

Company: Gazprom Neft
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Presenters: Vadim Yakovlev, Victor Savelyev, Anatoly Cherner, Yuri Kalner
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Oleg Maximov: Good day ladies and gentlemen, my name is Oleg Maximov from Troika Dialog. Welcome to the conference call from Gazprom Neft company devoted to the financial results for the year 2009. Now I'll pass the floor to Ana Sidorkina from Gazprom Neft for her to introduce today's figures and heads of the company. Ana, the floor is yours.

Ana Sidorkina: Thank you Oleg. Let me open the conference call of Gazprom Neft. To present Gazprom Neft's financial results in 2009 CFO Vadim Yakovlev will speak to you as well as the heads of the company, to managers of the company Victor Savelyev; Anatoly Cherner, Deputy General Director on Refining & Marketing; Alexander Dybal on Corporate Communications; and Yuri Kalner, Member of the Board on Strategic Planning will answer your questions. Before we begin the presentations you can find on our website. I'd like to remind you that this presentation as well as all the comments here are contained forecast type of forward-looking statements and they are of forecasting character and all forward-looking statements should be seen as such. These type of forward-looking statements are referring to the current situation and they are in line of all risks and uncertainties associated with the identification of the situation and the event industry that have or will be contained in our activities. Now I'd like to give the floor to our main speaker, the CFO Vadim Yakovlev.

Vadim Yakovlev: Good morning ladies and gentlemen, let me warmly welcome you to our conference call. Last week we signed our official US GAAP results for the year 2009 and we got our auditor's report on that. We published these results and right now we're here to draw conclusions on our activities in the year 2009. I'm going to give you brief information on the results of the year 2009. I will remind you of our strategy and I will also comment on our results in 2009. I will comment on upstream and downstream, then we'll look at financial results and eventually we'll cross over to the Q&A session.

If we look at the year 2009 as a whole I would say that Gazprom Neft, the year 2009 was very symbolic for us saturated with interesting events, not very easy and it definitely told in our financial results and the price shock that we all had changed the valuations and obviously changed expectations of those who had assets, who were selling their assets and we had an opportunity to make a couple of procurements, quite big ones, Sibir Energy in particular as well as the Serbian company NIS that would allow us to enter the European market. We also procured a small asset in Italy for oil packaging and thus by making a step like that we increased our presence in European markets.

Apart from procurements our operational activity allowed us to increase our resource base, replacement in the year of procurements amounted to 263%. We increased our organic replacement due to geologic studies that amounted to 195%. This allowed us to increase production to two or three times due to geological exploration and other activities. Due to procurement and decrease rate of production decline this allowed us to increase on our production by 3% and thus production in 2009 amounted to 50.2 million tonnes of oil equivalent.

As far as refining is concerned due to the consolidation of the Moscow refinery our refining increased to 18%, besides in the downstream segment we had two large scale programmes including an upgrade programme of two refineries in Moscow and in Serbia. The four year project amounted to \$1.9 billion and it covered the Yaroslavl refinery that we own in parity, it is owned in parity terms by two shareholders. We also have a full scale programme of new retail re-branding and in the year 2009 it was 30% realised already. We also managed to win a tender for an Iraqi field called Badra. We're going to operate this field and our share went to 40% there.

Thus if we characterise the year 2009 as a whole we made a huge step forward in improving our indicators and started the basis for our future growth. If we now switch over to our strategy I'd like to point out that the cornerstone of our strategy is driving growth, integration, operational excellence, integration of upstream and downstream and also expanding the portfolio of our assets. If we look at the prospects to the year 2020 you will see that Gazprom Neft is going to transform into an international company, an international company in terms of operational

excellence. We're going to make use of the state of the art best technologies and increase the quality of our products and place special attention to social responsibility in doing business. We do believe that a transformation like that would allow us to become the business partner of choice both for Russian and international companies and for the industry at large where a lot of major projects can only be realised through partnerships and the quality and being a reliable partner is a very important step towards achieving our strategic goals. Our goals and objectives are global enough and yet we are still a Russian company, a Russian origin company and our business model is built on the big role of integration, a big role in our business model. It is in line with certain benefits that the Russian situation gives us. Refining in Russia as you probably understand is much more lucrative than refining it in Europe or exporting crude. In the future means of increasing our refining throughput and increasing efficiency of our refineries, we're going to keep this competitive advantage and diversify further our downstream portfolio so as not to depend on probable and expected changes in tax legislation in the Russian Federation.

As far as our long term indicators are concerned we would like to increase the production rate to 100 million tonnes of oil equipment and increase our refinery up to 70 million tonnes per year as well as an increase in the marketing of petroleum projects through high margin channels up to 40 million tonnes and we are planning to stay an efficient company and retail high profitability for shareholders. We say this is one of our objectives to retain leadership positions in operational excellence as well as satisfying our shareholders.

We pay special attention to our social responsibilities as well. We have high standards of HSE and environmental protection is our high priority. Since the year 2007 the company actually issues a special report on sustainable development from the company where we look at all the values of our activities. In order to understand at large what we're doing in this we probably need to refer to this report but here you also see some figures that could be of help, data on HSE results in the year 2009 as compared to 2008. Our long term objectives the way we understand it are pretty ambitious. Still a lot needs to be done, however if we look back at these five years that have passed since Gazprom acquired Sibneft a lot has already been realised and major events have happened that let me reiterate allow us to hope for even better results in the future.

Let me now look at our business results and we'll start by looking at upstream. Our current priority is now unlocking potential of existing fields that we're operating and capturing new opportunities both here and abroad. As far as macroeconomic situation and macroeconomic forces that influence upstream and investment in the upstream, we need to remember that the years 2008 to 2009 were less than stable when prices went down quite abruptly and then started to go back up and yet the changes in oil price were offset by the change in exchange rate that created a sort of buffer or natural hedge against oil prices going down. Russia in particular the change in exchange rate considerably influenced our cash flow and we'll see the results of this influence later. When we look back and look at the history of oil prices changing we'll see that in certain periods reaction will take place and the history demonstrates to us that the period when prices go down usually entails cuts in investment by oil companies that leads to a decrease in supply that subsequently leads to oil prices going up, and looking forward we do not expect oil prices to go down more. We look at the oil prices to become stable or even going up.

As I've already mentioned we've been quite successful in growing our resource base. The figures have already been voiced and they are seen on the slide. Let me point out specifically that our new assets, Slavneft assets in particular are of huge potential in terms of growing reserve space in proved resources category in PRMS and ABC1 amounts to about 70% and for new assets the percentage is smaller, it's 67% which is explained by the fact that these new assets haven't been extensively studied geologically. Only after our geological understanding would expand and the exploration continues, the proven reserves both in terms of PRMS and our local standards increased considerably.

A few words about our production rates. For several years production rates of the company have been growing and the year 2009 allowed us to achieve 50.5 million tonnes of oil equivalent in production. For the year 2010 we're trying to grow production to the level of 54.3 million tonnes of oil equivalent including oil production and about 3 million tonnes of oil equivalent in gas production. By way of illustration this is what we do on one of our sales, that is our main source of production growth. In PRMS our reserves amount to 316 million tonnes. Production in 2009 amounted to 8.2 million tonnes and we have increased our geological understanding. We did full 3D seismic coverage of this field. We updated our hydrodynamic model, that is to say we have filled the model with new data constantly and the use of this model increases the efficiency of drilling. Volume of drilling last year increased. We re-evaluated the market

situation and expanded our investment, so the Priobskoye field enjoyed 27% more investment as compared to the year 2008. Besides the volume of drilling was increased due to the reduction in time for drilling and completion, reduced average was done in completion time from 18 to 15 days and we also made a first start towards using the Smart Field concept, more integrated control systems that allows us to get information on control stations and thus pick the optimal mode of operation judging by the way we currently operate downhaul.

At this point in time apart from the Priobskoye field we have accumulated new projects for petroleum both in Russia and overseas. The scale of these assets can be seen by looking at the results space and the level of production. Let's take that as given on this slide 18. As far as time of commissioning is concerned, on new fields such as Novoport, the start-up is planned for the year 2013-2014. As far as our in-book sales are concerned, that hopefully will get and in the licence from Gazprom in the course of the year, we will get this asset and this will allow us to operate it. We plan to look at the opportunity to increase production and we can see that the opportunities of this kind are there potentially at least.

Now let's look at our downstream results. I think our competitive advantage lies in downstream share and this is both due to high profitability of refining activities and due to the fact that in the last five years the demand for petroleum products has been growing ahead of the market as compared to Europe, CIS and North America. We keep working on increasing efficiency of our refining. We have a programme in space to revamp our existing assets that would allow us in the long term perspective to keep the indicators high and our assets still look nice. For several years we have been involved in optimising on a balanced structure. Coverage has been increasing and in the year 2009 it amounted to 70%. The revamped programme has already been started in all of our refineries. We're going in accordance with the schedule. We're going to have Euro-4 by the year 2012. As far as our Serbian assets is concerned our objective is to actually we are planning to fulfil it even before. We are going to have Euro-5 products manufacturing at that plant, this refinery. In the long term we are planning to improve our results even more. By the year 2020 we are planning a conversion factor of 90% and a product yield of 77% and we hope that in terms of equipment base and efficiency we'll be among the leaders of the industry.

Another important part of our strategy is re-branding. We had 900 plus stations in the beginning of the year, 944 specifically with five brands. Besides in acquiring Sibir Energy and NIS we added 568 stations and we've started programmes that would allow us by the year 2012 to fully re-brand our fuel stations. Right now we have a plan to carry out re-branding and this is not only good for our image, it also allows us to get \$60 million through increasing fuel throughput in one fuel station up to 9.1 in 2009. Another way to increase efficiency was to go to end users and by this I mean jet fuel sales and lubricant sales. In the course of the year we managed to increase sales volumes in all these directions. In terms of aviation fuel we doubled sales versus 2008. The same goes to bunkering, we're the leading bunker fuel supplier. We increased our sales volumes by 57% versus the year 2008. We also look at oil sales as already mentioned. We acquired lubricants plants as already mentioned in Italy and this will give us access to new markets. We started to sell products in Spain, in Malta, besides we considerably upgraded our product mix and we're going to introduce a new premium class brand in the future.

Now let us have a look at our financial results. Oil prices going down couldn't lead to a situation when our financial indicators went down year on year, however a decrease in financial indicators were not too abrupt. Oil prices went down by 35%, revenues went down and EBITDA went down by 31%, revenues by 29%. As far as comparison of quarters are concerned you will see EBIT went down and here we see the main reason in decreasing demand for petroleum products and less sales in the domestic market. Part of our resources, we just had to export crude oil rather than anything else. Net income decreased as well but this is explained by one-time non-cash items and this is because of the cost curve we get, \$142 million, it created losses so we had to write off this asset as far as the way it influenced our indicators. I think in the long run it is positive because we are not carrying this loss. Besides we see here the difference between our year of investment and the downside. If we introduce all the necessary corrections then you'll see the dynamics of net income in the fourth quarter as compared to third quarter will be positive and we actually had an increase of 2%.

Now let us look at greater details of operational income changing year on year and at EBITDA. Average oil price went down by 35% and this decrease was the main factor that influenced EBITDA going down in 2009 as compared to the year 2008. That effect of exchange rate changes was negative as total income is higher than our ruble operational costs. Our capital

costs in dollar equivalent went down as well and the cumulative effect in cash flow due to exchange rate changes was positive. Capex going down, dollar Capex going down to rate differences amounted to \$655 million. A considerable factor that also impacted EBITDA was the changing in tariffs of national monopolies, increasing tariffs for electric energy, Transnet and Russian railroad tariffs going up and this is something we have to live with. This is not among the things we can basically change and influence. The differences and changes in the succession system that have been introduced at the end of 2008 and created an impact on the results of 2009 amounted to \$140 million of positive impact and this was due to mineral extraction gain going from \$9 to \$15 and the amortisation premium going up and income tax going down and also changes for depleted fields and the use of minimal extraction privilege in the depleted fields. Our efficiency measures created 130 million rubles worth. NIS and Sibir Energy acquisitions that we consolidated only for the half year last year amounted to \$179 million, this is a half year effect. The acquisition also increased our EBITDA and thus we suppose that in as much as our results depend on us, on our management and measures to increase operational excellence and the increasing scale of our business, these results, we deem them to be positive and the company data went up.

Next we see analysis of costs. Upon the results of previous conference calls we mentioned that costs are growing faster than that of competitors and this is indeed so. This is due to consolidation of our acquired assets, NIS and Sibir Energy in particular. You can see that the consolidation effect and our operation cost amounted to \$193 million. \$188 million of increases are due to tariff increases. As far as measures taken by the management on cost reduction and also the effect of exchange rate differences concerned, we actually managed to optimise our costs.

As far as capital costs are concerned we have been pretty cautious in the beginning of the year. We looked at the market situation changing, increased our investment programme and we made a couple of acquisitions that I already mentioned a couple of times. The total volume of investment in traditional assets amounted to 2.8. Within those we also spent \$2.3 billion for acquisitions. Capital costs for the year 2009 amount to \$3.9 billion. We can see our plans in this side, you see that our major projects are still the Priobskoye sales development, revamping our Omsk refinery and ramping our Serbia refinery.

On the next slide you can see cash flows on this company. We entered the year with considerable cash. Apart from that free cash flow in our operating activities and investment in traditional assets amounted to \$900 million and accumulated fund and free cash flow allowed us to pay quite considerable dividends without a considerable increase in our debt portfolio. The figures are here on the slide and as far as our policy in terms of debt portfolio is concerned, our constraints that we take and that we want to take are the following. Company debt to EBIT, the target is less than 1.5 and by the end of 2009 it amounted to 1.06. We keep working on optimising our credit portfolio and by the end of the month the share of short term credits decreased from 48 cents quite considerably and the growth of short term debt in the beginning of the year. I've already been saying that in the second half of the year we managed to discipline ourselves and most of the short term debt was refinanced and it allows us to decrease the share of short term up to 11%. We'll keep working on this traction. It looks like the amount of credit portfolio, the value of our portfolio will keep going down and the average life of credit in our portfolio will change. It pleases me to mention that analysts positive evaluate our results and in the course of the year 2009 Gazprom Neft shares rose by 62%. The 161% gain clearly outperformed the Russian integrated oil companies and the average amounted to 118%. Gazprom Neft shares rose from 62.67 to 163.64 in 2009. We saw that it is very important to pay high dividends to our shareholders and dividend yield amounted to 5.4% which is as you can see bigger than average industrial result and we have in place the strategy, dividend strategy balances attractive yield with retention of funds for high potential growth projects.

In conclusion I'd like to say a few words on what we, the management of Gazprom Neft see as our priorities for the year 2010. Here I would mention sustainable production levels for mature sales by applying industry best practice technology. We are planning to keep increasing Priobskoye field production. We plan to increase production in this field by 9% in the year 2010. Due to offset plans for a big investment project to execute Tyumenian gas development for the year 2011 set up and Muravlenkovskoye field and Novoport field. We are planning to start there in 2011 and as a result by quite low investment we'll considerably increase production by 3 million tonnes in oil equivalent, correct me if I'm wrong colleagues.

We have in our plans for the year 2010 the transfer of Novoport and Orenburg also from Gazprom to Gazprom Neft. We plan to be more active in geologic exploration activities in Novoport and Mesayacha fields and we've prepared these activities. We will keep investing in

quality and conversion factors at all the four refineries that we have. The acquisition of Sibir Energy and NIS assets has already seen the start of the integration period. It gives a lot of opportunities to raise operating efficiencies, NIS in particular without considerable investment and by way of example I would say that last year we managed to achieve considerable results. We increased the production level by 5%, in less than one year we started to get the Euro diesel and Serbian markets, demand for Euro diesel is largely covered by our plant. We increased operational efficiency in our plant in Serbia and we'll keep working in this line and thus our indicators will keep improving and we'll have a lot of examples like that. We'll continue and intensify re-branding and integration of retail network. We are also planning to finalise international agreements to enter international upstream projects and that our current priority is to form project teams and start working on those projects.

With this I'd like to close my presentation and we're going into the Q&A session. Thank you for your attention.

Operator: The Q&A session will be conducted electronically. If you would like to ask a question please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered you may remove yourself by pressing *2. Again please press *1 to ask a question. We'll take our first question from Oleg Maximov, Troika Dialog. Please go ahead.

Oleg Maximov: Hello, my name is Oleg and I would like to thank you for this very detailed presentation. I have two questions. One is on operating drilling. Could you give us the figures for operating drilling without taking selling into account if possible? Also if you could voice the figures for Capex in the Priobskoye field to drill one well there? Thank you.

Vadim Yakovlev: As far as our production drilling plans for 2010 are concerned we are planning to drill 590 production wells and this is both for Priobskoye and our other assets. As far as Capex is concerned I'll give you just average figures, for in the [Obrysk] region it would be 51 million rubles, [Hantenmansysk] region, Priobskoye region it's 42 million rubles and in order to get this figure taking facility construction into account you should multiply it by 1.7. This is the order of figures.

Oleg Maximov: Thank you.

Operator: As a reminder to ask a question please press *1. We will take our next question from Constantine Cherepanov from UBS. Please go ahead.

Constantine Cherepanov: I'm from UBS, I have three questions, one concerning capital and the affiliation as we have seen from the presentation is quite interesting. Do you think it is due to procurements you have made and what are your expectations in terms of this indicator for the year 2010? My next question is for Slavneft, it concerns Slavneft and as far as understand you are planning to be the main operator in Mesayacha field while TNK is announcing that it is interested in downstream from the Mesayacha field fleet stock, so do you think that Slavneft assets are going to be divided in such a way that you do the upstream and TNK does the downstream? The third question is regarding the estimate for possible cost of the licence for Gazprom, what cost should we be expecting from this transfer? What is the cost of licences for Novoport and Orenburg sales that the company is going to get from Gazprom this year?

Vadim Yakovlev: Let me start by answering your first question. I suppose that you were comparing the current capital in the year 2008 and the year 2009. We have to take into account the oil price difference that basically doubled in the third period. If we take the oil price at the end of 2008 it will be \$40 per barrel and \$80 per barrel this year. It definitely followed on our accounts receivable. This is one factor. The second factor is what has happened in retail, in the way we sell our products and here I mean just fuel sales and bunkering as well as sales and bunkering as well as sales of oils and lubricants that have been mentioned in the presentation. The thing is that the difference in terms of discount that come one way different between selling to traders and selling to end users and these discounts that I have mentioned, they also show in accounts receivable. All these factors taken together do tell on our working capital. I need to correct myself, I didn't mean discount obviously, I meant delays. Finalising the answer to your first question on our expectations for working capital in the year 2010, we are not expecting any serious changes in working capital in the year 2010 due to the outlook and the expectations as a pretty stable price deviation in the coming year. As far as your second question is concerned, no changes whatsoever have occurred in ownership and management in terms of shares of interest of the participants in the Mesayacha field. We still own this asset

50-50 with TNK-BP and no changes in shares as already mentioned are being planned or seen as possible. As far as cost of licences coming from Gazprom to us are concerned, I don't really have a definite answer to this question at this point in time as the mechanism of this transfer is still being discussed.

Operator: We will take our next question from Andrey Gromadin from JP Morgan. Please go ahead.

Andrey Gromadin: This is a question from JP Morgan. Thank you very much for your very interesting presentation. I have three short questions. The first question is on resources. One, you are talking about standard resources for the year 2009. What type of oil are you referring to? If we look at Salym Petroleum Development we see that Gazprom Neft's share in Salym amounts to 270 million barrels and production is currently 13 million barrels, so how do you see production of this asset in the upcoming 3-5 years and by the way the 381 million in cost write-off, is it connected in any way with what you are planning to do here and the way you reevaluate these assets and these resources? My second question refers to Capex. In the slide devoted to Capex you have other Capex that judging by the charge you are giving amounts to about 300 million so my question is basically where you are going to spend the money. My last question is what are your plans for shares and what's going to happen in this respect to the company? Thank you.

Vadim Yakovlev: Let me start by answering the first part of your question concerning the forecast in price expectations that we used in our evaluation according to SP standards and then I will pass the floor to Victor to talk about Salym to you. We were looking at oil prices for the year 2010, our forecast was that it would amount to \$70 per barrel of brand and for the year 2011 \$75 per barrel and then up-going trend attracted by dollar inflation. This is in line with the way it is usually done. Evaluation is done according to the company's best guess and forecast and that's how we were doing it.

Victor Savelyev: As far as petroleum development is concerned, according to the estimated resource base production will amount to 7.5-7.7 million tonnes with the consequent increase to the level of 8.2 and reaching a production plateau at the level of 8.3-8.5 million tonnes. This would be

the second stage of production that would last for about two or three years and subsequently we will need to increase the reserves base.

Andrey Gromadin: I thought that production was overestimated in this asset and this is why you had the run-offs. Do you have any other explanation for that, the 81 million?

Victor Savelyev: This writing off from balance to P&L is not in any way connected with the regulation of this asset. We acquired this asset or Sibir Energy to be precise at its fair value and as far as the money you're referring to, the amount that you're referring to, this is in fact amortisation that comes from a difference between fair value and balance sheet value of an asset required and this is what is written off. This is the figure that you are referring to. The same depreciation norms for the ones used for core asset are used here as well.

Andrey Gromadin: The next question on other Capex, about 300 million, if you could explain that.

Victor Savelyev: This Capex refers to a lot of smaller projects, some new projects including Capex in IT infrastructure, research projects. If you're interested in a more detailed breakdown Andrey you can file this application for these details to our Investor Relations Department and they will give you all the details you ask for. As far as your last question is concerned it was in fact on long term incentives and at this point in time our board of directors has only made a conceptual decision and we're planning to voice this decision later, not now and we're now thinking on this is going to be reflected in our report system and we'll inform you on that later.

Andrey Gromadin: Thank you.

Victor Savelyev: Thank you for your questions.

Operator: We'll take our next question from Geydar Mamedov from Goldman Sachs. Please go ahead.

Geydar Mamedov: I have several questions, first on the realisation of crude oil from affiliated assets such as Salym in particular. So is it going to be solved directly by Salym development of external bias and thus the cash flow will get to the operator? Or this crude oil is sold on nominal

price terms to you and shall in according with your shares and subsequently you sell this all to external buyers and thus the cash will go to your US GAAP reporting by way of income in this form, so get to your balance sheet. This is just to understand, is it going to be mentioned in your US GAAP reporting? Is it going to be part of your income, part of your operational activities as reflected in US GAAP? I'm also interested in the way you're selling Tomskneft and Slavneft crude. As far as I could understand, they sell it to you and to the other stakeholder in the project and then you either use is as feedstock for your refineries or sell it and thus the income from this oil also gets to you. Am I right or do they sell directly to external buyers themselves as well?

Vadim Yakovlev: I will give the floor to Mr. Cherner.

Anatoly Cherner: The way it goes for all our affiliate companies, the oil comes to the hubs and then is sold at domestic market price to Gazprom Neft and Shell in case of our first project that you mentioned and to Gazprom Neft and TNK-BP in the case of Tomsk and to Gazprom Neft and Rosneft in the case of Slavneft and this is on a 50-50 basis. Then this market price that is paid to the affiliated companies goes to the further development of their activities and covering their costs etc. As far as the oil we thus acquire this oil further on distributed according to our company's vision and the way we see optimum, then we get the money from say realising this oil in the market ourselves.

Vadim Yakovlev: Let me continue answering this question as far as the way this is all reflected in US GAAP in our reporting. As has already been mentioned by my colleague the oil is sold to us at domestic market price and income from this oil sold goes to the companies like Tomskneft etc and this is used by them to fund their operating activities and also to pay dividends to shareholders. We subsequently either export or refine this oil and gas income and it is reflected in our balance sheet, however let me highlight once again that although we do reflect it, the expenditures for buying this oil are reflected in our balance sheet and the money that we get from either exporting or refining this oil goes to our revenue and is part of our EBITDA but still it is very important to understand that our companies like Tomskneft and other associated companies do get a considerable part of income and the relative influence of these companies as compared to any other company out there in the market is pretty considerable. It's after all 15-20% of our activity and not for nothing do we include EBITDA when we do the reporting not

only the results of our company but also what we get from these companies. Did I answer your question?

Geydar Mamedov: Yes, absolutely.

Operator: We will take our next question from Svetlana Rizan from VTB Capital. Please go ahead.

Svetlana Rizan: My first question is on losses. You mentioned a \$142 million loss due to asset sales as you put it. What is it basically and do we expect anything like that in the year 2010?

Vadim Yakovlev: This refers to the sales of Sibneft Chukotka and in particular we had three licences for three gas fields that were not of interest in view of the course of our company.

Svetlana Rizan: Did I get you right that you sold it below the balance value?

Vadim Yakovlev: This basically was one of the assets that we got together with other assets from Sibneft and this definitely does not reflect the cost of licence but rather the fixed capital in what you see there. In fact what we had on the sales in Chukotka was gas produced in very marginal volumes that was subsequently sold for social needs to local administration, and this activity only created losses. The volume of this gas was not considerable enough to look at plans to sell it anywhere else but Chukotka. This was the unfortunate heritage and yes indeed we created a loss by selling this asset, but to be fully sincere with you this was an asset creating losses anyway and there was no way to make it profitable in the long run. If we were to decide whether or not to enter this region we wouldn't definitely do it. This was just the heritage we got from Sibneft, basically we couldn't profit from this asset anywhere but Chukotka and we finally sold it to Chukotka administration.

Svetlana Rizan: I also have a follow-up question concerning amortisation of fair value received at acquisition amounting to 81 million and you also have here -4 million and I suppose this refers to Salym – am I right or not? I think this is due to the abovementioned difference between fair value and the value at the balance sheet of the assets acquired and in fact there was this difference in the consented price and the fourth quarter price and basically everybody expected +4 million in this line, so this explains my question, how would you comment on this situation?

Vadim Yakovlev: Svetlana, concerning the 81 million difference between value and the balance value of the assets, we have here actually effective half a year, effective two quarters and we only mention it in the fourth quarter because it took us some time to finalise the fair value of Salym, the way it should be reflected in our reporting. As soon as we manage to do that we will reflect this in the future. You also asked whether or not we're going to reflect it in the future. Yes, in the future we are going to have it on a quarterly basis it will appear, however it will be basically twice less. We are not going to take this act of two quarters but rather this act of one quarter at a time.

Svetlana Rizan: My next question concerning if you could give us any guidance on production levels in the year 2010. As far as we can see in the year 2009 consolidated production decreased by 1.7% year on year which is good basically in view of the dynamics of the first half of the year. If we do not take into account the unconsolidated subsidiaries, Tomsk, Slavneft and we only take into account 100% ownership subsidiaries and also in view of the 9% growth in production that you are expecting in the Priobskoye field, what is your expectation in terms of production for the year 2010?

Vadim Yakovlev: Before I give the floor to Mr. Savelyev to answer your question I'd like to say that we basically take Slavneft, Tomskneft and Salym as an integral part of our activities.

Victor Savelyev: As far as traditional assets are concerned it would be too fantastic to expect production to increase in conventional traditional regions where we operate in our ground sales, so we are currently working and we are successful in decreasing the rate of production decline on those sales and with investment into drilling our 600 new production wells in this field, we're expecting our production to go down by 2% in the year 2010.

Svetlana Rizan: Thank you very much for your very precise and detailed answers.

Operator: As a reminder to ask a question please press *1. We will take our next question from Dmitry Dzuba from IFC Metropol.

Dmitry Dzuba: I have two questions, the first one is what part of the net income for the year 2009 is going to be paid in dividends? The second one concerning the volumes of oil that you are going to VSPL in 2010 and cost of transportation of such oil?

Vadim Yakovlev: The final decision is going to be taken by the board of directors and shareholders and we're going to pay 20% in dividends from our GAAP reflected income adjusted to one-time non-cash elements and here we have 470 million in one-time plus from the consolidation of the Moscow refinery and the 81 million that has already been mentioned. All these corrections were taken into account and you can see them on slide 36 of this presentation. All these adjustments take into account the amount from which we are going to pay 20% in dividends is suggested to be at the level of \$2,767 million, however I'd like to reiterate that this is the figure that is going to be either approved or not approved by the board of directors and subsequently. Now we'll answer your second question. We are planning to get 1 million tonnes of oil but it will definitely depend on activity and production of other companies in Eastern Siberia and the volume that we are going to provide in the direction of the Pacific Ocean will definitely depend on that because if the privileged oil from Eastern Siberia, the ones that have privileges in terms of export duty, they'll definitely displace our volumes of oil and as far as transportation costs are concerned, Transnet regulates all the supply chain including railroad transportation sets a tariff at 1,600 rubles per tonne, that gives pretty high netbacks on all the other directions of oil going any other place.

Ana Sidorkina: This is Ana Sidorkina from Investor Relations. Ladies and gentlemen, we hardly have any time left so we'll take one last question. All the other questions we'll happily take from you in written form and Investor Relations will do its best to answer all those questions. Thank you.

Operator: We will take our next question from Constantine Cherepanov from UBS. Please go ahead.

Constantine Cherepanov: I have two questions, one concerning costs and I can see that there are costs there including transportation costs, administrative costs that cannot really be explained I the fourth quarter by exchange rate differences, so if you could explain those. Also it looks like your company is looking at increasing gas production. Is it in any way connected and correlated

with specific agreements with say Gazprom or are you just planning to increase production without having talked to potential sources of demand for this gas? Thank you.

Vadim Yakovlev: As far as transportation costs are concerned I suspect this is due to the seasonal decrease in demand for petroleum products, that definitely led to a decrease in volumes that we refine and that also led to an increase in the export of crude that couldn't but lead to an increase in transportation costs. As far as the administrative costs are concerned and G&A costs are concerned in particular, consolidation of NIS I suppose has to be mentioned in this respect. As we were going on in consolidating this company and looking at account receivables, that is typical and this activity is usually very intensive by the end of the year and we were creating our provisions and in case of NIS it is very important to create provisions as we still have reasonable doubts in bad debt and in solvency of certain Serbian companies and institutions that are in debt to our company, so I guess the consolidation of NIS into our balance sheet as well as the creation of provisions is responsible for the growing G&A. However if you need any further details on this matter please feel free to refer to our Investor Relations for the details. Yes indeed we are planning to increase pre-gas production unlike the previous year when we were concentrating on just associated gas production and we're going to produce free gas from [Novokodny] and [Merovlank] fields in particular and we have already achieved agreements with Gazprom as far as transportation of this gas is concerned and let me mention additionally that Gazprom has the necessary capacity and sites to prepare this gas for it to go to the transportation system and this is what we're planning to do. Let me mention additionally that in development these gas assets we are going to use minimum mend type of technology, that is to say maximum utilisation and maximum safety on site. We are going in line with all the recent technical trends as a company.

Ana Sidorkina: Ladies and gentlemen, with this let me thank you for participating in this conference call and let me on your behalf thank our top managers for participating in it. If you still have any questions unanswered please feel free to send them in to the Investor Relations department. Thank you.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen.