

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

*You should read the following management's discussion in conjunction with our unaudited consolidated interim condensed financial information as of and for the six months ended June 30, 2013. The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34"). This financial information should be read together with the consolidated financial statements for the year ended December 31, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS").*

### **OVERVIEW**

We are one of the world's largest gas and oil companies in terms of reserves, production and market capitalization. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Western and Central Europe, Russia and other former Soviet Union countries.

We divide our operations into the following principal businesses:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

Other businesses primarily comprise production of other products and sales of several goods, works, services.

Our main business segments are mutually dependent, with a significant portion of the revenues of one segment comprising a part of the costs of another segment. In particular, our Distribution segment purchases natural gas from our Production of gas segment and transportation services from our Transport segment. Our Refining segment purchases gas from our Production of gas segment and crude oil and gas condensate from the Production of crude oil and gas condensate segment. We establish internal transfer prices with reference to the specific funding requirements of the individual subsidiaries within each segment. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations as if it was a stand-alone business. For this reason, we do not analyze any of our main segments separately in the discussion that follows.

### **Application of new IFRS**

Starting from January 1, 2013 the Group adopted a set of standards on consolidation: IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11"), IFRS 12 "Disclosure of Interests in Other Entities" ("IFRS 12"). As a result of the application of new standards, IFRS 11 "Joint Arrangements" in particular, The Group derecognised the investments in OAO Tomksneft VNK, Salym Petroleum Development N.V. and Blue Stream Pipeline company B.V. that were previously accounted for using the equity method and recognised its share of each of the assets and the liabilities in respect of the interest in those companies.

IAS 19 "Employee Benefits" (IAS 19) (revised) 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 operational information below is restated (including prior period) to offer a clear comparison with these new accounting methods.

For more information on adoption of new standards, refer to the Note 4 of the IFRS Consolidated Interim Condensed Financial Information for the six months ended June 30, 2013.

**RESULTS OF OPERATIONS**

(RUB million)

	<b>Six months periods ended June 30,</b>	
	<b>2013</b>	<b>2012 (restated)</b>
Sales	2,568,122	2,231,132
Net gain from trading activity	3,764	5,518
Operating expenses	<u>(1,718,884)</u>	<u>(1,606,607)</u>
<b>Operating profit</b>	<b>853,002</b>	<b>630,043</b>
Finance income	38,501	153,715
Finance expense	(162,479)	(182,008)
Share of net income of associated undertakings and joint ventures	12,804	64,028
Gains (losses) on disposal of available-for-sale financial assets	<u>16</u>	<u>(78)</u>
<b>Profit before profit tax</b>	<b>741,844</b>	<b>665,700</b>
Current profit tax expense	(42,992)	(140,969)
Deferred profit tax (expense) benefit	<u>(105,447)</u>	<u>9,525</u>
Profit tax expense	(148,439)	(131,444)
<b>Profit for the period</b>	<b>593,405</b>	<b>534,256</b>
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	<u>75,623</u>	<u>(3,768)</u>
<b>Total items that will not be reclassified to profit or loss</b>	<b>75,623</b>	<b>(3,768)</b>
Items that will be reclassified to profit or loss:		
Losses arising from change in fair value of available-for-sale financial assets, net of tax	(2,588)	(22,019)
Share of other comprehensive income (loss) of associated undertakings and joint ventures	4,138	(5,039)
Translation differences	49,247	9,064
Losses from cash flow hedges, net of tax	<u>(3,981)</u>	<u>(6,040)</u>
<b>Total items that will be reclassified to profit or loss</b>	<b>46,816</b>	<b>(24,034)</b>
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>122,439</b>	<b>(27,802)</b>
<b>Total comprehensive income for the period</b>	<b>715,844</b>	<b>506,454</b>
<b>Profit attributable to:</b>		
Owners of OAO Gazprom	582,683	517,397
Non-controlling interest	<u>10,722</u>	<u>16,859</u>
	<b>593,405</b>	<b>534,256</b>
<b>Total comprehensive income attributable to:</b>		
Owners of OAO Gazprom	702,329	488,878
Non-controlling interest	<u>13,515</u>	<u>17,576</u>
	<b>715,844</b>	<b>506,454</b>

## Sales

The following table sets out our volumes and realized prices for the six months period ended June 30, 2013 and 2012.

(RUB million unless indicated otherwise)	<b>Six months periods ended June 30,</b>	
	<b>2013</b>	<b>2012 (restated)</b>
<b>Sales of gas</b>		
<i>Europe and Other Countries</i>		
Gross sales <sup>(1)</sup>	1,022,453	907,987
Customs duties	(198,034)	(176,671)
Net sales	824,419	731,316
Volumes in billion cubic meters (bcm)	85.5	77.9
Gross average price, U.S.\$ per mcm <sup>(2)</sup> (including customs duties) <sup>(3)</sup>	385.1	381.2
Gross average price, RUB per mcm <sup>(2)</sup> (including customs duties)	11,953.6	11,657.9
<i>FSU (Former Soviet Union)</i>		
Gross sales <sup>(1)</sup>	216,409	304,283
Customs duties	(36,854)	(47,588)
Net sales	179,555	256,695
Volumes in bcm	27.4	33.3
Gross average price, U.S.\$ per mcm <sup>(2)</sup> (including customs duties) <sup>(3)</sup>	254.4	298.8
Gross average price, RUB per mcm <sup>(2)</sup> (including customs duties)	7,897.6	9,137.9
<i>Russian Federation</i>		
Gross sales (net of VAT)	411,013	389,301
Net sales	411,013	389,301
Volumes in bcm	133.6	144.3
Gross average price, RUB per mcm <sup>(2)</sup> (net of VAT)	3,075.5	2,698.5
<i>Total sales of gas</i>		
Gross sales (net of VAT)	1,649,875	1,601,571
Customs duties	(234,888)	(224,259)
Retroactive gas price adjustments	73,430	(133,186)
Net sales	1,488,417	1,244,126
Volumes in bcm	246.5	255.5
Net sales of refined products (net of excise tax, VAT and customs duties)	639,643	544,279
Net sales of electric and heat energy (net of VAT)	179,566	177,136
Net sales of crude oil and gas condensate (net of VAT and customs duties)	99,789	129,770
Gas transportation net sales (net of VAT)	80,495	60,279
Other revenues (net of VAT)	<u>80,212</u>	<u>75,542</u>
<b>Total sales (net of excise tax, VAT and customs duties)</b>	<b><u>2,568,122</u></b>	<b><u>2,231,132</u></b>

Notes:

<sup>(1)</sup> VAT is not charged on sales to Europe and Other Countries.

<sup>(2)</sup> One mcm is equivalent to 35,316 cubic feet.

<sup>(3)</sup> Calculated on the basis of average exchange rate between RUB and U.S.\$.

Total sales (net of VAT, excise tax and customs duties) increased by RUB 336,990 million, or 15%, to RUB 2,568,122 million in the six months period ended June 30, 2013 compared to the same period of the prior year.

Net sales of gas accounted for 58% and 56% of total net sales in the six months periods ended June 30, 2013 and 2012, respectively.

Net sales of gas increased by RUB 244,291 million from RUB 1,244,126 million in the six months period ended June 30, 2012 to RUB 1,488,417 million in the six months period ended June 30, 2013, or by 20%.

Net sales of gas to Europe and Other Countries increased by RUB 93,103 million, or 13%, to RUB 824,419 million in the six months period ended June 30, 2013 as compared to the six months period ended June 30, 2012 primarily due to increases in volumes of gas sold and average prices. The volume of gas sold in the six months period ended June 30, 2013 increased by 10% as compared to the same period of the prior year. The gross average RUB price (including customs duties) increased by 3%.

Retroactive gas price adjustments were recognized in the financial statements for the six months period ended June 30, 2013 as an increase of sales in amount RUB 73,430 million reflecting a decrease in a related accrual following estimates made and agreements reached prior to the issuance of the interim financial information.

Net sales of gas to FSU countries decreased by RUB 77,140 million, or 30%, to RUB 179,555 million in the six months period ended June 30, 2013 compared to the six months period ended June 30, 2012 primarily due to a 18% decrease in volumes of gas sold to FSU countries. The gross average RUB price (including customs duties) decreased by 14% in the six months period ended June 30, 2013, compared to the same period of the prior year.

Net sales of gas in the Russian Federation increased by RUB 21,712 million, or 6%, to RUB 411,013 million in six months period ended June 30, 2013 compared to the same period of the prior year due to a 14% increase in the gross average domestic gas prices partly offset by a 7% decrease in volume of gas sold in the six months period ended June 30, 2013 compared to the six months period ended June 30, 2012.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 95,364 million, or 18%, to RUB 639,643 million in the six months period ended June 30, 2013 in comparison with the same period of the prior year primarily due to inclusion of OAO Gazprom neftekhim Salavat in the consolidated financial statements from June 2012 and an increase in volumes sold by Gazprom neft Group to customers in the Europe and Other Countries and increase of prices. In the six months periods ended June 30, 2013 and 2012 Gazprom neft Group's sales comprised 75% and 82% of the total amount of net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RUB 2,430 million, or 1%, to RUB 179,566 million in the six months period ended June 30, 2013 compared to the same period of the prior year due to increase in sales of energy sector companies.

Net sales of crude oil and gas condensate (net of VAT and customs duties) decreased by RUB 29,981 million, or 23%, to RUB 99,789 million in the six months period ended June 30, 2013 compared to RUB 129,770 million in the six months period ended June 30, 2012 due to a decrease in crude oil volumes and average price to customers in Europe and Other Countries. Sales of gas condensate decreased due to inclusion of OAO Gazprom neftekhim Salavat in the consolidated financial statements from June 2012. Sales of crude oil included in net sales of crude oil and gas condensate (net of VAT and customs duties), amounted to RUB 80,675 million and RUB 104,984 million in the six months periods ended June 30, 2013 and 2012, respectively.

Gas transportation net sales (net of VAT) increased by RUB 20,216 million, or 34%, to RUB 80,495 million in the six months period ended June 30, 2013 from RUB 60,279 million in the six months period ended June 30, 2012 primarily due to an increase in volume of gas transportation services rendered to independent gas suppliers.

Other revenues increased by RUB 4,670 million, or 6%, to RUB 80,212 million in the six months period ended June 30, 2013 compared to RUB 75,542 million in the six months period ended June 30, 2012.

## Operating expenses

Operating expenses increased by 7% in the six months period ended June 30, 2013 to RUB 1,718,884 million from RUB 1,606,607 million in the three months period ended June 30, 2012. Operating expenses as a percentage of sales decreased from 72% in the six months period ended June 30, 2012 to 67% in the six months period ended June 30, 2013. The table below presents a breakdown of operating expenses in each period:

	Six months periods ended June 30,	
	2013	2012
Purchased oil and gas	369,866	368,149
Taxes other than on income	343,192	320,478
Staff costs	235,238	185,365
Depreciation	210,810	164,362
Transit of gas, oil and refined products	171,302	159,325
Materials	107,881	58,682
Repairs and maintenance	77,649	71,264
Cost of goods for resale, including refined products	65,065	60,538
Electricity and heating expenses	39,286	36,490
Charge for impairment provisions	30,181	25,845
Social expenses	18,221	8,785
Transportation services	15,409	17,035
Rental expenses	12,295	11,353
Insurance expenses	10,961	10,980
Processing services	8,106	6,817
Research and development expenses	7,491	11,690
Heat transmission	4,817	15,162
(Gains) losses from derivatives financial instruments	(28)	14,891
Foreign exchange rate differences on operating items	(43,038)	(12,512)
Other	<u>99,516</u>	<u>92,296</u>
	<b>1,784,220</b>	<b>1,626,995</b>
Changes in inventories of finished goods, work in progress and other effects	(65,336)	(20,388)
<b>Total operating expenses</b>	<b>1,718,884</b>	<b>1,606,607</b>

### *Purchased gas and oil*

Cost of purchased gas and oil increased by RUB 1,717 million to RUB 369,866 million in the six months period ended June 30, 2013 from RUB 368,149 million in the six months period ended June 30, 2012. Cost of purchased gas increased by RUB 12,145 million, or 5%. This increase mainly relates to the growth in prices of gas purchased from third parties inside and outside of the Russian Federation. The cost of purchased oil included in the cost of purchased gas and oil decreased by RUB 10,428 million, or 9%, and amounted to RUB 99,595 million in the six months period ended June 30, 2013 in comparison with RUB 110,023 million in the six months period ended June 30, 2012 due to the decrease in oil purchased volumes.

### *Taxes other than on income*

Taxes other than on income consist of:

(RUB million)	Six months periods ended June 30,	
	2013	2012
Natural resources production tax	245,062	233,401
Property tax	38,712	25,039
Other taxes	<u>59,418</u>	<u>62,038</u>
<b>Taxes other than on income</b>	<b>343,192</b>	<b>320,478</b>

The natural resources production tax increased by 5% to RUB 245,062 million in the six months period ended June 30, 2013 from RUB 233,401 million in the six months period ended June 30, 2012. The increase of natural resources production tax on gas extraction results from growth of tax rate for gas from RUB 509 to RUB 582 per thousand cubic meters since 1 January 2013. The natural resources production tax on oil extraction changed insignificantly.

The increase results from growth of base tax rate for oil from RUB 446 to RUB 470 per ton, that is partly offset by decrease of oil prices

#### *Staff costs*

Staff costs increased by 27% to RUB 235,238 million in the six months period ended June 30, 2013 from RUB 185,365 million in the six months period ended June 30, 2012. The increase in staff costs mainly resulted from the average salary indexation and increase of average number of personnel.

#### *Depreciation*

Depreciation increased by 28%, or RUB 46,448 million, to RUB 210,810 million in the six months period ended June 30, 2013 from RUB 164,362 million in the six months period ended June 30, 2012. The increase primarily relates to the growth in the fixed asset base.

#### *Transit of gas, oil and refined products*

Transit of gas, oil and refined products increased by 8% to RUB 171,302 million in the six months period ended June 30, 2013 from RUB 159,325 million in the six months period ended June 30, 2012. This increase mainly relates to growth of oil and refined products transit due to inclusion of OAO Gazprom neftekhim Salavat into the scope of consolidation from June 2012.

#### *Materials*

Cost of materials increased by 84% to RUB 107,881 million in the six months period ended June 30, 2013 from RUB 58,682 million in the six months period ended June 30, 2012. The change mainly relates to inclusion of OAO Gazprom neftekhim Salavat into the scope of consolidation from June 2012, as well as to increase of materials purchase prices.

#### *Repairs and maintenance*

Cost of repairs and maintenance increased by 9% to RUB 77,649 million in six months period ended June 30, 2013 from RUB 71,264 million in the six months period ended June 30, 2012. This increase was caused by the increase of volume of repair services rendered by third parties to the Group during six months ended June 30, 2013.

#### *Cost of goods for resale, including refined products*

Cost of goods for resale, including refined products increased by 7% to RUB 65,065 million in the six months period ended June 30, 2013 from RUB 60,538 million in the six months period ended June 30, 2012. The increase in cost of goods for resale, including refined products, mainly results from the growth in volumes of external refined products purchases by the Gazprom нефт Group.

#### *Electricity and heating expenses*

Electricity and heating expenses increased by 8% to RUB 39,286 million in the six months period ended June 30, 2013 from RUB 36,490 million in the six months period ended June 30, 2012. The increase mainly resulted from the increase in consumption of electricity and increase in electricity tariffs.

#### *Exchange rate differences on operating items*

Exchange rate differences on operating items for amounted to a net gain of RUB 43,038 million six months ended June 30, 2013, and net gain of RUB 12,512 million for six months ended June 30, 2012. The change was primarily driven by appreciation of EURO by 6% and USD by 8% against RUB during six months ended June 30, 2013, compared to depreciation of EURO by 1% and appreciation of USD by 2% against RUB for six months ended June 30, 2012, respectively.

#### *Other operating expenses*

Other operating expenses increased by 8% to RUB 99,516 million in the six months period ended June 30, 2013 from RUB 92,296 million in the six months period ended June 30, 2012. Other expenses include bank charges, security services, legal and consulting services, charity and finance aid, advertising and software services.

#### *Changes in inventories of finished goods, work in progress and other effects*

Change in inventories of finished goods, work in progress and other effects increased by RUB 44,948 from gain of RUB 20,388 million in the six months period ended June 30, 2012 to gain of RUB 65,336 million in the six months period June 30, 2013. The negative amount of changes in inventory of finished goods, work in progress and other effects in the six months period, ended June 30, 2013 relates mainly to the increase in the balances of finished goods as of June 30, 2013 in comparison with those as of December 31, 2012.

## Operating profit

As a result of the factors discussed above, our operating profit increased by RUB 222,959 million, or 35%, to RUB 853,002 million in the six months period ended 30 June 2013 from RUB 630,043 million in the six months period ended 30 June 2012. Operating profit margin increases from 28% in the six months period ended 30 June 2012 to 33% in the six months period ended 30 June 2013.

## Net finance expense

(RUB million)	Six months periods ended June 30,	
	2013	2012 (restated)
Exchange gains	21,968	140,173
Exchange losses	<u>(141,374)</u>	<u>(164,224)</u>
Net exchange loss	(119,406)	(24,051)
Interest income	16,533	13,542
Interest expense	<u>(21,105)</u>	<u>(17,784)</u>
<b>Net finance expense</b>	<b>(123,978)</b>	<b>(28,293)</b>

The net exchange loss of RUB 119,406 million in the six months period ended June 30, 2013 in comparison with net exchange loss of RUB 24,051 million in the same period of the prior year is explained by appreciation of EURO by 6% and USD by 8% against RUB during six months ended June 30, 2013, compared to depreciation of EURO by 1% and appreciation of USD by 2% against RUB for six months ended June 30, 2012, respectively.

Interest income increased by 22% to RUB 16,533 million in the six months period ended June 30, 2013 from RUB 13,542 million in the same period of the prior year, mainly due to increase of interest accrued on Group's cash held with banks.

Interest expense increased by 19% to RUB 21,105 million in the six months period ended June 30, 2013 from RUB 17,784 million in the same period of the prior year, mainly due to increase in average borrowings balance during the six months period ended June 30, 2013 in comparison with the same period of the prior year.

## Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures decreased by RUB 51,224 million, or 80%, to RUB 12,804 million in the six months ended June 30, 2013 compared to the share of net income in the same period of the prior year in the amount of RUB 64,028 million. The decrease of the Group's share of net income of associated undertakings and joint ventures in the six months ended June 30, 2013 relates mainly to the decline in net income of Sakhalin Energy Investment Company Ltd. by RUB 14,960 million due to the decrease of revenue from crude oil and liquefied natural gas sales as a result of production output decline and the initial recognition of variable obligation on irredeemable preferred share (class R) as a stake of the Russian Federation. The Group's share of net income of associated undertakings and joint ventures for the six months ended 30 June 2013 includes additional expense of RUB 25,961 million recognized for OAO NGK Slavneft and its subsidiaries as a result of a one-time adjustment to correct the prior understatement of depreciation on the basis difference for property, plant and equipment since the Group's acquisition of interest in OAO NGK Slavneft.

## Profit tax

Total profit tax expense increased by RUB 16,995 million, or 13%, to RUB 148,439 million in the six months period ended June 30, 2013 compared to RUB 131,444 million in the six months period ended June 30, 2012. The effective profit tax rate was 20.0% and 19.7% in the six months periods ended June 30, 2013 and 2012, respectively.

## Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom increased by RUB 65,286 million, or 13%, from RUB 517,397 million in the six months period ended June 30, 2012 to RUB 582,683 million in the six months period ended June 30, 2013.

## Profit for the period attributable to non-controlling interest

Profit for the period attributable to non-controlling interest decreased by RUB 6,137 million, or 36%, to RUB 10,722 million in the six months period ended June 30, 2013 compared to RUB 16,859 million in the six months period ended June 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our statements of cash flows for the six months ended June 30, 2013 and 2012:

(RUB million)	Six months periods ended June 30,	
	2013	2012 (restated)
Net cash from operating activities	955,542	739,161
Net cash used in investing activities	(693,959)	(637,512)
Net cash from (used in) financing activities	8,277	(90,527)

### *Net cash from operating activities*

Net cash from operating activities amounted to RUB 955,542 million in the six months period ended June 30, 2013 compared to RUB 739,161 million in the six months period ended June 30, 2012. The increase was primarily due to the increase in profit before profit tax and due to the negative dynamics of changes in working capital in the six months period ended June 30, 2013 in comparison with the same period of the prior year.

### *Net cash used in investing activities*

Net cash used in investing activities increased by RUB 56,447 million, or 9%, to RUB 693,959 million in the six months period ended June 30, 2013 compared to RUB 637,512 million in the six months period ended June 30, 2012. The increase was primarily due to the decrease in proceeds from associated undertakings and joint ventures in the six months period ended June 30, 2013 in comparison with the same period of the prior year.

### *Net cash from (used in) financing activities*

Net cash from financing activities amounted to RUB 8,277 million in the six months period ended June 30, 2013 compared to net cash used in financing activities in the amount of RUB 90,527 million in the six months period ended June 30, 2012. This change was mainly due to the fact that cash provided by proceeds from long-term borrowings exceeded the repayment of long-term borrowings in the six months period ended June 30, 2013, while compared to the same period of the prior year cash used for repayment of long-term borrowings exceeded cash provided by proceeds from long-term borrowings.



## Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for the six months period ended June 30, 2013 and 2012 in nominal RUB terms, amounted to the following:

(RUB million)	Six months periods ended June 30,	
	2013 <sup>(1)</sup>	2012 <sup>(1)</sup>
Transport	157,479	282,076
Production of crude oil and gas condensate	136,627	61,790
Production of gas	107,075	117,361
Refining	53,081	56,099
Electric and heat energy generation and sales	39,400	19,115
Distribution	12,151	20,516
Gas storage	9,845	3,619
All other segments	<u>30,746</u>	<u>6,195</u>
<b>Total</b>	<b>546,404</b>	<b>566,771</b>

Note:

(1) The capital expenditures in the present analysis differs from the capital additions disclosed within the Group's business segments in IFRS consolidated interim condensed financial statements of OAO Gazprom primarily due to VAT.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) decreased by RUB 20,367 million, or 4%, from RUB 566,771 million in the six months period ended June 30, 2012 to RUB 546,404 million in the six months period ended June 30, 2013.

The decrease of our capital expenditures in the Transport segment was primarily due to put into operation of Pipeline Bovanenkovo-Ukhta, Pipeline Ukhta-Torzhok in connection with launching of Bovanenkovo field. The increase of our capital expenditures in the segment of Production of crude oil and gas condensate was due to capital expenditures of Gazprom Neft Group. The increase of our capital expenditures in the Electric and heat energy generation and sales segment was primarily due to increase of capital expenditures of Mosenergo in construction of modern steamgas power-generating units at TPP-12, TPP-16 and TPP-20. The increase of capital investment in other segments was mainly due to construction in the scope of the Program of Construction of Olympic Venues and the Development of Sochi as a Mountain Climate Resort.

## Debt obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings and long-term promissory notes payable, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RUB 164,785 million, or 15%, from RUB 1,071,214 million as of December 31, 2012 to RUB 906,429 million as of June 30, 2013. This decrease resulted mainly from the increase in cash and cash equivalents.