

# **GAZPROM NEFT**

## **JSC “GAZPROM NEFT”**

### **2006 ANNUAL REPORT**

Preliminary version approved by the Board of Directors JSC “Gazprom Neft”  
(Protocol No. 158 of May 18, 2007)

# ANNUAL REPORT 2006

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## **1. President's Message**

2006 was uneasy for all Russian oil companies. Essential fluctuations of world oil prices were accompanied by reduction in growth of oil production across the country due to depletion of fields in traditional areas of oil production. Nevertheless, the results of the year have demonstrated that neither common sector problems nor intracorporate changes related to change of the management team, could impose obstacles for dynamic development of JSC "Gazprom Neft". Significant growth of the net profit may serve as the best index of efficiency of the Company activities and high qualification of its personnel. It has increased practically 1,5 times (by 47,87%) to 62,83 billion roubles in 2006 compared with 42,49 billion roubles in the previous year.

Owing to essential investments into oil production and large-scale adoption of new technologies to increase oil recovery, the Company succeeded to break a negative tendency and essentially slow down rates of decrease in oil production in 2006. With respect to continuous efforts in the direction which has proved to be efficient, we expect to increase future annual volumes of oil production and to achieve essential growth of production in the intermediate term prospect. Expansion of the Company resource base has to play a key role in achievement of this index.

To maintain a positive tendency in the dynamics of oil production, development of oil refining, including Omsky NPZ - one of the Russian most technically advanced oil refining plants, as well as to increase the efficiency of oil products retail, the Company plans to increase significantly an investment program in 2007, that will allow the Company to increase essentially the efficiency of operations.

The previous year has demonstrated that the Company is ready to responsible participation in the international projects of a state value. In particular, participation of the Company as the full shareholder in realization of the project of construction of the transbalkans oil pipeline "Burgas – Alexandroupolis" in partnership with JSC "NK "Rosneft" and JSC "AK "Transneft" will allow to solve a strategic issue of oil transportation bypassing the loaded Black Sea straits, that corresponds not only to Russian interests but the Black Sea and the Caspian regions in general.

The next year will be devoted to realization of a long-term program of the Company development, in particular, to increase the volumes of oil production and oil refining, improvement of quality of refined oil products, expansion of retail network, new market development and strengthening of positions in traditional areas of the Company presence and to increase the Capitalization of JSC "Gazprom Neft".

## 2. General Information

Open Joint Stock Company “Gazprom Neft” was established in accordance with Decree #872 by the President of the Russian Federation, “On Founding of the Open Joint Stock Company Siberian Oil Company”, of August 24, 1995 and Resolution #972 by the Government of the Russian Federation, “On Founding of the Open Joint Stock Company Siberian Oil Company”, of September 29, 1995. The Company was incorporated on October 6, 1995 under the name of the Joint Stock Company “Siberian Oil Company”. The state, as Sibneft’s founder, created a vertically-integrated company with assets comprised of shares in oil producer Noyabrskneftegas, the Omsk Refinery, geophysical unit NoyabrskneftegasGeophysica and retail company Omsknefteproduct. The company was completely privatized in May 1997. Since May 13, 2006 the name of the Company – Open Joint Stock Company “Gazprom Neft”.

### Location, Mailing Address and Registration Data

Physical Address: 5, lit. A., Galernaya Str., St.Petersburg, 190000, Russia.

Mailing Address: 4, Kursovoy pereulok, Moscow, 119034, Russia.

The Omsk State Registration Chamber of the Omsk municipal administration registered Sibneft on October 6, 1995. Its registration certificate is #38606450.  
Main State Registration No. 1025501701686.

### Equity Capital and Shareholders

Gazprom Neft’s share capital totals 7,586,079.4224 rubles, formed through the placement of two common nominal share issues granting their holders equal rights. All stock in the company is in the form of voting shares. There are a total of 4,741,299,639 outstanding shares with a face value of 0.0016 rubles each. 10 171 personal accounts are registered in the Shareholder Register as of 30.12.2006.

The major shareholders of the Company are:

Registered Shareholders	% of Equity
JSC “Gazprom”	55,9961
Gazprom Finance B.V.	16,6667
LLC “Deutsche Bank” (nominee holder)	20,0004
CJSC “Depozitarno-Clearingovaya Companiya” (nominee holder)	3,2633
CJSC “ING Bank (Eurasia)” (nominee holder)	2,4686

## **Auditor**

Independent auditor CJSC “PricewaterhouseCoupers Audit” conducted audit of the Gazprom Neft’s financial statements in 2006.

Address: 52, bld. 5, Kosmodamianskaya nab., Moscow, 115054, Russia.

Tel.: (495) 967-6000.

Fax: (495) 967-6001.

## **Registrar**

Gazprom Neft’s registrar is the Closed Joint Stock Company “Specialized Registrar – holder of gas industry shareholder register” (CJSC “SR-DRAGa”).

CJSC “SR-DRAGa” was established in August, 1994. The Registrar activities are licensed by the Federal Financial Markets Service (FFMS). Since 1996 the Registrar is the full member of the Professional Association of Registrars, Transfer-Agents and Depositaries (PARTAD).

The Registrar keeps registers of more than 500 Issuers and manage the property rights of over 750 th. securities holders. It has a broad regional network, and combines years of experience with reliable registration and management technologies that comply with international standards.

The register holder renders shareholders registrar-keeping related services and also functioning as OAO Gazprom Neft’s returning board and dividend payment agent.

Address: 71/32 Novocheremushkinskaya, Moscow, 117420, Russia

Tel.: (495) 719-40-44.

Fax: (495) 719-45-85.

Internet: <http://www.draga.ru>

E-mail address: [info@draga.ru](mailto:info@draga.ru)

### 3. Gazprom Neft's position in the Industry

According to the results of 2006 the Company has taken the fifth place among the Russian vertically integrated oil companies on the key production indices: volumes of production, refining and oil exports.

In 2006 macroeconomic factors, first of all, high but unstable world oil prices, had an essential influence on the Russian oil companies activities. So, on August 8, 2006 the oil price of the Brent mark has reached a historical maximum of \$78,69 per barrel. However, after that the price has fallen practically 30%. For the Russian oil companies a high volatility of the world oil prices resulted in negative figures of the fourth quarter. In October-December the companies' profit was noticeably reduced due to fall of the world oil prices and high tax deductions calculated according to the results of the third quarter when the oil prices were record-breakingly high. Nevertheless, on average the high oil prices and increase in the world market demand have caused an essential growth of export income and capitalization of the Russian oil companies.

In general the Russian oil and gas complex suffered from slowing down of positive dynamics in 2006. The year passed without scaling M&A transactions, however, the capital investments in the main production noticeably increased.

#### Change of average values of the world oil prices

Oil (grade)	December 2006, US\$/barrel	December 2005, US\$/barrel	December 2006 to December 2005, +/- (%)
Brent (Dtd)	63,01	56,91	+10,7
Urals (Med)	58,43	54,71	+6,8
Urals (Rdam)	57,98	53,60	+8,2

Source: Info-TEC

#### Oil production

Russia's oil and gas condensate output in 2006 totaled 480,53 million tons, or 10,63 million tons more than in 2005. The oil production growth rate has been approximately on the same level, slightly having decreased by 0,04% down to 2,26%, that is the record-breaking low value for the last 6 years.

In addition to the previous year's tendencies when volumes of oil production were reduced in three companies ("YUKOS", "Gazprom Neft" and "Bashneft"), the 2 other companies made up that list in 2006: "TNK-BP" and "Slavneft". The most powerful decrease in the level of oil production has taken place in "YUKOS", that is explained by insufficient volume of oil production financing.

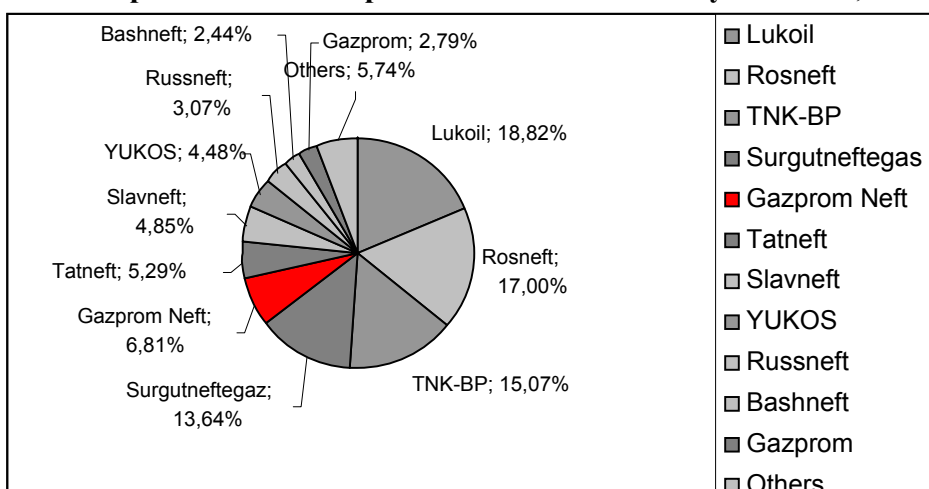
The oil production volume of "Gazprom Neft" was 32,72 million tons in 2006. The Company has managed to slow down the rates of oil production decrease down to 0,97%, however,

its specific weight in the overall Russian oil production has slightly decreased – from 7,03% to 6,81%.

The “Rosneft” company managed to reach a desirable rate of the oil production growth rate (9,8%) last year, that allowed it to take the second line among the largest oil companies of Russia in terms of production growth. The share of the “Big Four”: “Lukoil”, “Rosneft”, “TNK-BP” and “Surgutneftegaz” – accounts for 64,5% of oil production in 2006.

“Russneft” successively leads the oil production growth rates list with a 121,18% growth. It is caused by a policy of the company extensive growth. However, on average the market oil production growth rate is at a stable level, that is due to the end of extensive growth period and change-over to a policy of intensive development in oil production.

#### JSC “Gazprom Neft” in oil production on the territory of Russia, 2006\*



\*not taking into account NGK “Slavneft”

#### Dynamics of oil and gas condensate production, mln tons

	2006	Share	2005	Share	Growth rate for 2006
Lukoil	90,42	18,82%	87,81	18,69%	102,97%
Rosneft	81,71	17,00%	74,42	15,84%	109,80%
TNK-BP	72,42	15,07%	75,35	16,04%	96,11%
Surgutneftegaz	65,55	13,64%	63,86	13,59%	102,65%
Gazprom Neft	32,72	6,81%	33,04	7,03%	99,03%
Tatneft	25,41	5,29%	25,33	5,39%	100,32%
Slavneft	23,3	4,85%	24,16	5,14%	96,44%
YUKOS	21,53	4,48%	24,52	5,22%	87,81%
Russneft	14,76	3,07%	12,18	2,59%	121,18%
Bashneft	11,73	2,44%	11,93	2,54%	98,32%
Gazprom	13,4	2,79%	12,79	2,72%	104,77%

Others	27,59	5,74%	24,6	5,24%	112,15%
<b>Total in Russia</b>	<b>480,53</b>	<b>100,00%</b>	<b>469,9</b>	<b>100,00%</b>	<b>102,26%</b>

Source: Info-TEC

## Refining

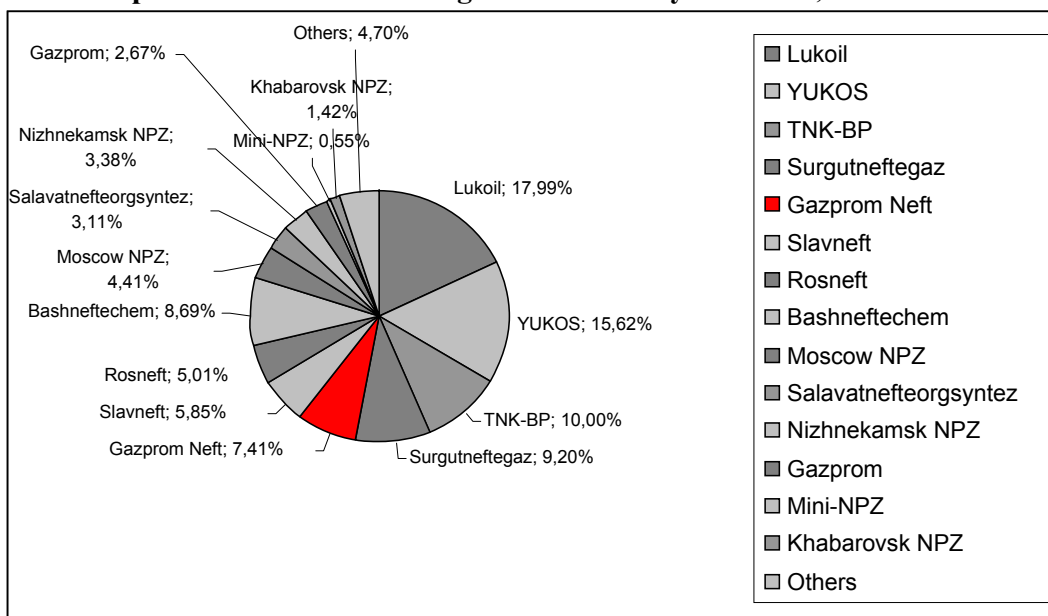
The volume of primary oil refining at Russian oil refineries (“NPZ”) increased by 5,79% to 219,56 million tons in 2006. As in the previous year such dynamics is explained by the growth of attractiveness of domestic oil refining, decrease in efficiency of oil export by rail and applying of additional volumes of oil produced to the domestic market.

“Lukoil” is in the lead (39,49 million tons) in terms of volumes of primary oil refining. The share of the four leading companies accounts for approximately a half (52,81%) of all refined oil delivered to NPZ in Russia. Besides, it is important to note that refining volumes continue to increase the second year in a row. The share of oil refined at Russian NPZ, in the total volume of oil produced has made up 45,7%.

The most active refining company was “Gazprom Neft” (+12,28 %). Such growth is caused by increased throughput at the main refining unit of the company – Omsk NPZ. Besides, the Company has begun oil refining on the conditions of processing in JSC “Slavneft-YANOS” and JSC “Slavneft-YANPZ named after I.M.Mendeleev” (the share of the Company in refining is 50%). Refining is also carried out at Moscow NPZ in the amount of 33,3 % of its total capacity.

The total volume of the Company’s oil refining was 24,4 million tons, which is 11% of the total volume of refining in Russia.

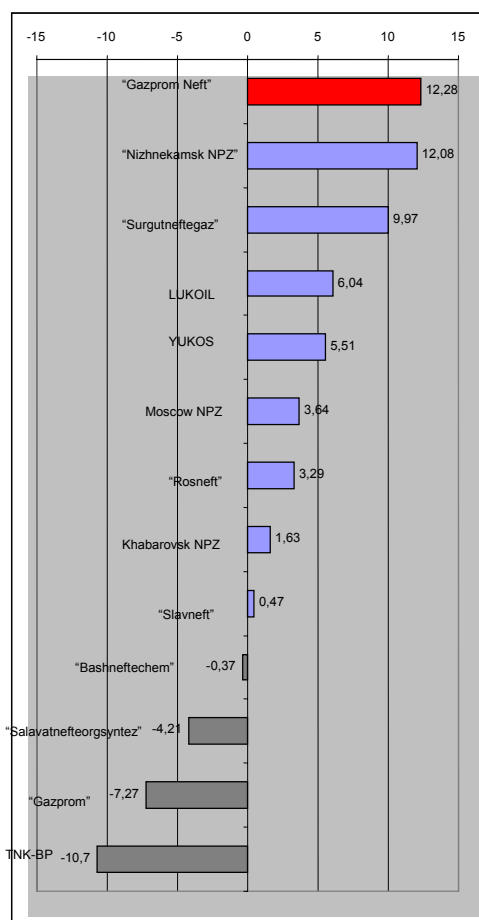
### JSC “Gazprom Neft” in oil refining on the territory of Russia, 2006\*



\*not taking into account NGK “Slavneft” and Moscow NPZ



## Growth of primary oil refining in Russia in 2006 (%)



## Primary oil refining at Russian plants, mln tons

	2006	Share	2005	Share	Growth rate for 2006
Lukoil	39,49	17,99%	37,24	17,94%	106,04%
YUKOS	34,3	15,62%	32,51	15,66%	105,51%
TNK-BP	21,96	10,00%	24,59	11,85%	89,30%
Surgutneftegaz	20,19	9,20%	18,36	8,85%	109,97%
Gazprom Neft	16,28	7,41%	14,5	6,99%	112,28%
Slavneft	12,84	5,85%	12,78	6,16%	100,47%
Rosneft	10,99	5,01%	10,64	5,13%	103,29%
Bashneftechem	19,09	8,69%	19,16	9,23%	99,63%
Moscow NPZ	9,68	4,41%	9,34	4,50%	103,64%
Salavatnefteorgsintez	6,82	3,11%	7,12	3,43%	95,79%

Nizhnekamsk NPZ	7,42	3,38%	6,62	3,19%	112,08%
Gazprom	5,87	2,67%	6,33	3,05%	92,73%
Mini-NPZ	1,2	0,55%	1	0,48%	120,00%
Khabarovsk NPZ	3,12	1,42%	3,07	1,48%	101,63%
Others	10,31	4,70%	4,28	2,06%	240,89%
<b>Total in Russia</b>	<b>219,56</b>	<b>100,00%</b>	<b>207,54</b>	<b>100,00%</b>	<b>105,79%</b>

Source: Info-TEC

### **Oil and oil products exports**

The scope for oil deliveries to export and “CIS” NPZ by JSC “Transneft” system increased by 1,7% to 221,73 million tons in 2006.

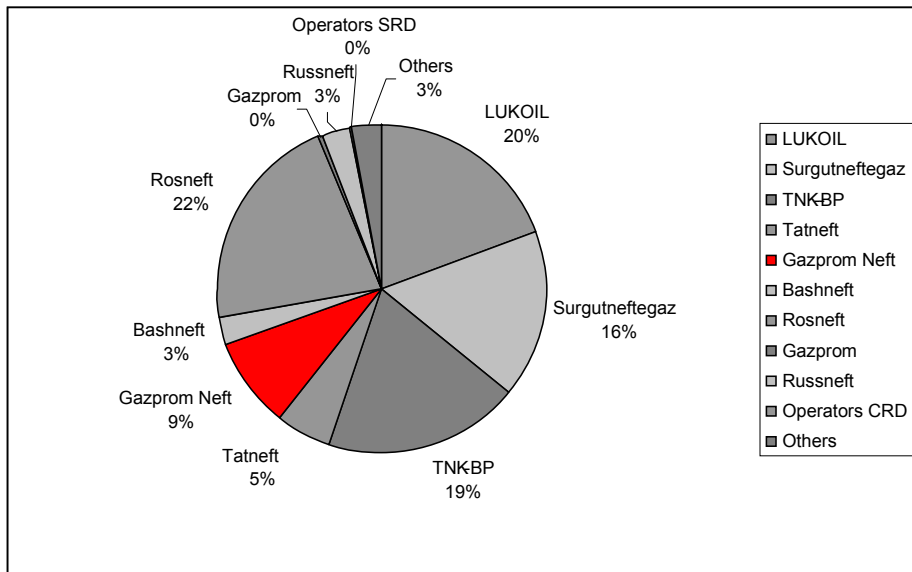
The main part of Russian export is traditionally dedicated to the international markets with the highest prices. Thus, it was delivered 208,96 million tons (4,168 million barrels per day) to non-CIS countries, that has increased the 2005 figure by 2,4%, and 36,72 million tons to the CIS countries.

“TNK-BP” lost its positions in oil exports and downgraded from the first line to the third line, having exported 37,3 million tons of oil. “Rosneft” was the most dynamically developing company and became a leader among the Russian companies in terms of oil export growth, having increased its exports by 20,6% to 41,51 million tons. “Lukoil” with the increase of 9,33%, falls behind the leader by 3,88 million tons. Besides, it is important to note the “Bashneft” company, the export growth rate of which was 122,48% last year.

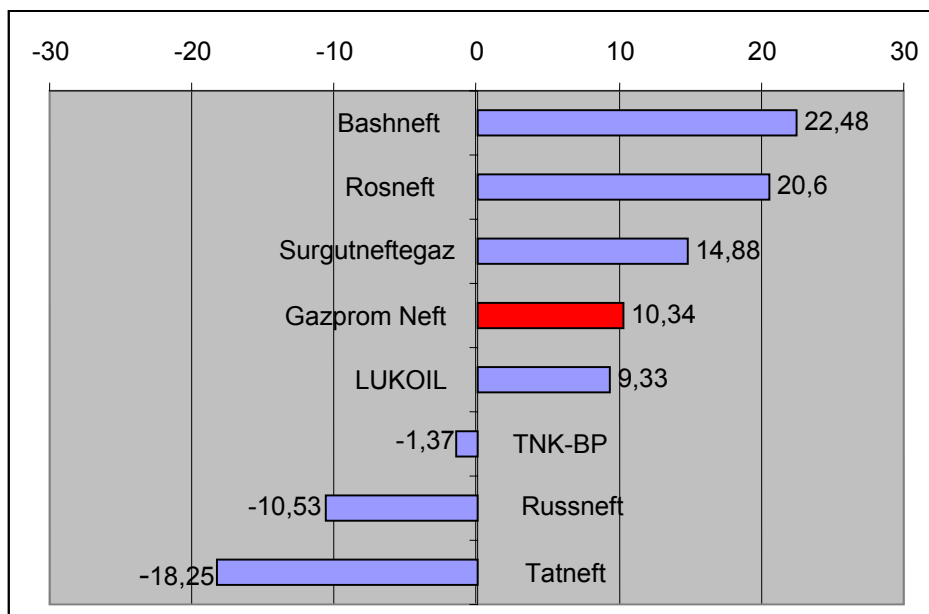
The Russian export of oil products is also orientated towards non-CIS countries. The physical volumes of oil products deliveries to the CIS countries increased by 37,75% in 2006. As for the non-CIS countries, the annual growth has slowed down and made 4,9%.

“Gazprom Neft” demonstrated a positive dynamics, having increased the export volumes by 10,34% to 17,72 million tons in 2006. The Company increased export of oil products with even more intensive rates outstripping average rates in industry. The volume of export has grown by 43,9% more (3,74 million tons) and has reached 12,26 million tons.

**JSC “Gazpromneft” in the Russian oil export system, 2006.**



**Growth of Russian oil export in 2006 (%)**



Source: Info-TEC

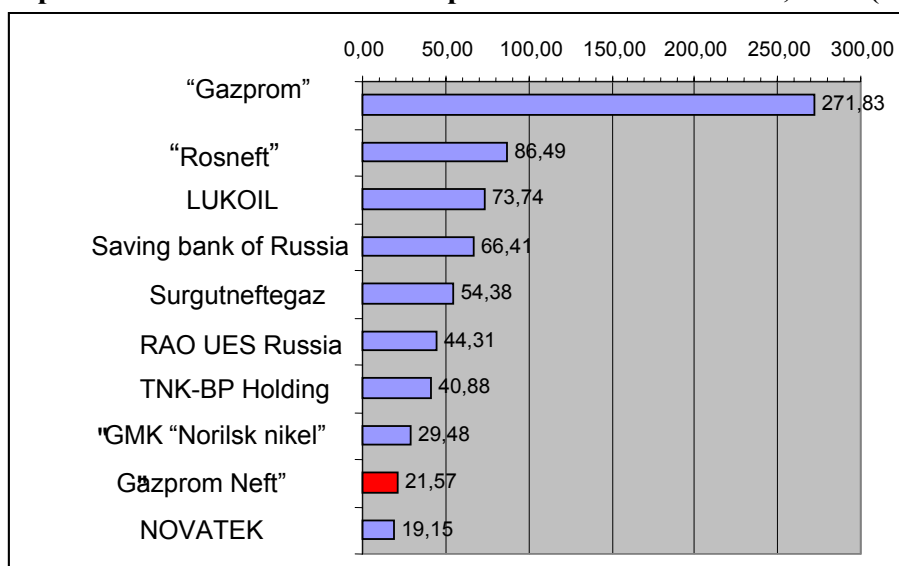
**Stock Market**

The year 2006 was characterized by growth of the Russian equity market. The main event of the equity market in 2006 was the initial public offering (IPO) of JSC “NK “Rosneft”. The company has taken the second place among the Russian issuers in terms of market capitalization by the year end 2006.

Quotations of the Company shares, starting with the price of \$3,85, have closed at the price of \$4,56 in 2006.

According to the results of 2006 “Gazprom Neft” has made up the ten largest Russian companies, taking the ninth place in terms of the level of capitalization.

**Capitalization of the Russian companies as at December 31, 2006 (\$ billion).**



Source: RTS

#### 4. Key Operational Priorities

Some key operational priorities pursued by the Company include:

- Activization of geological and explorational works and purchase of assets for expanding the resource base;
- Increase of production volumes;
- Modernization of refining capacities;
- Market share increase in retail business;
- Improvement of the Company organizational structure;
- Struggle against costs increases.

## 5. Key Risk Factors Associated with the Company's Operations

### KEY RISKS OF THE COMPANY

The key risks are the risks, that the Company's operations are exposed to at the greatest degree.

Risk evaluation is made on the basis of information analysis and conditionally accepted in the following gradation according to the degree of negative influence on the Company operations results (in increasing order):

<i>Insignificant risk</i>	
<i>Moderate risk</i>	
<i>High risk</i>	

### SUMMARY EVALUATION OF THE COMPANY PRINCIPAL RISKS

<b>No</b>	<b>Name of risk</b>	<b>Risk evaluation</b>
1	Sector risk	insignificant
2	Country and regional risk	moderate
3	Financial risk	moderate
4	Legal risk	moderate
5	Operational risk	moderate
6	Acquisitions risk	moderate
7	Corporate governance	moderate

### DESCRIPTION OF THE KEY COMPANY RISKS

#### 1. SECTOR RISK

##### **INSIGNIFICANT**

The company's sector risks are determined by competition, processes in domestic and external industry markets, domestic and external prices for oil, services and products, and evolution processes in the company and its competitors.

The company's stable and dynamic growth enables it to occupy and maintain a strong and confident position among the industry's leaders in the domestic market, which reduces to an acceptably safe level the potential adverse impact of the aforementioned risks.

Prices for oil and products on both domestic and external markets, which are beyond the company's control, exert significant influence on the company's financial performance, profit and investment.

Steady high oil prices in export markets and stable demand for oil and products domestically do not presage any deterioration of the situation in the industry in the near future. Should that situation change, it is possible to mitigate any adverse impact by realigning the volumes of export and domestic oil products sales in accordance with price fluctuations.

A critical drop in world prices for Russian oil to 16 US dollars would not precipitate a failure by the company to cover its obligations.

A limited adverse impact on the company's performance could result from an increase in the costs of energy, services and transportation of oil and oil products, which is mainly beyond the company's control. To diminish the influence of these risks, the company has been taking measures to use alternative energy and its own energy sources, concluding long-term contracts and seeking to optimally redistribute transportation volumes across transport formats (pipeline, railway, sea transport).

The company's actions vis-a-vis sector risks depend on a particular situation in each particular case, and are aimed at ensuring the unconditional fulfillment of its obligations.

In the reporting period and at this stage in the company's operations, **sector risk has been insignificant.**

## 2. COUNTRY AND REGIONAL RISK

### **MODERATE**

Country risks for the company are determined by Russia's inherent social, political and economic risks and the international financial rating of Russia, which is beyond its control.

The principal activities of the company occur in the Siberian and Central Regions. The economic and social risks and the development prospects of these regions are reflected in the Program for the Socio-economic Development of the Russian Federation for the Medium Term.

The risks of military conflict, popular unrest, strikes, and declaration of a state of emergency are low in the regions where the company operates.

Also low for the company in the regions where it operates are risks associated with natural and climatic features, natural disasters and traffic disturbances.

Events in the social, political and economic life of Russia, and the reforms being carried out, directly or indirectly affect the company's activities. The stabilizing social and political situation and economic growth in Russia, along with Russia's successful servicing of its external debt and stable international financial rating, tend to reduce the adverse impact of country risks on the company's activities.

Nevertheless, considerable influence on the company's activities may be exerted by the decisions of local, regional or state (including foreign) authorities with respect to taxation, tariffs, quotas, trade barriers, currency regulation, nonresident ownership share restraints, nationalization, subsidies, licensing and antimonopoly policies, the setting of interest rates and refinancing rates, expropriation and the seizure of assets.

Company's actions in case of adverse developments in the situation in the regions where it operates depend on how much these changes affect its performance, and are decided upon in each specific case by the methods that are available for mitigating the impact to the lowest possible level.

In the reporting period and at this stage in the company's operations, **country/regional risk has been moderate.**

### 3. FINANCIAL RISK

#### **MODERATE**

In line with its strategic development plan, the company has been intensively building up and expanding its business activity, employing for this purpose both its own and borrowed funds (secured and unsecured). The company's current standing, and the market situation, permit it to borrow funds with an acceptable cost of capital, therefore the risk associated with the need for capital is insignificant.

The company has been pursuing a well-balanced policy with respect to the use of its own and borrowed funds and at present has ratings by Moody's (Ba1/Ba2) and Standard & Poor's (BB+/ruAA+).

The company is subject to both currency risks and risks of a change of interest rates, as it employs considerable borrowed funds, including loans secured by supplies of oil traded in dollar prices. As a result of this, the company's performance is subject to impact of fluctuations in the ruble's rate of exchange against foreign currencies, but the risk of such fluctuations is moderate on the scale of the company.

The company's profit is also adversely affected by the strengthening of the ruble exchange rate and by its real and nominal rate, which decreases Company's export revenues.

Among other negative factors is inflation, which, despite some stabilization, is responsible for growth in costs and therefore a decrease in income, but current and forecasted levels of inflation are far from critical values for the industry and the company.

The company does not resort to hedging for those risks, and in each particular situation draws upon internal financial risk management instruments and reserves that enable it to guarantee the fulfillment of its obligations.

In the reporting period and at this stage in the company's operations, **financial risk has been moderate.**

#### 4. LEGAL RISK

##### **MODERATE**

The company's performance is definitely influenced by reforms being pursued in Russia. Among them are currency regulation, banking, judicial, customs and taxation systems and laws on land use, rational management of the environment, use of mineral resources, extraction of raw minerals and other reforms.

The event of introduction of any of the following items could be assigned to the group of substantial legal risks for the company:

- amendments to the Tax Code of the Russian Federation
- new currency regulation provisions
- new rules in the field of licensing
- amendments to legislation on mineral resources
- amendments to legislative acts on charges for adverse environmental impact.

In the reporting period, none of the company's licenses were revoked, and the risk of revocation or non-extension of licenses is insignificant.

In the reporting period, there have been no changes in judicial practice on issues which could have a negative impact on the company's activities.

Legal risks in the reporting period have had no substantial influence on the company and did not affect the company's fulfillment of its obligations.

In the reporting period and at this stage in the company's operations, **legal risk has been moderate.**

#### 5. OPERATIONAL RISK

##### **MODERATE**

The company is at risk from the absence of diversification in its commercial activities into areas different from, extracting, processing and retail oil and oil products. This risk is compensated for by the stable financial condition of the company, by its quality asset mix.

Operational risks in prospecting for, extracting, preparing and transporting oil are insignificant on the scale of the company.

Restrictions on exports could also have a limited adverse impact on the company's exports, which could occur as the result of a large-scale accident or natural disaster in a cargo port or terminal or in the Transneft pipeline system, which is beyond the company's control. The degree of that adverse impact is mitigated by the diversification of its export cargo volumes between the ports of



Novorossiisk, Tuapse, Primorsk, Butinge, the Druzhba oil pipeline, and carriage by rail. Based on this, operational risks in oil and products export are moderate on the scale of the company.

The company's activities are subject to risks of accident and breakage of main production equipment. To reduce such risks at the Omsk Refinery and JSC "Slavneft YANOS" the company is carrying out a set of preventive measures and a large-scale program for the replacement of old equipment. The Omsk Refinery's and JSC "Slavneft YANOS" equipment is insured against damage due to fire, explosion or natural or other disasters, but there is no such insurance for the Moscow Refinery, involved in the commercial processing of the company's products. A lengthy disruption or reduction of production at these refineries because of a major accident can inflict on the company a substantial loss, the risk of which is also not insured. The company is in a position to manage, in part, losses due to a operational disruption by increasing product output at other refineries that are not working at full capacity or by increasing exports. Nevertheless, since major accidents occur at oil refineries statistically rarely, operational risk related to oil processing is assessed as moderate.

Risks associated with ecology and environmental protection are moderate on the scale of the company. The company is carrying out an extensive set of measures to reduce harmful impact on the environment and ecosystem, to reduce emissions, to reclaim lands and to process waste, and complies with the requirements of current legislation.

The risk of loss of important information for the company is moderate. The main factors of this risk are : the reliability of the backup copying and storage and the level of information security.

A loss of the company's office building or key personnel might inflict tangible damage on the company's activities. However, because of the low probability of such events, the related operational risk is moderate.

In the reporting period and at this stage in the company's operations, **operational risk has been moderate.**

## 6. ACQUISITIONS RISK

**MODERATE**

In keeping with its strategic development plan, the company aims to increase its equity participation in other companies, and to acquire other companies and commercial and production assets. The company assesses potential investments and acquisitions comprehensively from the point of view of existing risks, problems in the integration of the assets to be bought into its own structure, relations with shareholders and subsidiary companies, existing and possible liabilities, legal and financial aspects and the introduction of the company's adopted management standards and policies.

In the reporting period and at this stage in the company's operations, **acquisitions risk has been moderate.**

## 7. CORPORATE GOVERNANCE

### **MODERATE**

The company's corporate relations are governed by its Charter (articles of incorporation) and internal documents, and are subject to the current laws of the Russian Federation.

Management of the Company is characterized by influence of the main shareholder at realization of strategic and current activities of the Company.

Among the main factors possibly affecting corporate governance are: issuance of securities and American depositary receipts, relationship between external and minority shareholders, changes inside top management and organizational structure of the Company, possible strategic and tactic adjustments and inadequate insurance protection for the liability of officers and directors of the company.

In the reporting period and at this stage in the company's operations, **corporate governance risk has been moderate.**

## **6. Report of the Board of Directors on the Results of Development of JSC "Gazprom Neft"**

2006 became the first year, when "Gazprom Neft" has worked under the new name and under the direction of a new management team. During this year the Company has succeeded to fulfil a number of strategic issues. They are:

- maintaining and strengthening of the Company position as one of the leaders of the Russian oil sector
- slowing down the rates of oil production decrease and meeting the conditions for the further growth in oil production volumes
- expansion of resource base due to purchase of perspective license areas
- development of oil refining capacities, increase in volumes and depth of refining
- expansion of retail network, regional diversification of sales, maintenance of base for the further expansion of retail capacities in perspective regions, increase of recognition of the "Gazprom Neft" brand.
- increase in volumes of oil and oil products export
- improvement of corporate management
- maintenance of high level of ecological safety in areas of the Company's industrial objects location
- etc.

### **Oil production**

"Gazprom Neft" kept its positions as one of the leaders of the oil industry in 2006 among other Russian companies. The Company takes the fifth place in terms of oil production in the Russian Federation. The Company's share in oil production on the territory of Russia was 6,81% in 2006.

The Company succeeded to slow down the rates of decrease in oil production volume in 2006. The Company has fulfilled the production business-plan (32,014 million tons without taking into account JSC "NGK Clavneft") on the 24<sup>th</sup> of December already and has exceeded a planned figure of oil production by 2,2% , having reached the level of 32,72 million tons by results of the year. Thus, the Company's decrease in oil production volumes reduced down to 0,97% (this index was 2,9% in 2005). JSC "Sibneft-Noyabrskneftegaz" remained to be the main production unit of "Gazprom Neft" in 2006. During the year this enterprise has extracted 21,36 million tons of oil, that is 65,3% of annual production of the Company.

The main oil production in 2006 was carried out at the following fields: Sugmutsкое (9314,9 th. tons), Priobskoe (4312,6 th. tons), Sporyshevskoe (3185 th. tons), Vyangapurovskoe (3121 th. tons) and Sutorminskoe (2523,8 th. tons) . The Company has begun to exploit five new oil fields: Chatylkinskoe, Kholmistoe, Severo-Vyangapurovskoe, Pyakutinskoe and Zimnee in 2006. Oil production on new fields has made up – 237,8 th. tons this year.

424 oil wells were put into operation in Gazprom Neft fields, with an absolute oil production - 3 958,9 th. tons. Average production rate of new wells was 83,2 t/day. The main oil production growth in 2006 was in Priobskoe field – the oil production volume there was 4312,6 th. tons (60% of growth – 2697,1 th. tons in 2005); in Krapivinskoe field – the oil production volume was 1112,2 th. tons (17% of growth), in Byngapurovskoe field – 6,6% of growth.

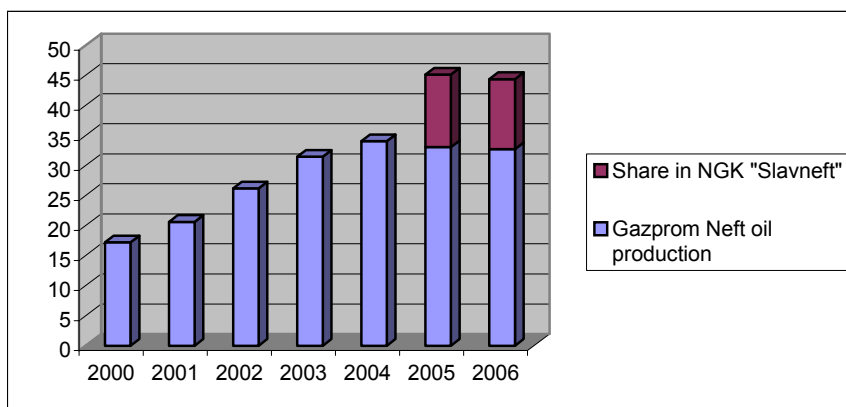
Stagnation of negative dynamics of oil production within the last two years is caused by number of factors: decrease in production at old fields, the majority of which has reached a final stage of production; deterioration of resource structure; rolling blackouts; abnormally cold winter of 2005-2006.

Stagnation in the production decrease rate in 2006 is related to increase in the level of capital expenditures up to 39,2 billion rbl., the main part of which (36,8 billion rbl.) was applied to oil production. Through large-scale capital investments the Company has succeeded to raise the level of production in the main fields by implementing new technologies as well as putting into operation five new fields.

In 2006: it was carried out 1269 geological and engineering operations (in 2005 – 922), including 424 new wells, put into operation – 31 of them with completion, 204 hydraulic fracturings, 11 side tracks, conformance of input profile of a well by physical and chemical methods (234 well treatments). All of these have allowed to extract additional 5,3 million tons of oil (in 2005 – additional production was 3,7 million tons).

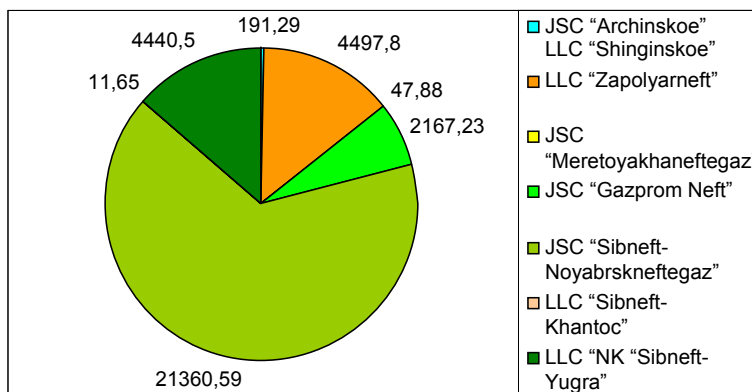
Since 2007 the Company intends to increase production volumes annually.

### Production of oil and gas condensate in 2000-2006, mln tons.



Source: the Company information

**Production of oil and gas condensate by main production units of JSC “Gazprom Neft” (th. tons), 2006**



Source: Info-TEC

**Expansion of the resource base**

Being one of the largest Russian oil and gas companies, Gazprom Neft has essential reserves. Gazprom Neft’s reserves were more than 720 million tons at December 31, 2006. The Company has rights to use subsurface mineral resources at 62 license areas located in 11 regions of Russia at 31.12.06. The Company has 10 five-year prospecting and 52 exploration and production licenses for 25 years. The total area of Company’s license areas is 58 293 sq. km, including 20 895 of water areas.

However, despite the essential reserves indicating high growth potential for “Gazprom Neft”, the major direction of its activity remains the expansion of resource base due to reception of new licenses for perspective areas.

The Company made resource and technical and economic assesment of 162 areas, put up for an auction, with the purpose of resource base growth and purchase of perspective new territories in 2006. According to the results of open tenders “Gazprom Neft” was declared the winner in auctions for purchase of the license for the right to use subsurface mineral resources on Doobsky (in May, 2006) and Novorossiysky (in September, 2006) fields in Krasnodar.

Gas resources of Doobsky field make 1,5 bcm under C1 category and 6 bcm under C3 category. Forecasted resources of gas on the Novorossiysky area are estimated at 25 bcm under D1 category.

The most significant purchase of 2006 has been made by the Company in December when “Gazprom Neft” became a winner of the auction on the right to use subsurface mineral resources of Yuzhno-Toraveyskoe oil field in Nenetsky AD. Geological oil deposits of this field on the sum of categories C1 and C2 is 62,4 million tons. Recoverable part is 12.3 million tons. The new field has extremely favourable location, because it is situated close to the oil fields with quite essential proved oil reserves: named after Trebs and Titov, as well as so-called deposits of ChHP blocks. Their cumulative extracted resource potential is estimated more than 165 million tons (on sum of categories C1 and C2).

Validity of the license for the right to use subsurface mineral resources of Sporyshevskoye field has been prolonged for 25 years, up to the end of 2047. Additional validity of the license will allow to develop deposits of the field commercially viable.

“Gazprom Neft” carried out works on calculation and recalculation of reserves at 17 fields (in 2005 – on 8 fields) last year.

In 2006 “Gazprom Neft” opened 15 new fields of hydrocarbons, including: 10 oil, 3 gas condensate, 1 oil and gas and 1 gas fields,- as a result of complex of geological and prospecting works.

Gazprom Neft’s exploration drilling increased by 50,7% to 34,3 th. m, production drilling – by 38,4% (1428,3 th. m) in 2006.

Exploration on unexplored fields and continuing exploration of producing fields have allowed to add 11,2 million tons of recoverable reserves, 11,1 million tons as a result of production drilling at producing fields, and 13,2 million tons of recoverable reserves as a result of implementation of new high technologies, orientated to increase oil recovery factor.

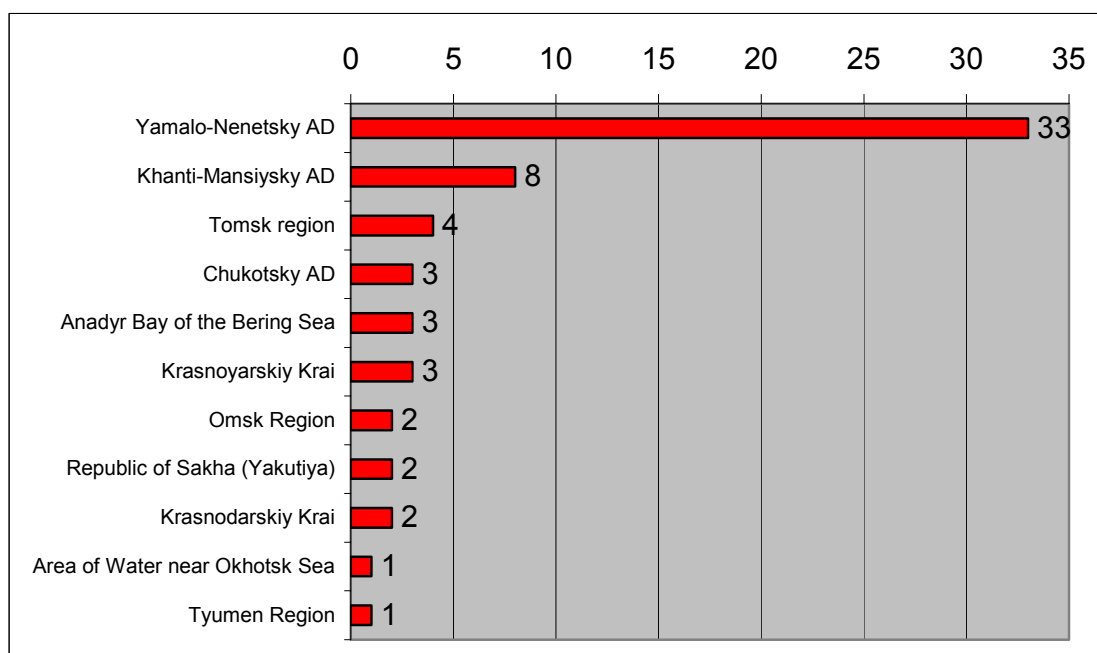
Thus, the total increase of recoverable oil reserves of the Company under C1 category estimated 35,5 million tons, condensate - 139 th. tons, and gas - 3,2 bcm . In terms of oil equivalent, the total increase of reserves is 38,9 million tons.

#### **Comparison of operation results of 2005 and 2006 towards increase of reserves**

	2005	2006
Discovery of new deposits	<b>10</b>	<b>15</b>
Increase in extracted deposits of A+B+C1 category	<p><b>24,6 million tons</b></p> <p>Due to geological and prospecting works – 1,3 million tons</p> <p>Due to production drilling and increase of oil recovery factor (ORF) – 23,3 million tons</p>	<p><b>35,5 million tons</b></p> <p>Due to geological and prospecting works – 11,2 million tons</p> <p>Due to production drilling and increase of oil recovery factor (ORF) – 24,3 million tons</p>
Obtaining of new licenses	9 license areas with recoverable reserves of C1 category of <b>0,726 million tons</b>	3 license areas with recoverable reserves of C1 category of <b>11,5 million tons of oil and 1,5 billion m3 of gas</b>

The Company gives high importance to joint projects, realization of which will serve as stimulus to increase the Company’s reserves. In particular, the Company and its American partner Chevron established a joint venture for realization of joint projects in the field of exploration and production of hydrocarbons – LLC “Severnaya taiga Neftegaz” in November 2006.

**The Company licenses for exploration, prospecting and production of oil and gas by regions, 2006**



\* In total 62 licenses, including 10 for prospecting and 52 for exploration and production of oil and gas.

Source: the Company information

**Refining**

The Company has taken the first place among the Russian oil companies in terms of oil refining throughput increase rate in 2006.

High increase of refining throughput (+12,2 %) was reached at the main oil refining unit of the Company – Omsk NPZ. Omsk NPZ became the absolute leader in Russia in terms of light oil products and aromatic hydrocarbons production volumes in 2006. Omsk NPZ took the second place in terms of oil refining throughput (16,275 million tons) among Russian oil refineries (the first place took LLC PU “KirishinefteopgsynteZ” with 20,108 million tons, which belongs to JSC “Surgutneftegaz”). Depth of refining at Omsk NPZ in 2006 was 84,4%, with an average rate in the Russian refining sector – 71,1%.

The Company continued to work on improvement of capacities and working processes at the main refining unit in 2006. In particular, in September the Company in cooperation with Shell Global Solutions has finished realization of the “Navigator-55” program, oriented on improvement of Omsk NPZ.

The Company refines oil at Moscow NPZ based on the share in capital. The volume of primary processing at Moscow NPZ was 9,683 million tons in 2006, that is 3,3% above the level of 2005. The Company share constitutes 3,234 million tons.

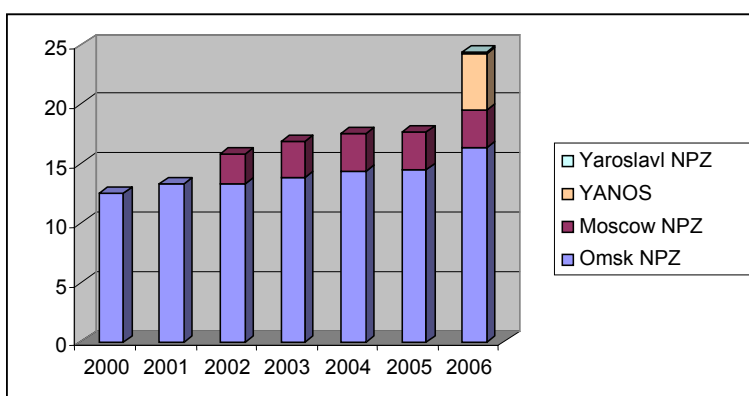
Due to actions of the main shareholder of Moscow NPZ, JSC “Moscovskaya neftegazovaya kompanya”, the Company representatives, without any explanation of reasons, were not admitted to

participate at the annual general meeting in 2006. The Company intends to use all lawful means to protect its interests at carrying out of management of Moscow NPZ.

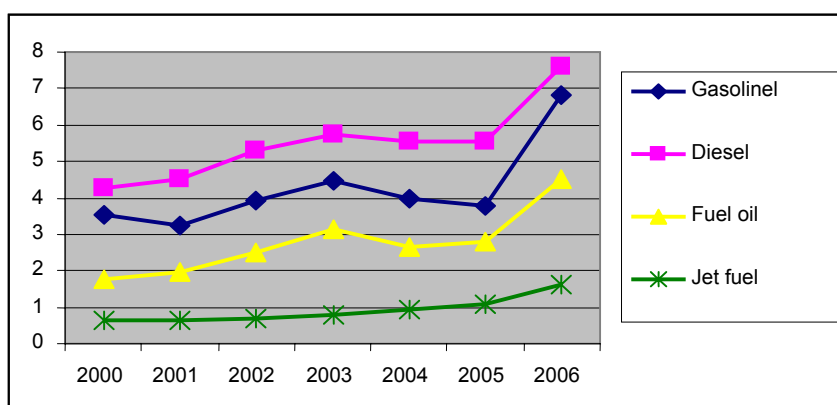
Gazprom Neft has access to refining capacities of JSC “NGK “Slavneft” : JSC “Slavneft-Yaroslavnfteorgsyntez” and JSC “Slavneft-Yaroslavl NPZ named after Mendeleev”. The volume of processing at JSC “NGK “Slavneft” refineries was 12,839 million tons in 2006, the share of the Company in it was 4,85 million tons.

The Company has made cardinal changes in structure of work with counterparts at realization of oil products in 2006, directed to making them conformed to the accepted international norms. On December 15, 2006 the Company has carried out the first tenders on sale of oil products, petrochemicals and liquefied hydrocarbonic gases. Since 2007 all oil products and petrochemicals will be realized by the Company on a tender basis. Introduction of the tender system of oil products sale, that is widely used by the world oil companies, will help the Company to provide maximum efficiency of purchases and sales, and will provide a principle of equal accessibility to resources for counterparts.

**Dinamics of processing development, 2005-2006 (million tons)**



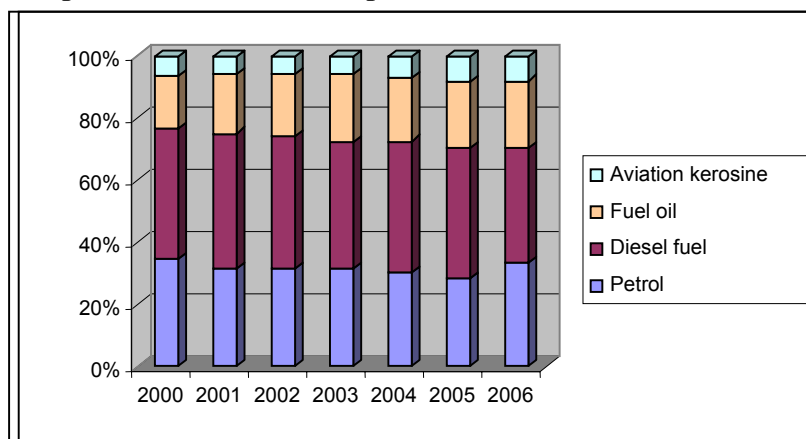
**Production of main oil products types, 2005-2006 (million tons)**



Source: the Company information



## Balance of production of main oil products, 2005-2006



Source: the Company information

### Oil products retail

The Company has strengthened its positions at the oil products retail market in 2006, having one of the most developed retail networks in Russia. The total number of gas stations being in operation at the Company retail units has grown from 657 up to 762. Besides the quantity of franchising gas stations has decreased from 63 up to 54. It has been constructed 11 and reconstructed 31 gas stations. Realization of oil products through the Company own gas stations has increased 22,5% more and constituted 1 906 th. tons in 2006. Gasoline sales has grown 20,6% more and constituted 1445 th. tons, diesel– 25,2% more and constituted 435 th. tons.

The Company has made a number of strategic steps orientated to expansion of its own gas stations network and maintenance of further development of retail segment.

So, in July the Company became the owner of 100% shares of JSC “Munai Myrza”, that owns the largest retail network in Kyrgyzstan. This purchase has provided the Company large sales opportunities of oil products in the republic through its own gas stations. By the end of 2006 the Company owned 77 gas stations and 11 its own and 1 rented tank farms in Kyrgyzstan.

In July 2006 the Company won the auction for the tenant right of 30 land plots in St.Petersburg for gas station construction. The company acquired a tenant right of land plots for two years under the condition of gas station construction, afterwards the ground areas would be given to the Company for financial leasing for 49 years with the subsequent right of redemption.

In 2006 the Company has begun work on increasing Gazprom Neft’s brand awarness. The company develops a large-scale rebranding program which is planned to be approved in 2007.

### Oil and oil products exports

The Company exported oil through the exclusive affiliated trader, Sibneft Oil Trade Company GmbH (Siboil) in 2006. The company was registered in Vienna in 2005. The main export directions were seaports Novorossiysk and Tuapse on Black Sea and port Primorsk on Baltic sea as well as Germany and Poland by the “Druzhba” pipeline.

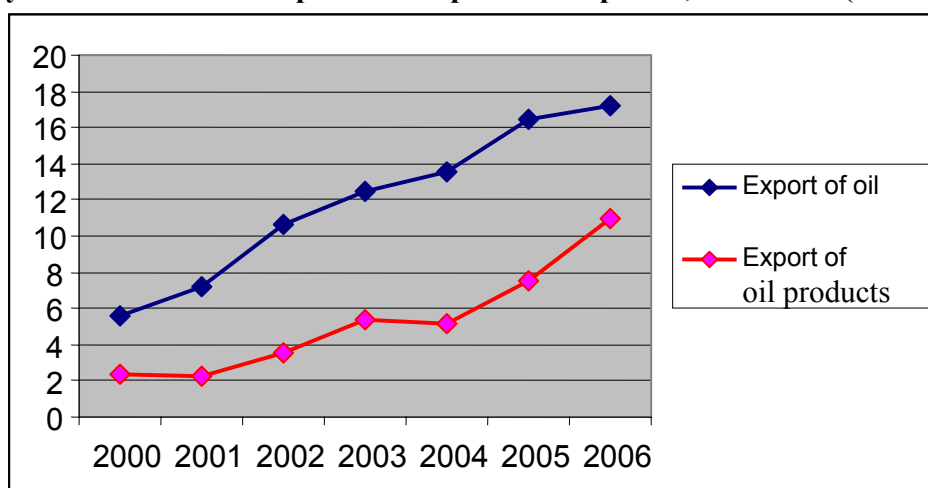
“Gazprom Neft” has supplied the world market with 17,23 million tons of oil in absolute terms in 2006, that 4% more than in 2005. 11,89 million tons were delivered by sea, 5,34 million tons - by the “Druzhba” main oil pipeline.

Gazprom Neft's oil products export has increased by 3,4 million tons in absolute terms and constituted 10,93 million tons in 2006.

The Company has entered into an international pipeline project of state value as the shareholder for the first time – the civil engineering project of transbalkans oil pipeline Burgas - Alexandroupolis. Within the bounds of arrangements reached in November 2006, in January 2007 the Company together with JSC "AK "Transheft" and JSC "NK "Rosneft" has established LLC "Pipeline consortium Burgas – Alexandroupolis". The Company has received the share of 33,33% in its authorized capital. In turn, LLC "Pipeline consortium Burgas – Alexandroupolis" will hold 51% in "International project company" which will carry out realization of the project (Greece and Bulgaria hold 24,5% each in its authorized capital).

Participation in the Burgas – Alexandroupolis project brings the Company to an essentially new level and represents it as a serious player of the international petrotransport market.

**Dynamics of oil and oil products export development, 2000-2006 (million tons)**



Source: the Company information

## Key Operational and Financial Statistics

№	Index	Unit of measure	Fact 2005	Fact 2006	Change %
1	Oil production	th. tons	33 040,0	32 716,9	99,0%
2	Gas production (associated and natural gas)	million m <sup>3</sup>	2 019,8	2 068,4	102,4%
3	Total refined desalinated crude oil	th. tons	17 635,4	24 358,9	138,1%
	incl. ONPZ	-"	14 500,3	16 275,5	112,2%
	incl. MNPZ	-"	3 135,1	3 233,8	103,1%
	incl. YANOS	-"		4 747,2	
4	Total refined products:	-"	13 308,6	18 968,9	142,5%
	incl. ONPZ	-"	10 707,1	12 345,7	115,3%
	incl. MNPZ	-"	2 601,5	2 677,3	102,9%
	incl. YANOS	-"		3 878,4	
	...of which automotive gasoline	-"	3 683,5	5 060,0	137,4%
	incl. ONPZ	-"	3 016,4	3 487,2	115,6%
	incl. MNPZ	-"	667,1	707,6	106,1%
	incl. YANOS	-"		865,2	
	...of which diesel	-"	5 530,7	7 613,5	137,7%
	incl. ONPZ	-"	4 672,7	5 277,3	112,9%
	incl. MNPZ	-"	858,0	888,8	103,6%
	incl. YANOS	-"		1 439,6	
	...of which TS-1 (jet fuel)	-"	1 092,5	1 462,5	133,9%
	incl. ONPZ	-"	917,1	1 174,2	128,0%
	incl. MNPZ	-"	175,4	168,8	96,2%
	incl. YANOS	-"		119,3	
	...of which fuel oil (commercial)	-"	2 783,3	4 506,4	161,9%
	incl. ONPZ	-"	1 882,3	2 186,7	116,2%

	incl. MNPZ	-"	901,0	912,1	101,2%
	incl. YANOS	-"		1 361,3	
	<b>...of which lubricants</b>	<b>-"</b>	<b>218,6</b>	<b>326,6</b>	<b>149,4%</b>
	incl. ONPZ	-"	218,6	220,4	100,8%
	incl. MNPZ	-"	0,0	0,0	
	incl. YANOS	-"		93,0	
<b>5</b>	<b>Depth of oil refining (Omsk Refinery)</b>	<b>%</b>	<b>84,13</b>	<b>84,45</b>	100,4%
<b>6</b>	<b>Output of light oil products (incl. aromatic hydrocarbons) at Omsk Refinery</b>	<b>th. tons</b>	<b>10 526,9</b>	<b>11 856,8</b>	<b>112,6%</b>
<b>7</b>	<b>Oil products sales</b>	-"	19 044,7	24 125,7	126,7%
	<i>incl. Russia and CIS</i>	-"	11 517,8	13 192,3	114,5%
	<i>incl. non-CIS countries</i>	-"	7 526,9	10 933,4	145,3%
<b>8</b>	<b>Non-consolidated financial indices of the "Gazprom Neft" activities (excluding taxes and export duties).</b>	million rouble.	273 085,9	374 775,9	137,2%
	<b>Net Income</b>	million rouble.	42 489,1	62 829,1	147,9%
<b>9</b>	<b>Payroll at the end of period (total)</b>	pers.	44 949	47 961	106,7%
	<b>Payroll at the end of period (excluding subsidiaries)</b>	pers.	1 330	1 428	107,4%

## **Personnel and social responsibility**

“Gazprom Neft” considers realization of an effective personnel policy, responsible partner relations with its employees and high corporate social responsibility to the state and society to be a major condition of its successful development. Maximal safety of production and care of well-being of employees as well as social support for cities and regions where the Company’s units are located, are the main components of the “Gazprom Neft” personnel and social programs.

The Company’s personnel and social policy efforts were orientated on realization of the following main purposes:

- formation of highly skilled and talented team of loyal and motivated employees who provide achievement of current and strategic objectives of the Company;
- assistance in social transformations and institutional changes in regions of the Company’s operations via mechanisms of social partnership with the purpose of creation of the comfortable environment for its employees and development of civil society;
- achievement and strengthening of leading positions in terms of efficiency of its activity in the field of industrial safety, safety of labour and environment with the purpose of minimization of risks for the Company employees and a society as a whole.

### *Main personnel policy activities*

Recruitment and development of personnel, motivation and social support became the major directions of the personnel policy in 2006.

#### Staff recruitment and development:

1. The system of development and professional training in the Company and affiliated companies was improved. The amount of expenses for training of managers and experts in 2006 has exceeded a level of the last year by more than 25%.
2. In 2006 more than 200 young experts were recruited for work at Gazprom Neft’s main units. More than 800 students had an industrial practice.
3. The system of personnel recruitment was optimized: expenses for search and adaptation of the personnel were decreased.
4. Proposals for optimization of positions and salaries structure, taking into accounts regional features, were prepared.
5. Substantial improvements were reached in the field of automation and optimization of personnel office-work, including software application (SAP).

#### Personnel motivation and social policy:

1. With the purpose of decrease in turnover of staff, meeting of requirements of the Labour code of the Russian Federation and increase of labour productivity, the level of the real content of salary was increased in 2006. The average salary at the main units of the Company has increased considerably higher than the official rate of inflation in 2006.
2. Carrying out of work on definition of optimum conditions of a contract of voluntary medical insurance with SOGAZ company.
3. Carrying out of preliminary work on definition of possible conditions and order of formation of programs of not-state pension security of Gazprom Neft's employees with the non-state pension fund "Gazfond".
4. Preparation of proposals on optimization of social package content.

The existing system of personnel motivation provides not only material compensations, but various kinds of non-material motivation: awarding of the best employees of the Company with corporate awards, placing on Honour rolls, awarding of winners of competitions and professional competitions, publication in corporate mass-media which told about leaders of production and the best employees of the Company. All of these promote formation of corporate culture on the basis of united values and traditions.

#### *Social partnership and corporate social responsibility*

In relations with its employees the Company consistently realizes a principle of social partnership which became a basis for constructive negotiations, coordination of interests and establishments of mutual obligations in sociolabor sphere by way of conclusion of Collective agreements. Now Collective agreements operate in 40% of affiliated and dependent companies of the Company.

The "Gazprom Neft" activities affect the interests of number of partners, consumers and inhabitants of regions of the Company activities, therefore it is very important to aspire social responsibility.

The purpose of the Company's corporate social responsibility policy realization is the formation of high public standards, that meet public expectations.

Realization of programs promoting social and economic development of the territory, affected by the Gazprom Neft operations, including social investments, is applied to the following priority directions of charitable activity:

- Support of social institutes development;
- Support of educational and scientific establishments;
- Support of sports and health-improving programs;
- Settlement of burning needs of regions of the Company's operations.

The sponsor's help provided by the Company, promotes strengthening of the Company reputation in various target groups and provides growth of its authority among population of local communities. The volume of the sponsor's help in 2006 has grown in comparison with 2005. The

main objects of the sponsor's help are: public sports, scientific, cultural organizations as well as governmental authorities.

*Main measures in the field of health and labour protection:*

- Service of industrial safety rules and labour protection was created.
- Primary comparative audit and identification of industrial risks was completed in the oil refining block, complex of measures on risk minimization was formed.
- Project of Policy in the field of industrial safety and labour protection was prepared.
- Project of strategic purposes in the field of improvement of labour protection conditions and industrial safety was prepared, based on complex comparison with competitors.

At every unit of the Company measures allowing to decrease considerably harmful influence of productions on environment and industrial risks for the personnel and contract organizations are realized.

OJSC "Omsk NPZ" together with Shell Global Solutions has finished the first stage of the "Navigator 55" program, complementary aimed to improve condition of industrial safety and health protection of employees in the Company. In the nearest future it is planned to realize number of investment and organizational measures on implementing the innovations in this field.

Carrying out of similar measures at all units of the Company will help to improve the situation essentially in the field of labour protection and industrial safety as well as to make the units of the Company to become leaders in the given direction.

Also the Company management plans to consider an issue of complex introduction of the international standards of health protection and labour protection OHSAS 18001 in the nearest future.

### **Stock Market in 2006**

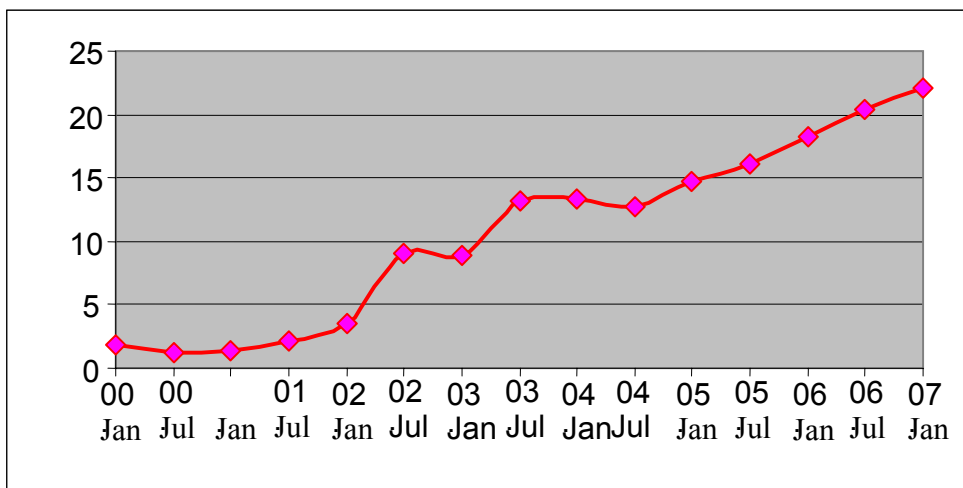
Capitalization of the Company in 2006 has demonstrated a stable growth. Share price has increased by 18,44% to \$4,56 by the end of 2006.

Shares of the Company are listed on the following exchanges:

- "B list" – Moscow Interbank Currency Exchange (<<http://www.micex.ru/stock>>). Ticker symbol - SIBN;
- "B list" – OJSC RTS Stock Exchange (<<http://www.oaorts.ru>>). Ticker symbol - SIBNG;
- "B list" – Russian Trading System Stock Exchange (<<http://www.rts.ru>>). Ticker symbol - SIBN.

The company's level-1 ADR (American Depositary Receipts) program provides international investors with the ability to make transactions involving the ADRs at the Berlin Stock Exchange and the Frankfurt Stock Exchange.

**Change of the Company capitalization, 2000-2006 (\$ billions)**



**Dividend in 2006**

According to results of the Company operations in 2005 the annual General meeting of shareholders held on 22.06.2006 resolved to pay dividend in the amount of 7,90 rbl. per one ordinary share. Term of dividend payment – till May 31, 2007. Total amount of monetary funds to be paid – 37 456 227 806,10 rbl.



## 7. Corporate Activity

### Activities of managerial bodies

Three General meetings of shareholders were held in the accounting period. On May 13, 2006 it was resolved to change the name of the Company for JSC “Gazprom Neft” (former name - JSC “Sibneft”) and to determine location of the Company in St.Petersburg.

On June 22, 2006 the Board of Directors of the Company was elected at the annual General meeting of shareholders.

In cumulative voting, under the Corporate Charter, a Board of Directors, made up of nine members, is to be elected by a general meeting of shareholders.

Members of the Board of Directors as of Dec.31.2006:

<b>Name Surname Patronymic</b>	<b>Contribution to the authorized capital (as at 31.12.2006)</b>	<b>Biography information</b>
<b>Miller Alexey Borisovich (Chairman of the Board of Directors)</b>	None	Born in 1962. Education: 1984 - Leningrad Financial and Economic Institute named after N.A.Voznesensky. 2000-2001 - Deputy Energy Minister of the Russian Federation; 2001 - to the present. – Chairman of the Board of Directors, Open Joint Stock Company “Gazprom”
<b>Kruglov Andrey Viacheslavovich</b>	None	Born in 1969. Education: 1994 - St.Petersburg Technological Institute of Refrigeration Industry. 2000-2001 – Head of the Department for Foreign Trade and Investments of the Managing Department of Foreign Economic Cooperation of the St. Petersburg Administration 2001-2002 – Deputy Director, LLC “Invest-In” 2002-2003 – Head of Gazprom’s Corporate Finance Department, Member of Gazprom’s Management Committee 2003-2004 – Head of the Department for Finance and Economics, Member of Gazprom’s Management Committee 2004-2004 – Acting Deputy Chairman of Gazprom’s Management Committee, Head of the Department for Finance and Economics, Member of Gazprom’s Management Committee 2004 to the present –

		Deputy Chairman of Gazprom's Management Committee, Head of the Department for Finance and Economics, Member of Gazprom's Management Committee
<b>Seleznev Kirill Gennadievich</b>	None	<p>Born in 1974. Education: 1997 - Baltic State Technical University named after D.F.Ustinov; 2002 - St.Petersburg State University.</p> <p>2000-2001 – Head of the Tax Policy Group of the Baltic Pipeline System (BPS) JSC, later, a BPS' branch of the Verkhnevolzhskie Magistralnye Nefteprovody</p> <p>2001-2002 – Deputy Head of the Management Committee Administration – Assistant to the Chairman of the Management Committee, Gazprom JSC</p> <p>2002-2002 – Head of the Department for Marketing and Processing of Gas and Liquid Hydrocarbons, Gazprom JSC</p> <p>2002 to the present – Head of the Department for Marketing and Processing of Gas and Liquid Hydrocarbons, Gazprom JSC; Member of the Management Committee, Gazprom JSC.</p> <p>Since March 20th, 2003 - Head of the Department for Marketing and Processing</p>
<b>Podjuk Vasily Grigorievich</b>	None	<p>Born in 1946. Education: 1969 – Ivano-Frankovsk Oil and Gas Institute.</p> <p>2000-2002 – Head of Gas, Gas Condensate and Oil Production &amp; Processing Department, Member of Gazprom's Management Committee 2002 to the present – Head of Gas, Gas Condensate and Oil Production Department, Member of Gazprom's Management Committee</p>
<b>Chuichenko Konstantin Anatolievich</b>	None	<p>Born in 1965. Education: 1987 – Leningrad State University named after A.A.Zhdanov; 1992 – Yu. B. Andropov Krasnoznamenny Institute of Foreign Intelligence of Russia.</p> <p>2000-2001 – Member of St. Petersburg International Bar Association (lawyer of the 1st Legal Aid Agency of the Moscow branch)</p> <p>2001-2002 – Head of Gazprom's Legal Department</p> <p>2002 to the present – Head of Gazprom's Legal Department, Member of Gazprom's Management Committee</p>

<p style="text-align: center;"><b>Pavlova Olga Petrovna</b></p>	<p style="text-align: center;">None</p>	<p>Born in 1953. Education: 1976 - Far East State University.</p> <p>2001-2002 – Assistant Professor, Civil Law Department, Saint-Petersburg State University</p> <p>2002-2003 – Deputy Head of Presidential Economic Department of the Presidential Administration of the Russian Federation.</p> <p>2003-2004 – Head of Department of Property Management and Corporate Relations, OJSC “Gazprom”</p> <p>2004 to the present – Management Committee member of the Gazprom Open Joint-Stock Company; Head of Department of Property Management and Corporate Relations, OJSC “Gazprom”</p>
<p style="text-align: center;"><b>Bisirkin Serguey Ivanovich</b></p>	<p style="text-align: center;">None</p>	<p>Born in 1964. Education: 2000 - Moscow State Legal Academy, Moscow State University of Traffic Routes</p> <p>2001-2007 - Director of Directorate of Joint-Stock Relations of JSC “YUKOS RM”, Deputy Affairs Manager of JSC “NK “YUKOS”.</p>
<p style="text-align: center;"><b>Khudyakov Yury Vladimirovich</b></p>	<p style="text-align: center;">None</p>	<p>Born in 1963. Education: higher economic.</p> <p>2000-2001 - Chief of Sector of Merges and Purchases of Directorate of Corporate Finances of LLC “YUKOS-Moscow”;</p> <p>2001-2004 - Chief of division - Deputy Director of Directorate of Corporate Finances of LLC “YUKOS-Moscow”;</p> <p>2004-2005 - Project Director of Directorate of Corporate Finances of LLC “YUKOS-Moscow”;</p> <p>2005-2007 - Head of Department of Corporate Finances of JSC “YUKOS-RM”.</p>
<p style="text-align: center;"><b>Ryazanov Alexander Nikolaevich</b></p>	<p style="text-align: center;">Voluntary terminated his powers of a member of the Board of Directors from 23.11.2006г.</p>	

The professional skills and experience of Gazprom Neft’s Directors guarantee effective performance from the Board of Directors. Bisirkin S.I. and Khudyakov, members of the Board of Directors, are independent directors under criteria recommended by the FSFM Corporate Behaviour Code. Presence of independent directors promotes strengthening of investors’ trust in the Company,

as well as allows generating an objective opinion on discussed issues. Members of the Company executive bodies are not members of the Board of Directors. The Chairman of the Board of Directors has a broad working experience and highly professional reputation in the field of the Company activities.

Two committees work under the Board of Directors: the Audit Committee, the Staff and Remunerations Committee.

In the reporting period, the Board of Directors met in 8 sessions during which it approved decisions concerning deals with interested parties, the convening of shareholders meetings and preparation for those meetings, business-plan, suspending of powers of the Company President and appointment of temporarily acting President, participation in other organizations and other matters, that are at competence of the Board of Directors.

### **Executive bodies and their activities.**

The office of President is the only individual executive body of the Company. Till November 22, 2006 Ryazanov Alexander Nikolaevich held that office. On November 22, 2006 his powers were suspended by the resolution of the Board of Directors. Since November 23, 2006 Dyukov Alexander Valerievich acts as the President of the Company. Dyukov Alexander Valerievich was elected to act as the President for a five-year term at the extraordinary General meeting of shareholders held on December 30, 2006.

The Executive Board – the Company’s collective executive body, in 2006 consisted of the President of the Company and members of the Executive Board appointed by the resolution of the Board of Directors on 22.05.2006 for a five-year term.

As of 31.12.2006 the members of the Executive Board are:

- Dyukov Alexander Valerievich – Chairman of the Executive Board
- Mukhametzyanov Reval Nurlygayanovich
- Breeva Tatyana Alexeevna

The Executive Board held 7 meetings during the period under review (2006). The Executive Board discussed issues related to purchase the licenses for the rights to use subsurface mineral resources, approved the Company’s business targets and reviewed issues related to payment of bonuses to employees.

## **8. Observance of the Corporate Code of Conduct**

The Company follows recommendations of the Corporate Code of Conduct in its operations. All shareholders are entitled to receive effective protection in the event that their shareholder rights are violated.

The observance of shareholder rights is guaranteed by:

- the existence of a reliable registration system for stock ownership rights;
- high liquidity in the company's shares;
- the absence of risks related to a dilution of equity interest (A shareholders meeting must approve decisions concerning the issuance of new stock. Furthermore, company bylaws state that there are no special rights issues and all shareholders have priority in acquiring new stock.);
- the company's transparency in terms of information dissemination:
  - o all information disclosures required by the Regulation on Information Policy are published on the corporate website ([www.gazprom-neft.com](http://www.gazprom-neft.com)) in Russian and English;
  - o shareholders have access to full and reliable information, including on the company's financial status, its operations and essential facts related to its financial and economic activities;
- the existence of effective oversight for the company's financial and economic activities:
  - o by the Management Board, over implementation of production, financial and economic plans;
  - o by the Board of Directors, over the results of work by company managers;
  - o by the Board of Directors Audit Committee, over the efficiency of internal audit and risk management systems;
  - o by the company's Auditor, over the trustworthiness of financial reports;
  - o by the Audit Commission, over the company's financial and economic activities and the efforts of management structures.

## **9. Prospects for the Corporate Development**

### **Gazprom Neft's main operational goals include:**

#### **Development of Gazprom Neft's resource base**

The potential sources of completion and expansion of Gazprom Neft's resource base for the period of 2007-2012 are:

- Active supplementary exploration of discovered fields, finding new fields within the limits of available license areas. In 2007 it is planned to conduct seismic activity by method of MOGT – ZD 2301 sq.km, by method of 2D - 3155 r.km, construction of new and completion of 32 explorative wells transferred from 2006 with general sinking of 65400 r.m. As a result of all complex of geological and supplementary exploration works the expected increase in deposits of C1 category will constitute 16,6 million tons of oil.

- Purchase of companies that have licences for the right to use subsurface mineral resources;
- Increase of ORF on exploited fields;
- Participation in auctions for purchase of new plots of bowels.

Priority land plots are considered on traditional territories of the Company activities (YaNAD, KhMAD) as well as on new regions of Timano-Pechorskaya province, north of Krasnoyarsk region and shelf of north seas.

### **Gas and gas refining:**

- Resolution of retail issues, increase in commercial resources of associated gas production (AG) and dry residue gas (DRG), intended for delivery in united system of gas supply (USGS). Realization of regional gas programs;
- Organization of deliveries and attracting new DRG consumers in Western Siberia;
- Preparation and carrying out complex measures to increase the level and efficiency of PG use in the Company's fields;
- Maintenance of interconnection of retail and industrial issues as a development direction.

### **Refining**

Improving refined products quality and refining efficiency :

- Realisation of complex development program of JSC "Sibneft-ONPZ" till 2020;
- Further implementation of projects as part of the company's medium-term development program:

- completion of construction of installation of measured pouring of oil products AUTN-2 in railway tanks;
- continuation of reconstruction of rectification and gas fractionation section of installation of catalytic cracking 43-103, completion of works in 2008;
- carrying out reconstruction of installations of hydroclearing L-24/6, L-24/7, L-24/9, putting into operation in 2009;
- acquisition of licenses and beginning of designing of new installations of isomerization, hydroclearing L-24/3000 and block of hydroclearing of petrol of catalytic cracking, completion of works in 2010;
- carrying out measures to increase the efficiency of equipment and maintenance of capital assets.

### **Oil products marketing:**

The main task of retail in Russia in 2007 and following years will be increase in efficiency of retail operations due to increase of share of retail in total volume of sale and optimization of methods, directions and structure of oil products sales. The exact steps in the solution of the task are:

- development and realization of Company's oil products sales strategy;
- profound analysis of competitive environment with the purpose of strengthening the Company position in the commodity markets;
- improvement of oil products tender sale system;
- development of retail network by purchasing operating gas stations and constructions of new gas stations in the regions with largest sales volumes and perspective rates of growth (first of all in Moscow region, St.Petersburg, Sverdlovsk, Tyumen, Nizhniy Novgorod regions and Krasnodar territory);
- priority development of affiliated wholesale and retail organizations and retail network in traditional sale regions of the Company – Central, Ural and Siberian federal districts;
- increase of level of controllability of oil products supply objects by introduction of new highly effective projects for automation of objects and improvement of operative control;
- development of fuel realization system mainly via multifuel gas stations;
- improve the quality of consumer service in retail trade, expansion of accompanying services spectrum, development and introduction of united service product and loyalty programs for clients on the basis of clearing settlements technologies, carrying out of advertising campaigns.

## **Improving services company management**

- Increase in overall performance of subsidiary service companies due to expansion of services list and development of new types of activity for securing oil production.
- Updating and modernisation of production capacities, increase of the personnel competence, increase in technological level of services rendered by affiliated service companies.
- Development and modernization of drilling complex, use of new techniques, technologies and the best practices at construction and repair of wells.
- Increase in share of services rendered by affiliated service companies to outside customers.
- Increase in competitiveness of affiliated service companies and qualities of their services. Increase in skill level, quality, speed and cost of rendering of services by affiliated service companies.

## **Corporate management systems:**

- Developing and perfecting business processes in the company with the purpose of building an effective system of oversight.
- Instituting process-based support for automation and information dissemination for business processes in the company.
- Organization of effective control over business processes of the Company.

## **Personnel development:**

- Formation of complex motivation system of the personnel of the Company and affiliated (dependent) companies, including: designing of system of salaries/tariff rates (tariff scale), system of bonus remuneration to employees, designing of system of non-material stimulation, social package;
- Execution of work on evaluation of opportunity to introduce programs of not state pension security NPF "Gazfond", on calculation of programs cost and variants of introduction into the Company and affiliated companies;
- System monitoring of execution of indices of the Company and affiliated (dependent) companies work regarding business plan, analysis of reasons of deviations;
- Development of norms and standards related to performance of strategic purposes of the Company in the field of personnel management;
- Analysis of labour market in Moscow and regions of location of branches and affiliated (dependent) companies of the Company;
- Preparation of proposals on the Company social policy improvement;
- Development of united system of estimation of employees at all stages of their work in the Company (stage of choosing of an employee in the Company, adaptation, development, promotion);
- Development of Adaptation program for new employees;



- Formation and development of the Company Personnel reserve;
- Formation of training system for managers and key specialists and experts of the Company with the purpose of improvement of professional skills and managerial powers necessary for solution of strategic issues of the Company.

**President**

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**A.V. Dyukov**

**Chief Accountant**

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**L.A. Barabash**