Joint Stock Company Gazprom neft

USD 10,000,000,000

Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,
GPN Capital S.A. for the sole purpose of financing loans to

Joint Stock Company Gazprom neft

This base prospectus supplement (the "Base Prospectus Supplement") is prepared in connection with the Programme for the Issuance of Loan Participation Notes (the "Programme") by GPN Capital S.A. (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 2 August 2012 (the "Base Prospectus"). Capitalised terms used, but not otherwise defined in this Base Prospectus Supplement shall have the meanings ascribed thereto in the Base Prospectus.

This Base Prospectus Supplement has been approved by the Central Bank of Ireland (the "Central Bank"), as competent authority under Directive 2003/71/EC (the "Prospectus Directive"). The Central Bank only approves this Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. This Base Prospectus Supplement constitutes a Base Prospectus Supplement for the purposes of the Prospectus Directive. This Base Prospectus Supplement constitutes neither an offer to sell nor a solicitation of an offer to buy any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

This document constitutes a Base Prospectus Supplement for the purposes of Article 16 of the Prospectus Directive. To the extent that there is any inconsistency between (a) any statement in this Base Prospectus Supplement and (b) any other statement in the Base Prospectus, the statement in this Base Prospectus Supplement will prevail.

The Securities to be issued under the Programme have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the ''Securities Act''), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). The Notes issued under this Series 1 may be offered and sold (i) within the United States only to qualified institutional buyers (as defined in Rule 144A under the Securities Act ("Rule 144A")) that are also qualified purchasers (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act")) in reliance on the exemption from registration provided by Rule 144A (the "Rule 144A Notes") and (ii) to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (the "Regulation S Notes"). The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*" in the Base Prospectus.

Arrangers

Crédit Agricole CIB **J.P. Morgan**

The date of this Base Prospectus Supplement is 28 August 2012.

The information included herein supplements, and to the extent inconsistent therewith replaces, the information about the Programme, the Issuer and the Company and its subsidiaries taken as a whole (the "Group") contained in the Base Prospectus. Save as disclosed herein, there has been no other significant new factor, material mistake or inaccuracy relating to the information contained in the Base Prospectus since the date of its publication. The Issuer (whose registered office is at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg) and the Company (whose registered office is at 5A Galernaya Street, 190000 Saint Petersburg, Russian Federation) each accepts responsibility for the information contained in this Base Prospectus Supplement. To the best of the knowledge and belief of the Issuer and the Company (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus Supplement does not constitute an offer to sell Notes, or an invitation by or on behalf of the Issuer, the Company, the Dealers or the Arrangers to subscribe for or purchase any Notes.

The distribution of this Base Prospectus Supplement and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons who come into possession of this Base Prospectus Supplement are required by the Issuer, the Company, the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered or sold in the United States or to U.S. persons. Further information with regard to restrictions on the offers and sale of the Notes and the distribution of the Base Prospectus, as supplemented by this Base Prospectus Supplement, is set out under "*Subscription and Sale*" in the Base Prospectus.

No person is authorised to provide any information or make any representation not contained in the Base Prospectus as supplemented by this Base Prospectus Supplement and any information or representation not contained in the Base Prospectus as supplemented by this Base Prospectus Supplement must not be relied upon as having been authorised by or on behalf of the Issuer, the Company, the Trustee, the Paying Agents, Transfer Agents, Principal Paying Agent, Calculation Agent and Registrars (the "Agents"), any of the Dealers or the Arrangers. Neither the delivery of this Base Prospectus Supplement nor any sale made in connection herewith shall, at any time or in any circumstances, imply that the information contained in it is correct as at any time subsequent to its date. The websites of the Company and the members of the Group and the information posted thereon do not form any part of the contents of this Base Prospectus Supplement.

Neither the delivery of this Base Prospectus Supplement nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or the Group since the date of this Base Prospectus Supplement.

None of the Issuer, the Company, the Trustee, the Agents, the Dealers or the Arrangers or any of its or their respective representatives makes any representation or warranty, express or implied, to any offeree or purchaser of the Notes offered hereby, regarding the legality of an investment by such offeree or purchaser under applicable investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of any purchase of the Notes. To the fullest extent permitted by law, none of the Dealers or the Arrangers accepts any responsibility for the contents of this Base Prospectus Supplement or for any other statement made or purported to be made by a Dealer or the Arrangers or on its behalf in connection with the Issuer, the Company or the issue and offering of the Notes. Each Dealer and the Arrangers accordingly disclaims any and all liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus Supplement or any such statement.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus Supplement. Any consents or approvals that are needed in order to purchase any Notes must be obtained by such prospective purchaser. The Company, the Issuer, the Trustee, the Agents, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisers regarding such matters. This Base Prospectus Supplement is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Company, the Arrangers or the Dealers that any recipient of this Base Prospectus Supplement should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus Supplement and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers undertakes to review the financial condition or affairs of the Issuer or the Company during the life of the arrangements contemplated by this Base Prospectus Supplement nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arrangers.

The Arrangers, the Dealers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivatives transactions with, the Company and its affiliates. The Dealers and Arrangers are acting exclusively for the Company and the Issuer and no one else in connection with the Programme and the Notes and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg ("Luxembourg"). The Issuer is not a subsidiary of the Company. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and the Issuer is registered with the *Registre de Commerce et des Sociétés à Luxembourg* (the Register of Commerce and Companies in Luxembourg) under number B 168.434. For further information about the Issuer, see "*GPN Capital S.A"* in the Base Prospectus.

This Base Prospectus Supplement has been filed with and approved by the Central Bank as required by the Prospectus (Directive 2003/71/EC) Regulations 2005.

Any investment in any Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank.

In connection with the issue of any Series of Notes, the Dealers (if any) named as stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, this is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS SUPPLEMENT, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS SUPPLEMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS BASE PROSPECTUS SUPPLEMENT ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE DEALERS, THE ARRANGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, THE COMPANY AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

INFORMATION CONTAINED IN THIS BASE PROSPECTUS SUPPLEMENT IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, SELL, PURCHASE, EXCHANGE OR TRANSFER ANY SECURITIES IN THE RUSSIAN FEDERATION, AND DOES NOT CONSTITUTE AN ADVERTISEMENT OF OFFERING OF ANY SECURITIES IN THE RUSSIAN FEDERATION. THE SECURITIES REFERENCED TO IN THIS BASE PROSPECTUS SUPPLEMENT HAVE NOT BEEN AND WILL NOT BE REGISTERED IN THE RUSSIAN FEDERATION OR ADMITTED TO PUBLIC PLACEMENT AND/OR PUBLIC CIRCULATION IN THE RUSSIAN FEDERATION AND ARE NOT INTENDED FOR "PLACEMENT" OR "CIRCULATION" IN THE RUSSIAN FEDERATION EXCEPT AS PERMITTED BY RUSSIAN LAW.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

Each of the Company and the Issuer has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company or the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

TABLE OF CONTENTS

RECENT DEVELOPMENTS

The following section supplements the discussion beginning on page 65 of the Base Prospectus, entitled "Recent Developments". The statements under this section contain forward-looking statements. These statements are not guarantees of future financial performance and the Group's actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including, but not limited to, those described under "Forward looking Statements" in the Base Prospectus. Investors are urged not to place undue reliance on the forward-looking statements set out below. Except where expressly stated otherwise, all Group operational information herein includes the share of any minority interest owners and also the Group's proportionate share of the respective results of operations of the Equity Affiliates. Certain figures included in this Base Prospectus Supplement have been subject to rounding adjustments; percentage change figures reflect actual changes, before rounding.

Changes in Group Structure

On 31 July 2012, the Company's Board of Directors approved the transfer of shares in JSC OC Magma from Visini Holdings Limited, the Company's wholly-owned subsidiary, to the Company directly itself.

Operational Developments

Production Drilling

The table below sets forth the key information about the Group's production drilling for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June		
	2012	**2011**	**% Change**
Consolidated subsidiaries			
Production drilling (thousand metres)	1,194	1,212	(1.5)
New production wells	290	365	(20.5)
Average well flow (tonnes per day)	14.5	15.4	(5.4)
Watercut, %	83.6	83.9	(0.3)
Equity Affiliates			
Production drilling (thousand metres)	726	831	(12.6)
Wells drilled	176	241	(27.0)

Production drilling meterage decreased by 1.5% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011, and the number of new production wells decreased by 20.5%, mainly due to a greater emphasis on drilling horizontal wells, which generally are more complex to drill than vertical wells.

Marketing

The table below sets out a breakdown of retail and other wholesale outlets sales of petroleum product for the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011 and 2010.

	Six months ended 30 June		Year ended 31 December		% Change	
	2012	**2011**	**2011**	**2010**	**1H 12/1H 11**	**2011/10**
	mmtonnes		*mmtonnes*			
Domestic sales						
Petrol stations	3.1	2.2	4.9	3.5	44.9%	40.5%
Tank farms	3.9	3.5	7.6	5.2	12.3%	45.1%
Jet	0.9	0.6	1.5	1.0	42.1%	49.4%
Bunkering	1.0	0.8	1.8	0.4	30.1%	317.9%
Lubricants	0.0	0.0	0.1	0.1	14.4%	28.6%
Total domestic sales	**9.0**	**7.1**	**15.9**	**10.2**	**26.9%**	**55.5%**
International sales						
Petrol stations	0.7	0.6	1.3	1.0	13.6%	21.8%
Tank farms	1.0	0.9	1.9	1.9	11.3%	0.6%
Jet	0.1	0.1	0.1	0.1	(14.1%)	108.1%
Bunkering	0.3	0.1	0.4	1.0	160.5%	(64.8%)
Lubricants	0.0	0.0	0.0	0.0	12.2%	115.2%
Total international sales	**2.0**	**1.6**	**3.7**	**4.0**	**21.6%**	**(7.7%)**

According to the Group's data, in the six months ended 30 June 2012, Gazprom Neft-Aero's market share in Russia was approximately 20% for jet fuel sales.

The table below sets out a breakdown of retail stations by region, including average daily sales per retail site in Russia for the six months ended 30 June 2012 and 2011 and the years ended 31 December 2011 and 2010.

	Six months ended 30 June		Year ended 31 December		% Change	
	2012	**2011**	**2011**	**2010**	**1H 12/1H 11**	**2011/10**
	(units)					
Active retail stations						
Russia	1,041	941	1,043	947	10.6%	10.1%
CIS	195	180	202	181	8.3%	11.6%
Eastern Europe	372	475	425	468	(21.7%)	(9.2%)
Total retail stations	**1,608**	**1,596**	**1,670**	**1,596**	**0.8%**	**4.6%**
Average daily sales per retail site in Russia (tonnes per day)	**16.5**	**12.5**	**14.2**	**10.3**	**31.5%**	**37.9%**

As of 30 June 2012, the Group owned 1,608 active retail stations, of which 1,041 were located in Russia, 372 in Eastern Europe and 195 in the CIS. The average daily sales per retail site in Russia increased by 31.5% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011, mainly due to an increase in domestic demand for petroleum products and the effects of the Group's rebranding campaign and customer loyalty programme.

Supplemental Operational Information Relating to 2011

Crude oil and petroleum products export

In 2011, export from Russia of crude oil was 15.7 mmtonnes and export from Russia of petroleum products was 13.6 mmtonnes.

Crude oil and petroleum products purchases

The table below shows third-party crude oil and petroleum products purchases by the Group for the year ended 31 December 2011.

	Russia[1]	International	**Total**
		(mmtonnes)	
Crude oil purchases	5.8	1.7	**7.5**
Petroleum products purchases	1.9	1.4	**3.3**

(1) Crude oil purchases in Russia exclude purchases from Slavneft, Tomskneft and SPD.

Acquisitions in Iraq

In August 2012, Gazprom Neft Middle East B.V., a subsidiary of the Company, entered into two production sharing agreements, (each a "PSA") with the Kurdistan regional government of Iraq for the development and operation of two adjacent blocks (Garmian and Shakal) located in the south of Kurdistan.

Pursuant to the Garmian PSA, the Group will receive a 40% share in the Garmian block, with WesternZagros, a Canadian company, and the Kurdistan regional government holding a 40% share and 20% share, respectively. WesternZagros will remain the project operator until the commencement of the development period as set forth under the Garmian PSA, at which point the Group will become operator (expected to occur in 2014).

Pursuant to the Shakal PSA, the Group will receive an 80% share in the Shakal block, with the Kurdistan regional government holding a 20% share in the project. The Group will serve as project operator of the Shakal block.

Geological prospecting is being conducted at both blocks and field production is expected to start by 2015. The Group, based on its own geological review, estimates the combined resource potential of the two blocks to exceed 500 mmtoe (around 3,600 mmboe).

The Group's total project entrance payments under both PSAs, including reimbursement of previously incurred costs, are approximately USD 260 million. In addition, the Group's share in geological prospecting costs at both blocks is estimated to be no less than USD 150 million, which is expected to be paid throughout the exploration period, scheduled to be concluded in 2014. The PSAs provide for compensation of investor costs after the start of production at the fields.

The federal government of Iraq has challenged the Kurdistan regional government's authority to enter into agreements with third-parties to develop crude oil resources in Iraqi Kurdistan. Iraqi federal government officials have stated that companies entering into crude oil development agreements with the regional government in Kurdistan risk the invalidation not only of such projects, but also of existing crude oil projects throughout Iraq, as well as exclusion from future projects in the country. In the past, the federal government of Iraq has imposed sanctions on market participants that have entered into oil development projects with the regional government in Kurdistan and may seek to impose such sanctions on the Group in the future. As of the date of this Base Prospectus Supplement, the federal government of Iraq has not imposed any such sanctions against the Group.

Term Loan Agreement with HSBC Bank plc and a Syndicate of Lenders

On 27 July 2012, the Company entered into a term loan agreement with HSBC Bank plc, acting as global arranger, and a syndicate of lenders allowing borrowings of up to EUR 258 million. The loan was provided to finance the purchase of equipment and services in connection with the upgrade of NIS' Pančevo refinery and to purchase insurance coverage for the lenders in connection with the loan. As of the date of this Base Prospectus Supplement, the Company has not drawn down any amounts under the agreement. The loan has a final maturity date of 28 December 2022.

New Corporate Headquarters: the Lakhta Centre Construction

On 17 August 2012, the Group received permission from Russian state authorities for the construction of a new headquarters building, a skyscraper outside the historic centre of St. Petersburg. This project, and the proposed budget, is being further reviewed by the Group's management, and a move to the new headquarters is not expected to occur before 2018.

Option to Redeem Series 03 Rouble Bonds

In July 2012, the Group exercised its option to redeem Rouble bonds (03 series), repaying RUB 7.9 billion (included in its current portion of long-term debt as of 30 June 2012); RUB 139 million remains outstanding as of the date of this Base Prospectus Supplement.

2011 Dividend Payments

As of 6 August 2012, the Company had completed all payments of its 2011 annual dividends. The total amount paid (including withheld taxes) was RUB 34.6 billion.

Rouble Exchange Rates

The table below sets forth, for the dates indicated, the high, low, period end and period average exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR.

	RUB per USD 1.00		
	High	*Low*	*Period end*
Period			
1 August 2012 through 28 August 2012	32.54	31.48	31.87

For a discussion of certain other operational developments, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 56 of the Base Prospectus, the unaudited interim condensed consolidated financial statements, prepared under IFRS, as of 30 June 2012 and for the six months ended 30 June 2012 included in this Base Prospectus Supplement and the notes thereto (the "June 2012 Interim Condensed Consolidated Financial Statements") and the Financial Statements included in the Base Prospectus. This review includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors" appearing in this Base Prospectus.

Key Factors Affecting Operating Results

Price of Crude Oil and Petroleum Products

The following table represents average international and Russian domestic crude oil and petroleum product prices for the six months ended 30 June 2012 and 2011.

		Six months ended 30 June		
	Units	**2012**	**2011**	**% Change**
International market				
Brent	USD/bbl	113.61	111.09	2.3%
Urals (average Med + NWE)	USD/bbl	112.05	108.04	3.7%
Premium petrol (average NWE)	USD/tonne	1,043.85	988.37	5.6%
Naphtha (average Med + NWE)	USD/tonne	939.78	937.43	0.3%
Diesel fuel (average NWE)	USD/tonne	978.17	948.03	3.2%
Gas oil 0.2% (average Med + NWE)	USD/tonne	962.57	919.90	4.6%
Fuel oil 3.5% (average NWE)	USD/tonne	649.26	583.45	11.3%
Domestic market		**RUB/tonne**		
High octane petrol	—	24,750	23,687	4.5%
Low octane petrol	—	22,470	21,487	4.6%
Diesel fuel	—	23,155	19,879	16.5%
Fuel oil	—	8,982	8,053	11.5%

Sources: Platts (international market), Kortes (domestic market)

According to Platts, in the six months ended 30 June 2012, the average Brent oil price increased by 2.3%, to USD 113.61 per barrel, compared to USD 111.09 per barrel in the six months ended 30 June 2011.

In the six months ended 30 June 2012, the average price of diesel fuel in the international market was USD 978.17 per tonne, a 3.2% increase from the average price of USD 948.03 per tonne in the six months ended 30 June 2011. In the Russian domestic market, the average diesel fuel price in the six months ended 30 June 2012 was RUB 23,155 per tonne, a 16.5% increase from the average price of RUB 19,879 per tonne in the six months ended 30 June 2011.

In the six months ended 30 June 2012, the average price of fuel oil in the international market was USD 649.26 per tonne, an increase of 11.3% from the average price of USD 583.45 per tonne in the six months ended 30 June 2011. In the six months ended 30 June 2012, the average fuel oil price in the Russian domestic market was RUB 8,982 per tonne, representing an 11.5% increase from the average price of RUB 8,053 per tonne in the six months ended 30 June 2011.

Taxation

The following table sets forth the export customs duty for various products and the MET for crude oil and natural gas payable by the Group for the six months ended 30 June 2012 and 2011. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation*" in the Base Prospectus for a discussion of excise taxes imposed on the Group's oil products.

	Units	Six months ended 30 June 2012	2011	% Change
Export Customs Duty				
Crude oil	USD/tonne	421.92	394.77	6.8%
Light petroleum products[1]	USD/tonne	278.42	266.75	4.3%
High octane petrol and naphtha[2]	USD/tonne	379.65	412.05	(7.9%)
Heavy petroleum products[3]	USD/tonne	278.42	179.93	54.6%
Mineral Extraction Tax				
Crude oil	RUB/tonne	5,055	4,277	18.1%
Natural gas[4]	RUB/Mcm	—	237	—
Natural gas for owners of Integrated gas-supply system and its subsidiaries	RUB/Mcm	509	—	—
Natural gas for other categories	RUB/Mcm	251	—	—

(1) Light petroleum products in this category include diesel and jet fuel.
(2) Before May and June 2011, high octane petrol and naphtha, respectively, were taxed as light petroleum products.
(3) Heavy petroleum products in this category include fuel oil.
(4) Beginning 1 January 2012, a lower rate of MET was applied to entities that do not own the central gas transportation system and that are not more than 50% owned directly or indirectly by the owners of the central gas transportation system. Thus, while other gas producers benefit from these lower rates, the Group, as a subsidiary of Gazprom, pays the higher rates.

Rouble/U.S. Dollar Exchange Rate and Inflation

The following table sets out rates of inflation and foreign exchange movements for the periods indicated.

Inflation and RUB/USD exchange rate	Six months ended 30 June 2012	2011
Consumer inflation rate[1]	3.2%	5.0%
Producer price index[1]	4.1%	7.7%
RUB/USD exchange rate at period beginning	32.20	30.48
RUB/USD exchange rate at period end.	32.82	28.08

Sources: CBR with respect to exchange rates; Rosstat with respect to inflation rates.
(1) In 2012, regulated utility price increases in Russia occurred 1 July, compared to 1 January in previous years. As a result, the consumer inflation rate and producer price index for the first half 2012 may not be representative of full-year inflation.

Transportation Costs of Crude Oil and Petroleum Products

The following table shows average transport costs per tonne (including all modes of transportation used) of the Group's crude oil for export and use at its refineries, as well as costs per tonne for the transportation of its petroleum products from the Omsk, Moscow and YANOS Refineries for export.

	Six months ended 30 June 2012	2011	% Change
	(RUB per tonne)		
Oil			
Export			
Pipeline	1,519.17	1,409.63	7.8%
CIS			
Pipeline	1,154.18	1,192.67	(3.2%)
Transportation to refineries			
Omsk Refinery	460.85	443.98	3.8%
Moscow Refinery	867.70	641.92	35.2%
YANOS Refinery	671.28	892.54	(24.8%)
Petroleum products			
Export from Omsk Refinery			
Petrol	2,230.96	2,042.94	9.2%
Fuel oil	3,490.43	3,211.89	8.7%
Diesel fuel	3,226.41	2,530.46	27.5%
Export from Moscow Refinery			
Petrol	1,628.43	1,486.81	9.5%
Fuel oil	1,427.68	1,370.30	4.2%
Diesel fuel	1,602.42	1,477.06	8.5%
Export from YANOS Refinery			
Petrol	1,499.72	1,516.42	(1.1%)
Fuel oil	1,443.55	1,371.19	5.3%
Diesel fuel	1,282.11	1,247.47	2.8%

The Group exported 15.0% of its crude oil production from Russia in the six months ended 30 June 2012, compared to 22.6% in the six months ended 30 June 2011.

The following table shows the percentage of export crude oil volumes transported through various export hubs to non-CIS countries for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June	
	2012	**2011**
Druzhba pipeline	22.4%	19.7%
Eastern Siberia-Pacific Ocean ("ESPO") oil pipeline	—	18.6%
Primorsk port.	58.3%	48.8%
Novorossiysk port	7.7%	2.1%
Tuapse port	5.2%	10.8%
Ust-Luga	6.5%	—
Total	**100%**	**100%**

In the six months ended 30 June 2012, the Group exported 58.3% of its total volume of non-CIS crude oil exports (48.8% in the six months ended 30 June 2011) through the port of Primorsk; 22.4% was exported through the Druzhba pipeline (19.7% in the six months ended 30 June 2011), principally to Germany and the Czech Republic; 7.7% through the port of Novorossiysk (2.1% in the six months ended 30 June 2011); 5.2% through the port of Tuapse (10.8% in the six months ended 30 June 2011); and 6.5% through the port of Ust-Luga (through which there were no exports in the six months ended 30 June 2011). In the first half of 2012, there were no exports through the ESPO pipeline or the port of Kozmino (18.6% in the first half of 2011). Of exports of crude oil to CIS countries in the first half of 2012, 73.0% were to Belarus (86.6% in the first half of 2011) and 27.0% to Kazakhstan (13.4% in the first half of 2011).

Production Volumes

The Group aims to increase its hydrocarbon production to 100 mmtoe per year by 2020, with foreign production projects providing 10% of total production. The Group's revenues and costs are directly affected by the volume of crude oil, petroleum products and gas produced by the Group. The following table sets out certain key operational information for the Group for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June		
	2012	**2011**	**% Change**
Operational information			
Hydrocarbon production (mmboe)	217.0	206.4	5.1%
Crude oil production (mmbbl)	184.8	181.0	2.1%
Gas production (bcf)	193.2	152.3	26.9%
Production of petroleum products at refineries (mmtonnes)	20.2	18.7	8.0%

The table below shows a breakdown of hydrocarbon, crude oil and gas production by entity for the six months ended 30 June 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009.

	Six months ended 30 June		Year ended 31 December[1]			% Change		
	2012	**2011**	**2011**	**2010**	**2009**	**1H12/1H11**	**2011-2010**	**2010-2009**
Crude oil			**(mmbbl)**					
Noyabrskneftegaz	56.8	60.3	120.3	129.1	138.0	(5.8%)	(6.9%)	(6.5%)
Yugra	40.9	36.5	75.1	69.3	60.8	12.1%	8.4%	13.9%
Gazprom Neft	4.1	5.5	10.4	11.1	13.0	(24.9%)	(6.1%)	(14.4%)
NIS	4.4	4.1	8.4	7.2	5.1	9.7%	16.6%	39.5%
Others	12.9	7.7	18.6	13.5	8.0	68.8%	37.0%	70.1%
Total crude oil production by consolidated subsidiaries of the Group	**119.2**	**114.0**	**232.7**	**230.2**	**224.9**	**4.6%**	**1.1%**	**2.3%**
Share in Slavneft	32.6	32.8	66.3	67.3	69.3	(0.6%)	(1.5%)	(2.9%)
Share in Tomskneft	19.0	19.1	38.7	38.7	40.7	(0.5%)	(0.2%)	(4.9%)
Share in SPD	13.9	15.1	30.6	29.9	14.3	(8.0%)	2.3%	108.4%
Share in Sever Energia	0.1	—	—	—	—	—	—	—
Total share in crude oil production of Equity Affiliates	**65.6**	**67.0**	**135.6**	**135.9**	**124.4**	**(2.1%)**	**(0.3%)**	**9.3%**
Total crude oil production	**184.8**	**181.0**	**368.3**	**366.1**	**349.3**	**2.1%**	**0.6%**	**4.8%**
Gas[2]			**(bcf)**					
Gazprom Neft	164.7	133.6	277.7	107.9	73.2	23.2%	157.3%	47.4%
Share in Slavneft	7.5	7.5	14.9	11.9	13.3	0.0%	25.3%	(10.1%)

Share in Tomskneft	14.3	10.5	25.7	20.7	24.9	36.6%	24.4%	(17.1%)
Share in SPD	2.3	0.8	1.9	—	—	202.2%	—	—
Share in Sever Energia	4.5	—	—	—	—	—	—	—
Total gas production	**193.2**	**152.3**	**320.2**	**140.5**	**111.4**	**26.9%**	**127.9%**	**26.1%**
Hydrocarbons			**(mmboe)**					
Noyabrskneftegaz	78.6	80.5	160.7	144.5	148.4	(2.4%)	11.3%	(2.7%)
Yugra	41.1	36.7	75.5	69.3	60.8	12.0%	9.0%	13.9%
Gazprom Neft	4.3	5.7	10.9	11.5	13.5	(24.8%)	(5.2%)	(14.7%)
NIS	5.8	5.6	11.6	9.3	6.4	4.1%	24.1%	44.9%
Others	16.9	7.8	20.3	13.7	8.0	115.6%	48.4%	70.1%
Total hydrocarbon production by consolidated subsidiaries of the Group	**146.6**	**136.3**	**279.0**	**248.2**	**237.1**	**7.6%**	**12.4%**	**4.7%**
Share in Slavneft	33.9	34.1	68.8	69.3	71.6	(0.6%)	(0.7%)	(3.1%)
Share in Tomskneft	21.3	20.8	42.9	42.2	44.9	2.5%	1.8%	(6.0%)
Share in SPD	14.3	15.3	30.9	29.9	14.3	(6.3%)	3.4%	108.4%
Share in Sever Energia	0.9	—	—	—	—	—	—	—
Total share in hydrocarbon production of Equity Affiliates	**70.4**	**70.1**	**142.6**	**141.4**	**130.8**	**0.3%**	**0.9%**	**8.1%**
Total hydrocarbon production	**217.0**	**206.4**	**421.6**	**389.6**	**367.9**	**5.1%**	**8.2%**	**5.9%**

(1) Operational results include Gazprom Neft-Orenburg from the date of its acquisition on 18 October 2011.
(2) Production volume includes marketable gas plus utilised gas.

The table below shows a breakdown of the Group's hydrocarbon production by region for the year ended 31 December 2011.

	Crude oil		**Gas**		**Hydrocarbons**	
	mmtonnes	**mmbbl**	**bcm**	**bcf**	**mmtoe**	**mmboe**
Yamalo-Nenets	14.3	105.5	6.4	224.6	19.4	142.8
Khanty-Mansiysk	26.9	197.3	1.2	40.6	27.9	204.1
Tomsk region	4.9	36.5	0.7	23.5	5.5	40.4
Orenburg region	0.2	1.5	0.2	8.1	0.4	2.9
Tyumen region	1.9	14.2	0.1	3.3	2.0	14.8
Omsk region	0.7	4.9	—	0.8	0.7	5.0
Serbia and Angola	1.1	8.4	0.5	19.3	1.5	11.6
Total	**50.0**	**368.3**	**9.1**	**320.2**	**57.3**	**421.6**

The table below shows a breakdown of the Group's hydrocarbon production by region for the six months ended 30 June 2012.

	Crude oil		**Gas**		**Hydrocarbons**	
	mmtonnes	**mmbbl**	**bcm**	**bcf**	**mmtoe**	**mmboe**
Yamalo-Nenets	6.9	50.8	3.5	124.8	9.7	71.6
Khanty-Mansiysk	13.5	98.8	0.7	23.0	14.1	102.6
Tomsk region	2.4	18.2	0.4	13.8	2.7	20.5
Orenburg region	0.5	3.7	0.6	19.8	1.0	7.0
Tyumen region	0.9	6.9	—	1.7	0.9	7.2
Omsk region	0.3	1.9	—	0.4	0.3	2.0
Serbia and Angola	0.6	4.4	0.3	9.8	0.8	6.0
Total	**25.1**	**184.8**	**5.5**	**193.2**	**29.5**	**217.0**

Total crude oil production increased by 2.1% to 184.8 mmbbl in the six months ended 30 June 2012 from 181.0 mmbbl in the six months ended 30 June 2011. Oil production by consolidated subsidiaries increased by 4.6% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011 mainly as a result of an increase in activities to improve yields, such as hydrofracturing and recompletion methods, as well as to the acquisition of the Orenburg assets. The decrease of 2.1% in the share of crude oil production of Equity Affiliates in the six months ended 30 June 2012 compared to the six months ended 30 June 2011 was mainly attributed to a decline in production at SPD due to the increased watercut at SPD's Zapadno-Salymskoye field. The Equity Affiliates contributed 70.4 mmboe, or 32.4% of the Group's total hydrocarbon production, for the six months ended 30 June 2012.

Gas production increased by 26.9% to 193.2 bcf in the six months ended 30 June 2012 compared to 152.3 bcf in the six months ended 30 June 2011 mainly due to the acquisition of the Orenburg assets in the fourth quarter of 2011 and the implementation of a gas utilisation programme.

Refining

The Group seeks to increase its access to processing capacities to 65 to 70 mmtonnes per year (with approximately 40 mmtonnes in Russia and 25 to 30 mmtonnes abroad) by 2020, with a target average light product yield of 77% at its Russian refineries. Access to refining capacity may be achieved through various means, such as processing or tolling contracts, long-term crude delivery contracts or asset acquisitions.

The following table shows the Group's refining throughput for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June		
	2012	**2011**	**% Change**
	(mmtonnes)	(mmtonnes)	
Refining throughput			
Omsk Refinery	10.2	9.9	3.5%
Moscow Refinery	5.6	5.3	5.5%
NIS Refineries	1.1	1.2	(5.1%)
Share in YANOS Refinery and Mozyr Refinery	4.4	3.4	30.1%
Total refining throughput	**21.4**	**19.8**	**8.1%**

Refining throughput increased by 8.1% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011 mainly due to the availability of more attractive netbacks from refining than from crude oil exports and to the start of production by the Group at the Mozyr Refinery in the first quarter of 2012. The 5.1% decline in refining at the NIS Refineries was caused by rescheduled maintenance works due to MHC/DHT unit construction and decreased demand for motor fuels in Serbia.

Petroleum products

The Group has set a target to expand its premium sales of petroleum products to 40 mmtonnes in Russia and abroad by 2020, including 18 mmtonnes through product business units such as lubricants, bunkering and jet fuel. Also, by 2020, the Group seeks to achieve motor fuel retail sales volumes of 11.5 mmtonnes per year**.** By leveraging its strong retail brand, the Group seeks to increase the average sales at its petrol stations in Russia and the CIS to 5.5 thousand tonnes per year in 2020, while small wholesale volumes sales in Russia and the CIS are expected to rise to 8.2 mmtonnes per year in 2020.

The following table shows the Group's production of petroleum products for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June		
	2012	**2011**	**% Change**
		(mmtonnes)	
Production of petroleum products			
Petrol	4.4	4.1	8.9%
Below Euro 2	0.2	0.2	8.7%
Euro 2	0.4	0.1	387.5%
Euro 3	2.1	3.3	(37.1%)
Euro 4 and Euro 5	1.7	0.4	327.5%
Naphtha	0.7	0.6	14.5%
Diesel	5.6	5.7	(2.4%)
Below Euro 2	0.5	2.7	(83.0%)
Euro 2	1.7	1.5	14.3%
Euro 3	1.2	0.0	2950.0%
Euro 4	1.2	0.8	43.4%
Euro 5	1.0	0.7	51.5%
Fuel oil	4.5	4.1	9.8%
Jet fuel	1.4	1.3	8.7%
Other	3.6	2.9	23.1%
Total production	**20.2**	**18.7**	**8.0%**

Production of petroleum products increased by 8.0% in the six months ended 30 June 2012, to 20.2 mmtonnes, compared to 18.7 mmtonnes in the six months ended 30 June 2011. The increase was primarily the result of a 8.9% increase in petrol production, in particular Euro 4 and 5 grade petrol, due to higher demand and a 9.8%

increase in fuel oil production due to increased refining throughput and capacity utilisation. The increase in production of Euro 4 and 5 petrol and Euro 4 and 5 diesel fuel was due to the further differentiation of excise tax rates as of 1 January 2012 that favour environmentally cleaner fuels.

Results of Operations for the Six Months Ended 30 June 2012 and 2011, as Reported under IFRS

Financial Overview

The following table sets out certain key financial information for the Group for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June		
	2012	**2011**	**% Change**
		(Unaudited)	
Financial information			
Revenues (RUB million)	579,182	487,500	18.8%
Adjusted EBITDA (RUB million)(1)	149,297	140,076	6.6%
RUB per toe of production	5,058.6	4,997.4	1.2%
USD per boe of production	22.5	23.7	(5.3%)
Profit attributable to the Company (RUB million)	78,726	78,449	0.4%

(1) Adjusted EBITDA is not a measure of performance under IFRS. Adjusted EBITDA is calculated as the EBITDA of the Group less its share of (loss)/profit of Equity Affiliates plus its share in the EBITDA of the Equity Affiliates. The table below presents a reconciliation of Adjusted EBITDA to the Group's profit for the six months ended 30 June 2012 and 2011. See "*Note 22 to June 2012 Interim Condensed Consolidated Financial Statements*" included herein.

	Six months ended 30 June (Unaudited)	
	2012	**2011**
	RUB million	
Profit for the period	83,957	80,726
Total income tax expenses	16,131	22,968
Finance expense	5,021	5,683
Finance income	(1,626)	(755)
Depreciation, depletion and amortisation	28,483	25,838
Net foreign exchange (loss)/gain	2,297	(7,861)
Other income, net	(1,609)	(1,969)
EBITDA	**132,654**	**124,630**
Less share of (loss)/profit of Equity Affiliates	(10,354)	(4,482)
Add Share of EBITDA in Equity Affiliates	26,997	19,928
Adjusted EBITDA	**149,297**	**140,076**

The following table sets forth the components of the Group's profit and total comprehensive income for the six months ended 30 June 2012 and 2011, as reported under IFRS.

	Six months ended 30 June (Unaudited)	
	2012	**2011**
	RUB million	
Income statement data		
Revenue		
Sales	724,138	609,366
Less export duties and sales related excise tax	(144,956)	(121,866)
Total revenue from sales	**579,182**	**487,500**
Costs and other deductions		
Purchases of oil, gas and petroleum products	(197,524)	(151,216)
Production and manufacturing expenses	(53,723)	(50,336)
Selling, general and administrative expenses	(29,199)	(24,726)
Transportation expenses	(48,024)	(40,760)
Depreciation, depletion and amortisation	(28,483)	(25,838)
Taxes other than income tax	(127,839)	(99,433)
Exploration expenses	(573)	(881)
Total operating expenses	**(485,365)**	**(393,190)**
Other income, net	1,609	1,969

	Six months ended 30 June (Unaudited)	
	2012	2011
	RUB million	
Operating profit	**95,426**	**96,279**
Share of profit of equity accounted investments	10,354	4,482
Net foreign exchange (loss)/gain	(2,297)	7,861
Finance income	1,626	755
Finance expense	(5,021)	(5,683)
Total other income/expense	**4,662**	**7,415**
Profit before income tax	**100,088**	**103,694**
Current profit tax expense	(12,849)	(20,937)
Deferred profit tax expense	(3,282)	(2,031)
Total income tax expenses	**(16,131)**	**(22,968)**
Profit for the period	**83,957**	**80,726**
Other comprehensive income/(loss):		
Currency translation differences	2,432	(3,905)
Share of other comprehensive income of associates	-	7
Cash flow hedge	(1,925)	1,724
Other comprehensive income for the period	**507**	**(2,174)**
Total comprehensive income for the period	**84,464**	**78,552**
Profit attributable to:		
- Company shareholders	78,726	78,449
- Non-controlling shareholders	5,231	2,277
Profit for the period	**83,957**	**80,726**
Total comprehensive income attributable to:		
- Company shareholders	78,032	77,456
- Non-controlling shareholders	6,432	1,096
Total comprehensive income for the period	**84,464**	**78,552**

Revenue

The following table shows the Group's total revenues from crude oil, gas and petroleum product sales for the six months ended 30 June 2012 and 2011, as reported under IFRS. Export revenues refer to crude oil and petroleum products produced and purchased in Russia and exported outside of Russia and the CIS. Revenues from international markets refer to crude oil, petroleum products and gas produced and purchased and sold outside of Russia, which, in the periods under review, reflected sales of NIS. The Group's revenues from sales do not include revenues from the Equity Affiliates, which are accounted for in "Share of profit of equity accounted investments".

	Six months ended 30 June (Unaudited)				
	2012		2011		% Change
	RUB million	*% of revenue*	*RUB million*	*% of revenue*	
Crude oil					
Export	81,759	14.1%	78,857	16.2%	3.7%
Export sales	161,539	27.9%	150,815	30.9%	7.1%
Less related export duties	(79,780)	(13.8%)	(71,958)	(14.8%)	10.9%
International markets	1,023	0.2%	—	—	—
Export to CIS	16,331	2.8%	17,110	3.5%	(4.6%)
Domestic	6,395	1.1%	69	0.0%	9,168.1%
Total crude oil revenue	**105,508**	**18.2%**	**96,036**	**19.7%**	**9.9%**
Gas					
International markets	3,042	0.5%	2,157	0.4%	41.0%
Domestic	8,552	1.5%	6,835	1.4%	25.1%
Total gas revenue	**11,594**	**2.0%**	**8,992**	**1.8%**	**28.9%**

	Six months ended 30 June (Unaudited)				
	2012		2011		% Change
	RUB million	*% of revenue*	*RUB million*	*% of revenue*	
Petroleum products					
Export	116,767	20.2%	108,826	22.3%	7.3%
Export sales	170,002	29.4%	143,620	29.5%	18.4%
Less related export duties	(53,235)	(9.2%)	(34,794)	(7.1%)	53.0%
International markets	30,570	5.3%	30,135	6.2%	1.4%
Sales on international markets	39,946	6.9%	41,598	8.5%	(4.0%)
Excise[1]	(9,376)	(1.6%)	(11,463)	(2.4%)	(18.2%)
CIS	27,645	4.8%	18,084	3.7%	52.9%
Export sales and sales in CIS	30,210	5.2%	21,735	4.5%	39.0%
Less related export duties	(2,565)	(0.4%)	(3,651)	(0.7%)	(29.7%)
Domestic	273,206	47.2%	213,133	43.7%	28.2%
Total petroleum products revenue	**448,188**	**77.4%**	**370,178**	**75.9%**	**21.1%**
Other revenue	**13,892**	**2.4%**	**12,294**	**2.5%**	**13.0%**
Total revenue	**579,182**	**100.0%**	**487,500**	**100.0%**	**18.8%**

(1) Excise tax payable by NIS (calculated on revenues based on the volume of products sold).

The following table shows the Group's sales by volume of crude oil, gas and petroleum products (excluding sales of Equity Affiliates) for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)				
	2012		2011		% Change
		% of total		*% of total*	
Crude oil (mmtonnes)					
Export and sales on international markets	6.71	77.1%	6.74	82.5%	(0.4%)
Export to CIS	1.37	15.7%	1.42	17.4%	(3.5%)
Domestic sales	0.62	7.1%	0.01	0.1%	5,536.4%
Total crude oil sales	**8.70**	**100.0%**	**8.17**	**100.0%**	**6.5%**
Gas (bcm)					
International markets	0.23	4.2%	0.21	4.3%	9.5%
Domestic	5.25	95.8%	4.73	95.7%	11.0%
Total Gas sales	**5.48**	**100.0%**	**4.94**	**100.0%**	**10.9%**
Petroleum products (mmtonnes)					
Export	6.91	31.9%	6.45	32.0%	7.1%
Sales on international markets	1.07	4.9%	1.14	5.7%	(6.1%)
Export and sales in CIS	1.29	6.0%	1.02	5.1%	26.5%
Domestic sales	12.40	57.2%	11.51	57.2%	7.7%
Total petroleum products sales	**21.67**	**100.0%**	**20.12**	**100.0%**	**7.7%**

The following table shows average realised sales prices for the Group's crude oil and petroleum products sales (excluding sales of Equity Affiliates) for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB/tonne	*RUB/tonne*	
Crude oil			
Export and sales on international markets	24,227	22,376	8.3%
Export to CIS	11,920	12,049	(1.1%)
Petroleum products			
Export	24,602	22,267	10.5%
Sales on international markets	37,333	36,489	2.3%
Export and sales in CIS	23,419	21,309	9.9%
Domestic sales	22,033	18,517	19.0%

The following table shows revenues for the Group's petroleum products exports (excluding exports of Equity Affiliates) for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB million	*RUB million*	
High octane petrol	4,205	2,956	42.3%
Low octane petrol	890	800	11.3%
Naphtha	16,718	13,808	21.1%
Diesel	54,925	70,090	(21.6%)
Fuel oil	68,292	46,658	46.4%
Jet fuel	3,007	1,999	50.4%
Other	21,965	7,309	200.5%
Total petroleum product exports	**170,002**	**143,620**	**18.4%**

The following table shows revenues for the Group's petroleum products export and sales in the CIS (excluding export and sales of Equity Affiliates) for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB million	*RUB million*	
High octane petrol	9,653	9,223	4.7%
Low octane petrol	2,211	1,413	56.5%
Naphtha	1,012	1,271	(20.4%)
Diesel	6,951	5,199	33.7%
Fuel oil	1,047	-	-
Jet fuel	4,637	1,356	242.0%
Other	4,699	3,273	43.6%
Total petroleum product exports to the CIS	**30,210**	**21,735**	**39.0%**

The following table shows revenues for the Group's domestic sales of petroleum products (excluding sales of Equity Affiliates) for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB million	*RUB million*	
High octane petrol	103,367	81,928	26.2%
Low octane petrol	4,551	8,294	(45.1%)
Diesel	89,618	61,723	45.2%
Fuel oil	8,850	19,027	(53.5%)
Jet fuel	30,384	21,784	39.5%
Other	36,436	20,377	78.8%
Total petroleum product domestic sales	**273,206**	**213,133**	**28.2%**

Sales

The Group's total sales increased by 18.8% in the six months ended 30 June 2012 to RUB 724,138 million, compared to RUB 609,366 million in the six months ended 30 June 2011, primarily due to higher prices for crude oil and petroleum products and increased sales volumes of petroleum products.

Export and international markets sales of crude oil increased by 7.1%, to RUB 161,539 million in the six months ended 30 June 2012, compared to RUB 150,815 million in the six months ended 30 June 2011, mainly as a result of an 8.3% increase in the average realised sales prices in those markets. Sales volumes in the export and international markets declined by 0.4% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011. Sales of crude oil exported to the CIS decreased by 4.6% in the six months ended 30 June 2012, to RUB 16,331 million, compared to RUB 17,110 million in the six months ended 30 June 2011, due to a 3.5% decrease in sales volumes and a 1.1% decrease in the average realised sales prices.

The Group's export sales of petroleum products in the six months ended 30 June 2012 increased by 18.4%, to RUB 170,002 million, compared to RUB 143,620 million in the six months ended 30 June 2011, primarily due to a 7.1% increase in sales volumes and a 10.5% increase in the average realised sales price in the export market. In particular, export fuel oil sales increased by 46.4%, to RUB 68,292 million in the six months ended 30 June 2012, compared to RUB 46,658 million in the six months ended 30 June 2011, driven by a 18.7% increase in prices and a 23.3% increase in sales volumes. Sales of petroleum products on international markets decreased by 4.0% in the six months ended 30 June 2012, to RUB 39,946 million, compared to RUB 41,598 million in the six months ended 30 June 2011, mainly due to a 6.1% decrease in sales volumes, partially offset by a 2.3% increase in the average realised sales price. Sales of petroleum products in the CIS increased by 39.0% in the six months ended 30 June 2012, to RUB 30,210 million, compared to RUB 21,735 million in the six months ended 30 June 2011, primarily due to a 26.5% increase in sales volumes, as well as a 9.9% increase in the average realised sales price. Domestic petroleum products sales increased by 28.2%, to RUB 273,206 million in the six months ended 30 June 2012, compared to RUB 213,133 million in the six months ended 30 June 2011, mainly due to a 7.7% increase in sales volumes and a 19.0% increase in the average realised sales price. The increase in domestic sales volumes was mainly due to a 20.9% increase in diesel fuel volumes, a 20.3% increase in jet fuel volumes and a 9.0% increase in high octane petrol volumes.

For the six months ended 30 June 2012 and 2011, the Group reported two operating segments: upstream (exploration and production) and downstream (refining and marketing). See "*Note 22 to the June 2012 Interim Condensed Consolidated Financial Statements*".

Export duties and sales related excise tax

Export duties on crude oil increased by 10.9%, to RUB 79,780 million, in the six months ended 30 June 2012, compared to RUB 71,958 million in the six months ended 30 June 2011, mainly due to a 6.8% increase in the crude oil export duty rate from USD 394.77 per tonne in the six months ended 30 June 2011 to USD 421.92 per tonne in the six months ended 30 June 2012.

Export duties on petroleum products increased by 53.0%, to RUB 53,235 million in the six months ended 30 June 2012, compared to RUB 34,794 million in the six months ended 30 June 2011, mainly due to the introduction of protective duties of 90% of the crude oil rate on automobile petrol and naphtha in 2011, an increase in international crude oil prices based on which crude export duties are calculated and an increase in the volume of exports of petroleum products, excluding diesel. See "*— Key Factors Affecting Operating Results—Taxation*".

Export duties on petroleum products sold in the CIS decreased by 29.7%, to RUB 2,565 million, in the six months ended 30 June 2012, compared to RUB 3,651 million in the six months ended 30 June 2011, primarily due to a geographical shift in sales to Kazakhstan and Belarus, for which there is no export duty.

The sales-related excise tax reflects excise taxes paid by NIS on petroleum products sold in Serbia, which is calculated based on sales volumes. The sales-related excise tax decreased by 18.2%, to RUB 9,376 million, in the six months ended 30 June 2012, compared to RUB 11,463 million in the six months ended 30 June 2011, due to lower sales by NIS in the first six months of 2012.

Total revenue from sales

For the reasons described above, the Group's total revenue in the six months ended 30 June 2012 increased by 18.8%, to RUB 579,182 million, compared to RUB 487,500 million in the six months ended 30 June 2011.

Purchases of oil, gas and petroleum products

The Group's cost of purchased oil, gas and petroleum products in the six months ended 30 June 2012 increased by 30.6%, to RUB 197,524 million, compared to RUB 151,216 million in the six months ended 30 June 2011, primarily due to an increase in the price of crude oil and petroleum products and to an increase in volumes of crude oil purchased due to more attractive refining margins in the Russian market. The volume of crude oil purchased increased primarily as a result of a large increase in purchases on the domestic market. The volume of international and CIS petroleum products purchased increased due to higher trading activity.

Production and manufacturing expenses

The following table shows a breakdown of the Group's production and manufacturing expenses for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
Upstream expenses (RUB million)	**23,504**	**22,951**	**2.4%**
RUB per boe of production (excluding the Equity Affiliates)	160	168	(4.8%)
Downstream expenses (RUB million)	**15,295**	**13,408**	**14.1%**
Refining expenses at refineries (RUB million)	13,084	11,743	11.4%
RUB per tonne of refining throughput	613	595	3.0%
RUB per bbl of refining throughput	84	81	3.0%
Lubricants manufacturing expenses (RUB million)	2,211	1,665	32.8%
Transportation expenses to refineries (RUB million)	**10,749**	**11,288**	**(4.8%)**
Other (RUB million)	**4,175**	**2,688**	**55.3%**
Total production and manufacturing expenses (RUB million)	**53,723**	**50,336**	**6.7%**

The Group's production and manufacturing expenses in the six months ended 30 June 2012 increased by 6.7%, to RUB 53,723 million, compared to RUB 50,336 million in the six months ended 30 June 2011.

Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of extraction equipment, labour costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at upstream subsidiaries. Overall upstream expenses increased by 2.4%, a rate lower than hydrocarbon production growth, in the six months ended 30 June 2012, to RUB 23,504 million, largely due to the acquisition of the Orenburg assets. Accordingly, the Group's average hydrocarbon extraction costs per boe decreased from RUB 168 to RUB 160, or 4.8%, as a result of increased hydrocarbon production, the implementation of various cost reduction programmes, such as the use of energy-efficient pumps and the optimisation of repair schedules and a 12% reduction in the electricity tariff from RUB/kWh 2.17 to 1.92 RUB/kWh.

Downstream expenses mainly consist of refining expenses, which include expenditures for raw materials and supplies, maintenance and repairs of production equipment, labour and electricity costs and other similar costs. The Group's refining expenses increased by 11.4%, to RUB 13,084 million in the six months ended 30 June 2012, primarily due to an 8.1% increase in refining throughput. Average refining expenses per bbl increased by 3.0%, to RUB 84 in the six months ended 30 June 2012 from RUB 81 in the six months ended 30 June 2011, primarily as a result of a one-off expenditure related to the new environmental programme at the Moscow Refinery.

Transportation expenses to refineries decreased by 4.8%, to RUB 10,749 million, in the six months ended 30 June 2012, primarily as a result of lower costs for the transportation of crude oil to the YANOS Refinery.

Selling, general and administrative expenses

Selling, general and administrative expenses included general business expenses, wages, salaries (except for wages and salaries at production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charitable giving, allowances for doubtful accounts and other expenses. The Group's selling, general and administrative expenses increased by 18.1% in the six months ended 30 June 2012, to RUB 29,199 million, compared to RUB 24,726 million in the six months ended 30 June 2011, primarily due to business expansion, resulting largely from an increase in premium sales (i.e., jet fuel, bunkering fuel, petrol and motor oils), and inflation.

Transportation expenses

Transportation expenses include costs to transport oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling and other transportation costs. The Group's transportation expenses increased by 17.8% in the six months ended 30 June 2012, to RUB 48,024 million, compared to RUB 40,760 million in the six months ended 30 June 2011, primarily due to higher railway transport tariffs and increased sales volumes. See "*—Key Factors Affecting Operating Results—Transportation Costs of Crude Oil and Petroleum Products*" above.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses include depletion of oil and gas producing assets and depreciation of other fixed assets. The Group's depreciation, depletion and amortisation increased by 10.2% in the six months ended 30 June 2012, to RUB 28,483 million, compared to RUB 25,838 million in the six months ended 30 June 2011, primarily due to growth in depreciable assets related to the Group's capital expenditure programme.

Taxes other than income taxes

The following table shows a breakdown of the Group's taxes other than income taxes for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	**2011**	**% Change**
	RUB million	*RUB million*	
MET	76,595	62,611	22.3%
Excise tax	41,180	27,794	48.2%
Property tax	3,435	3,041	13.0%
Other taxes	6,629	5,987	10.7%
Total taxes other than income taxes	**127,839**	**99,433**	**28.6%**

Taxes other than income taxes increased by 28.6% in the six months ended 30 June 2012, to RUB 127,839 million, compared to RUB 99,433 million in the six months ended 30 June 2011. MET increased by 22.3% in the six months ended 30 June 2012 compared to the six months ended 30 June 2011 due to higher tax rates for both gas and crude oil. MET for natural gas extraction doubled from 1 January 2012, and MET for oil extraction increased in line with higher crude oil prices and as a result of an increase in the base rate from 419 RUB/tonne in the six months ended 30 June 2011 to 446 RUB/tonne in the six months ended 30 June 2012. Excise tax expenses increased by 48.2% in the six months ended 30 June 2012, to RUB 41,180 million, compared to RUB 27,794 million in the six months ended 30 June 2011 due to the introduction of higher rates on 1 January 2012 and increased domestic product sales. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation*" in the Base Prospectus.

Exploration expenses

Exploration expenses, which include exploration-related expenses that do not meet capitalisation criteria, including dry holes expenditures and reserves assessment expenses, decreased by 35.0%, to RUB 573 million in the six months ended 30 June 2012, compared to RUB 881 million in the six months ended 30 June 2011. This decrease was due to lower exploration activity in the first half of 2012.

Other income, net

Other income, which comprises disposal of property, plant and equipment, investments as well as materials, decreased by 18.3%, to RUB 1,609 million in the six months ended 30 June 2012, compared to RUB 1,969 million in the six months ended 30 June 2011. This decrease primarily was the result of the sale of certain oil field businesses in the first half of 2012.

Operating profit

For the reasons described above, operating profit decreased by 0.9% in the six months ended 30 June 2012, to RUB 95,426 million, compared to RUB 96,279 million in the six months ended 30 June 2011.

Share of profit of equity accounted investments

The Group's share of profit of equity accounted investments increased by 131.0%, to RUB 10,354 million in the six months ended 30 June 2012, from RUB 4,482 million in the six months ended 30 June 2011. This increase was due primarily to the adoption of the 60-66 Amendments in the fourth quarter of 2011, which led to higher domestic prices for crude oil, and consequently to an increase in the profit of the Equity Affiliates selling crude oil domestically.

Net foreign exchange (loss)/gain

The Group recorded a net foreign exchange gain of RUB 7,861 million in the six months ended 30 June 2011, compared to a net foreign exchange loss of RUB 2,297 million in the six months ended 30 June 2012. This change was primarily due to a revaluation of the Group's debt portfolio denominated in foreign currencies.

Finance income

Finance income increased by 115.4% in the six months ended 30 June 2012, to RUB 1,626 million, compared to RUB 755 million in the six months ended 30 June 2011, primarily due to more efficient cash management, including an increase in the Group's bank deposit holdings.

Finance expense

Finance expense decreased by 11.6% in the six months ended 30 June 2012, to RUB 5,021 million, compared to RUB 5,683 million in the six months ended 30 June 2011, primarily due to a reduction in the average interest rate of the Group's indebtedness. See "*Indebtedness*" below.

Total other income/ (expense)

For the reasons outlined above, the Group's total other income decreased from RUB 7,415 million in the six months ended 30 June 2011 to RUB 4,662 million in the six months ended 30 June 2012, or 37.1%.

Profit before income tax

For the reasons described above, the Group's profit before income taxes decreased by 3.5% in the six months ended 30 June 2012, to RUB 100,088 million, compared to RUB 103,694 million in the six months ended 30 June 2011.

Current profit tax expense

The Group's current profit tax expense decreased by 38.6% in the six months ended 30 June 2012, to RUB 12,849 million, compared to RUB 20,937 million in the six months ended 30 June 2011, primarily due to the application of accelerated depreciation for income tax beginning 1 January 2012.

Deferred profit tax expense

The Group recorded a deferred profit tax expense of RUB 3,282 million in the six months ended 30 June 2012, compared to RUB 2,031 million in the six months ended 30 June 2011. This change was mainly the result of an accelerated depreciation coefficient used by certain subsidiaries in the first half of 2012.

The Group's effective income tax rate was 16.1% for the six months ended 30 June 2012, compared to 22.2% in the six months ended 30 June 2011. The Group's effective tax rate, which is lower than the Russian statutory income tax rate, reflects the impact of lower income tax rates for certain of its subsidiaries under applicable Russian regional tax laws.

Total income tax expense

For the reasons described above, the Group's total income tax expense decreased by 29.8% in the six months ended 30 June 2012, to RUB 16,131 million, compared to RUB 22,968 million in the six months ended 30 June 2011.

Profit for the period

For the reasons described above, the Group's profit for the six months ended 30 June 2012 increased by 4.0%, to RUB 83,957 million, compared to RUB 80,726 million for the six months ended 30 June 2011.

Liquidity and Capital Resources

Cash flows for the six months ended 30 June 2012 and 2011

The following table shows the Group's cash flows for the six months ended 30 June 2012 and 2011, as reported under IFRS.

	Six months ended 30 June (Unaudited)		
	2012	**2011**	**% Change**
	RUB million	*RUB million*	
Cash flows from operating activities			
Profit before income tax	100,088	103,694	(3.5%)
Adjustments for:			
Share of profit of equity accounted investments	(10,354)	(4,482)	131%
Loss/(gain) on foreign exchange differences	756	(9,666)	—
Finance income	(1,626)	(755)	115.4%
Finance expense	5,021	5,683	(11.6)%
Depreciation, depletion and amortisation	28,483	25,838	10.2%
Allowance for doubtful accounts	(629)	253	—
Other non-cash items	1,383	2,688	(48.5%)
Changes in working capital:			
Accounts receivable	2,378	(18,494)	—
Inventories	3,465	(10,820)	—

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB million	*RUB million*	
Other current assets	(2,700)	(7,030)	(61.6%)
Accounts payable	4,605	13,085	(64.8%)
Taxes payable	4,250	8,041	(47.1%)
Other liabilities	(5,001)	(10,082)	(50.4%)
Income taxes paid	(11,946)	(21,245)	(43.8%)
Interest paid	(5,048)	(4,784)	5.5%
Dividends received	2,609	5,544	(52.9%)
Net cash provided by operating activities	**115,734**	**77,468**	**49.4%**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	(470)	—	—
Proceeds from disposal of subsidiaries, net of cash disposed	—	2,422	—
Acquisition of equity-accounted investments	—	(1,506)	—
Bank deposits placement	(23,878)	—	—
Repayment of bank deposits	13,530	2,400	463.8%
Acquisition of other investments	(2,724)	(5,581)	(51.2%)
Proceeds from sales of other investments	382	3,438	(88.9%)
Short-term loans issued	(2,495)	(1,692)	47.5%
Repayment of short-term loans issued	9,573	693	1,281.4%
Long-term loans issued	(4,043)	(4,568)	(11.5%)
Repayment of long-term loans issued	91	353	(74.2%)
Capital expenditures	(62,277)	(54,129)	15.1%
Proceeds from sale of property, plant and equipment	464	781	(40.6%)
Interest received	1,545	2,629	(41.2%)
Net cash used in investing activities	**(70,302)**	**(54,760)**	**28.4%**
Cash flows from financing activities			
Proceeds from short-term borrowings	1,789	8,799	(79.7%)
Repayment of short-term borrowings	(2,315)	(8,252)	(71.9%)
Proceeds from long-term borrowings	10,664	30,000	(64.5%)
Repayment of long-term borrowings	(15,960)	(24,397)	(34.6%)
Transaction costs directly attributable to the borrowings received	—	(206)	—
Dividends paid to the Company's shareholders	(5)	(7,450)	(99.9%)
Dividends paid to non-controlling interest	—	(8)	—
Acquisition of non-controlling interest in subsidiaries	(272)	(23,345)	(98.8%)
Net cash used in financing activities	**(6,099)**	**(24,859)**	**(75.5%)**

Net cash provided by operating activities

Net cash provided by operating activities increased by 49.4% from RUB 77,468 million in the six months ended 30 June 2011 to RUB 115,734 million in the six months ended 30 June 2012 mainly due improved working capital management and lower income taxes paid in the six months ended 30 June 2012 compared to the six months ended 30 June 2011.

Net cash used in investing activities

Net cash used in investing activities increased by 28.4% from RUB 54,760 million in the six months ended 30 June 2011 to RUB 70,302 million in the six months ended 30 June 2012 mainly due to bank deposits of RUB 23,878 million in the six months ended 30 June 2012 and a 15.1% increase in capital expenditure.

The following table shows the Group's capital expenditures for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June (Unaudited)		
	2012	2011	% Change
	RUB million	*RUB million*	
Exploration and production	36,723	33,112	10.9%
Refining	17,135	7,488	128.8%
Marketing and distribution	4,325	2,458	76.0%
Others[1]	3,786	2,894	30.8%
Subtotal capital expenditures	**61,969**	**45,952**	**34.9%**
Change in advances issued and material used in capital expenditures	308	8,177	-
Total capital expenditures	**62,277**	**54,129**	**15.1%**

(1) Includes capitalised borrowing costs.

The Group's capital expenditures increased by 15.1%, to RUB 62,277 million in the six months ended 30 June 2012, compared to RUB 54,129 million in the six months ended 30 June 2011. This increase was mainly due to a 128.8% increase in refining capital expenditures related mostly to construction of the isomerisation unit and catalytic cracking gasoline unit and reconstruction of the diesel hydrotreating unit at the Moscow Refinery and a 76.0% increase in marketing and distribution capital expenditures, in turn due to increased construction and reconstruction of retail sites and the acquisition of retail sites in Chelyabinsk Oblast. In addition, exploration and production capital expenditures increased by 10.9%, to RUB 36,723 million in six months ended 30 June 2012, compared to RUB 33,112 million in the six months ended 30 June 2011, due to development of the Orenburg assets as well as to an increase in horizontal wells drilled.

Net cash used in financing activities

Net cash used in financing activities decreased by 75.5% to RUB 6,099 million in the six months ended 30 June 2012 compared to RUB 24,859 million used in financing activities in the six months ended 30 June 2011. This change was mainly due to one-time items related to the acquisition of non-controlling interests in NIS and Sibir Energy in the six months ended 30 June 2011 in the amount of RUB 23,345 million, payment of dividends in the amount of RUB 7,450 million in the six months ended 30 June 2011, a decrease in the repayment of short-term borrowings from RUB 8,252 million in the six months ended 30 June 2011 to RUB 2,315 million in the six months ended 30 June 2012 and a decrease in the repayment of long-term borrowings from RUB 24,397 million in the six months ended 30 June 2011 to RUB 15,960 million in the six months ended 30 June 2012. The decrease in net cash used in financing activities was partially offset by a decrease of 64.5% in proceeds from long-term borrowings from RUB 30,000 million in the six months ended 30 June 2011 to RUB 10,664 million in the six months ended 30 June 2012.

Indebtedness

The average maturity of the Group's debt decreased to 2.35 years in the second quarter of 2012 compared to 2.68 years in the fourth quarter of 2011. The average interest rate of the Group's indebtedness decreased to 3.19% in the second quarter of 2012 compared to 3.37% in the fourth quarter of 2011. As of 30 June 2012, the Group's net debt/EBITDA ratio was 0.6.

The following table shows a breakdown of the Group's debt by currency as of 30 June 2012 and 31 December 2011.

	As of 30 June 2012 (Unaudited)		As of 31 December 2011 (Unaudited)	
	RUB million	*% of total*	*RUB million*	*% of total*
USD	121,270	55.6%	138,982	62.8%
RUB	88,359	40.6%	77,237	34.9%
EURO	3,327	1.5%	3,762	1.7%
Other	4,943	2.3%	1,328	0.6%
Total	**217,899**	**100%**	**221,309**	**100%**

Long-Term Debt

The table below presents the Group's long-term outstanding loans as of the six months ended 30 June 2012, as reported under IFRS.

	As of 30 June 2012 (Unaudited)
	RUB million
Bank loans[1]	122,019
Other borrowings	2,436
Bonds[2]	80,320
Finance lease liabilities	3,261
Less current portion of debt	(66,923)
Total long-term debt	**141,113**

(1) Bank loans consist of the Group's July 2010 pre-export financing and other long-term loans. As of 30 June 2012, the amount outstanding under the pre-export financing was USD 1.5 billion (approximately RUB 49 billion) and the amount outstanding under other long-term loans was RUB 73 billion. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness—Long-Term Debt*" in the Base Prospectus for further discussion of these bank loans.

(2) Bonds consist of the Group's Rouble bond issuances. In July 2012, the Group exercised its option to redeem its 03 Series Rouble bonds, making a repayment of RUB 7.9 billion. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness—Long-Term Debt*" in the Base Prospectus for further discussion of the Group's Rouble bonds.

Short-Term Debt

The table below presents the Group's short-term outstanding loans as of the six months ended 30 June 2012, as reported under IFRS.

	As of 30 June 2012 (Unaudited)
	RUB million
Bank loans	110
Other borrowings	9,013
Finance lease liabilities	740
Current portion of long-term debt	66,923
Total short-term debt	**76,786**

As of 30 June 2012, short-term loans (excluding the current portion of long-term debt) mainly consisted of unsecured facilities provided by international banks for the purpose of funding working capital.

Capital Commitments

As of 30 June 2012, the Group had entered into contracts to purchase property, plant and equipment for RUB 20,137 million.

Credit Ratings

As of the date of this Base Prospectus Supplement, the Company had a long-term corporate rating of "BBB-" with stable outlook from Standard & Poor's.

CAPITALISATION

The following table shows the Group's capitalisation as of 30 June 2012. For further information regarding the Group's financial condition, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in the Base Prospectus and this Base Prospectus Supplement, as well as the Financial Statements.

	As of 30 June 2012 (Unaudited)
	RUB million
Short-term debt	
Bank loans	110
Other borrowings	9,013
Finance lease liabilities	740
Current portion of long-term debt	66,923
Total short-term debt and current part of long-term debt	**76,786**
Long-term debt	
Bank loans	122,019
Other borrowings	2,436
Bonds	80,320
Finance lease liabilities	3,261
Less current portion of debt	**(66,923)**
Total long-term debt (excluding current portion of long-term debt)	**141,113**
Equity attributable to the Company's owners	
Share capital	98
Treasury shares	(1,170)
Additional paid-in capital	9,947
Retained earnings	721,232
Other reserves	(1,634)
Equity attributable to the Company's owners	**728,473**
Total capitalisation(1)	**946,372**

(1) Total of short-term debt, long-term debt and equity attributable to the Company's owners.

There have been no material changes in the capitalisation of the Group since 30 June 2012 to the date of this Base Prospectus Supplement.

RELATED PARTY TRANSACTIONS

The following section supplements the discussion beginning on page 135 of the Base Prospectus, entitled "Related Party Transactions".

Related Party Transactions for the Six Months Ended 30 June 2012 and 2011, as Reported under IFRS

For the purpose of the June 2012 Interim Condensed Consolidated Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively controlled by the Russian Government. The tables below summarise transactions in the ordinary course of business with either the parent company or associates and joint ventures.

For additional information on related party transactions for the six months ended 30 June 2012 and 2011, see "*Note 21 to the June 2012 Interim Condensed Consolidated Financial Statements Financial Statements*".

Transactions with Key Management Personnel

Key management received remuneration, salaries, bonuses and contributions in the amount of RUB 237 million for the six months ended 30 June 2012 and RUB 168 million for the six months ended 30 June 2011.

Other Related Party Transactions

The Group enters into transactions with related parties based on market or regulated prices.

At 30 June 2012, the outstanding balances with related parties were as follows:

30 June 2012 (Unaudited)	Parent company	Entities under common control	Associates and joint ventures
		RUB million	
Short-term financial assets	-	4,868	4,008
Trade receivables	366	349	1,778
Other receivables	-	-	10,683
Other assets	183	984	2,075
Cash and cash equivalents	-	8,220	-
Long-term financial assets	-	-	3,498
Total assets	**549**	**14,421**	**22,042**
Short-term debt	713	-	8,145
Trade and other payables	31,459	3,710	4,434
Other current liabilities	120	68	1,547
Long-term debt	3,261	-	586
Total liabilities	**35,553**	**3,778**	**14,712**

For the six months ended 30 June 2012 and 2011 the following transaction occurred with related parties:

Six months ended 30 June 2011 (Unaudited)	Parent company	Entities under common control	Associates and joint ventures
		RUB million	
Crude oil, gas and oil products sales	26	440	21,948
Other revenue	4	27	1,398
Purchases of crude oil, gas and oil products	-	-	74,592
Production related services	-	-	3,789
Transportation costs	1,067	2,316	6,733
Other services	6	409	4
Interest income	-	-	194

Six months ended 30 June 2012 (Unaudited)	Parent company	Entities under common control	Associates and joint ventures
		RUB million	
Crude oil, gas and oil products sales	2,606	1,577	24,349
Other revenue	-	72	2,554
Purchases of crude oil, gas and oil products	-	4,188	85,789
Production related services	-	-	5,074
Transportation costs	1,762	1,983	9,148
Other services	524	4,404	395
Interest income	-	-	311

INDEX TO FINANCIAL STATEMENTS

Gazprom Neft Group

Interim Condensed Consolidated Financial Statements

June 30, 2012

Gazprom Neft Group

Interim Condensed Consolidated Financial Statements

June 30, 2012

Contents

pwc

Report on Review of Interim Condensed Consolidated Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JSC Gazprom Neft and its subsidiaries (the 'Group') as of 30 June 2012 and the related interim condensed consolidated statements of comprehensive income for the three and six month periods then ended, and of changes in equity and of cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

August 9, 2012

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru

Currency – RUB millions

	Notes	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	6	69,319	29,435
Short-term financial assets	7	22,877	18,951
Trade and other receivables	8	81,808	70,780
Inventories	9	73,044	74,201
Current income tax prepayments		10,774	12,377
Other current assets	10	92,721	89,518
Assets classified as held for sale		783	2,029
Total current assets		**351,326**	**297,291**
Non-current assets			
Property, plant and equipment	11	608,096	574,982
Goodwill and other intangible assets		40,124	40,194
Investments in associates and joint ventures	12	173,022	175,315
Long-term trade and other receivables		188	219
Long-term financial assets	13	15,014	9,487
Deferred income tax asset		10,869	11,934
Other non-current assets		9,205	8,737
Total non-current assets		**856,518**	**820,868**
Total assets		**1,207,844**	**1,118,159**
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	14	76,786	44,330
Trade and other payables	15	83,477	41,196
Other current liabilities		22,584	25,165
Current income tax payable		1,264	1,994
Other taxes payable	16	34,461	30,089
Provisions for liabilities and charges		4,975	6,888
Liabilities associated with assets classified as held for sale		9	667
Total current liabilities		**223,556**	**150,329**
Non-current liabilities			
Long-term debt	17	141,113	176,979
Other non-current financial liabilities		7,309	6,824
Deferred income tax liability		35,587	32,443
Provisions for liabilities and charges		17,085	17,458
Other non-current liabilities		1,892	1,956
Total non-current liabilities		**202,986**	**235,660**
Equity			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		9,947	10,022
Retained earnings		721,232	676,947
Other reserves		(1,634)	(940)
Equity attributable to the Company's owners		**728,473**	**684,957**
Non-controlling interest		52,829	47,213
Total equity		**781,302**	**732,170**
Total liabilities and shareholders' equity		**1,207,844**	**1,118,159**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

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

	Notes	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales		379,603	321,055	724,138	609,366
Less export duties and sales related excise tax		(78,397)	(65,574)	(144,956)	(121,866)
Total revenue from sales	22	**301,206**	**255,481**	**579,182**	**487,500**
Costs and other deductions					
Purchases of oil, gas and petroleum products		(109,953)	(85,718)	(197,524)	(151,216)
Production and manufacturing expenses		(26,681)	(26,294)	(53,723)	(50,336)
Selling, general and administrative expenses		(15,191)	(11,628)	(29,199)	(24,726)
Transportation expenses		(24,249)	(20,598)	(48,024)	(40,760)
Depreciation, depletion and amortization		(14,413)	(13,741)	(28,483)	(25,838)
Taxes other than income tax	16	(63,556)	(52,457)	(127,839)	(99,433)
Exploration expenses		(218)	(359)	(573)	(881)
Total operating expenses		**(254,261)**	**(210,795)**	**(485,365)**	**(393,190)**
Other income, net		1,372	1,671	1,609	1,969
Operating profit		**48,317**	**46,357**	**95,426**	**96,279**
Share of (loss) / profit of equity accounted investments		(1,733)	2,782	10,354	4,482
Net foreign exchange (loss) / gain		(4,849)	4,048	(2,297)	7,861
Finance income		1,083	379	1,626	755
Finance expense		(2,683)	(2,664)	(5,021)	(5,683)
Total other (expense) / income		**(8,182)**	**4,545**	**4,662**	**7,415**
Profit before income tax		**40,135**	**50,902**	**100,088**	**103,694**
Current income tax expense		(4,524)	(8,781)	(12,849)	(20,937)
Deferred income tax expense		(1,742)	(2,163)	(3,282)	(2,031)
Total income tax expense		**(6,266)**	**(10,944)**	**(16,131)**	**(22,968)**
Profit for the period		**33,869**	**39,958**	**83,957**	**80,726**
Other comprehensive income / (loss):					
Currency translation differences		9,034	(427)	2,432	(3,905)
Share of other comprehensive income of associates		-	-	-	7
Cash flow hedge		(11,442)	(5,621)	(1,925)	1,724
Other comprehensive (loss) / income for the period		**(2,408)**	**(6,048)**	**507**	**(2,174)**
Total comprehensive income for the period		**31,461**	**33,910**	**84,464**	**78,552**
Profit attributable to:					
- Gazprom Neft shareholders		30,353	38,459	78,726	78,449
- Non-controlling interest		3,516	1,499	5,231	2,277
Profit for the period		**33,869**	**39,958**	**83,957**	**80,726**
Total comprehensive income attributable to:					
- Gazprom Neft shareholders		24,693	32,581	78,032	77,456
- Non-controlling interest		6,768	1,329	6,432	1,096
Total comprehensive income for the period		**31,461**	**33,910**	**84,464**	**78,552**
Earnings per share attributable to Gazprom Neft shareholders					
Basic earnings (RUB per share)		7.18	8.47	17.80	17.11
Diluted earnings (RUB per share)		7.18	8.47	17.80	17.11
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,718	4,718

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

For six months ended June 30, 2012 Currency – RUB millions

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2011	**98**	**(1,170)**	**-**	**537,533**	**5,978**	**542,439**	**67,525**	**609,964**
Profit for the period	-	-	-	78,449	-	78,449	2,277	80,726
Other comprehensive income								
Currency translation differences	-	-	-	-	(2,724)	(2,724)	(1,181)	(3,905)
Share of other comprehensive income of associates	-	-	-	-	7	7	-	7
Cash flow hedge	-	-	-	-	1,724	1,724	-	1,724
Total comprehensive income for the period	**-**	**-**	**-**	**78,449**	**(993)**	**77,456**	**1,096**	**78,552**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	(20,948)	-	(20,948)	(481)	(21,429)
Acquisition of non-controlling interest	-	-	8,974	-	-	8,974	(32,616)	(23,642)
Total transactions with owners	-	-	8,974	(20,948)	-	(11,974)	(33,097)	(45,071)
Balance as of June 30, 2011	**98**	**(1,170)**	**8,974**	**595,034**	**4,985**	**607,921**	**35,524**	**643,445**

	Attributable to equity holders of the Company							
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interest**	**Total equity**
Balance as of January 1, 2012	**98**	**(1,170)**	**10,022**	**676,947**	**(940)**	**684,957**	**47,213**	**732,170**
Profit for the period	-	-	-	78,726	-	78,726	5,231	83,957
Other comprehensive income								
Currency translation differences	-	-	-	-	1,231	1,231	1,201	2,432
Cash flow hedge	-	-	-	-	(1,925)	(1,925)	-	(1,925)
Total comprehensive income for the period	**-**	**-**	**-**	**78,726**	**(694)**	**78,032**	**6,432**	**84,464**
Transactions with owners, recorded directly in equity								
Dividends to equity holders	-	-	-	(34,441)	-	(34,441)	(234)	(34,675)
Acquisition of non-controlling interest	-	-	(75)	-	-	(75)	(582)	(657)
Total transactions with owners	-	-	(75)	(34,441)	-	(34,516)	(816)	(35,332)
Balance as of June 30, 2012	**98**	**(1,170)**	**9,947**	**721,232**	**(1,634)**	**728,473**	**52,829**	**781,302**

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

For six months ended June 30, 2012 Currency – RUB millions

	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from operating activities		
Profit before income tax	100,088	103,694
Adjustments for:		
Share of profit of equity accounted investments	(10,354)	(4,482)
Loss / (gain) on foreign exchange differences	756	(9,666)
Finance income	(1,626)	(755)
Finance expense	5,021	5,683
Depreciation, depletion and amortization	28,483	25,838
Allowance for doubtful accounts	(629)	253
Other non-cash items	1,383	2,688
Changes in working capital:		
Accounts receivable	2,378	(18,494)
Inventories	3,465	(10,820)
Other assets	(2,700)	(7,030)
Accounts payable	4,605	13,085
Taxes payable	4,250	8,041
Other liabilities	(5,001)	(10,082)
Income taxes paid	(11,946)	(21,245)
Interest paid	(5,048)	(4,784)
Dividends received	2,609	5,544
Net cash provided by operating activities	**115,734**	**77,468**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(470)	-
Proceeds from disposal of subsidiaries, net of cash disposed	-	2,422
Acquisition of equity-accounted investments	-	(1,506)
Bank deposits placement	(23,878)	-
Repayment of bank deposits	13,530	2,400
Acquisition of other investments	(2,724)	(5,581)
Proceeds from sales of other investments	382	3,438
Short-term loans issued	(2,495)	(1,692)
Repayment of short-term loans issued	9,573	693
Long-term loans issued	(4,043)	(4,568)
Repayment of long-term loans issued	91	353
Capital expenditures	(62,277)	(54,129)
Proceeds from sale of property, plant and equipment	464	781
Interest received	1,545	2,629
Net cash used in investing activities	**(70,302)**	**(54,760)**

For six months ended June 30, 2012 Currency – RUB millions

	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows from financing activities		
Proceeds from short-term borrowings	1,789	8,799
Repayment of short-term borrowings	(2,315)	(8,252)
Proceeds from long-term borrowings	10,664	30,000
Repayment of long-term borrowings	(15,960)	(24,397)
Transaction costs directly attributable to the borrowings received	-	(206)
Dividends paid to the Company's shareholders	(5)	(7,450)
Dividends paid to non-controlling interest	-	(8)
Acquisition of non-controlling interest in subsidiaries	(272)	(23,345)
Net cash used in financing activities	**(6,099)**	**(24,859)**
Increase / (decrease) in cash and cash equivalents	39,333	(2,151)
Effect of foreign exchange on cash and cash equivalents	550	(1,079)
Cash and cash equivalents as of the beginning of the period	**29,436**	**34,928**
Cash and cash equivalents as of the end of the period	**69,319**	**31,698**

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

1. General

Description of Business

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

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. JSC Gazprom ("Gazprom"), the Group's ultimate parent company, owns 95.68% shares in the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS. The Group is in process of the adoption of IFRS, all the relevant data on the transition from previous GAAP (US GAAP) is described in Note 24 to these Interim Condensed Consolidated Financial Statements.

These significant accounting policies and estimates represent those policies and estimates that the Group expects to use in its first IFRS financial statements as of December 31, 2012.

In the opinion of the Group's management ("Management"), the Interim Condensed Consolidated Financial Statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to fairly state the Group's financial position, results of operations and cash flows for the interim periods. Subsequent events occurring after June 30, 2012 were evaluated through August 9, 2012, the date these financial statements were authorised for issue.

The results for the six months ended June 30, 2012 are not necessarily indicative of the results expected for the full year.

Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under the Stock Appreciation Rights plan (SARs) are stated at fair value.

Seasonality of Operations

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

Foreign Currency Translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

The presentation currency for the Group is the Russian Ruble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Interim Condensed Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Interim Condensed Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

The official exchange rates of the Ruble to the US Dollar were:

32.82 RUB/USD as of June 30, 2012;
32.20 RUB/USD as of December 31, 2011.

For the six months ended June 30, 2012 and 2011 the average exchanges rates of the Russian Ruble were 30.64 RUB /USD and 28.62 RUB/USD, respectively. For the three months ended June 30, 2012 and 2011 the average exchange rates of the Russian Ruble were 31.01 RUB /USD and 27.99 RUB/USD, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Accordingly, the Group's share of net earnings from these companies is included in profit and loss as share of profit of equity accounted investments. All other investments are classified either as held-to-maturity or as available for sale.

Business Combinations

The Group accounts for its business combinations according to IFRS 3 *Business Combinations*. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company have not public market price). Measurement choice is made for each business combination.

Goodwill and Other Intangible Assets

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-Controlling Interest

Certain changes in a parent's ownership interest are accounted for as equity transactions. When a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary is measured at carrying value at the date control is lost. In addition, ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Interim Condensed Consolidated Statement of Comprehensive Income.

Acquisitions from Entities under Common Control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

Investments in Associates and Joint Ventures (Equity Accounted Investees)

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

Non-Derivative Financial Assets

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

Held-to-maturity Financial Assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and Receivables

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses.

Non-Derivative Financial Liabilities

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Derivative Financial Instruments

The Group uses derivative instruments to manage its exposure to changes in foreign currency exchange rates. A substantial portion of the Group's revenues are received in US Dollars. Additionally, a significant portion of the Group's financing activities is also undertaken in US Dollars. However, the Group's operating expenditures and capital spending are primarily denominated in Russian Rubles. Accordingly, a change in the value of the US Dollar against the Russian Ruble will impact the Group's operating results and cash flows. Therefore, the Group enters into forward contracts to manage this risk.

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is expected.

Hedge Accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument.

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is calculated on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Assets Classified as Held for Sale

Assets are classified in the Consolidated Statement of Financial Position as ‘assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period in which they were reclassified. These assets are measured at the lower of the carrying amounts and fair value less costs to sell. Assets classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Intangible Assets

Intangible assets that have limited useful lives are amortised on a straight-line basis over the shorter of their useful lives and the period set by legislation. Useful lives with respect to intangible assets are determined as follows:

Intangible Asset Group	Average Life
Licenses and software	1-5 years
Land rights	25 years

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and any impairments. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred; renewals and improvements of assets are capitalised. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

<u>Oil and Gas Properties</u>

Exploration and Evaluation assets

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

Development Costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, Depletion and Amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves, respectively. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as Other equipment. The assets are depreciated based on the straight-line method.

Capitalisation of Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Decommissioning Obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and Production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, Marketing and Distribution: the Group's oil refining operations are carried out at large manufacturing facilities, that have been operated for several decades. The nature of these operations is such that it is impossible to determine the ultimate date of decommissioning of any sites or facilities, although some parts and equipment have definite useful lives. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period for the purposes other than to produce inventories during that period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income Taxes

Currently the Group does not exercise the option to pay taxes as a consolidated tax-payer and, accordingly, the Group is not subject to taxation on a consolidated basis. Current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Interim Condensed Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 *Income Taxes*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Interim Condensed Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

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

Mineral Extraction Tax and Excise Duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Common Stock

Common stock represents the authorised capital of the Group, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders' meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Earnings per Share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-Based Compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SARs in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and Other Benefit Obligations

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Government Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of Revenues

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognised when deliveries are made to final customers, title passes to the customer, collection is reasonably assured, and the sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognised when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Group is responsible for transportation, duties and taxes on those sales.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

Buy/Sell Transactions

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to leverage production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in crude oil transportation to the refinery costs and any negative difference is treated as an increase in crude oil transportation costs to the refinery.

Transportation Costs

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the Transneft pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Maintenance and Repair

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

3. Critical accounting estimates, assumptions and judgments

Preparing financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Interim Condensed Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortisation charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Interim Condensed Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

<u>Useful Lives of Property, Plant and Equipment</u>

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

<u>Impairment of Long-Lived Assets</u>

The carrying amounts of the Group's long-lived assets, other than goodwill, inventories, long-term financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rates, discount rates etc.

<u>Impairment of Non-Derivative Financial Assets</u>

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

<u>Decommissioning Obligations</u>

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

<u>Contingencies</u>

Certain conditions may exist as of the date of these Interim Condensed Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Interim Condensed Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

4. New Accounting Standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and that the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is deferred until 2015, earlier adoption is permitted. The Group does not plan to adopt the standard before 2015 and is currently assessing the impact of the new standard on its financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), 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 is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to 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 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 interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after January 1, 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 is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013). The amendment of IAS 28 resulted from the 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 is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after July 1, 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, the amendments to IAS 19 "Employee benefits", relating to changes in recognition and measurement of defined benefit pension expense, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

5. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to create additional guarantees of achievement by Gazprom Neft of its strategic goals by identifying and guarding against risks and by insitituting effective mechanisms to deal with them.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Currency Risk

The Group is exposed to currency risk primarily on sales and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the group companies, for instance the Russian Ruble for companies operating in Russia. The currency in which these transactions are denominated is mainly US Dollar.

The Group's currency exchange risk is considerably mitigated by its foreign currency liabilities: significant share of the Group's borrowings is US dollars. The currency structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. A balanced structure of currency assets and liabilities minimises the impact of currency risk factors on the Group's financial and business performance.

Furthermore, the Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

Interest Rate Risk

The major part of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment, depending on which Management of the Group decides whether it is more secure to obtain financing on a fixed-rate or variable-rate basis. When changes in the fixed or variable market interest rates are considered significant Management may consider refinancing of certain debt instruments on more favorable terms.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favorable over the expected period until maturity.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual lending limits depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group's stable financial situation, which is confirmed by international rating agencies, helps it to mobilize funds in Russian and foreign banks with comparative ease.

For six months ended June 30, 2012 Currency – RUB millions

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which include long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by average for the period figure of Capital Employed. Capital employed is defined as total equity plus net debt.

6. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Cash on hand	581	479
Cash in bank	52,750	16,376
Deposits with original maturity of less than three months	14,174	11,791
Cash equivalents	1,814	789
Total cash and cash equivalents	69,319	29,435

As of June 30, 2012 and December 31, 2011 the majority of bank deposits are held in US dollars and Russian Ruble, respectively. Bank deposits represent deposits with original maturities of less than three months.

7. Short-term financial assets

Short-term financial assets as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Deposits with original maturity more than 3 months less than 1 year	11,126	246
Short-term loans issued	6,353	14,524
Forward contracts - cash flow hedge	1,912	1,858
Financial assets held to maturity	3,486	2,323
Total short-term financial assets	22,877	18,951

8. Trade and Other receivables

Trade and other receivables as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Trade receivables	75,867	75,356
Other financial receivables	11,369	1,480
Less impairment provision	(5,428)	(6,056)
Total trade and other receivables	81,808	70,780

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

For six months ended June 30, 2012 Currency – RUB millions

9. Inventories

Inventories as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
Crude oil	12,321	14,047
Gas	3,471	4,168
Petroleum products and petrochemicals	37,476	35,702
Materials and supplies	18,401	19,804
Other	4,434	4,263
Less provision for impairment	(3,059)	(3,783)
Total inventory	73,044	74,201

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

	2012	2011
Buy/sell crude oil transactions for the six months ended June 30	33,779	35,465

10. Other Current Assets

Other current assets as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
Prepaid custom duties	18,618	26,103
Advances paid	31,730	29,572
Prepaid expenses	1,393	343
Value added tax receivable	32,164	28,347
Other assets	15,612	12,004
Less impairment provision	(6,796)	(6,851)
Total other current assets	92,721	89,518

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

For six months ended June 30, 2012 Currency – RUB millions

11. Property, Plant and Equipment

Movements in property, plant and equipment for the six months ended June 30, 2012 and 2011 are as follows:

Cost	**O&G properties**	**Refining assets**	**Marketing and distribution**	**Other assets**	**Assets under construction**	**Total PPE**
As of January 1, 2011	**367,506**	**127,681**	**56,884**	**3,548**	**32,571**	**588,190**
Additions	37,759	509	86	5,329	9,528	53,211
Changes in decommissioning obligations	(837)	-	-	-	-	(837)
Capitalised borrowing costs	164	-	-	-	240	404
Transfers	-	8,160	3,015	286	(11,461)	-
Reclassification to non-current assets classified as held for sale	(1,217)	-	-	-	-	(1,217)
Disposals	(1,586)	(1,368)	(663)	(11)	(190)	(3,818)
Translation differences	(1,485)	(1,002)	(2,026)	(31)	(303)	(4,847)
As of June 30, 2011	**400,304**	**133,980**	**57,296**	**9,121**	**30,385**	**631,086**
Depreciation and impairment						
As of January 1, 2011	**(76,924)**	**(36,865)**	**(5,736)**	**(241)**	**-**	**(119,766)**
Depreciation charge	(20,612)	(2,533)	(1,614)	(196)	-	(24,955)
Reclassification to non-current assets classified as held for sale	1,017	-	-	-	-	1,017
Disposals	1,246	87	69	10	-	1,412
Translation differences	222	112	192	21	-	547
As of June 30, 2011	**(95,051)**	**(39,199)**	**(7,089)**	**(406)**	**-**	**(141,745)**
Net book value						
As of January 1, 2011	**290,582**	**90,816**	**51,148**	**3,307**	**32,571**	**468,424**
As of June 30, 2011	**305,253**	**94,781**	**50,207**	**8,715**	**30,385**	**489,341**

For six months ended June 30, 2012 Currency – RUB millions

Cost	**O&G properties**	**Refining assets**	**Marketing and distribution**	**Other assets**	**Assets under construction**	**Total PPE**
As of January 1, 2012	**469,374**	**145,959**	**70,314**	**11,411**	**48,579**	**745,637**
Additions	35,129	1,367	367	245	23,766	60,874
Changes in decommissioning obligations	(879)	-	-	-	-	(879)
Capitalised borrowing costs	170	-	-	-	747	917
Transfers	-	3,575	4,953	214	(8,742)	-
Disposals	(1,631)	(213)	(799)	(80)	(287)	(3,010)
Translation differences	728	255	428	17	720	2,148
As of June 30, 2012	**502,891**	**150,943**	**75,263**	**11,807**	**64,783**	**805,687**
						-
Depreciation and impairment						-
As of January 1, 2012	**(118,171)**	**(41,903)**	**(9,969)**	**(612)**	**-**	**(170,655)**
Depreciation charge	(22,017)	(2,961)	(3,096)	(227)	-	(28,301)
Disposals	1,115	40	433	13	-	1,601
Translation differences	(119)	1	(110)	(8)	-	(236)
As of June 30, 2012	**(139,192)**	**(44,823)**	**(12,742)**	**(834)**	**-**	**(197,591)**
						-
Net book value						-
As of January 1, 2012	**351,203**	**104,056**	**60,345**	**10,799**	**48,579**	**574,982**
As of June 30, 2012	**363,699**	**106,120**	**62,521**	**10,973**	**64,783**	**608,096**

12. Investments in Associates and Joint Ventures

The Group has several investments in associates and joint ventures. The carrying value of the most significant investments as of June 30, 2012 and December 31, 2011 are summarized below:

		Ownership percentage	**June 30, 2012**	**December 31, 2011**
Slavneft	Joint venture	49.9	69,950	72,681
Tomskneft	Joint venture	50.0	30,015	31,284
SPD	Joint venture	50.0	46,081	43,316
SeverEnergy	Associate	25.5	24,567	24,599
Others			2,409	3,435
Total investments in associates and joint ventures			173,022	175,315

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

	June 30, 2012	**June 30, 2011**
Carrying amount at the beginning of the reporting period	175,315	179,301
Share of profit of associates and joint ventures	10,354	4,482
Dividends received	(12,416)	(11,285)
Fair value of net assets of associates and joint ventures acquired	-	1,506
Other changes in cost of associates and joint ventures	(231)	(2)
Carrying amount at the end of the reporting period	173,022	174,002

For six months ended June 30, 2012 Currency – RUB millions

The Group's share of the profit of equity accounted investments increased to RUB 10,354 million in the six months ended June 30, 2012 as compared to RUB 4,482 million in the six months ended June 30, 2011 (share in loss of RUB 1,733 million in the three months ended 30 June, 2012 as compared to share in profit of RUB 2,782 million in the three months ended June 30, 2011) due to the adoption of the 60/66 tax system in the end of 2011 financial year (under which export duty rates on crude oil sales decreased from 65% to 60%), which lead to increases in the domestic price of crude oil. The tax change resulted in an increase in the profit of associated entities selling crude oil domestically.

The Group's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Group and TNK-BP agreed to manage the production and the refineries of the Slavneft group with each party purchasing its share of production.

The following table summarises the financial information of Slavneft as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	31,241	30,181
Non-current assets	204,333	209,369
Total liabilities	113,688	100,467
Revenues	93,345	77,843
Net income	5,347	2,626

In December 2007 the Group acquired a 50% equity interest in JSC Tomskneft VNK ("Tomskneft") and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft ("Rosneft"). As part of this transaction, the Group and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

The following table summarises the financial information of Tomskneft as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	23,257	19,499
Non-current assets	80,151	76,864
Total liabilities	67,465	57,883
Revenues	53,328	47,374
Net income	6,710	5,482

As part of the acquisition of Sibir Energy in June 2009 the Group acquired a 50% equity interest in Salym Petroleum Development N.V. ("SPD"). SPD is owned 50% by Sibir and 50% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of SPD relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarises the financial information of SPD as of June 30, 2012 and December 31, 2011. Revenue and net income are shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	10,085	12,512
Non-current assets	29,246	28,670
Total liabilities	11,714	19,914
Revenues	36,860	31,527
Net income	7,436	5,035

In December 2010 Yamal Razvitie LLC (a 50%:50% joint venture between the Group and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom. The respective purchase price paid by the Group comprised RUB 28,123 million. SeverEnergy is developing through its subsidiaries the Samburgskoye and Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

For six months ended June 30, 2012 Currency – RUB millions

The following table summarises the financial information of SeverEnergy as of June 30, 2012 and December 31, 2011. Revenue and net income is shown for the six months ended June 30, 2012 and 2011:

	2012	2011
Current assets	5,534	5,029
Non-current assets	175,344	166,165
Total liabilities	70,195	60,686
Revenues	1,199	-
Net income	(485)	(2,077)

13. Long-term Financial Assets

Long-term financial assets as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Long-term loans issued	6,862	2,800
Financial assets held to maturity	1,331	-
Available for sale financial assets	7,528	7,478
Less impairment provision	(707)	(791)
Total long-term financial assets	15,014	9,487

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

As of June 30, 2012 and December 31, 2011 the Group has short-term loans and current portion of long-term debt outstanding as follows:

	June 30, 2012	December 31, 2011
Bank loans	110	116
Other borrowings	9,013	7,456
Finance lease liabilities	740	1,257
Current portion of long-term debt	66,923	35,501
Total short-term debt and current part of long-term debt	76,786	44,330

Current portion includes interest payable on long-term borrowings.

As of June 30, 2012 short-term loans were provided by international banks for funding of working capital and consisted of unsecured facilities.

15. Trade and Other Payables

Accounts payable as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Trade accounts payable	39,606	36,997
Dividends payable	35,993	1,534
Other accounts payable	5,637	883
Other current financial liabilities	2,241	1,782
Total trade and other payables	83,477	41,196

For six months ended June 30, 2012 Currency – RUB millions

16. Other Taxes Payable

Other taxes payable as of June 30, 2012 and December 31, 2011 comprise the following:

	June 30, 2012	December 31, 2011
Mineral extraction tax	11,314	12,428
VAT	11,943	9,970
Excise tax	6,963	3,968
Property tax	1,433	1,350
Other taxes	2,808	2,373
Total other taxes payable	34,461	30,089

Taxes other than income tax expense for the three and six months ended June 30, 2012 and 2011 comprise the following:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Mineral extraction tax	36,717	32,817	76,595	62,611
Property tax	1,752	1,527	3,435	3,041
Excise	21,387	15,104	41,180	27,794
Others	3,700	3,009	6,629	5,987
Total taxes other than income tax	63,556	52,457	127,839	99,433

17. Long-Term Debt

As of June 30, 2012 and December 31, 2011 the Group has long-term outstanding loans as follows:

	June 30, 2012	December 31, 2011
Bank loans	122,019	136,456
Other borrowings	2,436	818
Bonds	80,320	71,999
Finance lease liabilities	3,261	3,207
less current portion of debt	(66,923)	(35,501)
Total long-term debt	141,113	176,979

On April 21, 2009, the Group placed ten-year Ruble Bonds (04 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). In April, 2011 an option to redeem the bonds earlier was exercised and in August, 2011 the Group completed a secondary placement of RUB 6.1 billion. The bonds maturing in 2019 bear interest of 8.2% per year and have semi-annual coupon payments.

On July 21, 2009, the Group placed seven-year Ruble Bonds (03 series) with the total par value of RUB 8 billion (all current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 14.75% per year with three year put option to early redeem and have semi-annual coupon payments.

On April 13, 2010, the Group placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUB 20 billion (all current as of June 30, 2012 and non-current as of December 31, 2011). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed five-year Ruble Bonds (08 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year and have semi-annual coupon payments.

For six months ended June 30, 2012 Currency – RUB millions

On February 08, 2011, the Group placed ten-year Ruble Bonds (09 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year with a five year put option to early redeem and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (10 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012 and December 31, 2011). The bonds bear interest of 8.9% per year with a seven year put option to early redeem and have semi-annual coupon payments.

On February 7, 2012 the Group placed ten-year Ruble Bonds (11 series) with the total par value of RUB 10 billion (all non-current as of June 30, 2012). The bonds bear interest of 8.25% per year. The bonds have an early redemption offer to be made 3 years following the placement.

In July 2010 the Group completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of US$ 1.5 billion (approximately RUB 46 billion). The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015. As of June 30, 2012 and December 31, 2011 the Group has US$ 1.5 billion (approximately RUB 49 billion and RUB 48 billion, respectively) outstanding under the loan (including current portion of US$ 0.5 billion and US$ 0.3 billion or approximately RUB 18 billion and RUB 10 billion) as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 the Group has RUB 73,229 million in long term loans from a number of banks, primarily denominated in US Dollars (including current portion of RUB 18,797 million). As of December 31, 2011 the Group had RUB 88,812 million in long term loans from a number of banks (including current portion of RUB 15,312 million). Interest rates under the loans varied from LIBOR plus 0.5% to fixed interest rate of 6.75%.

The loan agreements contain financial covenants that require the Group's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of June 30, 2012 and December 31, 2011, respectively.

18. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of December 31, 2011					
Forward exchange contracts					
Assets	1,858	111	1,747	-	-
Liabilities	(8,604)	(153)	(1,629)	(2,154)	(4,668)
Total	(6,746)	(42)	118	(2,154)	(4,668)
As of June 30, 2012					
Forward exchange contracts					
Assets	1,912	1,912	-	-	-
Liabilities	(9,549)	(251)	(1,990)	(1,702)	(5,606)
Total	(7,637)	1,661	(1,990)	(1,702)	(5,606)

As of June 30, 2012 and December 31, 2011 the Group has outstanding forward currency exchange contracts for a total notional value of US$ 2,915 million and US$ 3,609 million respectively. During the reporting period the amount of RUB 170 million was reclassified from equity to loss in statement of income (for the six ended June 30, 2011 RUB 3.7 billion was reclassified to profit in statement of income).

No significant ineffectiveness occurred during the reporting period.

19. Commitments and Contingencies

Taxes

During 2011 the Russian tax authorities completed reviews of the operations of certain Russian subsidiaries of the Company for the year ended December 31, 2009. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations and changes that can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group (including allocation between federal and regional budgets) may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their interpretation of legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceeding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2009, 2010 and 2011 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these reviews.

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

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

Operating Environment

While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Russian Federation, restrictive currency controls, and a high level of inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

For six months ended June 30, 2012 Currency – RUB millions

Environmental Matters

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

Capital Commitments

As of June 30, 2012 the Group has entered into contracts to purchase property, plant and equipment for RUB 20,137 million (December 31, 2011: RUB 16,794 million).

20. Group Entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

		Ownership interest	
Subsidiary	**Country of incorporation**	**June 30, 2012**	**December 31, 2011**
OJSC "Gazpromneft-Omsk"	Russian Federation	100%	100%
OJSC "Gazpromneft-Tumen"	Russian Federation	100%	100%
OJSC "Gazpromneft-Ural"	Russian Federation	100%	100%
OJSC "Gazpromneft-Novosibirsk"	Russian Federation	100%	97%
OJSC "Gazpromneft-Yaroslavl"	Russian Federation	91%	91%
OJSC "Gazpromneft-Noyabrskneftegaz"	Russian Federation	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%
OJSC "Gazpromneft-ONPZ"	Russian Federation	100%	100%
OJCS "Gazpromneft-MNPZ"	Russian Federation	78%	78%
OJSC "CNT"	Russian Federation	100%	100%
CJSC "Gazpromneft-Severo-Zapad"	Russian Federation	100%	100%
CJSC "Gazpromneft-Kuzbass"	Russian Federation	100%	100%
CJSC "Gazpromneft-Aero"	Russian Federation	100%	100%
CJSC "Gazpromneft-Orenburg"	Russian Federation	62%	62%
LLC "Gazpromneft Marin Bunker"	Russian Federation	100%	100%
LLC "Gazpromneft-Center"	Russian Federation	100%	100%
LLC "Gazproneftfinance"	Russian Federation	100%	100%
LLC "Gazpromneft-Smazochnye Materialy"	Russian Federation	100%	100%
LLC "NK "Sibneft-Ugra"	Russian Federation	100%	100%
LLC "Gazpromneft-Vostok"	Russian Federation	100%	100%
LLC "Zapolyarneft"	Russian Federation	100%	100%
LLC "Gazpromneft-Hantos"	Russian Federation	100%	100%
Gazpromneft Trading GmbH	Austria	100%	100%
NAFTNA INDUSTRIJA SRBIJE (NIS)	Serbia	56%	56%

21. Related party transactions

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 *Related Party Disclosures*. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. The table below summarises transactions in the ordinary course of business with either the parent company or associates and joint ventures.

For six months ended June 30, 2012 Currency – RUB millions

Transactions with key management personnel

Key management received remunerations: salaries, bonuses and other contributions amounted to RUB 237 million for the six months ended June 30, 2012 and to RUB 168 million for the six months ended June 30, 2011.

Other related party transactions

The Group enters into transactions with related parties based on market or regulated prices.

As of June 30, 2012 and December 31, 2011 the outstanding balances with related parties were as follows:

June 30, 2012	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Short-term financial assets	-	4,868	4,008
Trade receivables	366	349	1,778
Other receivables	-	-	10,683
Other assets	183	984	2,075
Cash and cash equivalents	-	8,220	-
Long-term financial assets	-	-	3,498
Total assets	**549**	**14,421**	**22,042**
Short-term debt	713	-	8,145
Trade and other payables	31,459	3,710	4,434
Other current liabilities	120	68	1,547
Long-term debt	3,261	-	586
Total liabilities	**35,553**	**3,778**	**14,712**

December 31, 2011	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Short-term financial assets	-	242	13,461
Trade receivables	921	309	4,440
Other receivables	-	-	21
Other assets	-	361	1,109
Cash and cash equivalents	-	4,089	-
Long-term financial assets	-	-	2,095
Total assets	**921**	**5,001**	**21,126**
Short-term debt	1,222	-	7,174
Trade and other payables	439	319	5,828
Other current liabilities	260	41	1,416
Long-term debt	3,207	-	573
Total liabilities	**5,128**	**360**	**14,991**

For the six months ended June 30, 2012 and 2011 the following transaction occurs with related parties:

Six months ended June 30, 2011	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Crude oil, gas and oil products sales	26	440	21,948
Other revenue	4	27	1,398
Purchases of crude oil, gas and oil products	-	-	74,592
Production related services	-	-	3,789
Transportation costs	1,067	2,316	6,733
Other services	6	409	4
Interest income	-	-	194

For six months ended June 30, 2012 Currency – RUB millions

Six months ended June 30, 2012	**Parent company**	**Entities under common control**	**Associates and joint ventures**
Crude oil, gas and oil products sales	2,606	1,577	24,349
Other revenue	-	72	2,554
Purchases of crude oil, gas and oil products	-	4,188	85,789
Production related services	-	-	5,074
Transportation costs	1,762	1,983	9,148
Other services	524	4,404	395
Interest income	-	-	311

22. Segment information

Presented below is information about the Group's operating segments for the six months ended June 30, 2012 and 2011. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

Intersegment revenues are based upon estimated market prices.

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

For the period ended June 30, 2012	**Upstream**	**Downstream**	**Eliminations**	**Total**
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	7,409	571,773	-	579,182
Inter-segment	163,734	2,194	(165,928)	-
Total revenues	171,143	573,967	(165,928)	579,182
Segment results				
Adjusted EBITDA	76,159	73,138	-	149,297
Depreciation, depletion and amortisation	19,232	9,251	-	28,483
Segment assets as of June 30, 2012	626,690	849,571	(268,417)	1,207,844
Capital expenditure	34,808	27,469	-	62,277

For six months ended June 30, 2012 Currency – RUB millions

For the period ended June 30, 2011

	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	3,307	484,193	-	487,500
Inter-segment	148,569	1,449	(150,018)	-
Total revenues	151,876	485,642	(150,018)	487,500
Segment results				
Adjusted EBITDA	69,741	70,335	-	140,076
Depreciation, depletion and amortisation	17,260	8,578	-	25,838
Segment assets as of December 31, 2011	616,075	787,795	(285,711)	1,118,159
Capital expenditure	43,603	10,526	-	54,129

The geographical segmentation of the Group's revenue and capital expenditures for the period ended June 30 is presented below:

For the period ended June 30, 2012	Russian Federation	CIS	Export and international sales	Total
Sales to external customers, gross	300,618	46,807	376,713	724,138
Less custom duties and sales related excises	-	(1,448)	(143,508)	(144,956)
Revenues from external customers, net	**300,618**	**45,359**	**233,205**	**579,182**
For the period ended June 30, 2011				
Sales to external customers, gross	231,131	39,030	339,205	609,366
Less custom duties and sales related excises	-	(3,651)	(118,215)	(121,866)
Revenues from external customers, net	**231,131**	**35,379**	**220,990**	**487,500**

	Russian Federation	CIS	Export and international sales	Total
Non-current assets as of June 30, 2012	740,750	7,794	82,091	830,635
Capital expenditures for the six months ended June 30, 2012	58,400	537	3,340	62,277
Non-current assets as of December 31, 2011	720,350	7,130	71,967	799,447
Capital expenditures for the six months ended June 30, 2011	49,050	265	4,814	54,129

Adjusted EBITDA for the three and six months ended June 30, 2012 and 2011 is reconciled below:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Profit for the period	33,869	39,958	83,957	80,726
Total income tax expense	6,266	10,944	16,131	22,968
Finance expense	2,683	2,664	5,021	5,683
Finance income	(1,083)	(379)	(1,626)	(755)
Depreciation, depletion and amortization	14,413	13,741	28,483	25,838
Net foreign exchange (loss) / gain	4,849	(4,048)	2,297	(7,861)
Other income, net	(1,372)	(1,671)	(1,609)	(1,969)
EBITDA	59,625	61,209	132,654	124,630
less Share of (loss) profit of equity accounted investments	1,733	(2,782)	(10,354)	(4,482)
add Share of EBITDA of equity accounted investments	8,677	10,013	26,997	19,928
Total adjusted EBITDA	70,035	68,440	149,297	140,076

23. Subsequent events

In July 2012 an option to redeem Ruble bonds (03 series) was earlier exercised and the Group repaid RUB 7.9 billion (included in current portion of long-term debt as of June 30, 2012).

24. Explanation to transition to IFRS

US GAAP differs in certain aspects from IFRS. Therefore, while preparing these Interim Condensed Consolidated Financial Statements the Group has amended certain accounting, measurement and consolidation methods previously applied in US GAAP financial statements to comply with IFRS. The detailed explanation of transition to IFRS is presented in the Interim Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2012.

The following material adjustments were made to the US GAAP financial statements in connection with the transition to IFRS:

a. Reclassifications

To align the presentation of certain items of assets and liabilities, income and expenses with the requirements of IFRS, the Group made a number of reclassifications from US GAAP financial statements.

The major reclassifications were:
- export duties and excise tax related to sales volumes are presented as deductions from sales in IFRS financial statements rather than operating expenses;
- part of transportation expenses (regarding transportation to refinery) was transferred to production and manufacturing expenses;
- tax prepayments were reclassified from trade and other receivables to other current assets and investments in associates were separated from long-term financial assets.

b. Functional Currency

Under US GAAP the Group's functional currency was US Dollar. For the purposes of reporting under IFRS the local currency was determined to be the functional currency for most group entities. The Russian Ruble was set as the functional currency of JSC Gazprom Neft and its subsidiaries operating in Russian Federation and as the presentation currency for the whole Group.

c. Deemed Cost

The Group applied the exemption allowed by IFRS to the measurement of certain items of property, plant and equipment, fair value of which was stated as deemed cost as at date of Transition.

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the adjustment on revaluation of property, plant and equipment as deemed cost (increase in deferred tax asset of RUB 162 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 87 million).

d. Historical cost

Except as described in paragraph c. Deemed Cost above, the Group applied historical cost for measurement of items of property, plant and equipment. Several subsidiaries operating in the Russian Federation had used Russian Rubles as their functional currency since their acquisition dates. As several non-monetary assets were purchased before January 1, 2002 the Group applied IAS 29 *Financial reporting in Hyper-Inflationary Economies* to inflate items purchased during 1995 – 2002.

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (decrease in deferred tax asset of RUB 3,560 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 5,998 million).

e. Measurement of financial liabilities

Under US GAAP short-term and long-term debt were reported at book value and related transaction costs were accounted for separately. In accordance with IFRS financial liabilities are stated at amortised cost.

f. Hedge accounting

As allowed by IAS 39 the Group applied hedge accounting in financial statements prepared in accordance with IFRS.

g. Decommissioning obligation

The decommissioning obligation reported under US GAAP was measured using a credit-adjusted risk free discount rate of 8% and a US dollar inflation rate of 2.5%. For the purposes of these Interim Condensed Consolidated Financial Statements the Group changed the discount and inflation rates based on the conditions existing for the Russian Ruble as of the Transition Date to 11% and 5%, respectively.

h. Other adjustments

Other adjustments include all other individually insignificant adjustments required to make the financial statements compliant with IFRS and adjustments to deferred taxes necessary as a consequence of previous adjustments.

Impact on the cash flow statements

The Group has made a number of reclassifications to the numbers reported under US GAAP in order to present its operating cash flows in accordance with IFRS. These reclassification adjustments have no significant impact on the results presented for each type of the Group's activities.

Below the reconciliations of Statement of financial position as of June 30, 2011 and comprehensive income for the three and six months ended June 30, 2011 are provided.

Reconciliation of shareholders' equity as of June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Assets											
Current assets											
Cash and cash equivalents	1,129	31,698	-	-	-	-	-	-	(10)	(10)	31,688
Short-term financial assets	279	7,833	1,572	-	-	-	-	-	(258)	1,314	9,147
Trade and other receivables	3,505	98,406	(30,434)	-	-	-	-	-	318	(30,116)	68,290
Inventories	2,280	64,013	-	-	1,322	-	-	-	-	1,322	65,335
Current income tax prepayments	-	-	4,071	-	-	-	-	-	(13)	4,058	4,058
Other current assets	1,401	39,334	32,568	-	720	(245)	-	-	-	33,043	72,377
Assets classified as held for sale	310	8,703	-	-	739	-	-	-	-	739	9,442
Total current assets	**8,904**	**249,987**	**7,777**	**-**	**2,781**	**(245)**	**-**	**-**	**37**	**10,350**	**260,337**
Non-current assets											
Property, plant and equipment	16,790	471,393	1,179	(809)	17,799	-	-	-	(221)	17,948	489,341
Goodwill and other intangible assets	1,273	35,740	-	-	1,839	-	-	-	-	1,839	37,579
Investments in associates	-	-	168,567	-	5,435	-	-	-	-	174,002	174,002
Long-term trade and other receivables	-	-	225	-	-	-	-	-	2	227	227
Long-term financial assets	6,909	193,976	(167,163)	-	(1,081)	-	-	-	(95)	(168,339)	25,637
Deferred income tax asset	172	4,829	-	1,087	2,380	-	1,883	(122)	(31)	5,197	10,026
Other non-current assets	712	19,990	(6,542)	-	-	(1,696)	-	-	56	(8,182)	11,808
Total non-current assets	**25,856**	**725,928**	**(3,734)**	**278**	**26,372**	**(1,696)**	**1,883**	**(122)**	**(289)**	**22,692**	**748,620**
Total assets	**34,760**	**975,915**	**4,043**	**278**	**29,153**	**(1,941)**	**1,883**	**(122)**	**(252)**	**33,042**	**1,008,957**

Reconciliation of shareholders' equity as of June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Liabilities and shareholders' equity											
Current liabilities											
Short-term debt and current portion of long-term debt	1,164	32,680	2,078	-	-	(152)	-	-	(67)	1,859	34,539
Trade and other payables	2,915	81,840	(22,405)	-	-	-	-	-	(147)	(22,552)	59,288
Other current liabilities	-	-	18,951	-	-	-	-	-	(164)	18,787	18,787
Current income tax payable	-	-	2,639	-	-	-	-	-	(5)	2,634	2,634
Other taxes payable	1,185	33,270	(2,639)	-	-	-	-	-	9	(2,630)	30,640
Provisions for liabilities and charges	-	-	5,419	-	-	-	-	-	466	5,885	5,885
Liabilities of disposal groups classified as held for sale	140	3,931	-	-	-	-	-	-	581	581	4,512
Total current liabilities	**5,404**	**151,721**	**4,043**	**-**	**-**	**(152)**	**-**	**-**	**673**	**4,564**	**156,285**
Non-current liabilities											
Long-term debt	5,919	166,181	-	-	-	(1,104)	-	-	(3)	(1,107)	165,074
Deferred income tax liability	830	23,303	-	1,012	(58)	137	-	-	44	1,135	24,438
Other non-current financial liabilities	-	-	-	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	406	11,399	5,756	-	-	-	-	887	(80)	6,563	17,962
Other non-current liabilities	273	7,665	(5,756)	-	-	-	-	-	(156)	(5,912)	1,753
Total non-current liabilities	**7,428**	**208,548**	**-**	**1,012**	**(58)**	**(967)**	**-**	**887**	**(195)**	**679**	**209,227**
Equity											
Share capital	2	56	-	-	42	-	-	-	-	42	98
Treasury shares	(45)	(1,263)	-	-	93	-	-	-	-	93	(1,170)
Additional paid-in capital	717	20,130	-	-	(11,156)	-	-	-	-	(11,156)	8,974
Retained earnings	20,078	563,706	-	(734)	36,544	(822)	(5,819)	(1,009)	3,168	31,328	595,034
Other reserves	-	-	-	-	-	-	7,702	-	(2,717)	4,985	4,985
Equity attributable to the Company's owners	**20,752**	**582,629**	**-**	**(734)**	**25,523**	**(822)**	**1,883**	**(1,009)**	**451**	**25,292**	**607,921**
Non-controlling interest	1,176	33,017	-	-	3,688	-	-	-	(1,181)	2,507	35,524
Total equity	**21,928**	**615,646**	**-**	**(734)**	**29,211**	**(822)**	**1,883**	**(1,009)**	**(730)**	**27,799**	**643,445**
Total liabilities and shareholders' equity	**34,760**	**975,915**	**4,043**	**278**	**29,153**	**(1,941)**	**1,883**	**(122)**	**(252)**	**33,042**	**1,008,957**

Reconciliation of comprehensive income for the three months ended June , 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifications	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Other adjustments		
Sales	11,476	321,164	-	-	-	-	-	-	(109)	(109)	321,055
Less export duties and excise tax	(2,104)	(58,882)	(6,661)	-	-	-	-	-	(31)	(6,692)	(65,574)
Total revenue from sales	**9,372**	**262,282**	**(6,661)**	**-**	**-**	**-**	**-**	**-**	**(140)**	**(6,801)**	**255,481**
Costs and other deductions											
Purchases of oil, gas and petroleum products	(3,060)	(85,636)	224	-	(511)	-	-	-	205	(82)	(85,718)
Production and manufacturing expenses	(776)	(21,717)	(4,366)	-	-	-	-	-	(211)	(4,577)	(26,294)
Selling, general and administrative expenses	(398)	(11,138)	(84)	-	-	-	-	-	(406)	(490)	(11,628)
Transportation expenses	(896)	(25,075)	4,506	-	-	-	-	-	(29)	4,477	(20,598)
Depreciation, depletion and amortization	(505)	(14,133)	-	994	(602)	-	-	-	-	392	(13,741)
Taxes other than income tax	(2,113)	(59,134)	6,633	-	-	-	-	-	44	6,677	(52,457)
Exploration expenses	(12)	(336)	-	-	-	-	-	-	(23)	(23)	(359)
Total operating expenses	**(7,760)**	**(217,169)**	**6,913**	**994**	**(1,113)**	**-**	**-**	**-**	**(420)**	**6,374**	**(210,795)**
Other income, net	42	1,175	896	-	(805)	-	-	-	405	496	1,671
Operating profit	**1,654**	**46,288**	**1,148**	**994**	**(1,918)**	**-**	**-**	**-**	**(155)**	**69**	**46,357**
Share of profit of equity accounted investments	87	2,435	336	-	-	-	-	-	11	347	2,782
Net foreign exchange (loss) gain	(106)	(2,966)	(896)	-	-	-	6,129	-	1,781	7,014	4,048
Finance income	26	728	(336)	-	-	-	-	-	(13)	(349)	379
Finance expense	(76)	(2,127)	(252)	-	-	(136)	-	(109)	(40)	(537)	(2,664)
Total other income/expense	**(69)**	**(1,930)**	**(1,148)**	**-**	**-**	**(136)**	**6,129**	**(109)**	**1,739**	**6,475**	**4,545**
Profit before income tax	**1,585**	**44,358**	**-**	**994**	**(1,918)**	**(136)**	**6,129**	**(109)**	**1,584**	**6,544**	**50,902**
Current profit tax expense	(313)	(8,760)	-	-	-	-	-	-	(21)	(21)	(8,781)
Deferred profit tax expense	(54)	(1,511)	-	(21)	(604)	(27)	-	-	-	(652)	(2,163)
Total income tax expenses	**(367)**	**(10,271)**	**-**	**(21)**	**(604)**	**(27)**	**-**	**-**	**(21)**	**(673)**	**(10,944)**
Profit for the period	**1,218**	**34,087**	**-**	**973**	**(2,522)**	**(163)**	**6,129**	**(109)**	**1,563**	**5,871**	**39,958**
Attributable to:											
- Gazprom Neft shareholders	1,167	32,660	-	973	(2,522)	(163)	6,129	(109)	1,491	5,799	38,459
- Non-controlling interest	51	1,427	-	-	-	-	-	-	72	72	1,499

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifications	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Other adjustments		
Other comprehensive income:											
Currency translation differences	-	-	-	-	-	-	-	-	(427)	(427)	(427)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-	(5,621)	-	-	(5,621)	(5,621)
Other comprehensive income for the period	-	-	-	-	-	-	(5,621)	-	(427)	(6,048)	(6,048)
Total comprehensive income for the period	**1,218**	**34,087**	**-**	**973**	**(2,522)**	**(163)**	**508**	**(109)**	**1,136**	**(177)**	**33,910**
Attributable to:											
- Gazprom Neft shareholders	1,167	32,660	-	973	(2,522)	(163)	508	(109)	1,234	(79)	32,581
- Non-controlling interest	51	1,427	-	-	-	-	-	-	(98)	(98)	1,329

Reconciliation of comprehensive income for the six months ended June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Sales	21,341	609,911	-	-	-	-	-	-	(545)	(545)	609,366
Less export duties and excise tax	(3,870)	(110,572)	(11,286)	-	-	-	-	-	(8)	(11,294)	(121,866)
Total revenue from sales	**17,471**	**499,339**	**(11,286)**	**-**	**-**	**-**	**-**	**-**	**(553)**	**(11,839)**	**487,500**
Costs and other deductions											
Purchases of oil, gas and petroleum products	(5,284)	(150,732)	926	-	(1,820)	-	-	-	410	(484)	(151,216)
Production and manufacturing expenses	(1,471)	(42,060)	(8,317)	-	-	-	-	-	41	(8,276)	(50,336)
Selling, general and administrative expenses	(854)	(24,485)	62	-	-	-	-	-	(303)	(241)	(24,726)
Transportation expenses	(1,696)	(48,491)	7,726	-	-	-	-	-	5	7,731	(40,760)
Depreciation, depletion and amortization	(929)	(26,543)	-	1,414	(709)	-	-	-	-	705	(25,838)
Taxes other than income tax	(3,885)	(111,000)	11,463	-	-	-	-	-	104	11,567	(99,433)
Exploration expenses	(34)	(980)	(88)	-	-	-	-	-	187	99	(881)
Total operating expenses	**(14,153)**	**(404,291)**	**11,772**	**1,414**	**(2,529)**	**-**	**-**	**-**	**444**	**11,101**	**(393,190)**
Other income, net	62	1,760	720	-	(1,035)	-	-	-	524	209	1,969
Operating profit	**3,380**	**96,808**	**1,206**	**1,414**	**(3,564)**	**-**	**-**	**-**	**415**	**(529)**	**96,279**
Share of profit of equity accounted investments	128	3,635	863	-	-	-	-	-	(16)	847	4,482
Net foreign exchange gain	60	1,893	(720)	-	-	-	(866)	-	7,554	5,968	7,861
Finance income	58	1,665	(863)	-	-	-	-	-	(47)	(910)	755
Finance expense	(169)	(4,849)	(486)	-	-	(224)	-	(208)	84	(834)	(5,683)
Total other income/expense	**77**	**2,344**	**(1,206)**	**-**	**-**	**(224)**	**(866)**	**(208)**	**7,575**	**5,071**	**7,415**
Profit before income tax	**3,457**	**99,152**	**-**	**1,414**	**(3,564)**	**(224)**	**(866)**	**(208)**	**7,990**	**4,542**	**103,694**
Current profit tax expense	(729)	(20,936)	-	-	-	-	-	-	(1)	(1)	(20,937)
Deferred profit tax expense	(57)	(1,599)	-	183	(570)	(45)	-	-	-	(432)	(2,031)
Total income tax expenses	**(786)**	**(22,535)**	**-**	**183**	**(570)**	**(45)**	**-**	**-**	**(1)**	**(433)**	**(22,968)**
Profit for the period	**2,671**	**76,617**	**-**	**1,597**	**(4,134)**	**(269)**	**(866)**	**(208)**	**7,989**	**4,109**	**80,726**
Attributable to:											
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	(866)	(208)	7,607	3,727	78,449
- Non-controlling interest	67	1,895	-	-	-	-	-	-	382	382	2,277

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi-cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis-sioning obligation	Other adjustments		
Other comprehensive income:											
Currency translation differences	-	-	-	-	-	-	-	-	(3,905)	(3,905)	(3,905)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	1,724	-	-	1,724	1,724
Other comprehensive income for the period	-	-	-	-	-	-	1,724	-	(3,898)	(2,174)	(2,174)
Total comprehensive income for the period	**2,671**	**76,617**	**-**	**1,597**	**(4,134)**	**(269)**	**858**	**(208)**	**4,091**	**1,935**	**78,552**
Attributable to:											
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	858	(208)	4,890	2,734	77,456
- Non-controlling interest	67	1,895	-	-	-	-	-	-	(799)	(799)	1,096

The Group's office is:

3-5 Pochtamtskaya St.,
St. Petersburg, Russian Federation
190000

Telephone:	7 (812) 63-3152
Hotline:	8-800-700-3152
Fax:	7 (812) 363-31-51

www.gazprom-neft.ru

Investor Relations

Tel.: +7 (812) 385-9548
Email: ir@gazprom-neft.ru

COMPANY
Joint Stock Company Gazprom neft
5A Galernaya Street
190000 Saint Petersburg
Russian Federation

ISSUER
GPN Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

ARRANGERS

Crédit Agricole Corporate and Investment Bank
Broadwalk House
5 Appold Street
London EC2A 2DA
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

AUDITORS TO THE COMPANY
ZAO PricewaterhouseCoopers Audit
White Square Office Centre
10 Butyrsky Val
125047 Moscow
Russian Federation

TAX ADVISER TO THE COMPANY
KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
123317 Moscow
Russian Federation

LEGAL ADVISERS TO THE ISSUER AND THE COMPANY

as to English and U.S. law
Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

as to Russian law
Cleary Gottlieb Steen & Hamilton LLC
Paveletskaya Square 2/3
115054 Moscow
Russian Federation

LEGAL ADVISERS TO THE ARRANGERS AND THE TRUSTEE

as to English and U.S. law
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

as to Russian law
Linklaters CIS
Paveletskaya Square 2/2
115054 Moscow
Russian Federation

as to Luxembourg law
Linklaters LLP
35, Avenue John F. Kennedy
P.O. Box 1107
L-1011 Luxembourg

U.S. REGISTRAR, PAYING AGENT AND TRANSFER AGENT
Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
United States of America

PRINCIPAL PAYING AGENT
Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LUXEMBOURG REGISTRAR, PAYING AGENT AND TRANSFER AGENT
Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

LISTING AGENT
Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

IRISH PAYING AGENT
Deutsche International Corporate Services (Ireland) Limited
5 Harbourmaster Place, IFSC
Dublin 1
Ireland

PETROLEUM CONSULTANTS TO THE COMPANY
DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244
United States of America

TRUSTEE
Deutsche Trustee Company Limited
Winchester House
Great Winchester Street
London EC2N 2DB
United Kingdom