OJSC SEVERNEFTEGAZPROM

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTERIM CONDENSED FINANCIAL INFORMATION

(UNAUDITED)

30 JUNE 2014

Contents

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	30 June 2014	31 December 2013
Assets			
Current assets			
Cash and cash equivalents	6	8,829,717	14,412,576
Trade and other receivables	7	7,443,788	4,087,887
Inventories	8	552,598	655,941
Total current assets		**16,826,103**	**19,156,404**
Non-current assets			
Property, plant and equipment	10	65,378,769	64,363,557
Long-term accounts receivables	9	297,104	152,654
Other non-current assets	11	7,529,870	7,439,136
Total non-current assets		**73,205,743**	**71,955,347**
Total assets		**90,031,846**	**91,111,751**
Liabilities and equity			
Current liabilities			
Trade and other payables	12	1,069,150	715,816
Other taxes payable	13	2,958,088	2,989,944
Current income tax payable		101,069	31,400
Short-term loans and current portion of long-term debt	14	301,199	5,642,159
Dividends payable	17	2,962,844	-
Total current liabilities		**7,392,350**	**9,379,319**
Non-current liabilities			
Long-term debt	15	18,960,172	19,600,753
Provisions for liabilities and charges	16	2,504,539	2,395,084
Deferred income tax liabilities		7,505,976	7,251,237
Total non-current liabilities		**28,970,687**	**29,247,074**
Total liabilities		**36,363,037**	**38,626,393**
Equity			
Share capital	17	40,000	40,000
Share premium	17	25,099,045	25,099,045
Other reserves	17	873,253	873,253
Retained earnings		27,656,511	26,473,060
Total equity		**53,668,809**	**52,485,358**
Total liabilities and equity		**90,031,846**	**91,111,751**

Approved for issue and signed on 01 August 2014 by the following members of management:

Y.V. Sukhanova
Acting General Director

S.A. Kudryashov
Head of the Department of Accounting and Reporting according to International Standards

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Revenue	18	**18,545,901**	**16,991,924**
Cost of sales	19	(12,256,197)	(10,345,840)
Gross profit		**6,289,704**	**6,646,084**
General and administrative expenses	20	(478,924)	(405,127)
Research and development costs		(11,474)	(503,577)
Other operating income	21	189,035	130,064
Other operating expenses	22	(47,409)	(76,620)
Operating profit		**5,940,932**	**5,790,824**
Finance income	23	2,453,978	1,292,363
Finance costs	24	(3,383,744)	(2,621,173)
Profit before income tax		**5,011,166**	**4,462,014**
Income tax	13	(864,871)	(812,430)
Profit for the period		**4,146,295**	**3,649,584**
Other comprehensive income:		**-**	**-**
Items that will be reclassified to profit or loss		**-**	**-**
Items that will not be reclassified to profit or loss		**-**	**-**
Income tax expense/(benefit) related to other comprehensive income		-	-
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**4,146,295**	**3,649,584**

The accompanying notes are an integral part of this interim condensed financial information.

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Profit before income tax		**5,011,166**	**4,462,014**
Adjustments for:			
Finance income	23	(519,185)	(480,849)
Finance costs	24	488,695	673,899
Depreciation	19	1,406,132	1,330,778
Gain from disposal of property, plant and equipment	21	(2,341)	(874)
Net unrealised foreign exchange loss	23, 24	960,256	1,135,760
Impairment of inventory		(20,361)	-
Adjustments for non-cash investing activity		11,798	-
Operating cash flows before changes in working capital		**7,336,160**	**7,120,728**
Decrease /(increase) in inventories	8	123,704	35,975
Increase in trade and other receivables, excluding dividends receivable		(3,480,609)	(2,321,157)
Increase in provisions, accounts payable, taxes payable, excluding interest payable and payable for acquired property, plant and equipment and exploration and evaluation service		436,266	23,980
Decrease in accounts payable for exploration and evaluation service		(9,109)	(397,323)
Income taxes paid		(540,463)	(761,728)
Net cash inflows from operating activities		**3,865,949**	**3,700,475**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,435,355)	(321,687)
Proceeds from sales of property, plant and equipment		4,555	570
Interest received		499,443	447,143
Net cash outflow from investing activities		**(1,931,357)**	**126,026**
Cash flows from financing activities			
Repayment of borrowings		(6,996,096)	(7,366,342)
Interest paid		(438,720)	(520,199)
Net cash outflow from financing activities		**(7,434,816)**	**(4,060,040)**
Net decrease in cash and cash equivalents		**(5,500,224)**	**(7,366,342)**
Effect of exchange rate changes on cash and cash equivalents		(82,635)	38,499
Cash and cash equivalents at the beginning of the period		**14,412,576**	**14,852,108**
Cash and cash equivalents at the end of the period	6	**8,829,717**	**10,830,567**

The accompanying notes are an integral part of this interim condensed financial information.

(In thousands of Russian Roubles, unless otherwise stated)

	Notes	Number of shares outstanding	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013		**533,330**	**40,000**	**25,099,045**	**873,253**	**22,131,933**	**48,144,231**
Profit for the period		-	-	-	-	3,649,584	**3,649,584**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**3,649,584**	**3,649,584**
Dividends	17	-	-	-	-	(3,143,251)	(3,143,251)
Balance at 30 June 2013		**533,330**	**40,000**	**25,099,045**	**873,253**	**22,638,266**	**48,650,564**
Balance at 1 January 2014		**533,330**	**40,000**	**25,099,045**	**873,253**	**26,473,060**	**52,485,358**
Profit for the period		-	-	-	-	4,146,295	**4,146,295**
Other comprehensive income		**-**	**-**	**-**	**-**	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	4,146,295	**4,146,295**
Dividends	17	-	-	-	-	(2,962,844)	**(2,962,844)**
Balance at 30 June 2014		**533,330**	**40,000**	**25,099,045**	**873,253**	**27,656,511**	**53,668,809**

The accompanying notes are an integral part of this interim condensed financial information.

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 30 June 2014 shareholders of the Company were represented by OJSC Gazprom which holds 50 per cent of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 per cent 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 per cent 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. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 25).

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Company's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's current expectations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 "Interim financial reporting" (IAS 34).This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of the financial information 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"); it's 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 33.63 and 32.73 as at 30 June 2014 and 31 December 2013, respectively. The official Euro to RR exchange rates, as determined by the Central bank of the Russian Federation, were 45.83 and 44.97 as at 30 June 2014 and 31 December 2013, 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 gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry wells, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

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.

(In thousands of Russian Roubles, unless otherwise stated)

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.
The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	**Other assets**
Buildings	Units of 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

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 2.172 per cent in the period ended 30 June 2014 (period ended 30 June 2013: 1.945 per cent).

(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 information 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 labour 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. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(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) 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.

(i) Financial assets

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

(j) 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.

(k) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Company has the following financial instruments that are incurred at amortised cost: trade and other accounts receivables, long-term accounts receivables, trade and other accounts payables, borrowings.

The carrying amounts of these items are a reasonable approximation of their fair value.

(l) 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 realizability 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 statements 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".

(m) 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.

Capitalisation of borrowing costs.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.
The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(n) 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 Note 17).

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) Trade and other receivables

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

(t) 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.

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 at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

(u) 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.

(v) Income taxes

Income taxes have been provided for in the financial information 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 information is 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.

(w) 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.

(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 2014 or later periods and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2014

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 amendment is not expected to have any material impact on the Company's financial information.

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. The amendments are not expected to have any material impact on the Company's financial information.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The amendment is not expected to have any material impact on the Company's financial information.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amendment is not expected to have any material impact on the Company's financial information.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amendment is not expected to have any material impact on the Company's financial information.

(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: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- 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 amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized 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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Company's financial information.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to six standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014.) The improvements consist of changes to five standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company’s financial information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial information 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 information 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 (refer to Note 25).

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 information.

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 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 10.

(In thousands of Russian Roubles, unless otherwise stated)

5. FINANCIAL INSTRUMENTS BY CATEGORY

Assets at amortized cost	Notes	30 June 2014	31 December 2013
Current assets			
Cash and cash equivalents	6	8,829,717	14,412,576
Receivables from related parties	7	7,216,023	3,948,924
Other short-term receivables	7	87,179	73,255
Non-current assets			
Long-term receivables from related parties	9	123,328	118,374
Other long-term receivables	9	173,776	34,280
Other non-current assets	11	7,529,870	7,439,136
		23,959,893	**26,026,545**

Liabilities at amortized cost	Notes	30 June 2014	31 December 2013
Current liabilities			
Short-term borrowings and current portion of long-term debt	14	301,199	5,642,159
Trade payables	12	587,226	231,681
Interest payable	12	55,347	72,492
Payables to related parties	12	69,877	73,426
Other payables	12	41,582	23,561
Long-term liabilities			
Long-term borrowings	15	18,960,172	19,600,753
		20,015,403	**25,644,072**

6. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Current accounts	4,415,598	13,085,911
Deposit accounts	4,414,119	1,326,665
Total cash and cash equivalents	**8,829,717**	**14,412,576**

As at 30 June 2014 cash in the amount of RR 4,405,619 thousand was placed on deposit accounts in Vneshprombank, cash in the amount of RR 8,500 thousand was placed on deposit accounts in Gazprombank.

As at 31 December 2013 cash in the amount of RR 1,326,665 thousand was placed on deposit accounts in Vneshprombank.

As at 30 June 2014 the weighted average interest rate on the deposit accounts of the Company was 8.50 per cent for RR (at 31 December 2013 - 6.50 per cent for RR).

The fair value of cash and cash equivalents as at 30 June 2014 and 31 December 2013 approximates their carrying value.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents:

				30 June 2014	31 December 2013
	Rating	Rating agency	Credit limit for one bank	Balance	Balance
Vneshprombank	B2	Moody’s	Not set	4,405,621	1,326,665
Credit Agricole	Not set	-	Not set	4,407,094	13,084,563
Gazprombank	Baa3	Moody’s	Not set	16,915	1,251
Rosbank	Baa3	Moody’s	Not set	87	97
				8,829,717	**14,412,576**

(In thousands of Russian Roubles, unless otherwise stated)

The table below shows analysis of restricted cash (Note 11):

	Rating	Rating agency	Credit limit for one bank	30 June 2014 Balance	31 December 2013 Balance
ING bank N.V.	A2	Moody's	Not set	3,985,095	3,894,361
Credit Agricole	Not set	-	Not set	3,544,775	3,544,775
				7,529,870	**7,439,136**

7. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
Financial assets		
Receivables from related parties (refer to Note 26)	7,216,023	3,948,924
Other receivables	91,876	77,952
Impairment provision for other receivables	(4,697)	(4,697)
Total financial assets	**7,303,202**	**4,022,179**
Non-financial assets		
Advances to suppliers	50,238	14,543
Impairment for advances to supplies	(493)	(493)
VAT recoverable	86,828	43,978
Prepaid taxes, other than income tax	4,013	7,680
Total non-financial assets	**140,586**	**65,708**
Total trade and other receivables	**7,443,788**	**4,087,887**

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

Aging from the due date

	30 June 2014	31 December 2013
From 1 to 3 years overdue	(4,763)	(4,763)
More than 3 years overdue	(427)	(427)
	(5,190)	**(5,190)**

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

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Provision for impairment at the beginning of the period	(5,190)	(49,132)
Provision for impairment reversed/(accrued)	-	(3,867)
Provision for impairment at the end of the period	**(5,190)**	**(52,999)**

All receivables that are past due are fully provided against as at 30 June 2014 and 31 December 2013.

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 30 June 2014 and at 31 December 2013.

The fair value of accounts receivable as at 30 June 2014 and 31 December 2013 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

8. INVENTORIES

	30 June 2014	31 December 2013
Materials and supplies	774,845	889,665
Other materials	13,051	21,936
Impairment of materials	(235,298)	(255,660)
Total inventories	**552,598**	**655,941**

As at 30 June 2014 an amount of RR 2,214 thousand was transferred from property, plant and equipment to inventories (as at 31 December 2013 – RR 2,865 thousand).

9. LONG-TERM ACCOUNTS RECEIVABLES

	30 June 2014	31 December 2013
Financial assets		
Receivables from related parties (refer to Note 26)	123,328	118,374
Other receivables	173,776	34,280
Total long-term accounts receivables	**297,104**	**152,654**

Long-term accounts receivable are initially recognized in the information 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 30 June 2014 receivables from related parties in the amount of RR 123,328 (31 December 2013 – RR 118,374) represent 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 30 June 2014 and 31 December 2013 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

10. PROPERTY, PLANT AND EQUIPMENT

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Other	Prepayments and assets under construction	Total
Cost at 1 January 2013	**9,491,326**	**9,587,238**	**32,212,938**	**9,508,847**	**13,684,925**	**111,770**	**1,027,601**	**75,624,645**
Addition	-	-	-	122,035	-	16,317	2,691,040	**2,829,392**
Change in component for decommissioning and site restoration obligation (Note 16)	(83,138)	(69,743)	(247,494)	(34,859)	-	-	-	**(435,234)**
Disposal	-	-	(62,928)	(9,945)	-	(2,146)	-	**(75,019)**
Transfer to inventories	-	-	-	-	-	-	(2,865)	**(2,865)**
Transfer	-	-	141,862	102,588	-	10,805	(255,255)	**-**
Cost at 31 December 2013	**9,408,188**	**9,517,495**	**32,044,378**	**9,688,666**	**13,684,925**	**136,746**	**3,460,521**	**77,940,919**
Addition	**-**	**-**	780	16,043	-	1,689	2,416,842	**2,435,354**
Disposal	-	-	-	(6,000)	-	(170)	-	**(6,170)**
Transfer to inventories	-	-	-	-	-	-	(2,214)	**(2,214)**
Transfer	-	-	4,364	108,198	-	-	(112,562)	**-**
Cost at 30 June 2014	**9,408,188**	**9,517,495**	**32,049,522**	**9,806,907**	**13,684,925**	**138,265**	**5,762,587**	**80,367,889**
Accumulated depreciation at 1 January 2013	**(1,416,934)**	**(1,372,676)**	**(4,369,197)**	**(1,890,972)**	**(1,758,767)**	**(54,899)**	**-**	**(10,863,445)**
Charged for the year	(330,670)	(336,411)	(1,142,529)	(484,951)	(488,412)	(21,742)	-	**(2,804,715)**
Change in component for decommissioning and site restoration obligation (Note 16)	12,918	10,391	36,876	5,401	-	-	-	**65,586**
Impairment	-	-	228	-	-	-	-	**228**
Disposal	-	-	12,893	9,945	-	2,146	-	**24,984**
Accumulated depreciation at 31 December 2013	**(1,734,686)**	**(1,698,696)**	**(5,461,729)**	**(2,360,577)**	**(2,247,179)**	**(74,495)**	**-**	**(13,577,362)**
Charged for the period	(166,675)	(169,831)	(577,097)	(243,514)	(248,439)	(12,372)	-	**(1,417,928)**
Disposal	-	-	-	6,000	-	170	-	**6,170**
Accumulated depreciation at 30 June 2014	**(1,901,361)**	**(1,868,527)**	**(6,038,826)**	**(2,598,091)**	**(2,495,618)**	**(86,697)**	**-**	**(14,989,120)**
Net book value at 31 December 2013	**7,673,502**	**7,818,799**	**26,582,649**	**7,328,089**	**11,437,746**	**62,251**	**3,460,521**	**64,363,557**
Net book value at 30 June 2014	**7,506,827**	**7,648,968**	**26,010,696**	**7,208,816**	**11,189,307**	**51,568**	**5,762,587**	**65,378,769**

As at 30 June 2014 borrowing costs totalling RR 84,197 thousand were capitalized in property, plant and equipment (as at 31 December 2013 - RR 44,408 thousand). For the period ended 30 June 2014 the capitalization rate applied to qualifying assets was 3.72 per cent (for the year ended 31 December 2013 - 3.67 per cent).

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 30 June 2014 and 31 December 2013 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at those dates.

There was no impairment recognized for the year ended 30 June 2014 and for the year ended 31 December 2013.

(In thousands of Russian Roubles, unless otherwise stated)

As at 30 June 2014 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 24,009,205 thousand (Note 15). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 30 June 2014	9,248,693	7,936,778	8,267,033	4,192,938	129,657	**29,775,099**
Accumulated depreciation at 30 June 2014	1,873,651	1,583,151	1,588,066	696,045	24,981	**5,765,894**
Net book value at 30 June 2014	**7,375,042**	**6,353,627**	**6,678,967**	**3,496,893**	**104,676**	**24,009,205**

As at 31 December 2013 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 24,614,268 thousand (Note 15). ING BANK N.V., LONDON BRANCH acts as the mortgagee.

	Pipeline	Wells	Buildings and facilities	Machinery and equipment	Roads	Total
Cost at 31 December 2013	9,248,693	7,936,778	8,267,033	4,277,274	129,657	**29,859,435**
Accumulated depreciation at 31 December 2013	1,709,903	1,442,081	1,439,772	630,754	22,657	**5,245,167**
Net book value at 31 December 2013	**7,538,790**	**6,494,697**	**6,827,261**	**3,646,520**	**107,000**	**24,614,268**

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 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 judgments 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.

11. OTHER NON-CURRENT ASSETS

Financial assets	30 June 2014	31 December 2013
Debt service reserve accounts	4,529,870	4,439,136
Expenditure reserve accounts	3,000,000	3,000,000
	7,529,870	**7,439,136**

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 until 2018.

As at 30 June 2014 cash balances of the Company on debt service reserve accounts were RR 1,975,010 thousand (Euro 43,098.88 thousand), RR 2,010,085 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.

As at 31 December 2013 cash balances of the Company on debt service reserve accounts were RR 1,938,152 thousand (Euro 43,098.88 thousand), RR 1,956,209 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.

(In thousands of Russian Roubles, unless otherwise stated)

12. TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
Financial liabilities		
Trade payables	587,226	231,681
Payables to related parties (refer to Note 26)	69,877	73,426
Interest payable	55,347	72,492
Other payables	41,582	23,561
Total financial liabilities	**754,032**	**401,160**
Non-financial liabilities		
Accrued employee benefit costs	197,378	261,661
Provision for revegetation	36,500	36,500
Provision for reclamation of property, plant and equipment	14,269	14,269
Wages and salaries	66,971	2,226
Total non-financial liabilities	**315,118**	**314,656**
Total trade and other payables	**1,069,150**	**715,816**

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 information in respect of revegetation works to be performed in 2014.

13. INCOME TAX AND OTHER TAXES PAYABLE

Taxes payable other than income tax comprise the following:

	30 June 2014	31 December 2013
Extraction tax	1,422,203	1,447,530
Value added tax (VAT)	1,234,775	1,260,690
Property tax	209,469	207,406
Insurance contributions for employees	82,050	73,165
Personal income tax	9,264	591
Other taxes and accruals	327	562
Total income tax and other taxes payable	**2,958,088**	**2,989,944**

Income tax expense comprises the following:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Current tax expense	610,132	384,220
Deferred tax expense	254,739	428,210
	864,871	**812,430**

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

	30 June 2014	31 December 2013
Long-term debt, current portion (refer to Note 15) including:		
US$ denominated floating rate:	133,652	2,486,562
Euro denominated floating rate:	131,320	2,463,866
RR denominated fixed rate:	36,223	691,731
Total short-term loans and current portion of long-term debt	**301,195**	**5,642,159**

(In thousands of Russian Roubles, unless otherwise stated)

15. LONG-TERM DEBT

	30 June 2014	31 December 2013
Banks:		
UniCredit Bank AG		
US$ denominated floating rate:	8,543,541	11,119,329
Euro denominated floating rate:	8,397,579	11,020,673
RR denominated fixed rate:	2,320,247	3,102,910
	19,261,367	**25,242,912**
Less: current portion of long-term debt (refer to Note 14)	(301,195)	(5,642,159)
Total long-term debt	**18,960,172**	**19,600,753**

In order to repay outstanding borrowings in March 2011 the Company entered into the project facility agreement to obtain long-term multicurrency financing totalling 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 10).

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:

	30 June 2014	31 December 2013
Banks:		
US$ denominated floating rate	2.65	2.62
Euro denominated floating rate	2.69	2.55
RR denominated fixed rate	11.4	11.4

As at 30 June 2014 and 31 December 2013 the carrying amounts of long-term loans approximate their fair values.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2014	31 December 2013
Provision for decommissioning and site restoration	2,504,539	2,395,084
Total provisions for liabilities and charges	**2,504,539**	**2,395,084**

Provision for decommissioning and site restoration

	Notes	For the six months ended 30 June 2014	Year ended 31 December 2013
At the beginning of the period		**2,395,084**	**2,547,298**
Change in estimate of provision		-	(369,649)
Unwinding of discount	24	109,455	217,435
At the end of the period		**2,504,539**	**2,395,084**

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 information for the period ended 30 June 2014 and for the year ended 31 December 2013 with a corresponding asset recognised within property, plant and equipment (refer to Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 June 2014 was 9.14 per cent (31 December 2013 – 9.14 per cent), 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 the reporting period.

17. 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 30 June 2014 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 totalling 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 per cent 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») as 5 per cent of the allocated profit for dividends; preference shares (type «C») as 2.692 per cent 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.

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 statement.

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 totalling 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 totalling 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 thousands of Russian Roubles, unless otherwise stated)

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 totalling 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 30, 2014 decided to pay dividends RR 2,962,844 thousand for the year ended December 31, 2013.

The Annual General Shareholders' Meeting of the Company held on June 28, 2013 decided to pay dividends RR 3,143,251 thousand for the year ended December 31, 2012.

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.

18. REVENUE

	For the six months ended 30 June 2014	**For the six months ended 30 June 2013**
Revenue from gas sales	18,545,901	16,991,924
Total revenue	**18,545,901**	**16,991,924**

All customers of the Company represent related parties. Please refer to Note 26.

19. COST OF SALES

	For the six months ended 30 June 2014	**For the six months ended 30 June 2013**
Extraction tax	8,949,156	7,290,546
Depreciation	1,406,132	1,330,778
Wages, salaries and other staff costs	671,899	542,057
Property tax	437,786	471,565
Services	298,505	256,039
Contributions to the State pension fund	154,198	130,631
Materials	111,797	111,775
Insurance	77,574	75,149
Transportation services	40,572	31,127
Contributions to the non-State pension fund	25,012	30,892
Fuel and energy	21,297	22,927
Other	62,269	52,354
Total cost of sales	**12,256,197**	**10,345,840**

Depreciation in the amount of RR 11,796 thousand for the period ended 30 June 2014 was capitalized (for the period ended 30 June 2013– RR 8,599 thousand).

(In thousands of Russian Roubles, unless otherwise stated)

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Wages, salaries and other staff costs	258,805	221,097
Contributions to the State and non-State pension funds	64,988	44,288
Services and other administrative expenses	155,131	139,742
Total general and administrative expenses	**478,924**	**405,127**

21. OTHER OPERATING INCOME

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Reimbursement of the road maintenance costs	116,295	101,206
Reversal of impairment of inventories	20,361	10,945
Gain from disposal of property, plant and equipment	2,341	874
Gain from sale/purchase of currency	29,314	10,126
Other	20,724	6,913
Total operating income	**189,035**	**130,064**

22. OTHER OPERATING EXPENSES

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Social costs	17,370	47,099
Loss on disposal of materials	13,249	7,609
Non-refundable VAT	2,079	3,215
Other	14,711	18,697
Total operating expenses	**47,409**	**76,620**

23. FINANCE INCOME

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Interest income	519,185	480,849
Foreign currency exchange gains	1,934,793	811,514
Total finance income	**2,453,978**	**1,292,363**

24. FINANCE COSTS

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Interest expense:		
Bank loans	379,240	565,182
Foreign currency exchange losses	2,895,049	1,947,274
Unwinding of discount of provisions (refer to Note 16)	109,455	108,717
Total finance costs	**3,383,744**	**2,621,173**

25. 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 challenged tax 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 incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was introduced from 1999 and was amended with effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2014 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given the specifics of TP rules, the impact of any challenge of the Company’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Company.

(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 statement.

(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.

26. 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 (refer to Note 1).

(In thousands of Russian Roubles, unless otherwise stated)

Transactions of the Company with its shareholders for the periods ended 30 June 2014 and 30 June 2013 are presented below:

	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Sales of gas to OJSC Gazprom	18	7,418,361	6,796,770
Sales of gas to CJSC Gazprom YRGM Trading	18	6,491,065	5,947,173
Sales of gas to CJSC Gazprom YRGM Development	18	4,636,475	4,247,981
Purchases of goods and services from Gazprom Group		145,746	113,089

All operations with Gazprom Group were performed in accordance with signed agreements and on general market conditions.

Significant balances with shareholders are summarised as follows:

Short-term accounts receivable	Notes	30 June 2014	31 December 2013
Trade and other receivables from OJSC Gazprom	7	2,965,887	1,655,139
Trade and other receivables from CJSC Gazprom YRGM Trading	7	2,477,985	1,335,888
Trade and other receivables from CJSC Gazprom Development	7	1,769,955	954,102
Other receivables from Gazprom Group	7	2,196	3,795
		7,216,023	**3,948,924**

Long-term accounts receivable			
Trade receivables from OJSC Gazprom	7	123,328	118,374
		123,328	**118,374**

As at 30 June 2014 and 31 December 2013 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	Notes	30 June 2014	31 December 2013
Payables to the Gazprom Group	12	69,877	73,426
		69,877	**73,426**

Transactions with Key Management Personnel

Management of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

Key management benefits	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Short-term benefits	77,870	82,295
Other long-term benefits	15,783	23,077
	93,653	**108,372**

Transactions with parties under control of the Government

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

27. SUBSEQUENT EVENTS

There are no subsequent events to disclose.