

**ОАО Gazprom Neft**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007 AND 2006**

**ОАО Gazprom Neft**

**Consolidated Financial Statements**

**For six months ended June 30, 2007 and 2006**

**Contents**

Report of Independent Auditors

Consolidated Financial Statements

Consolidated Balance Sheets.....	1
Consolidated Statements of Income.....	2
Consolidated Statements of Changes in Shareholders' Equity .....	3
Consolidated Statements of Cash Flows .....	4
Notes to Consolidated Financial Statements .....	5

Report of Independent Auditors

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

We have reviewed the accompanying consolidated balance sheet of OAO Gazprom Neft and its subsidiaries as of June 30, 2007, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the six-month period ended June 30, 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards generally accepted in the United States. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated May 29, 2007 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation  
October 8, 2007

OAO Gazprom Neft  
Consolidated Balance Sheets  
As of June 30, 2007 and December 31, 2006

Currency – US\$ thousands

	Notes	June 30, 2007 (unaudited)	December 31, 2006
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	2	\$ 3,733,507	\$ 1,334,733
Short-term investments		-	100,000
Loans receivable	11	175,554	125,798
Accounts receivable, net		2,651,651	2,451,988
Inventories	3	920,900	781,710
Other current assets		315,606	620,567
Current deferred income tax assets	9	33,480	28,343
Total current assets		7,830,698	5,443,139
Long-term investments	4	2,971,597	2,760,443
Long-term loans receivable	11	83,475	128,134
Oil and gas properties, net		4,846,306	4,569,144
Property, plant and equipment, net		933,417	852,205
Construction-in-progress		196,076	161,202
Other non-current assets		41,754	55,109
Non-current deferred income tax assets	9	167,523	132,742
Total assets		17,070,846	14,102,118
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Short-term loans	5	\$ 2,293,600	\$ 56,157
Accounts payable and accrued liabilities		714,277	648,524
Income and other taxes payable		638,406	497,392
Dividends payable		1,486,921	893,044
Current portion of long-term debt	7	300,293	638,363
Total current liabilities		5,433,497	2,733,480
Asset retirement obligation	6	329,751	287,731
Long-term debt	7	851,943	977,402
Deferred income tax liabilities	9	150,134	173,206
Total liabilities		6,765,325	4,171,819
Commitments and contingencies	10		
Shareholders' equity:	8		
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		1,619	1,619
Additional paid-in capital		858,987	858,987
Reserves		1,867,449	1,867,449
Retained earnings		7,577,466	7,202,244
Total shareholders' equity		10,305,521	9,930,299
Total liabilities and shareholders' equity		\$ 17,070,846	\$ 14,102,118

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

OAO Gazprom Neft  
Consolidated Statements of Income  
For the six-months ended June 30, 2007 and 2006

Currency - US\$ thousands

	Notes	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)
<b>Revenues</b>			
Refined products and oil and gas sales		\$ 8,998,788	\$ 10,041,580
Other		244,030	81,579
Total	12	<u>9,242,818</u>	<u>10,123,159</u>
<b>Costs and other deductions</b>			
Crude oil, petroleum and other products purchased		1,424,047	2,195,166
Operating expenses		1,012,248	678,755
Selling, general and administrative expenses		1,063,813	917,260
Depreciation, depletion and amortization		508,194	455,263
Export duties		1,571,942	2,192,928
Taxes other than income taxes		1,394,821	1,492,267
Cost of other sales		65,667	22,626
Total		<u>7,040,732</u>	<u>7,954,265</u>
Operating income		<u>2,202,086</u>	<u>2,168,894</u>
<b>Other income (expense)</b>			
Income from equity affiliates	4	221,705	329,747
Loss from equity investments write off		-	(13,026)
Interest income		41,063	10,578
Interest expense		(43,603)	(66,250)
Other expenses, net		(12,142)	(1,292)
Foreign exchange gain (loss), net		22,806	(13,355)
Total		<u>229,829</u>	<u>246,402</u>
<b>Income before provision for income taxes</b>		<u>2,431,915</u>	<u>2,415,296</u>
Current income tax expense	9	633,145	608,775
Deferred income tax (benefit) expense	9	(62,990)	13,974
Total		<u>570,155</u>	<u>622,749</u>
<b>Net income</b>		<u>\$ 1,861,760</u>	<u>\$ 1,792,547</u>
Basic and Diluted Earnings per Common Share (US\$ per share)		\$ 0.3927	\$ 0.3781
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,741	4,741

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

OAO Gazprom Neft  
 Consolidated Statements of Changes in Shareholders' Equity  
 As of June 30, 2007

Currency - US\$ thousands

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Reserves</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2006	\$ 1,619	\$ 858,987	\$ 1,867,449	\$ 7,202,244	9,930,299
Net income for the year	-	-	-	1,861,760	1,861,760
Common stock dividends	-	-	-	(1,486,538)	(1,486,538)
Balance at June 30, 2007 (unaudited)	\$ 1,619	858,987	1,867,449	7,577,466	10,305,521

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

OAO Gazprom Neft  
Consolidated Statements of Cash Flow  
For the six-months ended June 30, 2007 and 2006

Currency - US\$ thousands

	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)
<b><i>Operating activities</i></b>		
Net income	1,861,760	1,792,547
Reconciliation of net income to net cash provided by operating activities:		
Income from equity affiliates, net of dividends received	(210,381)	(272,418)
Deferred income tax (benefit) expense	(62,990)	13,974
Depreciation, depletion and amortization	508,194	455,263
Asset retirement obligation accretion expense	11,436	10,242
Provision for doubtful accounts	(2,922)	9,430
Loss on disposal of property, plant and equipment	6,458	8,790
Gain on sales of investments	-	13,026
Changes in assets and liabilities, excluding cash and debt:		
Accounts receivable	(196,741)	(298,981)
Inventories	(139,190)	(343,552)
Other current assets	304,961	(166,085)
Other non-current assets	13,355	(13,949)
Accounts payable and accrued liabilities	65,753	15,070
Income and other taxes payable	141,014	(35,773)
Net cash provided by operating activities	<u>2,300,707</u>	<u>1,187,584</u>
<b><i>Investing activities</i></b>		
Purchase of investments in associated entities	(773)	(18,288)
Loans and short-term investments proceeds received	114,596	31,521
Loans issued	(19,693)	(113,989)
Proceeds from disposals of property, plant and equipment	20,343	30,505
Capital expenditures	(897,659)	(587,299)
Net cash used in investing activities	<u>(783,186)</u>	<u>(657,550)</u>
<b><i>Financing activities</i></b>		
Short and long-term loans proceeds received	2,442,155	487,107
Short and long-term loans repaid	(668,241)	(550,721)
Dividends paid	(892,661)	(77,305)
Net cash provided by (used in) financing activities	<u>881,253</u>	<u>(140,919)</u>
Increase in cash and equivalents	2,398,774	389,115
Cash and equivalents at beginning of year	1,334,733	305,247
Cash and equivalents at end of year	<u><u>3,733,507</u></u>	<u><u>694,362</u></u>

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

## 1. General

### Description of Business

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company) and its subsidiaries (the "Company") is a vertically integrated Russian oil company. Its principal activities include oil and gas exploration, production, refining and marketing.

OAQ 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 September and October 2005, OAQ Gazprom acquired a 75.68% stake in Sibneft, becoming a subsidiary of OAQ Gazprom. On May 30, 2006 Sibneft was renamed into "OAQ Gazprom Neft".

### Basis of Financial Statements Preparation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by 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"). The Company uses the US Dollar as its reporting currency.

The interim consolidated financial statements are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principles Board Opinion 28 ("APB 28") "*Interim Financial Reporting*" and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2006 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2006 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited interim consolidated financial statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods.

The results for the six-month period ended June 30, 2007 are not necessarily indicative of the results expected for the full year.

### 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 of the Company's significant estimates and assumptions include: recoverability and lives of long-term assets and investments; provisions for uncollectible 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

Management of the Company has determined the US Dollar is the functional and reporting currency for the purpose of financial reporting under US GAAP. 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 historical exchange rates prevailing on the transaction dates. Gains and losses resulting from the



**OAO Gazprom Neft**  
**Notes to the Consolidated Financial Statements - Unaudited**  
**As of June 30, 2007 and 2006**

remeasurement into US Dollars are included in "Foreign exchange gain (loss), net" in the consolidated statement of income.

As of June 30, 2007 and December 31, 2006, the Central Bank of Russian Federation ("CBR") official rates of exchange were 25.82 Rubles and 26.33 Rubles per US Dollar, respectively. Average rates of exchange for the six-month periods ended June 30, 2007 and 2006 were 26.08 Rubles and 27.68 Rubles per US Dollar, respectively.

Future movements in the exchange rates between the Ruble and the US Dollar will affect the carrying value of the Company's Ruble denominated monetary assets and liabilities. Such movements may also affect the Company's ability to realize non-monetary assets represented in US Dollars in these consolidated financial statements. Any translation of Ruble amounts to US Dollars should not be construed as a representation that such Ruble amounts have been, could be, or will in the future be converted into US Dollars at the exchange rate shown above or at any other exchange rate.

Income Taxes

The Company follows the provisions of APB 28 to arrive at the effective tax rate. The effective tax rate is based on the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate of 24% and includes estimates for the annual tax effect of permanent differences and realization of deferred tax assets.

Recent Accounting Standards

The Company adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," ("FIN 48") effective January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company's results of operations, financial position or cash flow.

As described in Note 10 Commitments and Contingencies, tax authorities recently examined the income tax returns of the Company's significant subsidiaries for the year 2004 and the Company's tax returns for the years 2005 - 2006 are currently open for examination.

Reclassifications

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

**2. Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2007 and December 31, 2006 comprise the following (in US\$ thousands):

	<u>2007</u>	<u>2006</u>
Cash in bank and cash equivalents – Rubles	\$ 87,612	\$ 346,266
Cash in bank – foreign currency	12,676	274,581
Bank deposits	3,631,630	712,336
Cash on hand	1,589	1,550
Total cash and cash equivalents	<u>\$ 3,733,507</u>	<u>\$ 1,334,733</u>

As of June 30, 2007, bank deposits includes a Ruble deposit of US\$ 3,215 million with one bank bearing interest at 5.75% maturing on August 24, 2007.

OAO Gazprom Neft  
Notes to the Consolidated Financial Statements - Unaudited  
As of June 30, 2007 and 2006

The majority of cash in bank – foreign currency is primarily represented by US Dollars.

At June 30, 2007, the Company has no bank deposits with maturities at the date of purchase in excess of 90 days.

**3. Inventories**

The following are the major components of inventories as of June 30, 2007 and December 31, 2006 (in US\$ thousands):

	2007	2006
Crude oil	\$ 112,922	\$ 101,571
Petroleum products	279,368	269,108
Materials and supplies	381,298	290,226
Other	147,312	120,805
<b>Total inventories</b>	<b>\$ 920,900</b>	<b>\$ 781,710</b>

**4. 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 a current market price for these investments. The significant equity and other long-term investments are summarized below as of June 30, 2007 and December 31, 2006 (in US\$ thousands):

	Ownership percentage at	Net book value at		Group's share of income for the six months ended June 30		
		June 30, 2007	June 30, 2007	December 31, 2006	2007	2006
Investments in equity affiliates:						
AO NGK Slavneft	49.9	\$ 2,375,103	\$ 2,186,742	\$ 199,683	\$ 327,738	
Moscow Oil Refining Plant	38.8	326,618	304,596	22,022	2,009	
<b>Total investments in equity affiliates / income</b>		<b>2,701,721</b>	<b>2,491,338</b>	<b>221,705</b>	<b>329,747</b>	
Long-term investments, at cost:						
Mosnefteproduct	27.4	56,018	56,018			
Other various marketing entities		160,950	160,808			
Other entities		52,908	52,279			
<b>Total long-term investments, at cost</b>		<b>269,876</b>	<b>269,105</b>			
<b>Total long-term investments</b>		<b>\$ 2,971,597</b>	<b>\$ 2,760,443</b>	<b>\$ 221,705</b>	<b>\$ 329,747</b>	

**OAO Gazprom Neft**  
**Notes to the Consolidated Financial Statements - Unaudited**  
**As of June 30, 2007 and 2006**

The Company's investment in AO NGK Slavneft ("Slavneft") and various minority stakes in Slavneft subsidiaries are held through a series of off-shore entities and investment trusts. During 2006, Slavneft announced and paid dividends to the Company of US\$ 287.1 million.

The following table summarizes Slavneft's financial information based on the Company's ownership interest as of June 30, 2007 and December 31, 2006, (in US\$ thousands):

	2007	2006
Current assets	\$ 504,537	\$ 489,856
Long-term assets	2,548,157	2,349,099
Current liabilities	453,542	309,616
Long-term liabilities	326,691	349,258
Sales	1,334,397	3,282,469
Net Income	199,683	502,546

The following table summarizes Moscow Oil Refining Plant's financial information based on the Company's ownership interest as of June 30, 2007 and December 31, 2006 (in US\$ thousands):

	2007	2006
Current assets	\$ 71,755	\$ 61,425
Long-term assets	127,694	114,626
Current liabilities	61,750	61,232
Long-term liabilities	902	43
Sales	71,719	101,512
Net Income	22,022	4,397

The 27.4% interest in Mosnefteproduct is accounted for as a cost basis investment as the Company does not have the ability to exercise significant influence over this entity as a result of its limited participation on Mosnefteproduct's board of directors.

## 5. Short-Term Loans

As of June 30, 2007 and December 31, 2006 the Company had short-term loans outstanding as follows (in US\$ thousands):

	2007	2006
Banks	\$ 68,005	\$ 40,385
Related parties	2,210,638	731
Other	14,957	15,041
Total	<u>\$ 2,293,600</u>	<u>\$ 56,157</u>

In general, short-term loans are used for the provision of working capital needs. As of June 30, 2007 more than 50.0% of the loans were provided in Rubles.

In June 2007 the Company obtained a series of short-term Ruble denominated promissory notes payable to Gazprombank amounting US\$ 2,208 million bearing 5% interest rate and repayable on demand but not earlier than on August 21, 2007.

At June 30, 2007 the Company has a US\$ 40.0 million loan outstanding from Raiffeisen Bank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.5% and matures in 2007. At December 31, 2006, the Company had a US\$ 40.0 million loan from Raiffeisen Bank which bore interest at LIBOR plus 0.5%.

At June 30, 2007 the Company has a US\$ 27.1 million loan outstanding from MDM bank repayable in rubbles. The loan bears an interest rate of 5.75% and matures in 2007.

Weighted average interest rates related to the short-term loans outstanding as of June 30, 2007 for US Dollar and Ruble denominated loans equal 5.8% and 5%, respectively. Weighted average interest rates related to the short-term loans outstanding as of December 31, 2006 for US Dollar and Ruble denominated loans equal 5.8% and 1%, respectively.

## 6. Asset Retirement Obligation

According to Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") and FIN No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), the Company has potential asset retirement obligations associated with the conduct of its business activities. The accounting standard applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 and FIN 47 require entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated over its estimated useful life. The nature of the assets and potential obligations are as follows:

### Exploration and Production

The Company's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage 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 these operations 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 resources at the time of removal.

SFAS 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 SFAS 143 estimates.

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

### Refining, Marketing and Distribution

This business segment covers refining operations and retail networks. 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. As a result, the Company believes that it does

OAO Gazprom Neft  
Notes to the Consolidated Financial Statements - Unaudited  
As of June 30, 2007 and 2006

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.

The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity measures changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change is the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount is recognized as an increase in the carrying amount of the liability and as an operating expense in the statement of income.

The following summarizes the activity of the asset retirement obligations (in US\$ thousands)

	2007	2006
Beginning balance as of January 1,	\$ 287,731	\$ 260,983
New obligations	30,584	5,817
Accretion expense	11,436	20,931
Ending balance as of June 30, 2007	<u>\$ 329,751</u>	
Ending balance as of December 31, 2006		<u>\$ 287,731</u>

#### 7. Long-term Debt

As of June 30, 2007 and December 31, 2006 the Company had outstanding loans as follows (in US\$ thousands):

	2007	2006
Bonds	\$ 500,000	\$ 900,000
Bank loans outstanding	603,627	681,696
Other borrowings	48,609	34,069
Less current portion of long-term debt	<u>(300,293)</u>	<u>(638,363)</u>
Total long-term debt	<u>\$ 851,943</u>	<u>\$ 977,402</u>

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

In December 2002, the Company placed US\$ 500.0 million in 7-year Eurobonds on the Luxemburg Stock Exchange. 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. Accrued interest for the bonds was US\$ 25.2 million at June 30, 2007 and US\$ 25.4 as of December 31, 2006.

In January 2002, the Company placed US\$ 250.0 million in 5-year Eurobonds on the Luxemburg Stock Exchange. The bonds bear interest of 11.5% per year. Subsequently, in March 2002, the Company extended the issue up to US\$ 400.0 million. All bonds have semi-annual coupon payments due on February, 13 and August, 18 of each year. Accrued interest for the bonds was US\$ 18.0 million at December 31, 2006. On February 12, 2007, the Company fully repaid these Eurobonds for US\$ 400.0 million, including accrued interest of US\$ 23.0 million. As the amount was repaid in February 2007, these bonds were included in the current portion of long-term debt as of December 31, 2006.

During 2006, the Company obtained a US\$ 630 million (including a US\$ 186.7 million current portion) syndicated loan from Citibank and ABN-AMRO Bank maturing in July 2009, bearing floating interest at

**OAO Gazprom Neft**  
**Notes to the Consolidated Financial Statements - Unaudited**  
**As of June 30, 2007 and 2006**

rates of LIBOR plus 0.6%. As of June 30, 2007, the Company had US\$ 583.3 million loan from Citibank and ABN-AMRO Bank (including a US\$ 280 million current portion).

As of June 30, 2007, the Company also had a loan from Gazprombank repayable in Rubles amounting to US\$ 20.3 million (all current). The loan bears interest at a rate of 6.0%. Gazprombank is also a related party to the Company.

As of June 30, 2007 and December 31, 2006 other borrowings represent a number of Ruble denominated interest-free loans with maturity dates in 2008 and 2011.

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 Total Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of June 30, 2007.

Maturities of long-term - loans as of June 30, 2007 are as follows (in US\$ thousands):

<u>Year due</u>	<u>Amount due</u>
2008	\$ 300,293
2009	281,271
2010	567,209
2012	3,463
	<u>\$ 1,152,236</u>

## **8. Shareholders' Equity**

The Presidential Decree establishing Sibneft stated that the charter capital of the Company would be equal to 38 percent of the aggregate of the charter capitals of its four subsidiaries at the date of formation. The 38 percent of the aggregate of the Charter capitals of the four subsidiaries also gave the Company 51 percent of the voting common stock in each of the subsidiaries and represented the Government's ownership in these companies. This consolidation of the Government's ownership into one company established the share capital of Sibneft at 4,516,396,250 shares of 0.0016 Rubles each. On December 16, 1998 the Company issued additionally 224,903,389 shares of 0.0016 Rubles each. For the purposes of these financial statements, the Ruble value of the shares has been translated into US Dollars at the historical exchange rate.

In June 2007 the Company declared dividends of 8.1 Rubles per common share or US\$ 1,487 million for the year ended December 31, 2006.

## **9. Income Taxes**

The Company's provision for income taxes as reported in the accompanying consolidated income statements is as follows (in US\$ thousands):

	<u>2007</u>	<u>2006</u>
Current income tax expense	\$ 633,145	\$ 608,775
Deferred income tax (benefit) expense	(62,990)	13,974
Total provision for income taxes	<u>\$ 570,155</u>	<u>\$ 622,749</u>

The current portion of income taxes represents the total income tax expense for the Company and each of its subsidiaries.

OAO Gazprom Neft  
Notes to the Consolidated Financial Statements - Unaudited  
As of June 30, 2007 and 2006

Temporary differences between the Russian statutory accounts and these US GAAP financial statements give rise to the following deferred tax assets and liabilities for the period ended June 30, 2007 and December 31, 2006 (in US\$ thousands):

	2007	2006
Assets arising from the tax effect of:		
Allowance for doubtful accounts	\$ 5,238	\$ 5,581
Inventories	11,453	9,269
Prepaid expenses	16,789	13,493
Current deferred tax assets	<u>\$ 33,480</u>	<u>\$ 28,343</u>
Asset retirement obligation	\$ 79,140	\$ 69,047
Tax loss carryforward	56,606	55,498
Fixed assets	31,777	8,197
Non-current deferred tax assets	<u>\$ 167,523</u>	<u>\$ 132,742</u>
Equity Investment and other investments	(17,672)	(12,499)
Fixed assets	(132,462)	(160,707)
Non-current deferred tax liability	<u>\$ (150,134)</u>	<u>\$ (173,206)</u>
Net deferred tax asset (liability)	<u>\$ 50,869</u>	<u>\$ (12,121)</u>

For Russian income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling US\$ 235.8 million, resulting in associated deferred tax assets of US\$ 56.6 million. In accordance with the Tax Code, such tax losses may be carried forward for a period of ten years for use against future income, although deductibility is restricted to a maximum of 50% of taxable income in any single year. Tax losses carried forward at June 30, 2007, expire between 2012 - 2017.

Deferred income taxes have not been provided on the undistributed earnings of subsidiaries and other investments in equity affiliates. The amount of such earnings included in consolidated retained earnings at June 30, 2007 and December 31, 2006 was approximately US\$ 1,669 million and US\$ 1,485 million, respectively. These earnings have been permanently reinvested and management does not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on such amounts should circumstances change.

## 10. Commitments and Contingencies

### Taxes

Tax authorities recently completed a review of the operations of the Company and its significant subsidiaries for the year 2004. The results of these tax reviews did not have a material impact on the Company's financial position, results of operations and cash flows.

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the 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. 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 three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. The years 2005 and 2006 have not been subject to a review.

As at June 30, 2007 Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

#### 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 most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

#### 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 currently does not have any material environmental liabilities.

### **11. Related Parties**

#### OAQ Moscow Oil Refining Plant (MNPZ)

During the period ending June 30, 2007 the Company processed 1.7 million tons of crude oil at MNPZ based on processing agreements. Such transactions are in the ordinary course of business and on terms available to other suppliers. Total cost of processing for the period ending June 30, 2007 was US\$ 46.5 million (US\$ 24.2 million for six months ended June 30, 2006). The Company has US\$ 12.8 million and US\$ 2.3 million of net payables to MNPZ as of June 30, 2007 and December 31, 2006, respectively.

#### Slavneft Group (Slavneft)

During the period ending June 30, 2007 and 2006 the Company conducted numerous transactions with Slavneft group companies.

The Company sold directly 0.3 million tons of crude oil (1.2 million tons for six months ended June 30, 2006) to Slavneft amounting to US\$ 92.4 million (US\$ 337 million for six months ended June 30, 2006) and 0.3 million tons of oil products (0.1 million tons of oil products for six months ended June 30, 2006) amounting to US\$ 109.4 million (US\$ 41 million for six months ended June 30, 2006). The Company and TNK-BP (Slavneft's other significant shareholder) have in principle agreed to split Slavneft's production based on each party's respective interest. During the period ending June 30, 2007 the Company bought from Slavneft 5.2 million tons of crude oil and 0.4 million tons of oil products amounting to US\$ 896.0 million and US\$ 145.4 million, respectively. During the period ending June 30, 2007 the Company processed 3.19 million tons of crude oil at Slavneft's Yaroslavl Oil Refining Plant for processing costs of US\$ 99.5 million. During the period ending June 30, 2007 the Company bought 0.2 million cubic meters of gas amounting to US\$ 1.6 million from Slavneft. The Company has US\$ 74.6 million payables to Slavneft and US\$ 8.7 million receivables from Slavneft as of June 30, 2007.



Gazprom Group (Gazprom)

The Company conducted numerous transactions with OAO Gazprom, its primary shareholder. During the period ending June 30, 2007 the Company bought from Gazprom 0.3 million cubic meters of gas amounting to US\$ 19.2 million and sold to Gazprom 0.8 million cubic meters of gas amounting to US\$ 7.7 million. During the period ending June 30, 2007 Gazprom performed construction works for the Company amounting to US\$ 7.6 million and sold other products amounting to US\$ 3.2 million. The Company sold oil products and rendered various services to Gazprom amounting to US\$ 55.9 million. The Company has US\$ 17.8 million payables to Gazprom and US\$ 5.8 million receivable from Gazprom as of June 30, 2007.

Refer also to Note 5 Short-term Loans.

Other Related Party Transactions

Current loans receivable of US\$ 175.6 million and US\$ 125.8 million are mostly due from related parties at June 30, 2007 and December 31, 2006, respectively. These Ruble denominated loans mature between one month and one year.

Long-term loans receivables of US\$ 83.5 million and US\$ 128.1 million are mostly due from related parties as of June 30, 2007 and December 31, 2006, respectively. These loans mature between 2008 and 2011.

**12. Segments**

Presented below is information about the Company's operating segments for the period ended June 30, 2007 and 2006. The Company determined its operating segments based on differences in the nature of their operations. The exploration and production segment explores, develops and produces crude oil and natural gas. The marketing and distribution segment purchases, sells and transports refined petroleum products and the refining segment process crude oil into refined products.

OAO Gazprom Neft  
Notes to the Consolidated Financial Statements - Unaudited  
As of June 30, 2007 and 2006

Operating Segments for the six-months ended June 30, 2007 (in US\$ thousands):

	Exploration and Production	Marketing and Distribution	Refining	Other	Consolidated
Revenues					
Total	\$ 4,709,702	\$ 5,459,527	\$ 227,357	\$ 244,027	\$ 10,640,613
Inter-segment revenues	(1,163,054)	(7,384)	(227,357)	-	(1,397,795)
Revenues from external customers	3,546,648	5,452,143	-	244,027	9,242,818
Operating income	615,270	1,540,213	41,310	5,293	2,202,086
Capital expenditures	811,381	29,561	55,828	889	897,659
Depreciation, depletion and amortization	463,936	6,686	36,842	730	508,194
Interest income	-	2,902	31	38,130	41,063
Interest expense	-	1,476	67	42,060	43,603
Share in the net income of equity investees	199,683	-	22,022	-	221,705
Income tax expense	191,281	358,730	18,714	1,430	570,155
Investment in equity method investees at June 30, 2007	2,375,103	-	326,618	-	2,701,721
Segment assets at June 30, 2007	11,917,569	3,279,800	1,853,681	19,796	17,070,846

OAO Gazprom Neft  
Notes to the Consolidated Financial Statements - Unaudited  
As of June 30, 2007 and 2006

Operating Segments for the six-months ended June 30, 2006 (in US\$ thousands):

	<u>Exploration and Production</u>	<u>Marketing and Distribution</u>	<u>Refining</u>	<u>Other</u>	<u>Consolidated</u>
Revenues					
Total	\$ 5,759,187	\$ 5,226,583	\$ 244,303	\$ 91,951	\$ 11,322,024
Inter-segment revenues	(944,812)	(9,750)	(244,303)	-	(1,198,865)
Revenues from external customers	4,814,375	5,216,833	-	91,951	10,123,159
Operating income	815,806	1,271,795	80,369	924	2,168,894
Capital expenditures	547,181	11,241	27,917	960	587,299
Depreciation, depletion and amortization	412,111	5,477	36,914	761	455,263
Interest income	-	2,370	41	8,167	10,578
Interest expense	-	-	29	66,221	66,250
Share in the net income of equity investees	327,738	-	2,009	-	329,747
Income tax expense	251,399	323,549	47,125	676	622,749
Investment in equity method investees at December 31, 2006	2,186,742	-	304,596	-	2,491,338
Segment assets at December 31, 2006	9,811,019	2,542,974	1,731,896	16,229	14,102,118

For the period ending June 30, 2007, the Company had one customer which accounted for approximately 27% of the Company's crude oil and petroleum product sales. Management does not believe that the Company is reliant on any particular customer. The geographical segmentation the Company's revenue as of June 30, 2007 and 2006 is presented below (in US\$ thousands):

	<u>2007</u>	<u>2006</u>
Export	\$ 5,924,268	\$ 7,276,193
Domestic	2,620,599	2,320,872
CIS	697,951	526,094
Total revenues from external customers	<u>\$ 9,242,818</u>	<u>\$ 10,123,159</u>

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

**13. Subsequent Events**

On September 14, 2007, the Company reached an agreement with four international banks to arrange a new US\$ 2.2 billion amortizing syndicated loan facility bearing interest at LIBOR plus 0.75% per annum.