and mainly represent leases of land.
The total amount of operating lease expenses for the year 2012 amounts to 1,273 million rubles. (2011: 839 million rubles), And included in the Group's operating expenses. The future minimum lease payments are not in accordance with the annihilation of operating leases as of 31 December, 2012:

	2012	2011
Less than 1 year	1,113	1,030
Between 1 and 5 years	3,931	3,461
More than 5 years	29,236	26,747
Total future minimum lease payments	**34,280**	**31,238**

Environmental issues

The Group complies with all the environmental standards and legal requirements. The management believes that the Group efficiently minimises environmental risks by following industry standards and requirements, continuously monitoring its production facilities, employing modern machinery, technology and equipment, and improving employees’ HSE expertise.

31 Operational risks

(a) Business conditions

The actions of the Group are vulnerable to the industry risks which are typical of oil and gas sector. Strengthening competition, shortage of transportation capacity in respect of oil and petrochemical products, technological and environmental risks may considerably affect the income of the Group.

The Group is limited in terms of selection of the counterparties engaged in transportation of crude oil and petroleum products. Product transportation is carried out via the main trunk pipeline system of OJSC “AK “Transneft” and OJSC ”AK “Transnefteproduct”, and vie railway communications of OJSC ”Russian Railways” (OJSC ”RZD”). Lagging of infrastructure development in new regions where hydrocarbons are being produced, obsolescence of the current transport system and other infrastructural defects may cause delays in the delivery of supplies and equipment, the cost increase of the development of new fields and the extension of the delivery period and increase in charge.

Under the circumstances of inventory reduction and depletion of fields in the traditional areas of crude production, the growing competition risks among oil companies for the access to the green fields may produce a profound influence on the operating results of the Group. Strengthening competition for fresh resources will result in increasing liabilities of the Group in respect of additional investments in infrastructure of crude production areas, rising of license acquisition costs, and decreasing profitability of new investment projects being implemented.

The development of hard-to-recover oil reserves increases the technological and environmental risks. The Group applies the up-to-date production technologies which provide minor risks of technological emergencies and meet all the requirements of the current environmental safety legislation.

Since the Group conducts its business in the Russian Federation territory, the unfavourable development of the Russian economy may have a negative effect on the income of the Group. Low rates of economic growth in the USA as well as the budget deficit and the start of the recession in Europe may affect the economic situation of the Russian Federation in a negative way. The Group continuously monitors risks connected with the macroeconomics degradation in the Russian economy and takes measures to minimize their negative influence on the financial results of its business.

The Group carries on its business in the regions of the solid economic situation, stable political and social conditions. The Group fulfils its obligation on salary, tax payments and other binding payments in time and in full, supports the development of infrastructure and creates new employment. Thus, the risks connected with unfavourable changes of economic, political and social situations in the regions of the Group’s presence are minimal.

Natural disasters, earthquakes are not typical of the regions of the Group’s presence. Besides, oil production is performed in the regions of severe weather conditions and underdeveloped infrastructure. It may cause extra risks connected with the delivery of supplies and equipment and the transportation of the employees to the fields. The Group does its best to minimise these risks by developing its own transport infrastructure as well as by elaborate planning of the material and technical needs and the development of the logistics system. There is some risk of delays in shipment of goods because of storms and difficult ice conditions in the ports of hydrocarbon shipment on the Black Sea, the Baltic Sea and the Sea of Japan. To mitigate the potential damage caused by these risks the Group tries to diversify routes and methods for the delivery of hydrocarbons.

(b) Legal risks

When carrying out its operations, the Group complies with the requirements of the applicable law.

The major legal risks, among which the currency and customs regulation risks, changes in the tax legislation, antimonopoly regulation and licensing of core operations, may substantially affect the Group's business.

The Group performs foreign trade operations by exporting crude oil and refined products. Negative changes related to the currency control legislation may adversely affect cash flow and profit. The Group carries out an ongoing monitoring of changes in this sphere which are under consideration to minimise adverse effect.

The Group is exposed to the risk of the possible changes in the customs and tax regulations. Higher export duties for crude oil and petroleum products, the complication of customs clearance procedures, the insufficient stability of the taxation system, the increase of tax burden in the sphere of oil production and refining and marketing sector may affect the financial performance of the Group in an unfavourable way. The Group fulfills its obligations on tax payment and other binding payments in full at all levels of the budget system of the Russian Federation.

There exists the risk of increasingly stringent antimonopoly law with regard to sales of oil products in the domestic market of the Russian Federation. The Government regulation as to the scheme of operations in the petroleum product market and restrictions on the share of oil producers at regional petroleum product markets may produce a negative influence on the financial results of the Group. The Group runs its business on the basis of the free competition principle in accordance with the applicable antimonopoly law of the Russian Federation and participates in marketing of oil products on St. Petersburg International Mercantile Exchange and Moscow International Commodity and Power Exchange.

The Group operates on the basis of licenses for subsoil use. Any changes in licensing requirements and procedures may have adverse consequences for the Group because of a more time-consuming process required to prepare the necessary documents for getting subsoil license.

To mitigate the negative influence of the legal risks the Group runs its business under strict adherence to the requirements of the applicable law and license agreements and fulfills obligations to the partners and regions of its presence.

32 Capital and financial risk management

The Group‘s business exposes it to a variety of factors having an unfavourable influence on the financial and business activities. Financial, legal and industry risks are the most significant risks. The risk management program seeks to minimise potential adverse effects and to provide sufficient assurance of the Group’s goals achievement.

To optimise risks the Group takes constant measures for establishing the general methodology intending to identify, analyse, assess and monitor risks and to develop and implement technologies which can provide the Group’s continuous activity.

The Group carries out the management of financial risks pertaining to credit, market and liquidity risks.

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The Group does not hedge financial risks, but it indemnifies some of its assets and transactions against obligation risks.

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is characterised by the partial or complete insolvency of a counterparty. Cash and cash equivalents, deposits and accounts receivable are mainly vulnerable to the credit risk.

The Group goes by approved rules of depositing while placing the temporarily free cash in deposits with the banks. The Group had developed the methodology for the assessment of the financial position of the banks that includes the analysis of the following criteria: the financial performance, the capital structure, the portfolio credit quality (past-due debts, the size of the provision made), the compliance of the norms with the accepted standards, the share capital structure, the ratings given by the independent agencies. The assessment of financial position of the banks, where the deposits are placed, is carried out during the period when the decision to deposit by the Group is taken and regularly during the maturity period. On the basis of this assessment the Group determines the reliability of the banks, where the deposits are placed, as high, and, therefore, the management of the Group considers that there are no impairment indicators of investments in deposits on the reporting date (Note 11).

While concluding a contract the Group evaluates the creditworthiness of the customer, his financial position and credit history. Afterwards the Group monitors the current liability on a revolving basis and takes measures for its redemption.
The Group applies the letter of credit payment method to settle with debtors that substantially reduce the credit risk.

The Group monthly performs a unified analysis of the accounts receivable. Additional monitoring is given to the revealed dubious and past due receivables.

The redemption of the receivables could be influenced by economic factors, but management believes that there is no significant risk of loss to the Group exceeding the formed provision for the impairment of receivables.

Management of the credit risk of the loan portfolio, granted by the bank ZAO SNGB, is carried out by way of the volume limitation of credit operations as well as portfolio diversification according to the sectors and regions, the change of the amount and kind of the collateral, reservation as provided by the internal regulatory documents and the development of the optimal conditions for restructuring loans.

Credit analysis by the credit quality is presented below:

	At 31 December 2012	**At 31 December 2011**	**At 1 January 2011**
Due and unimpaired credits:			
Borrowers with a credit history less than 1 year	11,372	8,249	6,344
Borrowers with a credit history between 1 and 3 years	6,927	3,359	4,204
Borrowers with a credit history more than 3 years	1,490	6,508	4,561
Overdue and impaired credits:			
Payment without delay	1,958	432	13
Payment delay less than 30 days	65	128	161
Payment delay between 30 and 360 days	585	509	784
Payment delay more than 360 days	2,959	2,585	3,708
Total credits before impairment of the credit portfolio	**25,356**	**21,770**	**19,775**

Collateralised overdue credits as of 31 December 2012, 2011 and 1 January 2011 equal RUB 1,768 million, RUB 1,396 million and RUB 6,590 million.

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Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group carries out the unified budgetary policy to manage liquidity and maintain it on the sound level. Under implementation of this policy the Group has developed the uniform regulatory and methodological instruments, order documents, and performs forming, monitoring and analysis of the short-term consolidated budgets for a year, a quarter, a month, a ten-days period or a day. One of the main objectives of the budgetary policy is to minimise liquidity risk by way of ensuring the due payment on current and investment activities of the Group. The achievement of this objective suggests the investment of the temporarily free cash into highly liquid and secure financial instruments and the regular off-load dates. Besides, the approved financial plans for the current and investment activities as well as possible single payments shall be taken into consideration.

The Group constantly keeps its liquidity ratio on the high level. The greater part of the current liabilities of the Group consists of short-term accounts payable and notes payable by the Bank ZAO SNGB to its customers. The management believes that in the foreseeable future the Group will not need to fund expenses which were not recorded in the consolidated budget for the year of 2013. Thus, as the Group is able to settle its liability in timely manner, the value at risk is minimal.
High financial ratios and ample opportunities of the collateral of the Group let reckon on the quick access to the credit cash assets in case of emergency.

Information about the maturity of the financial liabilities of the Group in accordance with the contract dates remained till maturity dates. The sums show contractual undiscounted cash flows.

At 31 December 2012	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**
Financial part of the accounts payable	14,537	-	-	-	**14,537**
Other financial liabilities	19,108	9,308	213	-	**28,629**
Other liabilities	240	1,250	50	276	**1,816**
Total financial liabilities	**33,885**	**10,558**	**263**	**276**	**44,982**

At 31 December 2011	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**
Financial part of the accounts payable	14,028	-	-	-	**14,028**
Financial liabilities	15,650	5,266	258	-	**21,174**
Other tax liabilities	149	390	44	362	**945**
Total financial liabilities	**29,827**	**5,656**	**302**	**362**	**36,147**

At 1 January 2011	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**
Financial part of the accounts payable	12,464	-	-	-	**12,464**
Financial liabilities	13,127	10,947	358	-	**24,432**
Other tax liabilities	514	16	1	10	**541**
Total financial liabilities	**26,105**	**10,963**	**359**	**10**	**37,437**

The bank ZAO SNGB has credit related commitments. Credit commitments include unused sums approved by the management to grant credits by way of loans, guarantees and letters of credit. All the liabilities of the bank to grant credits are irrevocable. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss equal to the total amount of unused commitments.
However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank

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ZAO SNGB monitors the maturities of credit related commitments because long-term commitments usually have a greater degree of credit risk than short-term commitments.

Credit related commitments of the bank ZAO SNGB equal:

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Commitments to extend credit	1,813	378	164
Import letters of credit	8	1	-
Guarantees issued	1,195	57	46
Total credit related commitments	**3,016**	**436**	**210**

Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates, interest rates, commodity prices, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Currency risk

The Group sells its products on foreign and domestic markets. The Group earns a significant part of its revenue from its operating activities in foreign currency while its production costs are denominated mostly in rubles. In addition, investments in foreign currency form a large part of the Group's financial provisions. Therefore, any fluctuations in the ruble exchange rate create risks for the Group. These risks may to some extent be mitigated through the multi-currency investment of the Group's financial provisions and currency risk assessment and accounting when planning its activities.

The carrying amounts of the Group's financial instruments denominated in the following currencies are presented in the table below:

At 31 December 2012				
Assets	**Rubles**	**US Dollars**	**Euro**	**Total**
Cash and cash equivalents	30,140	8,847	1,977	**40,964**
Restricted cash	664	-	-	**664**
Placed deposits	4,194	740,179	135,232	**879,605**
Financial assets recorded at FVTPL	647	274	-	**921**
Financial assets available-for-sale	8,148	444	-	**8,592**
Held-to-maturity investments	918	423	75	**1,416**
Accounts receivable	10,567	70,293	42	**80,902**
Loans issued by the bank ZAO SNGB	21,092	1,099	81	**22,272**
Total financial assets	**76,370**	**821,559**	**137,407**	**1,035,336**
Liabilities				
Financial part of the accounts payable	12,495	1,956	86	**14,537**
Other financial liabilities	24,774	1,363	683	**26,820**
Other liabilities	1,816	-	-	**1,816**
Total financial liabilities	**39,085**	**3,319**	**769**	**43,173**

As of 31 December 2012, if the ruble had weakened by 10% against the US dollar with all the variables held constant, pre-tax profit would have increased by RUB 81,824 million. The effect of a corresponding strengthening of the Russian Ruble against the US dollar is approximately equal and opposite.

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The carrying amounts of the Group's financial instruments, as of 31 December 2011, denominated in the following currencies are presented in the table below:

At 31 December 2011				
Assets	**Rubles**	**US Dollars**	**Euro**	**Total**
Cash and cash equivalents	9,794	8,233	983	**19,010**
Restricted cash	528			**528**
Placed deposits	3,379	618,622	218,557	**840,558**
Financial assets recorded at FVTPL	483	362	128	**973**
Financial assets available-for-sale	7,389	393	-	**7,782**
Held-to-maturity investments	133	6,472	-	**6,605**
Accounts receivable	12,437	71,287	53	**83,777**
Loans issued by the bank ZAO SNGB	17,019	1,315	196	**18,530**
Total financial assets	**51,162**	**706,684**	**219,917**	**977,763**
Liabilities				
Financial part of the accounts payable	8,498	2,016	3,514	**14,028**
Other financial liabilities	17,801	1,789	465	**20,055**
Other liabilities	934	11	-	**945**
Total financial liabilities	**27,233**	**3,816**	**3,979**	**35,028**

As of 31 December 2011, if the ruble had weakened by 10% against the US dollar with all the variables held constant, pre-tax profit would have increased by RUB 70,287 million. The effect of a corresponding strengthening of the Russian Ruble against the US dollar is approximately equal and opposite.

The carrying amounts of the Group's financial instruments, as of 1 January 2011, denominated in the following currencies are presented in the table below:

At 1 January 2011				
Assets	**Rubles**	**US Dollars**	**Euro**	**Total**
Cash and cash equivalents	11,710	11,907	786	**24,403**
Restricted cash	312	-	-	**312**
Placed deposits	8,600	500,817	99,673	**609,090**
Financial assets recorded at FVTPL	537	407	125	**1,069**
Financial assets available-for-sale	7,719	315	67,170	**75,204**
Held-to-maturity investments	244	-	-	**244**
Accounts receivable	9,192	57,058	101	**66,351**
Loans issued by the bank ZAO SNGB	14,901	1,442	216	**16,559**
Total financial assets	**53,215**	**571,946**	**168,071**	**793,232**
Liabilities				
Financial part of the accounts payable	10,665	1,577	222	**12,464**
Other financial liabilities	16,607	5,843	705	**23,155**
Other liabilities	541	-	-	**541**
Total financial liabilities	**27,813**	**7,420**	**927**	**36,160**

(b) Interest rate risk

In overall, fluctuation of the market interest rates does not have significant impact on the Group's financial performance (except for the financial position of the bank ZAO SNGB) since the Group does not raise borrowed funds and carries out business using only its internal funds.

Borrowings (of the customers of the bank ZAO SNGB) as of 31 December 2012, 2011, 1 January 2011 equal RUB 26,820 million, RUB 20,055 million and RUB 23,155 million, respectively (Note 21).

Changes in deposit interest rates may unfavourably influence the Group's business because the Group places the greater part of its financial provisions in deposits. The Group continuously monitors the debt markets, works in collaboration with secure banks of high credit ratings and carries out transactions on deposits with fixed interest rates that helps to minimise the impact of interest rate risk on the financial performance of the Group.

The Group’s management of the interest risk in the bank ZAO SNGB is carried out by way of the interest rate and amount control policy for raising/placing cash by financial instruments, currency and maturity. The assessment of interest rates is performed in view of assets and liabilities which are sensitive to changes in interest rates.

The information about the interest rates value of the Group’s assets and liabilities which are sensitive to changes in interest rates is given in Notes 10, 11, 14, 21.

(c) Commodity price risk

Oil and petroleum products price risk may produce the most significant influence on the results of the Group’s operations.

Oil prices are notable for their high volatility and they are subject to the influence of various political and economic factors. Change in price can be affected by the global economic growth, the balance between the global and regional demand and supply, the geopolitical situation in the countries with copious hydrocarbon reserves, and the development of alternative energy sources. As oil is highly liquid exchange commodity, then in the short-term the prices can be influenced by the various speculative factors.

The main contracts for crude and petroleum products supplies are concluded for up to one year, and thus the Company minimises commodity price change risks.

Domestic prices for crude oil and petroleum products are set under the influence of the global prices as well as fiscal and tariff state policies.

The Group has no opportunity to control prices for its products. At the same time, while carrying out an ongoing monitoring of the efficiency of export supplies and supplies of crude oil and petroleum products to the domestic market, the Group has an opportunity to diversify the directions of the commodity flows, to correct the production structure, to optimise operating costs and capital investments in case of continuous price reduction.In case of a short-term decline in prices for oil and petroleum products the Group is financially stable and has sufficient reserves to meet current obligations and to finance ongoing investment projects.

Pricing mechanism in the Company is based on the market factors which suggest a stable, regular and cost-beneficial demand fulfillment as well as nondiscriminatory and equal contract terms, the pricing procedure unified for all the buyers groups, inadmissibility of price making or changing that is not conditioned by objective economic factors.

As of 31 December 2012, if the average oil and refined products prices related to the export market had weakened or strengthened by 10% with all other variables held constant, pre-tax profit for the twelve months of 2012 would have become lower or higher by RUB 65,426, respectively.

As of 31 December 2011, if the average oil and refined products prices related to the export market had weakened or strengthened by 10% with all other variables held constant, pre-tax profit for the twelve months of 2011 would have become lower or higher by RUB 55,677, respectively.

Capital risk management

The Group’s capital management seeks to continue as a going concern and to optimise the profit in the foreseeable future.

The Group considers equity and debt to be the principal elements of capital management. The Group’s objectives when managing capital risks are to safeguard the Group‘s ability to continue as a going concern in order to provide returns and benefits for shareholders. As of December 31, 2012, 2011, and

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January 1, 2011 the total capital under the Group's management was RUB 1,813,179 million, RUB 1,671,003 million and RUB 1,423,176 million, respectively.
The Group finances its operations mainly from its own funds.

33 Fair value of the financial instruments

The estimated fair value of a financial instrument is determined by the Group with reference to various market information (if any) and other valuation techniques as considered appropriate. Management has used all available market information in estimating the fair value of financial instruments.
Instruments that have no market quotation and the fair value of which cannot be reliably determined are accounted by their historical cost. Management cannot estimate fair value of the financial instruments with sufficient reliability because:
(a) the companies-investees do not publish financial information about their operations,
(b) the active market of these instruments is absent and the information about prices of recent trade deals with these documents is not available in the public sources of information,
(c) there are significant discrepancy between possible estimated fair values, and it is difficult to determine for certain the probability of applying this or that type of fair value estimation.

Set out below is a table where a comparison of the fair values and carrying amounts of deposits and investments held to maturity is presented. The carrying amounts of all the remaining financial instruments do not differ from the fair value.

	At 31 December 2012		At 31 December 2011		At 1 January 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Placed deposits	879,605	880,165	840,558	831,832	609,090	610,897
Investments held-to-maturity	1,416	1,424	6,605	6,599	244	245

To classify financial instruments according to the evaluation classes the Group applies assumptions. If the market is active and there is possibility to determine market quotations the financial assets are classified as Level 1. If the market is not active and the fair value is determined on the basis of the mathematical model the financial assets are classified as Level 2. If a fair value evaluation is performed on the basis of non-observable data or observable data which require significant adjustments that evaluation is classified as Level 3.

Hierarchy levels for determining the fair value of financial instruments recorded at fair value as of 31 December 2012 are presented below:

	Quoted prices in active markets (Level 1)	**Valuation technique based on observable market data (Level 2)**	**Valuation technique with a significant amount of not observable data (Level 3)**
Financial assets designated at fair value with revaluation results through profit and loss	920	-	1
Financial assets available-for-sale	3,099	-	5,493
Total financial assets at fair value	**4,019**	**-**	**5,494**

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The following table shows an analysis of hierarchy levels for determining the fair value as of 31 December 2011:

	Quoted prices in active markets (Level 1)	**Valuation technique based on observable market data (Level 2)**	**Valuation technique with a significant amount of not observable data (Level 3)**
Financial assets designated at fair value with revaluation results through profit and loss	972	-	1
Financial assets available-for-sale	2,289	-	5,493
Total financial assets at fair value	**3,261**	**-**	**5,494**

Hierarchy levels for determining the fair value of financial instruments recorded at fair value as of 1 January 2011 are presented below:

	Quoted prices in active markets (Level 1)	**Valuation technique based on observable market data (Level 2)**	**Valuation technique with a significant amount of not observable data (Level 3)**
Financial assets designated at fair value with revaluation results through profit and loss	1,043	-	26
Financial assets available-for-sale	70,007	-	5,197
Total financial assets at fair value	**71,050**	**-**	**5,223**

34 Subsequent events

In December 2012, OJSC "Surgutneftegas" won the auction to acquire the part of the Shpilman field (the Severo-Rogozhnikovskoye field) located on the territory of Khanty-Mansiysky Autonomous Okrug – Yugra for further prospecting, exploration and production within the subsurface area of federal significance. In February 2013, the Company obtained the license for the right to use subsoil resources in this area. Purchase costs equal RUB 46,200 million.

In January 2013 the Company disposed its share in amount of 20% of the charter capital to LLC "National Oil Consortium" by selling. Profits from the sale amounted to RUB 2,400 million.