

## **JSC Gazprom Neft**

### **Consolidated Financial Statements**

**As of December 31, 2008 and 2007 and  
for the years ended December 31, 2008, 2007 and 2006**

# JSC Gazprom Neft

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of JSC Gazprom Neft and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

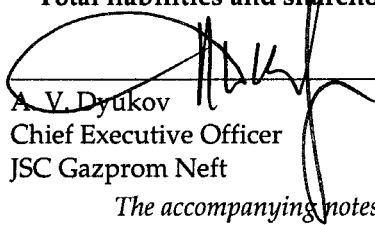
*ZAO PricewaterhouseCoopers Audit*

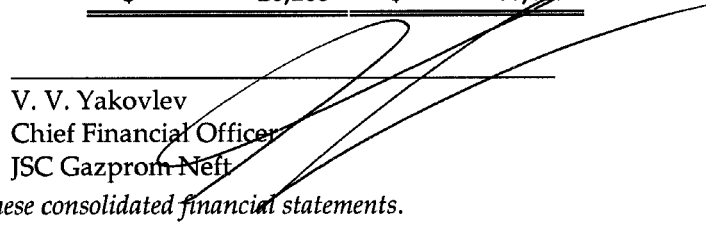
April 15, 2009

**JSC Gazprom Neft**  
**Consolidated Balance Sheets**  
**As of December 31, 2008 and 2007**

Currency – US\$ millions

	Notes	2008	2007
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	\$ 2,075	\$ 721
Short-term investments		143	-
Short-term loans receivable		17	12
Accounts receivable, net	4	1,866	2,264
Inventories	5	1,256	1,083
Other current assets, net	6	580	680
<b>Total current assets</b>		<b>5,937</b>	<b>4,760</b>
Long-term investments	7	4,724	4,685
Long-term loans receivable	16	88	51
Oil and gas properties, net	8	7,559	5,802
Property, plant and equipment, net	9	1,032	832
Construction-in-progress	10	578	230
Other non-current assets		172	112
Non-current deferred income tax assets	17	115	137
<b>Total assets</b>		<b>\$ 20,205</b>	<b>\$ 16,609</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Short-term loans	11	\$ 613	\$ 241
Accounts payable and accrued liabilities	12	1,111	1,171
Income and other taxes payable	13	299	734
Dividends payable		525	381
Current portion of long-term debt	14	1,472	1,098
<b>Total current liabilities</b>		<b>4,020</b>	<b>3,625</b>
Long-term debt	14	1,608	2,083
Asset retirement obligations	15	330	324
Deferred income tax liabilities	17	147	141
<b>Total liabilities</b>		<b>6,105</b>	<b>6,173</b>
Minority interest		139	3
Commitments and contingencies	18		
<b>Shareholders' equity:</b>			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Additional paid-in-capital		573	573
Retained earnings		13,431	9,858
Less: Common stock held in treasury, at cost (23,359,582 shares as of December 31, 2008)		(45)	-
<b>Total shareholders' equity</b>		<b>13,961</b>	<b>10,433</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 20,205</b>	<b>\$ 16,609</b>

  
A. V. Dyukov  
Chief Executive Officer  
JSC Gazprom Neft

  
V. V. Yakovlev  
Chief Financial Officer  
JSC Gazprom Neft

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

**JSC Gazprom Neft**  
**Consolidated Statements of Income**  
**For the years ended December 31, 2008, 2007 and 2006**

**Currency - US\$ millions**  
**(except per share data)**

	Notes	2008	2007	2006
<b>Revenues</b>				
Refined products and oil and gas sales		\$ 32,410	\$ 21,247	\$ 19,931
Other		665	520	245
<b>Total</b>	<b>20</b>	<b>33,075</b>	<b>21,767</b>	<b>20,176</b>
<b>Costs and other deductions</b>				
Crude oil, petroleum and other products purchased		8,296	3,928	3,705
Operating expenses		2,060	1,981	1,635
Selling, general and administrative expenses		1,078	874	563
Transportation expenses		1,661	1,279	1,348
Depreciation, depletion and amortization		1,309	929	803
Export duties		6,533	3,371	4,669
Taxes other than income taxes	13	5,222	3,998	2,940
Exploration expenses		193	184	107
Cost of other sales		474	324	40
<b>Total</b>		<b>26,826</b>	<b>16,868</b>	<b>15,810</b>
Operating income		6,249	4,899	4,366
<b>Other income (expense)</b>				
Income from equity affiliates	7	407	408	507
Interest income		100	94	39
Interest expense		(167)	(149)	(126)
Other income (expense), net		89	45	(6)
Foreign exchange (loss) gain, net		(517)	161	74
Minority interest		(39)	-	-
<b>Total</b>		<b>(127)</b>	<b>559</b>	<b>488</b>
<b>Income before provision for income taxes</b>		<b>6,122</b>	<b>5,458</b>	<b>4,854</b>
Provision for income taxes		1,425	1,342	1,113
Deferred income tax expense (benefit)		39	(27)	80
<b>Total</b>	<b>17</b>	<b>1,464</b>	<b>1,315</b>	<b>1,193</b>
<b>Net income</b>		<b>\$ 4,658</b>	<b>\$ 4,143</b>	<b>\$ 3,661</b>
Basic and Diluted Earnings per Common Share (US\$ per share)		0.98	0.87	0.77
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,736	4,741	4,741

*The accompanying notes are an integral part of these consolidated financial statements.*

JSC Gazprom Neft  
Consolidated Statement of Changes in Shareholders' Equity  
For the years ended December 31, 2008, 2007 and 2006

Currency - US\$ millions

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Shareholders' Equity
<b>Balance as of December 31, 2005</b>	\$ 2	\$ 2,727	\$ -	\$ 4,927	\$ 7,656
Net income for the year	-	-	-	3,661	3,661
Common stock dividends	-	-	-	(1,386)	(1,386)
Acquisition of treasury shares	-	-	-	-	-
<b>Balance as of December 31, 2006</b>	\$ 2	\$ 2,727	\$ -	\$ 7,202	\$ 9,931
Net income for the year	-	-	-	4,143	4,143
Common stock dividends	-	-	-	(1,487)	(1,487)
Recognition of the financial effect of a transaction under common control (see Note 7)	-	(2,154)	-	-	(2,154)
<b>Balance as of December 31, 2007</b>	\$ 2	\$ 573	\$ -	\$ 9,858	\$ 10,433
Net income for the year	-	-	-	4,658	4,658
Common stock dividends	-	-	-	(1,085)	(1,085)
Acquisition of treasury shares	-	-	(45)	-	(45)
<b>Balance as of December 31, 2008</b>	\$ 2	\$ 573	\$ (45)	\$ 13,431	\$ 13,961

*The accompanying notes are an integral part of these consolidated financial statements.*

**JSC Gazprom Neft**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2008, 2007 and 2006**

**Currency - US\$ millions**

	2008	2007	2006
<b>Operating activities</b>			
Net income	\$ 4,658	\$ 4,143	\$ 3,661
Reconciliation of net income to net cash provided by operating activities:			
Income from equity affiliates, net of dividends received	(230)	(331)	(220)
Deferred income tax expense (benefit)	39	(27)	80
Depreciation, depletion and amortization	1,309	929	803
Asset retirement obligation accretion expense net of spending on existing obligations	13	22	21
Allowance for doubtful accounts	44	(8)	(20)
Gain on disposal of property, plant and equipment and investments	(16)	(16)	(24)
Changes in assets and liabilities:			
Accounts receivable	413	123	(451)
Inventories	(173)	(302)	(345)
Other current assets	89	23	(238)
Other non-current assets	(60)	(55)	(27)
Accounts payable and accrued liabilities	(70)	485	110
Income and other taxes payable	(572)	330	(30)
<b>Net cash provided by operating activities</b>	<b>5,444</b>	<b>5,316</b>	<b>3,320</b>
<b>Investing activities</b>			
Purchase of investments in associated entities	(33)	(3,747)	(124)
Loans and short-term investments received	372	334	48
Loans and short-term investments issued	(557)	(42)	(290)
Proceeds from disposals of property, plant and equipment and investments	82	31	27
Capital expenditures	(3,327)	(2,212)	(1,525)
<b>Net cash used in investing activities</b>	<b>(3,463)</b>	<b>(5,636)</b>	<b>(1,864)</b>
<b>Financing activities</b>			
Short and long-term loans proceeds received	2,367	4,906	772
Short and long-term loans repaid	(2,096)	(3,155)	(610)
Dividends paid	(792)	(2,071)	(602)
Purchase of treasury shares	(45)	-	-
<b>Net cash used in financing activities</b>	<b>(566)</b>	<b>(320)</b>	<b>(440)</b>
Effect of exchange rate changes on cash	(61)	26	14
Change in cash and cash equivalents	1,354	(614)	1,030
Cash and cash equivalents as of the beginning of the year	721	1,335	305
Cash and cash equivalents as of the end of the year	<u>\$ 2,075</u>	<u>\$ 721</u>	<u>\$ 1,335</u>
<b>Supplemental disclosures of cash flows information</b>			
Cash paid for interest (net of amount capitalized)	\$ 159	\$ 158	\$ 131
Cash paid for income taxes	\$ 1,819	\$ 1,087	\$ 1,104

*The accompanying notes are an integral part of these consolidated financial statements.*

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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**1. General**

Description of Business

JSC Gazprom Neft (formerly OAO Siberian Oil Company) and its subsidiaries (the "Company") is a vertically integrated oil company operating in the Russian Federation. The Company's principle activities include the exploration, production and development of oil and gas fields, the production of refined petroleum products and distribution and marketing operations through its retail outlets. Export trade is conducted through a wholly owned subsidiary Gazprom Neft Trading GmbH, which operates as a trader for the Company's export sales.

OAO Siberian Oil Company ("Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 OAO Gazprom ("Gazprom") completed its acquisition of a 75.68% stake in Sibneft, becoming a subsidiary of Gazprom. On May 30, 2006 Sibneft was renamed into "JSC Gazprom Neft". In April 2009, Gazprom entered into an agreement to exercise its option to acquire an additional 20% interest in the Company.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated within the territory of the Russian Federation are the property of the Russian Federation. The Law of the Russian Federation No. 2395-1, "On Subsurface Resources", regulates relations arising in connection with the geological study, use and protection of subsurface resources within the territory of the Russian Federation. Pursuant to the Law, subsurface resources may be developed only on the basis of a license. The license is issued by the regional governmental body and contains information on the site to be developed, the period of activity, financial and other conditions. The Company holds multiple licenses issued by Regional authorities in areas where its subsidiaries are located.

In 2008, 2007 and 2006 the Company processed approximately 62.3%, 60.9% and 56.8% of produced crude oil, respectively, at the Company's refinery and other Russian refineries. The remaining production was sent to export. The Company sells its crude oil under general rules of export quotation applicable for all Russian oil producers. Under these general rules, the export quotas for the Transneft pipeline system are defined and approved by the Energy Commission of the Russian Government based on the legislation on equal access to the oil pipeline system.

Currency Exchange and Control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. For the oil and gas sector in particular, substantial export arrangements as well as investing and financing activities are denominated in foreign currencies such as the US Dollar.

**2. Summary of Significant Accounting Policies**

Basis of Presentation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. The accompanying consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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Principles of Consolidation and Long-term Investments

The accompanying consolidated financial statements include the accounts of majority-owned subsidiaries where no minority shareholder or group of minority shareholders exercise substantive participating rights, and variable interest entities for which the Company is determined to be the primary beneficiary. Investments in entities that the Company does not control, but has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method. Accordingly, the Company's share of net earnings from these companies is included in the consolidated statements of income as income from equity affiliates. All other investments are recorded at cost. As further discussed in Note 7, the Company has interests in various Russian and CIS legal entities, which are accounted for using the cost method. Intercompany profits, transactions and balances have been eliminated in consolidation.

The Company reviews its equity investments for impairment whenever events or changes in circumstances indicate that an other than temporary decline in value has occurred. The amount of the impairment is based on quoted market prices, where available or other valuation techniques, including discounted cash flows.

Minority interest in the consolidated balance sheets reflects minority owners' percent share of shareholders' capital in subsidiaries. The minority interest is calculated based on the shareholders' equity of each subsidiary as determined under US GAAP.

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Company include: recoverability and useful lives of long-term assets and investments; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; depreciation, depletion and amortization; environmental remediation obligations; oil reserves; recognition and disclosure of guarantees and other commitments. While management uses its best estimates and judgments, actual results could differ from those estimates and assumptions used.

Foreign Currency Translation

The management of the Company has determined the US Dollar is the functional and reporting currency of the Company as the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in US Dollars. Monetary assets and liabilities have been translated into US Dollars at the exchange rate at the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US Dollars at average rates for the period or exchange rates prevailing on the transactions dates where practicable. Gains and losses resulting from the re-measurement into US Dollars are included in the consolidated statement of income.

The official rates of exchange of the Ruble to the US Dollar as of December 31, 2008, 2007 and 2006 were 29.38 Rubles, 24.55 Rubles and 26.33 Rubles per US \$1.00, respectively.

The translation of local currency denominated assets and liabilities into US Dollars for the purpose of these consolidated financial statements does not indicate that the Company could realize or settle, in US Dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US Dollar value of capital to its shareholders.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less from the date of purchase.

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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Short-term Investments

Short-term investments consist primarily of bank deposits with original maturities in excess of three months from the date of purchase.

Accounts Receivable

Accounts receivable are presented at net realizable value. Allowances for doubtful debts are provided for estimated uncollectible amounts. Estimation is made based on aging of the receivable, past history of settlements with the debtor and existing economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions. The past due status of receivables is determined based on contractual obligations. Changes in allowances for doubtful debts are recorded in the consolidated statements of income within selling, general and administrative expenses.

Loans Receivable

Loans receivable are presented at net realizable value. Allowances are provided for estimated losses. Estimation is made based on past history of settlements with the borrower and existing economic conditions. The past due status of a receivable is determined based on contractual obligations. Interest income is accrued when earned and recorded in the consolidated statements of income as a part of interest income.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of weighted average cost or market value. Costs include both direct and indirect expenditures and charges incurred in bringing an item or product to its existing condition and location.

Oil and Gas Properties

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalized.

Exploratory well costs (including costs associated with stratigraphic test wells) are temporarily capitalized pending determination of whether such proved oil and gas reserves have been found, which justify commercial development. If such reserves are not found, the drilling costs are charged to exploration expenses. Other exploration costs such as geological and geophysical expenses and the cost of carrying and retaining undeveloped properties are expensed as incurred. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs and costs of injection wells related to development of oil and gas reserves are capitalized.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, net of accumulated depreciation. The cost of maintenance, repairs and replacement of minor items of property is charged to expenses. Renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are recorded in the consolidated statements of income.

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of oil and gas properties are provided on the unit-of-production method at the oil field level based on the ratio of current year production to total estimated future production from proved developed reserves. Cost of unproved properties are not amortized.

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

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

Impairment of Long-lived Assets

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets used in operations are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recovered. If the carrying amounts are not expected to be recovered by undiscounted pretax future cash flows, the assets are impaired and an impairment loss is recorded in the amount by which the asset's carrying value exceeds its fair value, which is calculated based on discounted future cash flows.

In the case of oil and gas fields, the net present value of future cash flows is based on management's best estimate of future prices, which is determined with reference to recent historical prices and published forward prices, applied to projected production volumes of individual fields and discounted at a rate commensurate with the risks involved. The projected production volumes represent reserves, including risk-adjusted probable and possible reserves, expected to be produced based on a stipulated amount of capital expenditures. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information. The price and cost outlook assumptions used in impairment reviews differ from the assumptions used in the Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities. In that disclosure, SFAS No. 69, "Disclosures about Oil and Gas Producing Activities" requires the use of prices and costs at the balance sheet date, with no projection of future changes in those assumptions.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at an operating unit level for other assets. Long-lived assets committed by management for disposal within one year are accounted for at the lower of amortized cost or fair value, less cost to sell. Acquisition costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense. No impairment has been recognized for the years ended December 31, 2008, 2007 and 2006.

Maintenance and Repair

Maintenance and repair, which are not significant improvements, are expensed when incurred. The costs of overhauls and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

### Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects that, theoretically, could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period when construction activities are actually in progress and until the resulting properties are put into operation. During 2008, 2007 and 2006 interest capitalized related to capital projects amounted to US\$ 16 million, US\$ 8 million and US\$ 11 million, respectively.

### Asset Retirement Obligations

The Company records the fair value of legal obligations to retire and remove long-lived assets in the period in which the obligation is incurred (typically when the asset is installed at the production location or when drilling is commenced). When the liability is initially recorded, the Company capitalizes this cost by increasing the carrying amount of the related properties, plants and equipment. Over time the liability is increased for the change in its present value, and the capitalized cost in properties, plants and equipment is depreciated over the useful life of the related asset.

FAS 143 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry in Russia has few examples of credit-worthy third parties who are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the Company's assets retirement obligation estimates.

The Company's field exploration, development, and production activities include assets related to well bores and related equipment, gathering and oil processing systems, oil storage units and pipelines to main transportation trunks. Generally, its licenses and other operating permits require certain actions to be taken by the Company in the abandonment of well bores and related equipment after the end of production. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Company's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement of such activities. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Company's resources at the time of removal.

Management believes that present regulatory and permitting activities do not stipulate an obligation associated with abandoning of gathering and oil processing systems, oil storage units and pipelines to main transportation trunks. As a result, the Company believes that it does not have clear or definitive legal or contractual obligations associated with activities to retire or otherwise abandon those assets.

The Company's refining operations consist of major industrial complexes. These industrial complexes have been in operation for several decades. Because of the nature of the operation of these complexes, management believes that these industrial complexes have indeterminable lives, while certain operating components and equipment have definite lives. Management believes that present regulatory and permitting activities do not stipulate an obligation associated with abandoning these industrial complexes. Furthermore, management believes that existing regulatory requirements do not stipulate an obligation associated with its retail networks. As a result, the Company believes that it does not have clear or definitive legal or contractual obligations associated with activities to retire or otherwise abandon those assets.

Inasmuch as the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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Income Taxes

Russian legislation does not contain the concept of a “consolidated tax payer” and, accordingly, the Company is not subject to taxation on a consolidated basis. Current income taxes are provided on taxable profit of each subsidiary as determined under the Russian Federation Tax Code at a rate of 24%, as of December 31, 2008, 2007 and 2006, after adjustments for certain items which are not deductible for taxation purposes.

Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amounts determined by the Company using the liability method in accordance with SFAS 109 “Accounting for Income Taxes”. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities be settled. A valuation allowance for deferred tax asset is recorded when management believes that it is more likely than not that this tax asset will not be realized in the future.

Starting from January 1, 2007 the Company accounts for uncertain tax positions in accordance with FIN 48 *Accounting for Uncertainty in Income Taxes*. Liabilities for unrecognized income tax benefits under the provisions of FIN 48 together with corresponding interest and penalties are recorded in the consolidated statement of income as income tax expense. Interest and penalties associated with tax liabilities are recorded in the consolidated statement of income as other expenses. The adoption of FIN 48 did not have a material impact on the Company’s financial position or results of operation.

Derivative Instruments

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

Derivative instruments are recorded at fair value in either other current assets or other current liabilities on the consolidated balance sheet. Realized and unrealized gains and losses are presented in the consolidated statements of income on a net basis. These transactions are not accounted for as hedges pursuant to SFAS 133 *Accounting for Derivative Instrument and Hedging Activities* or its related guidance.

Common stock

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

Treasury stock

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

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
**(in millions of US Dollars)**

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Earnings per Share

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

Contingencies

Certain conditions may exist as of the date these financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. If loss contingencies can not be reasonably estimated, management recognizes the loss when information becomes available.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to shareholders or others.

Retirement and Other Benefit Obligations

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

Recognition of Revenues

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

Other revenues consist primarily of sales of services such as transportation, construction, utilities and other services are recognized when goods are provided to customers and services are performed providing that the price for the service can be determined and no significant uncertainties regarding realization exist.

Revenues are presented net of VAT.

**JSC Gazprom Neft**  
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Buy/Sell Transactions

In a typical matching buy/sell transaction, the Company enters into a contract to sell a particular quantity of crude oil at a specified location and date to a particular counterparty, and simultaneously agrees to buy a particular quantity of crude oil at a specified location on the same or another specified date from the same counterparty. Prior to April 1, 2006, the Company recorded all matching buy/sell transactions in both revenues and cost of crude oil purchased as separate sale and purchase transactions. Effective April 1, 2006, upon adoption of the provisions of Emerging Issues Task Force (“EITF”) Issue No. 04-13, the Company accounts for matching buy/sell arrangements entered into as exchanges of inventory.

Transportation Costs

Transportation expenses recognized in the consolidated statements of income represent all expenses incurred in the transportation of crude oil and oil products through the Transneft pipeline network, as well as cost incurred by maritime vessel and railway. Transportation expenses also include all other shipping and handling costs.

Recent Accounting Standards

In December 2008, the U.S. Securities and Exchange Commission (SEC) announced that it had approved revisions to its oil and gas reporting disclosures. The new disclosure requirements include introducing a new definition of oil and gas producing activities, report oil and gas reserves using an unweighted arithmetic average of the price on the first day of each month during the prior 12-month, permit disclosures of probable and possible reserves and other matters. The SEC indicated they will communicate with the Financial Accounting Standards Board (FASB) staff to align their accounting standards with these new rules. The Company is currently evaluating what impact these new requirements may have on its financial position, results of operations or cash flows.

In November 2008, the FASB ratified EITF 08-6, “Equity Method Investment Accounting Considerations” which clarifies how to account for certain transactions and impairment considerations involving equity method investments. EITF 08-6 applies to all investments accounted for under the equity method, and among other things, clarifies initial measurement, decreases in value and changes in the level of ownership in equity method investments. The standard is effective on a prospective basis for fiscal years beginning on or after December 15, 2008, and earlier adoption is prohibited. The Company does not believe EITF 08-6 will have an impact on its financial position, results of operations or cash flows.

In May 2008, FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” which identifies a consistent framework for selecting accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with United States generally accepted accounting principles generally accepted in the United States (US GAAP). The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS No. 162 will be effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The FASB does not expect that SFAS No. 162 will have a change in current practice, and the Company does not believe that SFAS No. 162 will have an impact on its financial position, results of operations or cash flows.

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In April 2008, the FASB issued FSP on SFAS 142-3, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142 No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected flows used to measure fair value of the asset. FSP SFAS 142-3 is effective January 1, 2009, early adoption is prohibited. The provisions of FSP SFAS 142-3 are to be applied prospectively to intangible assets recognized as of, and subsequent to, the effective date. Any intangible assets recognized from the Company's acquisition of NIS will be accounted for under these new requirements (refer to Note 21 Subsequent Events).

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Enhanced disclosures to improve financial reporting transparency are required and include disclosure about the location and amounts of derivative instruments in the financial statements, how derivative instruments are accounted for and how derivatives affect an entity's financial position, financial performance and cash flows. A tabular format including the fair value of derivative instruments and their gains and losses, disclosure about credit risk-related derivative features and cross-referencing within the footnotes are also new requirements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application and comparative disclosures encouraged, but not required. The Company has not yet adopted SFAS No. 161. The Company does not believe that SFAS No. 161 will have an impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) was issued in an effort to continue the movement toward the greater use of fair values in financial reporting and increased transparency through expanded disclosures. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Certain of these changes will introduce more volatility into earnings. The acquirer must now record all assets and liabilities of the acquired business at fair value, and related transaction and restructuring costs will be expensed rather than the previous method of being capitalized as part of the acquisition. SFAS No. 141(R) also impacts the annual goodwill impairment test associated with acquisitions, including those that close before the effective date of SFAS No. 141(R). The definitions of a "business" and a "business combination" have been expanded, resulting in more transactions qualifying as business combinations. SFAS No. 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 31, 2008 and earlier adoption is prohibited. The Company's acquisition of NIS will be accounted for under these new requirements (refer to Note 21 Subsequent Events).

In April 2009, FASB issued FSP FAS 141(R)-a, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," which amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS 141(R). FSP SFAS 141(R)-a provides additional guidance for the recognition and subsequent accounting for contingencies acquired in a business combination. FSP SFAS 141(R)-a will have the same effective date as FAS 141(R), and will therefore be effective for all business combinations for which the acquisition date is on or after January 1, 2009 and early adoption is prohibited. The Company's acquisition of NIS will be accounted for under these new requirements (refer to Note 21 Subsequent Events).

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In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51." SFAS No. 160 clarifies that a noncontrolling interest (previously commonly referred to as a minority interest) in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements. The presentation of the consolidated income statement has been changed by SFAS No. 160, and consolidated net income attributable to both the parent and the noncontrolling interest is now required to be reported separately. Previously, net income attributable to the noncontrolling interest was typically reported as an expense or other deduction in arriving at consolidated net income and was often combined with other financial statement amounts. In addition, the ownership interests in subsidiaries held by parties other than the parent must be clearly identified, labeled, and presented in the equity in the consolidated financial statements separately from the parent's equity. Subsequent changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for consistently, and when a subsidiary is deconsolidated, any retained noncontrolling equity interest in the former subsidiary must be initially measured at fair value. Expanded disclosures, including a reconciliation of equity balances of the parent and noncontrolling interest are also required. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Prospective application is required. At this time, the Company does not have any material noncontrolling interests in consolidated subsidiaries. The Company does not believe that the adoption of SFAS No. 160 will have a material impact on its financial position, results of operations or cash flows.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform with the current year's presentation; such reclassifications have no effect on net income, net cash flow or shareholders' equity.

**3. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31 comprise the following:

	<u>2008</u>	<u>2007</u>
Cash in bank – Rubles	\$ 424	\$ 177
Cash in bank – foreign currency	359	237
Bank deposits and other cash equivalents	1,290	306
Cash on hand	2	1
<i>Total cash and cash equivalents</i>	<u>\$ 2,075</u>	<u>\$ 721</u>

The majority of cash in bank is primarily represented by Rubles.

As of December 31, 2008 the majority of bank deposits are represented by US Dollars. As of December 31, 2007 the majority of bank deposits were represented by Rubles. Bank deposits represent deposits with original maturities of less than 90 days at the date of acquisition.

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**4. Accounts Receivable**

Accounts receivable as of December 31 consists of the following:

	<u>2008</u>	<u>2007</u>
Trade receivables	\$ 818	\$ 1,220
Value added tax receivable	555	898
Related party receivables	34	25
Other receivables	518	136
Less allowance for doubtful accounts	(59)	(15)
<i><b>Total accounts receivable</b></i>	<u><u>\$ 1,866</u></u>	<u><u>\$ 2,264</u></u>

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

Other receivables consist primarily of profits taxes receivable and other receivables.

**5. Inventories**

Inventories as of December 31 consist of the following:

	<u>2008</u>	<u>2007</u>
Crude oil	\$ 106	\$ 121
Petroleum products	295	356
Materials and supplies	820	577
Other	35	29
<i><b>Total inventories</b></i>	<u><u>\$ 1,256</u></u>	<u><u>\$ 1,083</u></u>

**6. Other Current Assets**

Other current assets as of December 31 consist of the following:

	<u>2008</u>	<u>2007</u>
Prepaid customs duties	\$ 216	\$ 407
Advances paid	334	232
Prepaid expenses	22	22
Current deferred tax assets (See Note 17)	8	19
<i><b>Total other current assets</b></i>	<u><u>\$ 580</u></u>	<u><u>\$ 680</u></u>

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**7. Long-Term Investments**

None of the companies listed below are publicly traded in Russia and due to the nature of the financial markets it is not possible to obtain current market price for these investments. The significant equity and other long-term investments as of December 31 are summarized below:

	Ownership Percentage	Net book value as of	
	2008	2008	2007
<i>Investments in equity affiliates:</i>			
JSC Slavneft	49.9	\$ 2,710	\$ 2,534
JSC Tomskneft VNK	50.0	1,458	1,419
JSC Moscow Oil Refinery	38.6	331	316
<i>Total investments in equity affiliates</i>		4,499	4,269
<i>Long-term investments, at cost:</i>			
JSC Mosnefteprodukt		14	56
Other various marketing entities		115	129
Other entities		96	231
<i>Total long-term investments, at cost</i>		225	416
<i>Total long-term investments</i>		\$ 4,724	\$ 4,685

The Company's share of income in equity affiliates consist of the following as of December 31:

	2008	2007	2006
<i>Equity affiliates:</i>			
JSC Slavneft	\$ 353	\$ 392	\$ 503
JSC Tomskneft VNK	39	5	-
JSC Moscow Oil Refinery	15	11	4
<i>Total share of income in equity affiliates</i>	\$ 407	\$ 408	\$ 507

The Company's investment in JSC Slavneft and various minority stakes in Slavneft' subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Company and TNK-BP agreed to jointly manage the refineries of the Slavneft group with each party purchasing its share of production, refer also to Note 19 Related Party Transactions. During 2008, Slavneft paid dividends to the Company of US\$ 177 million (US\$ 77 million in 2007 and US\$ 287 million in 2006).

The following table summarizes the financial information of Slavneft as of December 31:

	2008	2007
Current assets	\$ 1,002	\$ 1,363
Long-term assets	6,453	5,443
Total liabilities	2,051	1,897
Revenues	7,378	6,239
Net income including minority interest	708	785

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In December 2007 the Company acquired a 50% equity interest in JSC Tomskneft VNK (“Tomskneft”) and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft (“Rosneft”) for US\$ 3,567 million. The purchase price was based on the fair value of Tomskneft, which amounted to US\$ 3,670 million as determined by an independent appraiser. As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft’s annual production. As both the Company and Rosneft are ultimately controlled by the Russian Federation, the transaction was deemed to have occurred between entities under common control and therefore was accounted for at Rosneft’s historical cost. Accordingly, the difference of US\$ 2,154 million between the purchase price and historical cost was charged to additional-paid-in-capital in shareholders’ equity for the year ended December 31, 2007.

The following table summarizes the financial information of Tomskneft as of December 31:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 881	\$ 1,029
Long-term assets	3,880	4,256
Total liabilities	2,496	3,344
Net income	78	10

The investment in Tomskneft includes goodwill of US\$ 325 million.

During 2008 Gazprom Neft and MNGK created a joint-venture – Moscow NPZ Holding B. V., into which both parties agreed to contribute their respective interests in JSC Moscow Oil Refinery (“Moscow Refinery”). In August 2008, the Company transferred its 38.8% interest in the Moscow Refinery to Moscow NPZ Holding B. V. As a result, Moscow NPZ Holding B. V. controls 77.2% of the Moscow Refinery. The Company and MNGK have agreed to jointly manage the Moscow Refinery.

The following table summarizes the financial information of JSC Moscow Oil Refinery as of December 31:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 197	\$ 158
Long-term assets	310	300
Total liabilities	144	134
Revenues	432	376
Net income	39	28

## **8. Oil and Gas Properties**

Oil and gas properties as of December 31 consist of the following:

	<u>2008</u>	<u>2007</u>
Oil and gas properties	\$ 15,181	\$ 12,599
Less: Depreciation, depletion and amortization	(7,622)	(6,797)
<b><i>Total oil and gas properties, net</i></b>	<u>\$ 7,559</u>	<u>\$ 5,802</u>

The Company's oil and gas fields and related hydrocarbons belong to government authorities. The Company obtains licenses from such government authorities and pays royalties to explore and produce from these fields. These licenses expire between 2013 and 2050. During 2007 and 2008 management was successful in extending several licences and believes the remaining licences may be extended at the initiative of the Company and management intends to extend such licenses for properties expected to produce subsequent to their original license expiry dates.

## 9. Property, Plant and Equipment

Property, plant and equipment as of December 31 consist of the following:

	<u>2008</u>	<u>2007</u>
Buildings	\$ 3,663	\$ 3,352
Machinery and equipment	1,561	1,393
Vehicles and other equipment	161	81
	<u>5,385</u>	<u>4,826</u>
Less: Accumulated depreciation	(4,353)	(3,994)
<i>Total property, plant and equipment, net</i>	<u>\$ 1,032</u>	<u>\$ 832</u>

## 10. Construction-in-Progress

Construction-in-progress includes various construction projects and machinery and equipment delivered but not installed yet. As of December 31, 2008 construction-in-progress comprises the following:

	<b>Construction Work in Progress</b>	<b>Machinery &amp; Equipment To be installed</b>	<b>Total</b>
Buildings	\$ 398	\$ -	\$ 398
Plant and machinery	65	-	65
Vehicles and other equipment	57	58	115
Total	<u>\$ 520</u>	<u>\$ 58</u>	<u>\$ 578</u>
<i>Comparative balance at December 31, 2007</i>	<u>\$ 195</u>	<u>\$ 35</u>	<u>\$ 230</u>

## 11. Short-Term Loans

As of December 31 the Company has short-term loans outstanding as follows:

	<u>2008</u>	<u>2007</u>
Banks	\$ 302	\$ 165
Related parties	306	60
Other	5	16
<i>Total short-term loans</i>	<u>\$ 613</u>	<u>\$ 241</u>

In general, short-term loans are used for the provision of working capital needs.

As of December 31, 2008 the Company has a US\$ 50 million loan outstanding from BBVA Bank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.55% and matures in January 2009.

As of December 31, 2008 the Company has a US\$ 100 million loan outstanding from Raiffeisenbank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 4.75% and matures in November 2009.

In December 2008 the Company obtained the first tranche of US\$ 150 million from a US\$ 750 million loan facility from the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) repayable in US Dollars. The tranche bears a floating interest rate of LIBOR plus 5.00% and matures in December 2009.

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As of December 31, 2008 the Company has an interest-free loan from Tomskneft of US\$ 289 million, repayable in Rubles which matures in August 2009. Tomskneft is a related party to the Company.

As of December 31, 2008 the Company has a series of loans from MNPZ for US\$ 17 million, repayable in Rubles, which bears interest at a rate between 3,5% to 5% and matures in January 2009. MNPZ is a related party to the Company.

As of December 31, 2007 the Company has a US\$ 50 million loan outstanding from ING Bank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.55%, which was repaid during the year ended December 2008.

As of December 31, 2007 the Company had a US\$ 75 million loan from Sumitomo Mitsui Banking Corporation repayable in US Dollars which bore interest at LIBOR plus 0.55%, which was repaid during the year ended December 31, 2008.

As of December 31, 2007 the Company had a US\$ 40 million loan outstanding from Raiffeisenbank repayable in US Dollars which bore interest rate of LIBOR plus 0.5%, which was repaid during the year ended December 31, 2008.

As of December 31, 2007 the Company had a loan from Slavneft of US\$ 59 million repayable in Rubles which bore interest at a rate of 6%, which was repaid during the year ended December 31, 2008. Slavneft is a related party to the Company.

Weighted average interest rates related to the short-term loans outstanding as of December 31, 2008 for US Dollar and Ruble denominated loans equal 5.6% and 0.3%, respectively. Weighted average interest rates related to the short-term loans outstanding as of December 31, 2007 for US Dollar and Ruble denominated loans equaled 5.2% and 4.9%, respectively.

**12. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of December 31 comprise the following:

	<u>2008</u>	<u>2007</u>
Trade accounts payable	\$ 511	\$ 523
Advances received from customers	165	272
Related party accounts payable	87	225
Deferred income	64	-
Accrued interest	40	39
Other payables	244	112
<i>Total accounts payable</i>	<u>\$ 1,111</u>	<u>\$ 1,171</u>

**13. Income and Other Taxes Payable**

Income and other taxes payable as of December 31 comprise the following:

	<u>2008</u>	<u>2007</u>
Mineral extraction tax	\$ 114	\$ 346
Value added tax	53	230
Excise tax	51	67
Income tax	37	57
Property tax	31	25
Other taxes	13	9
<i>Total income and other taxes payable</i>	<u>\$ 299</u>	<u>\$ 734</u>

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Taxes other than income taxes expense as of December 31 comprise the following:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Mineral resource extraction tax	\$ 4,202	\$ 3,139	\$ 2,719
Excise duties	828	681	138
Property tax	107	87	70
Other taxes	85	91	13
<i>Total taxes other than income taxes expense</i>	<u>\$ 5,222</u>	<u>\$ 3,998</u>	<u>\$ 2,940</u>

**14. Long-term Debt**

As of December 31, the Company has long-term outstanding loans as follows:

	<u>2008</u>	<u>2007</u>
Bonds	\$ 500	\$ 500
Bank loans outstanding	2,564	2,662
Other borrowings	16	19
Less current portion of long-term debt	(1,472)	(1,098)
<i>Total long-term debt</i>	<u>\$ 1,608</u>	<u>\$ 2,083</u>

Bank loans are comprised of loan facilities primarily in US Dollars from major western banks and their affiliates.

In December 2002, the Company placed US\$ 500 million in 7-year Eurobonds on the Luxemburg Stock Exchange (all current as of December 31, 2008). The bonds bear interest of 10.75% per year and have semi-annual coupon payments due on January 15 and July 15 of each year. These Eurobonds matured and were repaid in full on January 15, 2009.

During 2006 the Company obtained US\$ 630 million syndicated loan from Citibank and ABN-AMRO Bank maturing in July 2009, bearing a floating interest of LIBOR plus 0.6%. As of December 31, 2008, the amount outstanding under this syndicated loan is US\$ 163 million (all current). As of December 31, 2007 the amount outstanding under the loan was US\$ 443 million (including current portion of US\$ 280 million).

During 2007 the Company obtained US\$ 2.2 billion syndicated loan from Calyon, ABN-AMRO, Commerzbank and Citibank maturing in September 2010, bearing a floating interest rate of LIBOR plus 0.75%. As of December 31, 2008, the amount outstanding under this syndicated loan is US\$ 1.4 billion (including current portion of US\$ 800 million). As of December 31, 2007 the amount outstanding under the loan was US\$ 2.2 billion (including current portion of US\$ 800 million).

During 2008 the Company obtained US\$ 1 billion in syndicated loan in two tranches from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank. First tranche in amount of US\$ 315 million bears a floating interest rate of LIBOR plus 1.5% and matures in May 2011. Second tranche in amount of US\$ 685 millions bears a floating interest rate of LIBOR plus 1.75% and matures in May 2013.

As of December 31, 2007 the Company had US\$ 17 million (all in current) loan from Gazprombank, bearing interest rate of 9.60%, which was repaid during the year ended December 31, 2008.

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The loan agreements contain financial covenants that require the Company's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of December 31, 2008 and 2007, respectively.

Maturities of long-term loans as of December 31, 2008 are as follows:

<u>Year due</u>	<u>Amount due</u>
2009	\$ 1,472
2010	758
2011	529
2012	211
2013	110
	<u>\$ 3,080</u>

**15. Asset Retirement Obligations**

The following summarizes the activity of the Company's asset retirement obligations:

	<u>2008</u>	<u>2007</u>
<i>Beginning balance as of January 1</i>	\$ 324	\$ 288
Change in estimate	(15)	13
New obligations incurred	8	1
Spending on existing obligations	(12)	(1)
Accretion expense	25	23
<i>Ending balance as of December 31</i>	<u>\$ 330</u>	<u>\$ 324</u>

**16. Fair Value of Financial Instruments**

Fair values

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

The net carrying values of cash and cash equivalents, short-term investments, short-term loans receivable, accounts receivable and payable approximate their fair values because of the short maturities of these instruments.

Long-term loans receivables of US\$ 88 million and US\$ 51 million are mostly due from related parties as of December 31, 2008 and 2007, respectively. These loans bear no interest and mature between 2010 and 2018. The fair value of these loans is approximately US\$ 52 million and US\$ 37 million as of December 31, 2008 and 2007 assuming a discount rate of 13.0% and 10.0% as of December 31, 2008 and 2007, respectively (CBR interbank refinancing rate).

As discussed in Note 7, the Company has investments in certain Russian and CIS companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

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Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. Management believes the carrying values of short-term and long-term debt are not materially different from their fair values.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by US GAAP to be measured at fair value. SFAS No. 157 establishes a formal fair value hierarchy based on the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment.

The Company's only assets and liabilities measured at fair value on a recurring basis are its derivative financial instruments, which have been valued using Level 2 inputs under the fair value hierarchy.

The Company uses derivative financial instruments to manage its exposure to changes in foreign currency exchange rates. A majority of Company's revenues are received in US Dollars, a growth or a decline in the value of the US Dollar against the Russian Ruble impacts the Company's operating results and cash flows. During 2008 the Company entered into a number of foreign currency forwards with maturities between September 2008 and January 2009 for a total notional value of US\$ 1.7 billion to manage its future exposures to the variability in foreign currency rates under this program.

As of December 31, 2008, the Company has only one open derivative contract, with a fair value (loss) of US\$ 9 million, which is included in other accrued liabilities on the consolidated balance sheet. During the year ended December 31, 2008, the Company recognized US\$ 179 million in realized losses in foreign exchange loss, net in the consolidated statement of income.

The Company does not purchase, hold or sell derivative financial instruments unless it has an existing asset or obligation or anticipates a future activity that is likely to occur that will result in an exposure to foreign exchange risk. The Company does not enter into any derivative instruments for speculative purposes.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115," which permits companies to measure certain assets and liabilities at fair value. The standard was effective on January 1, 2008; however, the Company elected to not apply the fair value option for any eligible assets or liabilities. Accordingly, the adoption of this standard had no impact on the Company's financial position, results of operations, or cash flows.

**JSC Gazprom Neft**  
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Credit risk

Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable, cash and cash equivalents, as well as prepaid VAT, loans receivable and advances. A significant portion of the Company's accounts receivable is due from domestic and export trading companies. The Company does not generally require collateral to limit the exposure to loss; however, letters of credit and prepayments may be used. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Company beyond provisions already recorded.

The Company deposits available cash mostly with a variety of Russian banks and Russian affiliates of international banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Prepaid VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Company's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of prepaid VAT and believes it is fully recoverable within one year.

**17. Income Taxes**

The Company's provision for income taxes as reported in the accompanying consolidated statements of income for the years ended December 31 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current income taxes expense	\$ 1,425	\$ 1,342	\$ 1,113
Deferred income taxes expense (benefit)	39	(27)	80
<i>Total provision for income taxes</i>	<u>\$ 1,464</u>	<u>\$ 1,315</u>	<u>\$ 1,193</u>

The current portion of income taxes represents the total income tax expense for the Company and each of its subsidiaries. Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense for the years ended December 31 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income before income taxes	\$ 6,122	\$ 5,458	\$ 4,854
Statutory income tax rate	24.0%	24.0%	24.0%
"Expected" income tax expense	1,469	1,310	1,165
Add (deduct) tax effect of:			
Foreign income taxed at different rates	5	(8)	(1)
Difference between enacted tax rate and taxes to be withheld from dividends	(1)	(10)	(20)
Non-deductible expenses and other permanent accounting differences	(9)	23	49
Income taxes	<u>1,464</u>	<u>\$ 1,315</u>	<u>\$ 1,193</u>
Effective tax rate	<u>23.9%</u>	<u>24.1%</u>	<u>24.6%</u>

Effective January 1, 2009 the income tax rate in Russia has been reduced to 20%. This rate change did not have a significant impact on the Company's deferred taxes.

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Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred income tax assets and liabilities as of December 31:

	<u>2008</u>	<u>2007</u>
Assets arising from the tax effect of:		
Allowance for doubtful accounts	\$ 2	\$ 5
Inventories	-	9
Prepaid expenses	6	5
<i>Current deferred income tax assets</i>	<u>\$ 8</u>	<u>\$ 19</u>
Asset retirement obligation	\$ 66	\$ 78
Tax loss carryforward	27	17
Fixed assets	22	42
<i>Non-current deferred income tax assets</i>	<u>\$ 115</u>	<u>\$ 137</u>
Equity Investment and other investments	(22)	(17)
Fixed assets	(125)	(124)
<i>Deferred income tax liability</i>	<u>\$ (147)</u>	<u>\$ (141)</u>
<i>Net deferred income tax asset (liability)</i>	<u>\$ (24)</u>	<u>\$ 15</u>

For Russian income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling US\$ 135 million as of December 31, 2008 (US\$ 73 million as of December 31, 2007), resulting in associated deferred income tax assets of US\$ 27 and US\$ 17 million, respectively. Tax losses carried forward as of December 31, 2008 expire between 2012 and 2017.

## 18. Commitments and Contingencies

### Taxes

During 2008, tax authorities completed reviews over the operations of the Company and its subsidiaries for the year ended December 31, 2006. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, including the allocation of tax payments to the Federal and Regional budgets, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2007 and 2008 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these matters.

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**Notes to Consolidated Financial Statements**  
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Operating Environment

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

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, has also led to bank failures and or bank rescues. While the Russian government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, such circumstances could affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2008.

Management is unable to reliably determine the effects on the Company's future financial position, results of operations or cash flows as a result of the ongoing crisis. Management believes the Company's current and long-term investment and capital expenditures program can be funded through cash generated from existing operations. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future (Refer to Note 21 Subsequent Events).

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 potential obligations under environmental regulation. Management is of the opinion that the Company has met the government's requirements concerning environmental matters, and therefore believes that the Company does not have any material current environmental liabilities.

**19. Related Party Transactions**

JSC Moscow Oil Refinery (Moscow Refinery)

During 2008 the Company processed crude oil based on processing agreements and conducted other transactions with Moscow Refinery. Such transactions are in the ordinary course of business and on terms available to other suppliers. The information on transactions with Moscow Refinery for the years ended December 31 is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Processing fees	\$ 100	\$ 95	\$ 65
Oil products purchased	8	7	-
Oil products sales	10	9	5

As of December 31, 2008 the Company has US\$ 14 million in payables to Moscow Refinery. As of December 31, 2007 the Company had US\$ 14 million in payables to Moscow Refinery and US\$ 2 million in receivables from Moscow Refinery.

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Slavneft Group (Slavneft)

During 2008 the Company conducted numerous transactions with Slavneft or its subsidiaries. The Company and TNK-BP have in principle agreed to split Slavneft's production based on each party's respective interest. The information on transactions with Slavneft for the years ended December 31 is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Processing fees	\$ 234	\$ 196	\$ 130
Crude, gas and oil products purchased	3,199	2,510	2,855
Crude and oil products sales	609	555	644

As of December 31, 2008 the Company has US\$ 54 million in payables to Slavneft and US\$ 16 million in receivables from Slavneft. As of December 31, 2007 the Company had US\$ 173 million in payables to Slavneft and US\$ 17 million in receivables from Slavneft.

Gazprom Group (Gazprom)

During 2008 the Company conducted numerous transactions with Gazprom, its primary shareholder, or its subsidiaries. The information on transactions with Gazprom for the years ended December 31 is presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gas and oil products purchased	\$ 64	\$ 36	\$ 16
Gas and oil products sales	67	17	14

As of December 31, 2008 the Company has US\$ 9 million in payables to Gazprom and US\$ 11 million in receivables from Gazprom. As of December 31, 2007 the Company had US\$ 38 million in payables to Gazprom and US\$ 6 million in receivables from Gazprom.

Tomskneft Group (Tomskneft)

For the year ended December 31, 2008 the Company purchased crude and gas from Tomskneft or its subsidiaries amounting to US\$ 1,326 million. The Company and Rosneft have in principle agreed to split Tomskneft's production based on each party's respective 50% interest. As of December 31, 2008 the Company has US\$ 10 million in payables to Tomskneft and US\$ 7 million in receivables from Tomskneft.

Substantially all of the Company's short-term and long-term loans receivable are due from related party balances.

**20. Segment information**

Presented below is information about the Company's operating segments for the years ended December 31, 2008, 2007 and 2006. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the chief operating decision maker to make decisions about resources to be allocated and to assess performance of the Company.

The exploration and production segment explores, develops and produces crude oil and natural gas and sells its production to the refining, marketing and distribution segment. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products.

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
(in millions of US Dollars)

Operating Segments as of and for the year ended December 31, 2008:

	<b>Exploration and Production</b>	<b>Refining, Marketing and Distribution</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenues				
Revenues from external customers	\$ 127	\$ 32,948	-	\$ 33,075
Inter-segment revenues	7,899	102	(8,001)	-
Total	8,026	33,050	(8,001)	33,075
Operating income	828	5,421	-	6,249
Capital expenditures	2,979	348	-	3,327
Depreciation, depletion and amortization	1,193	116	-	1,309
Income tax expense	281	1,183	-	1,464
Segment assets as of December 31, 2008	\$ 13,086	\$ 15,868	(8,749)	\$ 20,205

Operating Segments as of and for the year ended December 31, 2007:

	<b>Exploration and Production</b>	<b>Refining, Marketing and Distribution</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenues				
Revenues from external customers	\$ 86	\$ 21,681	-	\$ 21,767
Inter-segment revenues	6,474	21	(6,495)	-
Total	6,560	21,702	(6,495)	21,767
Operating income	814	4,085	-	4,899
Capital expenditures	2,045	167	-	2,212
Depreciation, depletion and amortization	838	91	-	929
Income tax expense	281	1,034	-	1,315
Segment assets as of December 31, 2007	\$ 11,074	\$ 15,025	(9,490)	\$ 16,609

Operating Segments as of and for the year ended December 31, 2006:

	<b>Exploration and Production</b>	<b>Refining, Marketing and Distribution</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenues				
Revenues from external customers	\$ 79	\$ 20,097	-	\$ 20,176
Inter-segment revenues	5,415	18	(5,433)	--
Total	5,494	20,115	(5,433)	20,176
Operating income	714	3,652	-	4,366
Capital expenditures	1,394	131	-	1,525
Depreciation, depletion and amortization	713	90	-	803
Income tax expense	270	923	-	1,193
Segment assets as of December 31, 2006	\$ 7,717	\$ 9,721	(3,336)	\$ 14,102

**JSC Gazprom Neft**  
**Notes to Consolidated Financial Statements**  
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For the years ended December 31, 2008, 2007 and 2006 the Company had one customer which accounted for approximately 20.4%, 27.1% and 26.6% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

The geographical segmentation of the Company's revenue for the years ended December 31 is presented below:

	2008	2007	2006
Export	\$ 19,372	\$ 13,071	\$ 14,021
Domestic	11,320	7,110	4,923
CIS	2,383	1,586	1,232
<b><i>Total revenues from external customers</i></b>	<b><u>\$ 33,075</u></b>	<b><u>\$ 21,767</u></b>	<b><u>\$ 20,176</u></b>

Substantially all of the Company's long-lived assets are located in the Russian Federation.

**21. Subsequent Events**

On January 14, 2009 the Company obtained a US\$ 375 million loan from Vnesheconombank. The loan bears interest at 10.75% and matures in January 2010.

On February 03, 2009 the Company completed its acquisition of a 51% interest in Serbia's Serbia's Naftna Industrija Srbije (NIS) for € 400 million (approximately US\$ 564 million). As part of the purchase agreement the Company pledged to invest € 500 million (approximately US\$ 705 million) to rebuild and upgrade NIS's refining facilities. NIS is one of the largest vertically integrated oil companies in central Europe, with oil production of approximately 0.7 million tones per year from its oil and gas exploration and production operations in Serbia and Angola. NIS also operates two oil refineries in Pancevo and Novi Sad, Serbia, with a total processing capacity of 7.3 million tones per year and operates a network of retail stations throughout Serbia.

On February 13, 2009 the Company obtained a US\$ 724 million from Sberbank. The loan is repayable in 18 months and bears interest at 10.25%.

On March 16, 2009 the Company obtained the second tranche of US\$ 150 million from the US\$ 750 million loan facility from Vnesheconombank. The tranche bears a floating interest rate of LIBOR plus 5.00% and matures in March 2010.

**JSC Gazprom Neft**  
**Supplementary Information on Oil and Gas Activities (Unaudited)**  
**(in millions of US Dollars)**

As required by SFAS No. 69, "Disclosures about Oil and Gas Producing Activities", the Company is making certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Company or its expected future results.

The Company's exploration and development activities are exclusively within the Russian Federation; therefore, all of the information provided in this section pertains entirely to this region.

Capitalized Costs Relating to Oil and Gas Producing Activities

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the period ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total capitalized costs of oil and gas properties	\$ 15,181	\$ 12,599	\$ 10,870
Less: Accumulated depreciation, depletion and amortization	(7,622)	(6,797)	(6,301)
<b>Total net capitalized costs of oil and gas properties</b>	<b>\$ 7,559</b>	<b>\$ 5,802</b>	<b>\$ 4,569</b>

The Company's share in the net capitalized costs of equity investees as of December 31, 2008, 2007 and 2006 was US\$ 3,949 million, US\$ 3,883 million and US\$ 1,723 million, respectively.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Costs incurred in oil and gas properties acquisitions, exploration and development activities			
Property acquisition costs	\$ -	\$ 51	\$ -
Exploration costs	193	184	107
Development costs	2,582	1,729	1,127
<b>Total costs incurred in oil and gas properties acquisitions, exploration and development activities</b>	<b>\$ 2,775</b>	<b>\$ 1,964</b>	<b>\$ 1,234</b>

The Company's share in acquisitions, exploration and development costs of its equity investees was US\$ 800 million, US\$ 682 million and US\$ 375 million in 2008, 2007 and 2006, respectively.

Results of Operations from Oil and Gas Producing Activities

The Company's results of operations from oil and gas producing activities are shown below. Natural gas production does not represent a material portion of the Company's total oil and gas production.

Sales are derived from realized prices applicable to third party crude oil sales to the Company's various markets (export, domestic and CIS). Transfers to the Company's refining operations represent prices equivalent to those that could be obtained in an arm's-length transaction.

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**Supplementary Information on Oil and Gas Activities (Unaudited)**  
**(in millions of US Dollars)**

Results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the years ended, respectively, adjusted for tax deductions, tax credits and allowances. For the period ended December 31 results of operations are as follow:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues from net production			
Sales	\$ 10,262	\$ 6,687	\$ 7,019
Transfers	4,713	4,540	3,446
Total revenues	<u>14,975</u>	<u>11,227</u>	<u>10,465</u>
Production costs	(1,602)	(1,590)	(1,080)
Accretion expenses	(25)	(23)	(21)
Depreciation, depletion and amortization	(1,193)	(838)	(713)
Taxes, other than income tax	<u>(9,187)</u>	<u>(5,578)</u>	<u>(5,729)</u>
Pretax income from producing activities	2,968	3,198	2,922
Income tax expenses	<u>(637)</u>	<u>(659)</u>	<u>(614)</u>
<b>Results of oil and gas producing activities</b>	<u><u>\$ 2,331</u></u>	<u><u>\$ 2,539</u></u>	<u><u>\$ 2,308</u></u>

The Company's share in the results of operations for oil and gas production of equity investees was US\$ 992 million, US\$ 743 million and US\$ 281 million in 2008, 2007 and 2006, respectively.

Proved Oil and Gas Reserve Quantities

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

Management believes that proved reserves should include quantities, which are expected to be produced after the expiry dates of the Company's production licenses. These licenses expire between 2013 and 2050, with the most significant licenses expiring in 2013 and 2014. Management believes the licences may be extended at the initiative of the Company and management intends to extend such licenses for properties expected to produce subsequent to their license expiry dates. The Company has disclosed information on total proved oil and condensate and gas reserve quantities and standardized measure of discounted future net cash flows.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

The reserve quantities shown below include 100 percent of the net reserve quantities attributable to the Company's consolidated subsidiaries.

As determined by the Company's independent reservoir engineers, DeGolyer and MacNaughton (Miller and Lents in 2007 and 2006), the following information presents the balances of proved oil and gas reserve quantities as of December 31:

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**Supplementary Information on Oil and Gas Activities (Unaudited)**  
**(in millions of US Dollars)**

Total net proved reserves of crude oil and gas condensate are presented below (in millions barrels of oil equivalent):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<i>Proved reserves at January 1,</i>	4,203	3,963	3,530
Production	(234)	(253)	(255)
Revision of previous estimates and improved recovery	(722)	493	688
<i>Proved reserves at December 31,</i>	<u>3,247</u>	<u>4,203</u>	<u>3,963</u>
 <i>Minority's share included in the above proved reserves</i>	 10	 30	 26
 <i>Proved developed reserves</i>	 2,281	 2,923	 2,857

The Company's share in the proved reserves of equity investees was 1,676 million BOE, 1,874 million BOE and 1,325 million BOE in 2008, 2007 and 2006, respectively. The Company's share in the proved developed reserves of equity investees was 1,278 million BOE, 1,441 million BOE and 1,064 million BOE in 2008, 2007 and 2006, respectively.

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of SFAS No.69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent management's estimate of the Company's expected future cash flows or of the value Company's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The valuation prescribed under SFAS No.69 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

**JSC Gazprom Neft**  
**Supplementary Information on Oil and Gas Activities (Unaudited)**  
(in millions of US Dollars)

	2008	2007	2006
Future cash inflows	\$ 64,610	\$ 206,836	\$ 119,470
Future production costs	(32,607)	(101,112)	(59,940)
Future development costs	(3,992)	(7,770)	(7,212)
Future income tax expenses	(4,515)	(24,351)	(12,860)
<b><i>Future net cash flows</i></b>	<u>23,496</u>	<u>73,603</u>	<u>39,458</u>
Future net cash flow 10% annual discount for estimated timing of cash flow	(11,411)	(39,338)	(21,286)
<b><i>Standardized measure of discounted future net cash flows</i></b>	<u>\$ 12,085</u>	<u>\$ 34,265</u>	<u>\$ 18,172</u>

The Company's share in the discounted value of future cash flows related to the oil and gas reserves of equity investees was US\$ 3,553 million, US\$ 16,365 million and US\$ 4,917 million in 2008, 2007 and 2006, respectively.

Principal sources of changes in standardized measure of discounted future net cash flows

	2008	2007	2006
<b><i>Discounted present value as of beginning of year</i></b>	\$ 34,265	\$ 18,172	\$ 18,208
Sales and transfers of oil produced, net of production costs and other operating expenses	(4,186)	(4,058)	(3,656)
Net change in prices received per barrel, net of production costs and other operating expenses	(31,333)	17,885	679
Changes in future development costs	(115)	(2,167)	(1,701)
Development costs incurred during the period	2,975	2,044	1,397
Revisions of previous quantity estimates	(838)	5,595	5,629
Net change in income taxes	8,687	(5,414)	(204)
Accretion of discount	1,780	2,252	2,296
Other	850	(44)	(4,476)
<b><i>Discounted present value as of end of year</i></b>	<u>\$ 12,085</u>	<u>\$ 34,265</u>	<u>\$ 18,172</u>

The other change in discounted future net cash flows in the table above represents a change in the expected timing of cash flows due to corresponding changes in production from year to year.