

OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2012



Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Severneftegazprom

We have audited the accompanying financial statements of OAO Severneftegazprom (the "Company"), which comprise the statement of financial position as of 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion


In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


ZAO PricewaterhouseCoopers Audit

28 March 2013
Moscow, Russian Federation

OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2012
(In thousands of Russian Roubles)

	Notes	31 December 2012	31 December 2011
Assets			
Current assets			
Cash and cash equivalents	7	14,852,108	10,310,569
Trade and other receivables	8	4,215,026	3,009,921
Current income tax prepayments		-	1,397,586
Inventories	9	648,902	491,355
Total current assets		19,716,036	15,209,431
Non-current assets			
Property, plant and equipment	11	64,761,200	67,320,110
Long-term accounts receivables	10	238,914	321,669
Other non-current assets	12	7,093,944	7,265,111
Total non-current assets		72,094,058	74,906,890
Total assets		91,810,094	90,116,321
Liabilities and equity			
Current liabilities			
Trade and other payables	13	762,813	698,767
Other taxes payable	14	3,099,154	1,959,010
Current income tax payable		75,542	-
Short-term loans and current portion of long-term debt	15	6,979,946	6,700,896
Total current liabilities		10,917,455	9,358,673
Non-current liabilities			
Long-term loans	16	23,563,253	32,625,637
Provisions for liabilities and charges	17	2,547,298	3,045,978
Deferred income tax liabilities	14	6,637,857	5,539,667
Total non-current liabilities		32,748,408	41,211,282
Total liabilities		43,665,863	50,569,955
Equity			
Share capital	18	40,000	40,000
Share premium	18	25,099,045	25,099,045
Other reserves	18	873,253	873,253
Retained earnings		22,131,933	13,534,068
Total equity		48,144,231	39,546,366
Total liabilities and equity		91,810,094	90,116,321


S. E. Tsygankov
General Director
28 March 2013


Y. V. Sukhanova
Deputy Director on economics and finance
28 March 2013

The accompanying notes are an integral part of this financial statements.

OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of Russian Roubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	19	33,961,806	26,038,396
Cost of sales	20	(19,398,782)	(12,232,974)
Gross profit		14,563,024	13,805,422
General and administrative expenses	21	(963,930)	(1,308,116)
Research and development costs		(457,051)	(102,038)
Other operating income	22	140,940	7,245
Other operating expenses	23	(349,387)	(841,350)
Operating profit		12,933,596	11,561,163
Finance income	24	6,993,251	9,084,306
Finance costs	25	(6,702,393)	(9,862,912)
Profit before Income tax		13,224,454	10,782,557
Income tax expense	14	(2,794,705)	(2,171,502)
Profit for the year		10,429,749	8,611,055
Other comprehensive income		-	-
Income tax expense/(benefit) related to other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		10,429,749	8,611,055



S. E. Tsygankov
General Director
28 March 2013

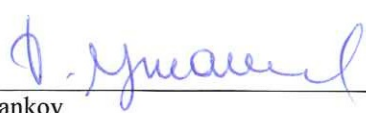



Y. V. Sukhanova
Deputy Director on economics and finance
28 March 2013

OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of Russian Roubles)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax		13,224,454	10,782,557
Adjustments for:			
Finance income	24	(868,305)	(693,860)
Finance costs	25	1,870,628	2,194,370
Depreciation and impairment of PPE	20	2,804,807	2,907,898
(Gain) loss on disposal of PPE	22,23	(289)	19,252
Provision for revegetation	23	32,179	54,738
Net unrealised foreign exchange (gain)	24, 25	(1,293,182)	(721,904)
Operating cash flows before changes in working capital		15,770,292	14,543,051
Increase in inventories	9	(157,547)	(32,069)
(Increase) decrease in trade and other receivables		(1,056,297)	3,442,309
Increase (decrease) in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		1,873,491	(757,802)
Cash paid for exploration and evaluation service		(532,341)	(108,250)
Income taxes paid		(223,387)	(1,258,600)
Net cash from operating activities		15,674,211	15,828,639
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,131,252)	(1,012,264)
Proceeds from sales of property, plant and equipment		387	651
Interest income received		802,250	354,756
Restricted cash		-	(7,265,111)
Net cash used in investing activities		(328,615)	(7,921,968)
Cash flows from financing activities			
Proceeds from borrowings		-	76,149,415
Repayment of borrowings		(7,691,224)	(77,871,039)
Interest paid		(1,471,799)	(1,375,936)
Dividends paid to the Company's shareholders		(1,831,884)	(13,200,000)
Net cash used in financing activities		(10,994,907)	(16,297,560)
Increase (decrease) in cash and cash equivalents		4,350,689	(8,390,889)
Effect of exchange rate changes on cash and cash equivalents		190,850	1,373,653
Cash and cash equivalents at the beginning of the year		10,310,569	17,327,805
Cash and cash equivalents at the end of the year	7	14,852,108	10,310,569


S. E. Tsygankov
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28 March 2013



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28 March 2013

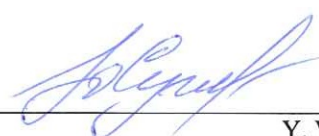
The accompanying notes are an integral part of this financial statements.

OJSC SEVERNEFTEGAZPROM
IFRS STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of Russian Roubles)

	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
At 1 January 2011	533,330	667	25,138,378	873,253	18,123,013	44,135,311
Profit for the year	-	-	-	-	8,611,055	8,611,055
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for 2011	-	-	-	-	8,611,055	8,611,055
Conversion of shares:						
ordinary shares	-	31,466	(31,466)	-	-	-
preference shares	-	7,867	(7,867)	-	-	-
Dividends declared	-	-	-	-	(13,200,000)	(13,200,000)
Balance at 31 December 2011	533,330	40,000	25,099,045	873,253	13,534,068	39,546,366
Profit for the year	-	-	-	-	10,429,749	10,429,749
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for 2012	-	-	-	-	10,429,749	10,429,749
Dividends declared	-	-	-	-	(1,831,884)	(1,831,884)
Balance at 31 December 2012	533,330	40,000	25,099,045	873,253	22,131,933	48,144,231


S. E. Tsygankov
General Director
28 March 2013


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Deputy Director on economics and finance
28 March 2013

The accompanying notes are an integral part of this financial statements.

1. ACTIVITIES

The core activities of Open Joint Stock Company Severneftegazprom (“the Company”) are exploration and development of the Yuzhno-Russkoye oil and gas field, production and sales of gas.

The Company was established in 2001 as a result of reorganization of limited liability company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 31 December 2012 shareholders of the Company were represented by OJSC Gazprom which holds 50 percent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 percent of ordinary shares minus 3 ordinary shares plus 2 class A and 1 class C preference shares and E.ON E&P GmbH which holds 25 percent of ordinary shares minus 3 ordinary shares plus 3 class B preference shares. E.ON E&P GmbH received ownership of shares of the Company as a result of swap transaction with the Gazprom group in 2009.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

Registered address and place of business. 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT OF THE COMPANY

The Russian Federation displays certain characteristics of an emerging market. Tax, currency legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 26).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company’s business in the current business and economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation (“RAR”); its functional and presentation currency is the Russian Rouble (“RR”).

The official US dollar to RR exchange rates as determined by the Central Bank of the Russian Federation were 30.37 and 32.20 as at 31 December 2012 and 31 December 2011, respectively. The official Euro to RR exchange rates, as determined by the Central bank of the Russian Federation, were 40.23 and 41.67 as at 31 December 2012 and 31 December 2011, respectively.

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Property, plant and equipment include the cost of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount.

Oil and gas exploration assets

Oil and natural gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses. Costs directly associated with exploration wells are capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Capitalization is made within property, plant and equipment. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible assets. No depreciation is charged during the exploration and evaluation phase.

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.

Summary of useful lives and alternative basis for depreciation:

Buildings associated with production	Units of production
Buildings not associated with production	15- 31 years
Pipeline	Units of production
Machinery and equipment	Units of production /1-20 years
Wells	Units of production
Roads	Units of production
Other	1-20 years

(c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting period and are included in the financial statements at their expected net present values using pre tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment". This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company's uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are valued at the lower of the weighted average cost and net realisable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labor costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(g) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(h) Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. 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.

(i) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(j) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(l) Financial assets

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables and cash and cash equivalents. These assets are carried at amortized costs.

(m) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(n) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The accounts receivable impairment provision is created on the base of the management assessment of collectability of customers accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

(o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

(p) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves" (refer to 18).

(q) Pension liabilities

In the normal course of business the Company contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

During 2009 the Company has started implementation of the non-State pension program. All the employees of the Company have the right to receive pension benefits from the non-State pension fund by achieving the pension age. The contributions to the non-State pension plan, which is a defined contribution plan, are expensed when incurred. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the Russian Federation State pension fund and non-State pension program.

(r) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.

Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred.

(s) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(t) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

(u) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

(v) Equity***Share capital***

Share capital consists of ordinary and non redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

(w) Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(x) New Accounting Developments***Adoption of new or Revised Standards and Interpretations***

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2012 or later periods and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2012

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment did not materially affect the Company's financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Company does not expect to have any material effect on its financial statement.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. The application of this amendment did not materially affect the Company's financial statements.

(b) Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Company.

IFRS 9 "Financial Instruments" ("IFRS 9"), issued in November 2009 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- 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 only payments of principal and interest (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 to be 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.

The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The application of this standard is not expected to materially affect the Company's financial statements.

IFRS 10 "Consolidated financial statements" ("IFRS 10"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, 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 application of this standard is not expected to materially affect the Company's financial statements.

IFRS 11 "Joint arrangements" ("IFRS 11"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, replaces IAS 31 "Interests in Joint Ventures" ("IAS 31") 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 Company is currently considering that some of its investments in jointly controlled companies might be classified as investments in joint operations under IFRS 11. Thus effective 1 January 2013 the Group will cease application of the equity method of accounting with regard to those investments and will start recognizing the Group's share in assets, liabilities, revenues and costs of the joint operations. The application of IFRS 11 is not expected to materially affect the Company's financial position or total comprehensive income.

IFRS 12 “Disclosure of interest in other entities” (“IFRS 12”), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, 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 27 “Consolidated and Separate Financial Statements” and 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 judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The application of this standard is not expected to materially affect the Company’s financial statements.

IFRS 13 “Fair value measurement” (“IFRS 13”), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The application of this standard is not expected to materially affect the Company’s financial statements.

Amended IAS 27 “Separate Financial Statements” (“IAS 27”), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this amendment is not expected to materially affect the Company’s financial statements.

Amended IAS 28 “Investments in Associates and Joint Ventures” (“IAS 28”), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The application of this standard is not expected to materially affect the Company’s financial statements.

Amendments to IAS 1 “Presentation of financial statements” (“IAS 1”), issued in June 2011 and effective for annual periods beginning on or after 1 July 2012, changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled 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 application of this standard is not expected to materially affect the Company’s financial statements.

Amended IAS 19 “Employee benefits” (“IAS 19”), issued in June 2011 and effective for periods beginning on or after 1 January 2013, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The application of this standard will significantly increase the statement of financial position liability of the Company due to the requirement for immediate recognition of actuarial gains and losses (remeasurements) in other comprehensive income; future volatility of the financial statement liability and other comprehensive income of the Company may also increase.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Company is considering the implications of the amendment, the impact on the Company and the timing of its adoption by the Company.

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

Improvements to International Financial Reporting Standards, issued in May 2012 and effective for annual periods beginning on or after 1 January 2013. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

Amendment to IFRS 1 “First time adoption of International Financial Reporting Standards” (“IFRS 1”) (i) clarifies that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) adds an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters.

Amendment to IAS 1 “Presentation of financial statements” (“IAS 1”) clarifies that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes as required by IAS 8 “Accounting policies, changes in accounting estimates and errors” (“IAS 8”), while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements.

Amendment to IAS 16 “Property, plant and equipment” (“IAS 16”) clarifies that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

Amendment to IAS 32 “Financial instruments: Presentation” (“IAS 32”) clarifies that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans” (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Company is currently assessing the impact of the amended standard on its financial statement.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Company is currently assessing the impact of the amendments on its financial statement.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (see note 26).

Useful lives of property, plant and equipment. Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Classification of production licenses. Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statements.

Site restoration and environmental costs. Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss on an units of production basis. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

Reserves estimation. Unit-of-production depreciation charges are principally measured based on Company's estimates of proved reserves. Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related exploration drilling costs. Information about the carrying amounts of production assets and the amounts of depreciation charged to the profit or loss as well as sensitivity analysis for estimation of gas reserves is presented in Note 11.

5. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on minimising potential adverse effects on the financial performance of the Company.

a) Market risk

(i) **Currency risk.** The Company has a substantial amount of foreign currency denominated borrowings and thus, is exposed to foreign exchange risk arising from various exposures with respect to the US dollar and to the Euro. Foreign currency denominated assets and liabilities give rise to foreign exchange risk exposure.

The table below summarized the Company's exposure to foreign currency exchange rate risk at the end of reporting period. Financial assets and liabilities in foreign currencies, denominated in thousand of RR:

	US\$	Euro
31 December 2012		
Cash and cash equivalents	110,861	116,342
Other receivables	6,729	4,295
Other non-current assets	1,815,362	1,733,807
31 December 2012		
Borrowings	13,540,450	12,930,876
Interest payable	28,256	25,764
Net position	(11,635,754)	(11,102,196)

	US\$	Euro
31 December 2011		
Cash and cash equivalents	404	9,049
Other receivables	1,253	3,932
Other non-current assets	1,924,345	1,795,991
31 December 2011		
Borrowings	17,753,427	16,554,167
Interest payable	43,011	53,398
Net position	(15,870,436)	(14,798,593)

As at 31 December 2012, if the Russian Rouble had weakened by 5 percent against the US dollar with all other variables held constant, profit before tax would have been lower by RR 581,782 thousand (as at 31 December 2011 profit before tax would be lower by RR 793,522 thousand), mainly as a result of foreign exchange losses on translation of US dollar denominated borrowings and foreign exchange gains on translation of US dollar denominated cash and cash equivalents. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As at 31 December 2012, if the Russian Rouble had weakened by 10 percent against the Euro with all other variables held constant, profit before tax would have been lower by RR 1,110,212 thousand (as at 31 December 2011 profit before tax would be lower by RR 1,479,859 thousand), mainly as a result of foreign exchange losses on translation of Euro denominated borrowings and foreign exchange gains on translation of Euro denominated cash and cash equivalents. The effect of a corresponding strengthening of the Russian Rouble against the Euro is approximately equal and opposite.

(ii) **Cash flow and fair value interest rate risk.** The Company principal interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

To mitigate this risk, the Company performs periodic analysis of the current interest rate environment. Financial decisions of management may include re-financing and prolongation of loan agreements as well as other methods of financing.

The Company does not hedge its cash flow and fair value interest rate risk.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

As at 31 December 2012, if interest rates on US dollar denominated borrowings at these dates had been by 5 percent higher (for example: 5 percent would become 10 percent) than with all other variables held constant, profit before tax would have been lower by RR 18,012 thousand (as at 31 December 2011 profit before tax would have been lower by RR 23,616 thousand), mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2012, if interest rates on Euro denominated borrowings at these dates had increased by 5 percent (for example: 10 percent would become 15 percent) with all other variables held constant, profit before tax would have been lower by RR 16,422 thousand (as at 31 December 2011 profit before tax would have been lower by RR 21,024 thousand), mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rate is approximately equal and opposite.

As at 31 December 2012, interest rate on RR-denominated borrowings is fixed. As at 31 December 2011, interest rate on RR-denominated borrowings is fixed.

b) Credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposures to customers, including outstanding trade receivables. The banks with which the Company places funds have insignificant risk of default since the Company places its funds in highly rated leading foreign banks and Russian banks with state participation which minimizes the risk of default. As the main debtors of the Company are the Gazprom Group entities, management believes that the credit risk is low. Receivables from related parties relate to sales performed in 2012 and the Company has no past due nor impaired receivable as at 31 December 2012 and defaults are historically rare.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position (see notes 7, 8, 10, 12).

c) Credit risks concentration. The Company is exposed to concentrations of credit risk. As at 31 December 2012 the Company had three counterparties (2011: three counterparties) with the total aggregate amount of these balances RR 4,257,113 thousand (2011: RR 3,185,219 thousand) or 97% of the gross amount of trade and other receivables (2011: 96 %).

In 2012 the Company's bank deposits are held in several bank accounts with different banks. In 2011 the Company's bank deposits are held in several bank accounts with different banks.

d) Liquidity risk. The Company's liquidity management objective involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and maintaining debt financing plans.

The table below analyses the Company's liabilities into relevant maturity grouping based on the remaining period in the statement of financial position date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include future interest payments. These amounts will not reconcile to the amounts disclosed on statement of financial position for borrowings, as these amounts are measured at amortised cost.

	within 1 year	from 1 to 5 years	over 5 years
31 December 2012			
Borrowings	7,015,653	19,655,163	4,123,577
Interest payable	1,104,989	2,402,491	104,421
Trade payables	259,487	-	-
Payables to related parties	39,588	-	-
Other payables and accruals	24,497	-	-
	8,444,213	22,057,654	4,227,999
	within 1 year	from 1 to 5 years	over 5 years
31 December 2011			
Borrowings	6,758,310	24,931,638	10,125,460
Interest payable	1,668,654	3,842,112	509,714
Trade payables	190,599	-	-
Payables to related parties	41,025	-	-
Other payables and accruals	528	-	-
	8,659,116	28,773,750	10,635,174

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

(In thousands of Russian Roubles)

e) Capital management. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

The gearing ratios as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Total borrowings	30,543,199	39,326,533
Less: cash and cash equivalents	(14,852,108)	(10,310,569)
Less: other non-current assets	(7,093,944)	(7,265,111)
Net debt	8,597,147	21,750,853
Total equity	48,144,231	39,546,366
Total capital	56,741,378	61,297,219
Gearing ratio	15 percent	35 percent

6. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	31 December 2012	31 December 2011
Current assets		
Cash and cash equivalents	14,852,108	10,310,569
Receivables from related parties	4,031,927	2,877,473
Other short-term receivables	77,493	82,720
Non-current assets		
Long-term receivables from related parties	226,684	309,439
Long-term other receivables	12,230	12,230
Other non-current assets	7,093,944	7,265,111
	26,294,386	20,857,542

Liabilities at amortized cost	31 December 2012	31 December 2011
Current liabilities		
Short-term borrowings and current portion of long-term debt	6,979,946	6,700,896
Trade payables	259,487	190,599
Interest payable	90,354	144,657
Payables to related parties	39,588	41,025
Other payables and accruals	24,497	7,914
Long-term liabilities		
Long-term borrowings	23,563,253	32,625,637
	30,957,125	39,710,728

7. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Current accounts	13,664,918	9,223,409
Deposit accounts	1,187,190	1,087,160
	14,852,108	10,310,569

As at 31 December 2012 cash in the amount of RR 1,152,821 thousand was placed on deposit accounts in Vnesheprombank, EURO 628.38 thousand was placed on deposit accounts in ING bank NV, US dollar 299.29 thousand was placed on deposit accounts in ING bank NV.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

As at 31 December 2011 cash in the amount of RR 1,078,090 thousand was placed on deposit accounts in Vnesheprombank, RR 133 thousand was placed on deposit accounts in Rosbank, Euro 205.51 thousand was placed on deposit accounts in ING bank NV and US Dollar 11.59 thousand was placed on deposit accounts in ING bank NV.

As at 31 December 2012 deposit accounts includes deposits with original maturities of three months or less.

As at 31 December 2012 the weighted average interest rate on the deposit accounts of the Company was 6.50 percent for RR, 0.54 percent for Euro, 0.93 percent for US Dollar (31 December 2011 – 5.50 percent for RR, 1.33 percent for EURO, 0.41 percent for US dollar).

As at 31 December 2011 deposit accounts includes deposits with original maturities of three months or less.

The table below shows credit risk analysis of cash and cash equivalents and presents balances of major Company's counterparties at the reporting date.

				31 December 2012	31 December 2011
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
Credit Agricole	A2	Moody's	Not set	13,664,152	9,219,048
Vnesheprombank	B2	Moody's	Not set	1,152,821	1,078,090
ING bank N.V.	A2	Moody's	Not set	34,369	9,452
Gazprombank	Baa3	Moody's	Not set	647	3,846
Rosbank	Baa3	Moody's	Not set	119	133
				14,852,108	10,310,569

The table below shows analysis of restricted cash (Note 12):

				31 December 2012	31 December 2011
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
ING bank N.V.	A2	Moody's	Not set	4,093,944	4,265,111
Credit Agricole	A2	Moody's	Not set	3,000,000	3,000,000
				7,093,944	7,265,111

8. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Financial assets		
Receivables from related parties (see note 27)	4,031,927	2,877,473
Other receivables	125,327	132,071
Impairment provision for other receivables	(47,834)	(49,351)
	4,109,420	2,960,193
Non-financial assets		
Advances to suppliers	87,646	9,372
Impairment for advances to supplies	(1,298)	(1,309)
VAT recoverable	17,401	36,249
Prepaid taxes, other than income tax	1,857	5,416
	105,606	49,728
	4,215,026	3,009,921

The ageing analysis of past due and impaired trade and other receivables are as follows:

Ageing from the due date

	31 December 2012	31 December 2011
From 1 to 3 years overdue	(13,781)	(33,465)
More than 3 years overdue	(35,351)	(17,195)
	(49,132)	(50,660)

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

Movements of the provision for impairment of other accounts receivable and advances to supplies are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Provision for impairment at 1 January	(50,660)	(49,593)
Provision for impairment reversed/(accrued)	1,528	(1,067)
Provision for impairment at 31 December	(49,132)	(50,660)

All receivables that are past due are fully provided against as at 31 December 2012 and 31 December 2011.

As the principal debtors of the Company are related parties, the Company believes that the default risk is low and, therefore, does not establish provision for impairment of these receivables. No receivables from related parties were past due or impaired as at 31 December 2012.

The fair value of accounts receivable as at 31 December 2012 and 31 December 2011 approximates their carrying value.

9. INVENTORIES

	31 December 2012	31 December 2011
Materials and supplies	921,285	485,182
Other materials	11,389	6,173
Transfer of impairment of materials from PPE	(283,772)	-
	648,902	491,355

As at 31 December 2012 an amount of RR 581,891 thousand (and related impairment provision of RR 283,772 thousand) was transferred from property, plant and equipment to inventories.

10. LONG-TERM ACCOUNTS RECEIVABLES

	31 December 2012	31 December 2011
Financial assets		
Receivables from related parties (see note 27)	226,684	309,439
Other receivables	12,230	12,230
	238,914	321,669

Long-term accounts receivable are initially recognized in the statement of financial position at fair value. The difference between the fair value of the long-term accounts receivable and the amount of cash received was recorded in the profit or loss. As at 31 December 2012 receivables from related parties in the amount of RR 226,684 (31 December 2011 – RR 309,439) represents receivables from OJSC “Gazprom” in relation to compensation of losses caused by default in its contractual obligation to purchase a set volume of gas in 2009, to be paid in equal amounts over 5 years starting from December 2011.

The fair value of long-term accounts receivable as at 31 December 2012 and 31 December 2011 approximates their carrying value.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012
(In thousands of Russian Roubles)

11. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Assets under construction	Total
Cost at 1 January 2011	9,863,369	11,084,236	28,933,611	9,418,757	13,684,925	51,667	2,321,958	75,358,523
Additions	-	-	414	103,028	-	44,303	886,525	1,034,270
Change in component for decommissioning and site restoration obligation (Note 17)	(215,522)	(1,365,453)	1,146,153	(100,995)	-	-	-	(535,817)
Impairment of PPE	-	-	-	-	-	-	(380,068)	(380,068)
Disposals	-	-	-	(18,191)	-	(1,899)	(6,376)	(26,466)
Transfers	-	-	368,420	17,582	-	1,586	(387,588)	-
Cost at 31 December 2011	9,647,847	9,718,783	30,448,598	9,420,181	13,684,925	95,657	2,434,451	75,450,442
Additions	-	-	-	99,367	-	14,848	1,075,372	1,189,587
Change in component for decommissioning and site restoration obligation (Note 17)	(156,521)	(131,303)	(422,314)	(65,629)	-	-	-	(775,767)
Impairment of PPE	-	-	(22,887)	-	-	-	-	(22,887)
Movement of impairment of PPE	-	-	-	-	-	-	96,296	96,296
Disposals	-	(242)	-	(4,332)	-	(21)	(10,312)	(14,907)
Transfer to inventories	-	-	-	-	-	-	(581,891)	(581,891)
Transfer of impairment PPE to inventories	-	-	-	-	-	-	283,772	283,772
Transfers	-	-	2,209,541	59,260	-	1,286	(2,270,087)	-
Cost at 31 December 2012	9,491,326	9,587,238	32,212,938	9,508,847	13,684,925	111,770	1,027,601	75,624,645
Accumulated depreciation at 1 January 2011	(772,382)	(749,165)	(2,153,124)	(762,478)	(780,861)	(27,096)	-	(5,245,106)
Charged for the period	(358,012)	(416,326)	(1,065,465)	(588,492)	(508,173)	(11,439)	-	(2,947,907)
Change in component for decommissioning and site restoration obligation (Note 17)	18,239	106,105	(89,064)	8,497	-	-	-	43,777
Disposals	-	28	-	16,977	-	1,899	-	18,904
Accumulated depreciation at 31 December 2011	(1,112,155)	(1,059,358)	(3,307,653)	(1,325,496)	(1,289,034)	(36,636)	-	(8,130,332)
Charged for the period	(323,454)	(328,143)	(1,111,617)	(577,522)	(469,733)	(18,284)	-	(2,828,753)
Change in component for decommissioning and site restoration obligation (Note 17)	18,675	14,792	47,577	7,799	-	-	-	88,843
Impairment of PPE	-	-	2,496	-	-	-	-	2,496
Disposals	-	33	-	4,247	-	21	-	4,301
Accumulated depreciation at 31 December 2012	(1,416,934)	(1,372,676)	(4,369,197)	(1,890,972)	(1,758,767)	(54,899)	-	(10,863,445)
Net book value at 31 December 2011	8,535,692	8,659,425	27,140,945	8,094,685	12,395,891	59,021	2,434,451	67,320,110
Net book value at 31 December 2012	8,074,392	8,214,562	27,843,741	7,617,875	11,926,158	56,871	1,027,601	64,761,200

During the year ended 31 December 2012 no borrowing costs were capitalized.

During the year ended 31 December 2011 no borrowing costs were capitalized.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

As at 31 December 2012 the Company provided RR 22,887 thousand (at December 2011: RR 380,068) relating to impairment of certain materials used in the construction of oil&gas properties. The amount provided has been included in other operating expense in profit or loss for the year (Note 23).

Movements in the decommissioning and site restoration asset are due to changes in the estimate of future costs to be incurred in setting the associated obligation.

As at 31 December 2012 the Company has properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 25,655,799 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2012	9,248,693	7,936,778	8,267,033	4,267,732	129,657	29,849,893
Accumulated depreciation at 31 December 2012	1,387,983	1,164,746	1,148,236	475,042	18,087	4,194,094
Net book value at 31 December 2012	7,860,710	6,772,032	7,118,797	3,792,690	111,570	25,655,799

As at 31 December 2011 the Company has properties transferred as a deposit (mortgage) under the long-term multicurrency project facility agreement with Unicredit Bank AG acting as Facility Agent, amounting to RR 26,666,303 thousand (Note 16). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2011	9,248,693	7,936,778	8,267,033	4,267,732	129,657	29,849,893
Accumulated depreciation at 31 December 2011	1,078,373	898,016	867,848	325,659	13,693	3,183,590
Net book value at 31 December 2011	8,170,320	7,038,762	7,399,184	3,942,073	115,964	26,666,303

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Estimates of proved reserves are also used in determination of impairment charges and reversals. Proved reserves are estimated by an independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Estimates of gas reserves are inherently imprecise, require the application of judgements and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of mineral rights and gas properties.

Were the estimated proved reserves to differ by 10% from management's estimates, the impact on depreciation would be as follows:

Increase/decrease in reserves estimation	Effect on profit before tax for the year ended 31 December	
	2012	2011
+ 10%	220,821	227,808
- 10%	(271,629)	(286,408)

12. OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011
Debt service reserve account	4,093,944	4,265,111
Expenditure reserve account	3,000,000	3,000,000
	7,093,944	7,265,111

In accordance with the long term project financing agreement finalized in 2011, certain cash is required to be set aside and can only be used in restricted circumstances till 2018.

As at 31 December 2012 cash balances of the Company on debt service reserve accounts were RR 1,733,807 thousand (Euro 43,098.88 thousand), RR 1,815,362 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

As at 31 December 2011 cash balances of the Company on debt service reserve accounts were RR 1,795,991 thousand (Euro 43,098.88 thousand), RR 1,924,345 thousand (US dollar 59,769.52 thousand) and RR 544,775 thousand. The cash in amount of RR 3,000,000 thousand was placed on expenditure reserve account. According to the project financing contract the Company may withdraw amounts from the expenditure reserve account to meet any budgeted capital or operating expenditure due and payable to the extent that it would not otherwise have sufficient funds in the proceeds or operation accounts available to pay such expenditures.

13. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Financial liabilities		
Trade payables	259,487	190,599
Interest payable	90,354	144,657
Payables to related parties (see note 27)	39,588	41,025
Other payables and accruals	24,497	7,914
	413,926	384,195
Non-financial liabilities		
Accrued employee benefit costs	272,430	262,692
Provision for revegetation	41,524	51,880
Wages and salaries	34,933	-
	348,887	314,572
	762,813	698,767

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision was recognised in the financial statements in respects of revegetation works to be performed in 2012 and 2013 respectively.

14. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	31 December 2012	31 December 2011
Value added tax (VAT)	1,611,503	1,111,272
Natural resources production tax	1,194,538	563,807
Property tax	223,643	243,211
Insurance contributions for employees	64,575	40,192
Personal income tax	4,313	-
Other taxes and accruals	582	528
	3,099,154	1,959,010

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

(In thousands of Russian Roubles)

Natural resources production tax has increased due to the increase of tax rate in 2012.

Value added tax (VAT) has increased due to the increase of gas sales.

Income tax expense comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax expense	(1,696,515)	(565,615)
Deferred tax expense	(1,098,190)	(1,605,887)
	(2,794,705)	(2,171,502)

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	13,224,454	10,782,557
Theoretical tax expense at statutory rate 20 %	(2,644,891)	(2,156,511)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effects related to the change in provision for decommissioning and site restoration	83,791	43,636
Other non-deductible expenses	(233,605)	(58,627)
Income tax expense for the year	(2,794,705)	(2,171,502)

Main part of other non-deductible expenses presented by profit tax of previous year based on tax authority claim for tax base related to 2009.

	31 December 2012	Tax effect of movement in temporary differences	31 December 2011	Tax effect of movement in temporary differences	31 December 2010
Tax effect of taxable temporary differences:					
Property, plant and equipment	(6,711,300)	(1,083,891)	(5,627,409)	(1,465,779)	(4,161,630)
Discounting of borrowings	(50,238)	36,963	(87,201)	(55,197)	(32,004)
	(6,761,538)	(1,046,928)	(5,714,610)	(1,520,976)	(4,193,634)
Tax effect of deductible temporary differences:					
Inventories	23,519	(29,799)	53,318	(76,739)	130,058
Other deductible temporary differences	100,162	(21,463)	121,625	(8,172)	129,796
Total net deferred tax liability	(6,637,857)	(1,098,190)	(5,539,667)	(1,605,887)	(3,933,780)

Main part of the non-current portion of deferred taxes is expected to be recovered or settled after more than 12 months.

Based on the amount of proved gas reserves and contracted sales management believes that the Company will generate sufficient taxable profits in the future periods against which the deductible temporary differences will be reversed.

15. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2012	31 December 2011
Long-term debt, current portion (Note 16) including:		
US\$ denominated floating rate:	3,095,096	3,024,643
Euro denominated floating rate:	2,955,491	2,820,909
RR denominated fixed rate:	929,359	855,344
Total	6,979,946	6,700,896

16. LONG-TERM LOANS

	31 December 2012	31 December 2011
Banks:		
UniCredit Bank AG		
US\$ denominated floating rate:	13,540,450	17,753,427
Euro denominated floating rate:	12,930,876	16,554,167
RR denominated fixed rate:	4,071,873	5,018,939
	30,543,199	39,326,533
Less: Long-term debt, current portion (Note 15)	(6,979,946)	(6,700,896)
Total	23,563,253	32,625,637

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totaling Euro 474,088 thousand, US dollar 657,465 thousand and RUR 5,992,523 thousand. Unicredit Bank AG is acting as Facility Agent for a group of international financial institutions. Final repayment of this project financing is due in December 2018. In May 2011 the project financing was received. This loan is collateralized by a mortgage in respect of the gas pipeline, certain immovable assets and certain gas wells, land lease rights and a pledge of rights under the gas sale agreements (Note 11).

Interest rates for the Euro- and US dollar-denominated parts of the loan are EURIBOR/LIBOR +235 basis points per annum from the date of the agreement to 31 March 2014, EURIBOR/LIBOR +250 basis points per annum from 1 April 2014 to 31 March 2017, EURIBOR/LIBOR +275 basis points per annum from 1 April 2017 to the final repayment date. A fixed interest rate for the RUR-denominated part of the loan is 11.4 % per annum.

The average effective interest rates at the end of reporting period were as follows:

	31 December 2012	31 December 2011
Banks:		
US\$ denominated floating rate	2.81	2.65
Euro denominated floating rate	3.14	3.79
RR denominated fixed rate	11.4	11.4

As at 31 December 2012 and 31 December 2011 the carrying amounts of long-term loans approximate their fair values.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2012	31 December 2011
Provision for decommissioning and site restoration	2,547,298	2,966,254
Provision for state wells decommissioning	-	79,724
	2,547,298	3,045,978

Provision for decommissioning and site restoration

	Year ended 31 December 2012	Year ended 31 December 2011
At the beginning of the year	2,966,254	3,184,432
Change in estimate of provision for decommissioning and site restoration	(686,925)	(492,039)
Unwinding of discount	267,969	273,861
At the end of the year	2,547,298	2,966,254

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development and accordingly a provision for decommissioning and site restoration was recognized in the financial statements for the year ended 31 December 2012 and for the year ended 31 December 2011 with a corresponding asset recognised within property, plant and equipment (see Note 11). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 31 December 2012 was 8.54 percent (31 December 2011 - 9.03 percent), which represents the pre-tax rate which reflects market assessment of time value of money and the risk specific to the liability at the end of reporting period.

Provision for state wells decommissioning

	Year ended 31 December 2012	Year ended 31 December 2011
At the beginning of the year	79,724	130,868
Change in estimate of provision for state wells decommissioning	-	14,003
Unwinding of discount	3,601	8,271
Utilization of provision	(83,325)	(73,419)
At the end of the year	-	79,724

According to the license agreement between the Company and the Administration of the Yamalo-Nenets Autonomous District, the Company is obliged to bear expenses for liquidation of exploration wells located at Yuzhno-Russkoye oil and gas field owned by the state. The Company recognised a provision for these expenses in its financial statements for the year ended 31 December 2012 and for the year ended 31 December 2011. The discount rate used to calculate the net present value of the future cash outflows relating to state wells liquidation as at 31 December 2012 was 9.03 percent (31 December 2011: 9.03 percent).

18. EQUITY*Share capital*

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type «A») with the nominal value of RR 2,462 thousand, 3 preference shares (type «B») with the nominal value of RR 667 thousand per share and 1 preference share (type «C») with the nominal value of RR 1,077 thousand. Total amount of share capital amounts to RR 40,000 thousand.

As at 31 December 2012 according to the project facility agreement all the shares (533,324 ordinary shares, 2 preference shares (type «A»), 3 preference shares (type «B»), 1 preference share (type «C»)) are pledged to ING BANK N.V., London Branch until all the obligations, under the Project Facility Agreement are fulfilled.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand. Total amount of share capital was RR 667 thousand.

In fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type «B») with the nominal value of RR 11 thousand per share and 1 preference share (type «C») with the nominal value of RR 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totaling RR 1,639,449 thousand was recorded in equity as share premium.

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type «A») with the nominal value of RR 41 thousand. Total amount of share capital was RR 616 thousand.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type «A») are calculated as 12.308 percent of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type «B») are 5 percent of the allocated profit for dividends; preference shares (type «C») are 2.692 percent of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

The basis for distribution is defined by legislation as the current year net profit as calculated in accordance with the Russian accounting rules. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial statements.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount of received funds totaling RR 1,810,635 thousand, net of respective deferred tax effect of RR 571,799 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at fair value calculated using average interest rates on similar loans. The difference between the fair value of the loan and the amount of received funds totaling RR 4,585,301 thousand, net of respective deferred tax effect of RR 1,447,990 thousand, was recorded in equity in Other reserves.

In the year ended 31 December 2007 the Company early repaid part of the loans to its shareholder. The fair value effect from early redemption of these loans totaling RR 1,323,746 thousand, net of respective deferred tax effect of RR 418,025 thousand, was recognized as a reduction in Other reserves.

In the year ended 31 December 2008 the Company redeemed all the loans for which Other reserves were recognized. The fair value effect from early redemption in the amount of RR 4,198,937 thousand, net of respective deferred tax effect of RR 1,325,954 thousand, was recognized as a reduction in Other reserves.

Dividends

The Annual General Shareholders' Meeting of the Company held on June 29, 2012 decided to pay dividends RR 1,831,884 thousand for the year ended December 31, 2011.

The Extraordinary General Shareholders' Meeting of the Company held on December 21, 2011 decided to pay dividends RR 13,200,000 thousand for the nine months ended September 30, 2011.

The Annual General Shareholders' Meeting of OJSC Severneftegazprom held on June 30, 2011, 2011 decided not to pay dividends for the year ended December 31, 2010.

Dividends declared and paid during the year were as follows:

In thousands of Russian Roubles	2012		2011	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	1,465,507	366,377	10,560,000	2,640,000
Dividends paid during the year	(1,465,507)	(366,377)	(10,560,000)	(2,640,000)
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year	2.75	61,062.83	19.80	440,000.00

In 2012 Company accrued dividends in the amount of RR 1,831,884 thousand. Amount of dividends paid was RR 1,710,979 thousand net of withholding tax.

In 2011 Company accrued dividends in the amount of RR 13,200,000 thousand. Amount of dividends paid was RR 12,328,795 thousand net of withholding tax.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

OJSC SEVERNEFTEGAZPROM
NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012
(In thousands of Russian Roubles)

19. REVENUE

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue from gas sales	33,961,806	26,038,396
	33,961,806	26,038,396

All customers of the Company represent related parties. Please refer to Note 27.

20. COST OF SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Natural resources production tax	12,901,817	6,079,798
Depreciation	2,804,807	2,907,898
Wages, salaries and other staff costs	1,076,405	852,995
Property tax	956,870	1,055,127
Services	768,096	533,702
Materials	267,186	251,799
Contributions to the State and non-State pension fund	252,746	156,202
Insurance	145,965	156,214
Transportation services	61,743	62,517
Fuel and energy	39,329	38,609
Other	123,818	138,113
	19,398,782	12,232,974

Depreciation in the amount of RR 23,946 thousand for the year ended 31 December 2012 was capitalized (for the year ended 31 December 2011 – RR 40,009 thousand).

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Wages, salaries and other staff costs	490,873	674,229
Contributions to the State and non-State pension fund	119,431	83,215
Services and other administrative expenses	353,626	550,672
	963,930	1,308,116

22. OTHER OPERATING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Reversal of impairment	116,704	-
Reimbursement of actual damage	17,007	-
Impairment of trade and other receivables	1,383	-
Gain on disposal of property, plant and equipment	289	-
Other	5,557	7,245
	140,940	7,245

23. OTHER OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Social costs	77,368	55,849
Impairment of trade and other receivables	-	1,491
Impairment of assets under construction and inventory	40,799	380,068
Loss on disposal of property, plant and equipment	-	19,252
Provision for revegetation	32,179	54,738
Losses from purchase and sale of foreign currencies	15,980	235,560
Nonrefundable VAT	15,082	15,054
Loss on disposal of inventories	84,772	-
Write-off intangible assets	27,171	28,854
Other	56,036	50,484
	349,387	841,350

24. FINANCE INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	868,305	693,860
Foreign currency exchange gains	6,124,946	8,390,446
	6,993,251	9,084,306

25. FINANCE COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Interest expense:		
Bank loans	1,599,059	1,639,060
Other	-	273,178
Foreign currency exchange losses	4,831,764	7,668,542
Unwinding of discount of provisions (see note 17)	271,570	282,132
	6,702,393	9,862,912

26. CONTINGENCIES, COMMITMENTS AND OTHER RISKS**(a) Tax legislation**

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax noncompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

(b) Legal proceedings

The Company is subject of, or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial statements.

(c) 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 Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

(d) Capital commitments

At 31 December 2012, the Company had contractual commitments for capital expenditures of approximately RR 540,174 thousand (31 December 2011 – RR 384,669 thousand).

27. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Transactions with shareholders

The Company is under the control of OJSC Gazprom and is included in the Gazprom Group. OJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and E.ON E&P GmbH, which is part of the E.ON Group have significant influence on the Company (see note 1).

Transactions of the Company with its shareholders for the periods ended 31 December 2012 and 31 December 2011 are presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales of gas to OJSC Gazprom	13,584,723	10,415,358
Sales of gas to CJSC Gazprom YRGM Trading	11,886,632	9,113,439
Sales of gas to CJSC Gazprom YRGM Development	8,490,451	6,509,599
Purchases of goods and services from Gazprom Group	269,282	256,188
Purchases of goods and services from BASF SE Group	3,156	-

All operations with Gazprom Group, BASF SE Group and E.ON Group were performed in accordance with signed agreements and on general market conditions.

OJSC SEVERNEFTEGAZPROM**NOTES TO IFRS FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012****(In thousands of Russian Roubles)**

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	31 December 2012	31 December 2011
Trade and other receivables from OJSC Gazprom	1,689,227	1,226,402
Trade and other receivables from CJSC Gazprom YRGM Trading	1,365,701	962,137
Trade and other receivables from CJSC Gazprom Development	975,501	687,241
Other receivables from Gazprom Group	1,498	1,693
	4,031,927	2,877,473
Long-term accounts receivable		
Trade receivables from OJSC Gazprom	226,684	309,439
	226,684	309,439

As at 31 December 2012 and 31 December 2011 short-term and long-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

Accounts payable	31 December 2012	31 December 2011
Payables to the Gazprom Group	39,588	41,025
	39,588	41,025

At 31 December 2012 and December 2011 loans received by the Company from related parties are as follows:

Short-term borrowings	31 December 2012	31 December 2011
Wintershall Holding GmbH	-	11,375,000
E.ON E&P GmbH	-	8,125,000
	-	19,500,000

Transactions with Key Management Personnel

Management of the Company consists of the General director and his eleven deputies.

Key management compensation is presented below:

Key management benefits	Year ended 31 December 2012	Year ended 31 December 2011
Short-term benefits	165,254	196,614
Other long-term benefits	69,012	53,888
	234,266	250,502

The Shareholders' Meeting of the Company held on June, 2012 decided to pay compensation to the members of the Board of directors amounting to RR 4,250 thousand.

The Shareholders' Meeting of the Company held on September, 2011 decided to pay compensation to the members of the Board of directors amounting to RR 3,936 thousand.

Transactions with parties under the control of the Government

The Company does not have transactions with parties under the control of the Government except for the Gazprom Group.

28. SUBSEQUENT EVENTS

In March 2013 according to the project facility agreement the Company ahead of schedule has paid the amount totaling Euro 77,494 thousand, US dollar 107,468 thousand and RUR 979,531 thousand.