

OAO Gazprom Neft (formerly OAO Siberian Oil Company)

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

ОАО Gazprom Neft (formerly ОАО Siberian Oil Company)

Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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Report of Independent Auditors

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Report of Independent Auditors

To the Board of Directors and Shareholders of
OAO Gazprom Neft (formerly OAO Siberian Oil Company):

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OAO Gazprom Neft (formerly OAO Siberian Oil Company) and its subsidiaries (the "Company") at 31 December 2006 and 31 December 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not audit the financial statements of OAO NGK Slavneft and its subsidiaries ("Slavneft"), a significant equity investee of the Company as of December 31, 2005 and for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Company's investment in and its share in net earnings of Slavneft as of December 31, 2005 and for the year then ended is based solely on the report of the other auditors. The reported aggregate carrying value of the Company's investment in Slavneft and its subsidiaries as of December 31, 2005 is US\$ 1,971 million, and the Company's reported share in net earnings of Slavneft and its subsidiaries for the year then ended is US\$ 778 million.

The Company has not presented all of the information required by Statement of Financial Accounting Standards No.69 "Disclosures about Oil and Gas Producing Activities" with respect to the oil and gas producing activities of Slavneft and its subsidiaries, an equity investee, and with respect to the presentation of up-to-license term, post license term and total proved reserves and related future cash-flow information. The Company discloses total proved reserves only. The Financial Accounting Standards Board has determined such information is necessary to supplement the basic consolidated financial statements.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
May 29, 2007

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
Consolidated Balance Sheets
As of December 31, 2006 and 2005

Currency - US\$ thousands

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Assets			
Current assets:			
Cash and cash equivalents	3	\$ 1,334,733	\$ 305,247
Short-term investments	4	100,000	-
Loans receivable	5	125,798	106,442
Accounts receivable, net	6	2,451,988	1,868,124
Inventories	7	781,710	436,584
Other current assets	8	620,567	449,519
Current deferred income tax assets	20	28,343	22,980
Total current assets		<u>5,443,139</u>	<u>3,188,896</u>
Long-term investments	9	2,760,443	2,416,515
Long-term loans receivable	5	128,134	5,396
Oil and gas properties, net	10	4,569,144	3,857,078
Property, plant and equipment, net	11	852,205	744,626
Construction-in-progress	12	161,202	255,635
Other non-current assets		55,109	27,948
Non-current deferred income tax assets	20	132,742	143,472
Total assets		<u>\$ 14,102,118</u>	<u>10,639,566</u>
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	13	\$ 56,157	\$ 120,183
Accounts payable and accrued liabilities	14	648,524	527,855
Income and other taxes payable	15	497,392	510,960
Dividends payable		893,044	75,129
Current portion of long-term debt	17	638,363	235,310
Total current liabilities		<u>2,733,480</u>	<u>1,469,437</u>
Asset retirement obligation	16	287,731	260,983
Long-term debt	17	977,402	1,155,066
Deferred income tax liabilities	20	173,206	98,192
Total liabilities		<u>4,171,819</u>	<u>2,983,678</u>
Commitments and contingencies	21		
Shareholders' equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)	18	1,619	1,619
Additional paid-in capital		858,987	858,987
Reserves	2	1,867,449	1,867,449
Retained earnings		7,202,244	4,927,833
Total shareholders' equity		<u>9,930,299</u>	<u>7,655,888</u>
Total liabilities and shareholders' equity		<u>\$ 14,102,118</u>	<u>\$ 10,639,566</u>

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

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
Consolidated Statements of Income
For the years ended December 31, 2006 and 2005

Currency - US\$ thousands

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Revenues			
Refined products and oil and gas sales	23	\$ 19,948,134	\$ 14,332,133
Other		223,952	253,181
Total		20,172,086	14,585,314
Costs and other deductions			
Crude oil, petroleum and other products purchased		3,982,785	2,391,419
Operating expenses		1,742,360	1,141,045
Selling, general and administrative expenses		1,917,668	1,828,299
Depreciation, depletion and amortization		802,541	1,018,433
Taxes other than income taxes	15	7,327,553	5,034,010
Cost of other sales		33,323	129,560
Total		15,806,230	11,542,766
Operating income		4,365,856	3,042,548
Other income (expense)			
Income from equity affiliates	9	506,943	782,205
Loss from equity investments write off		-	(26,309)
Interest income		39,161	32,738
Interest expense		(126,346)	(119,164)
Other (expense) income, net		(6,058)	(28,357)
Foreign exchange gain, net		74,494	2,335
Total		488,194	643,448
Income before provision for income taxes		4,854,050	3,685,996
Provision for income taxes	20	1,112,827	949,310
Deferred income tax expense	20	80,381	(68,260)
Total		1,193,208	881,050
Net income		<u>\$ 3,660,842</u>	<u>\$ 2,804,946</u>
Basic and Diluted Earnings per Common Share (US\$ per share)		0.7721	0.5916
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 (formerly OAO Siberian Oil Company)
 Consolidated Statements of Changes in Shareholders' Equity
 For the years ended December 31, 2006 and 2005

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, 2004	\$ 1,619	\$ 858,987	\$ 1,867,449	\$ 4,457,310	7,185,365
Net income for the year	-	-	-	2,804,946	2,804,946
Common stock dividends	-	-	-	(2,334,423)	(2,334,423)
Balance at December 31, 2005	1,619	858,987	1,867,449	4,927,833	7,655,888
Net income for the year	-	-	-	3,660,842	3,660,842
Common stock dividends	-	-	-	(1,386,431)	(1,386,431)
Balance at December 31, 2006	\$ 1,619	\$ 858,987	\$ 1,867,449	\$ 7,202,244	9,930,299

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

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
Consolidated Statements of Cash Flow
For the years ended December 31, 2006 and 2005

Currency - US\$ thousands

	<u>2006</u>	<u>2005</u>
<i>Operating activities</i>		
Net income	\$ 3,660,842	\$ 2,804,946
Reconciliation of net income to net cash provided by operating activities:		
Income from equity affiliates, net of dividends received	(219,890)	(191,183)
Deferred income tax expense (benefit)	80,381	(68,260)
Depreciation, depletion and amortization	802,541	1,018,433
Asset retirement obligation accretion expense	20,931	22,462
Provision for doubtful accounts	(23,159)	(28,300)
Disposal of property, plant and equipment - (gain) loss	(24,182)	29,654
Loss on investments write off	-	26,309
Changes in assets and liabilities, excluding cash and debt:		
Accounts receivable	(560,705)	(453,171)
Inventories	(345,126)	(144,394)
Other current assets	(171,048)	(75,315)
Other non-current assets	(27,161)	(8,731)
Accounts payable and accrued liabilities	120,669	(398,022)
Income and other taxes payable	(13,568)	(67,442)
Net cash provided by operating activities	<u>3,300,525</u>	<u>2,466,986</u>
<i>Investing activities</i>		
Purchase of short-term investments	(100,000)	-
Purchase of investments in associated entities	(124,038)	(35,519)
Loan proceeds received	47,550	33,295
Loans issued	(189,644)	(105,324)
Proceeds from disposals of property, plant and equipment	27,355	26,314
Capital expenditures	(1,525,109)	(1,066,877)
Net cash used in investing activities	<u>(1,863,886)</u>	<u>(1,148,111)</u>
<i>Financing activities</i>		
Short and long-term loans proceeds received	772,073	863,848
Short and long-term loans repaid	(610,710)	(757,441)
Dividends paid	(568,516)	(2,260,339)
Net cash used in financing activities	<u>(407,153)</u>	<u>(2,153,932)</u>
Increase (decrease) in cash and equivalents	1,029,486	(835,057)
Cash and equivalents at beginning of year	305,247	1,140,304
Cash and equivalents at end of year	<u>\$ 1,334,733</u>	<u>\$ 305,247</u>
<i>Supplemental disclosures of cash flow information</i>		
Cash paid for interest (net of amount capitalized)	\$ 142,614	\$ 128,545
Cash paid for income taxes	\$ 1,104,003	\$ 1,124,423

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

1. General

Description of Business

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

OAO Siberian Oil Company ("Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In September and October 2005, OAO Gazprom acquired a 75.68% stake in Sibneft, becoming a subsidiary of OAO Gazprom. On May 30, 2006 Sibneft was renamed into "OAO Gazprom Neft".

There are four principal subsidiaries within the Company: Noyabrskneftegaz ("Noyabrsk"), Omsk Refinery ("OR"), Noyabrskneftegasgeophysica ("Geofizika") and Omsknefteprodukt ("Nefteprodukt").

Noyabrsk is primarily engaged in the exploration, production and development of oil and gas from its fields in the south Yamalo-Nentsk autonomous region and the northern part of the Khanti-Mansisk autonomous region. OR's principal activity is the production of refined petroleum products at its refinery in Omsk, Western Siberia. Nefteprodukt carries out marketing operations through its retail outlets in the Omsk region. Geofizika provides exploration and technical services in the Noyabrsk region.

All export trade has been consolidated through a wholly owned subsidiary Sibneft Oil Trade Company GmbH in Austria, which operates as the agent for the Company's export sales.

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

The Company sells its crude oil under general rules of export quotation applicable for all Russian oil producers. Under these general rules, the export quotas for the Transneft pipeline system are defined and approved by the Energy Commission of the Russian Government based on the legislation on equal access to the oil pipeline system. In 2006 and 2005 the Company's export sales have approximated 53% and 50% of production, respectively. The remaining production was processed at the Company's refineries and other Russian refineries for further sales on the domestic and international markets.

Currency Exchange and Control

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

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

The Central Bank of Russia ("CBR") has established strict currency control regulations for managing Russian Ruble ("Ruble") supply and demand and available hard currencies. Such regulations place restrictions on the conversion of Rubles into hard currencies and establish requirements for conversion of hard currency sales to Rubles. At present, the Russian Ruble is not a fully convertible currency outside of the Russian Federation and, further, the Company throughout 2005 was required to sell up to 10% (from December 27, 2004) of its hard currency earnings for Rubles. In May 2006, the Central Bank abolished the requirement to convert hard currency proceeds. Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. Accordingly, the translation of foreign currency denominated assets and liabilities into Rubles does not indicate that the Company could realize or settle, in Rubles, the reported values of these assets and liabilities. The official rate of exchange of the Ruble to the US Dollar ("US \$") at December 31, 2006 and 2005 was Ruble 26.33 and Ruble 28.78 to US \$1.00, respectively.

The Company conducts a substantial portion of its commercial activities using US Dollar denominated contracts. In addition, substantial financing and investing activities, obligations and commitments are also based on the US Dollar. However, many operating and investing expenditures, as well as taxation and statutory actions are conducted in Rubles. As a result of this and currency controls, the Company's principal currency risk relates to the fluctuations of US Dollars to Rubles, as well as maintaining hard currency to pay its US Dollar denominated obligations. The Company attempts to manage these risks through maintaining certain levels of product exports and is contractually obligated to do so under certain of its financing agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation and Long-term Investments

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

The Company is subject to the full provisions of Financial Interpretation ("FIN") No. 46(R) "Consolidation of Variable Interest Entities" and FASB Staff Position FIN 46(R)-5, "Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities" ("FSP FIN 46(R)-5"). The Company evaluates its investments and business relationships and consolidates those identified variable interest entities for which the Company is determined to be the primary beneficiary.

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

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

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

Reserves and Retained Earnings

Reserves represent the Company's net asset position, excluding common stock at the time of the Company's formation in 1995. Retained earnings represent all cumulative net profit subsequent to formation.

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Company include: recoverability and 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

The functional currency of the Company is the US Dollar because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in US Dollars.

As the Company's books and records are maintained in Rubles, it must remeasure those balances under US Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". 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. Data on revenues, expenses, and cash flows are translated into US Dollars at historical exchange rates prevailing on the transactions dates. Gains and losses resulting from the remeasurement into US Dollars are included in the consolidated statement of income.

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 or at any other exchange rate.

Cash and Cash Equivalents

The Company classifies as cash and cash equivalents, amounts on deposit in banks and all highly liquid investments with original maturities of three months or less from the date of purchase.

Trade Receivables

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

VAT Receivable

Value added tax ("VAT") paid in connection with the export of crude oil and oil products relates to exempt activities and is eligible for refunds upon completion of each transaction. VAT paid in connection with capital construction is recoverable upon capital construction completion and placing such assets into operation.

Loans Receivable

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

Inventories

Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. The Company uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location, but not unusual/non-recurring costs or research and development costs.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities.

Lease acquisition costs related to properties held for oil and gas production are capitalized when incurred. Unproved properties with acquisition costs, which are individually significant, are assessed on a property-by-property basis, and a loss is recognized when the assessment indicates impairment in value.

Exploratory costs, excluding the costs of exploratory wells, are charged to expenses as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination whether such wells have found proved reserves, which justify commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs and costs of injection wells related to development of oil and gas reserves are capitalized.

Russian financial information is maintained in historic Ruble terms. However, the US Dollar historic cost of oil and gas properties in the accompanying consolidated balance sheets were obtained using the same methodology applied to property, plant and equipment, as discussed below in "Property, Plant and Equipment".

Property, Plant and Equipment

As discussed above, Russian financial information is maintained in historic Ruble terms. In years prior to 1992, exchange rates were fixed by the government and did not necessarily correspond to the real market value of the Ruble. In addition, certain purchases were made through central purchasing authorities and values transferred to receiving organizations were determined by the government. During 1992, fixed assets were revalued in accordance with Government Decree Number 595 dated August 14, 1992. Similar revaluations took place as of January 1, 1994, January 1, 1997 and January 1, 1998. Indices used for these revaluations did not necessarily reflect the changes in the Ruble's value, nor did they result in the value of the underlying fixed assets to which they were applied being revalued to a current market value.

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Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

As a result, it was not possible to determine from the statutory accounting records an appropriate carrying value of property, plant and equipment for US GAAP reporting purposes. Accordingly, an independent appraisal company, American Appraisal (AAR) Inc., was engaged to perform an historic cost valuation of property, plant and equipment, together with related accumulated depreciation as of December 31, 1996.

In performing a valuation of property, plant and equipment, the independent appraisal company employed appraisal techniques to determine both the historic cost and fair market value (in-use) for the appraised property in US Dollar terms. The first step in estimating the historic cost and fair market value of the fixed assets entailed estimating the cost new, which is either cost of reproduction new ("CRN") or, where CRN data was not available due to technical and/or design changes, the cost of replacement ("COR"). The CRN reflects the cost to reproduce the existing property in like kind while the COR reflects the cost to replace the existing property using current technology and materials. Cost data from both Russian and foreign producers of equipment was taken into account.

To arrive at an appropriate estimate of original historic cost, the CRN/COR was back-trended according to the actual age of the asset using historic western inflation adjustments. The historic cost of the assets was then depreciated using estimates of economic useful lives as outlined in "Depreciation, Depletion and Amortization" below.

The results of this work were used to determine the carrying values of property, plant and equipment for US GAAP purposes as of December 31, 1996. Since that date, disposals of property, plant and equipment have been accounted for at their historic cost, determined as discussed above, while additions to property, plant and equipment have been recorded at cost using exchange rates as of the transaction dates.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of oil and gas properties are provided on the unit-of-production method based on the ratio of current year production to total estimated future production from proved developed reserves.

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

<u>Asset Group</u>	<u>Average Life</u>
Buildings and land improvements	8-35 years
Machinery and equipment (including refinery assets)	8-30 years
Vehicles and other	3-10 years

Impairment of Long-lived Assets

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

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

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

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at an operating unit level for other assets. Long-lived assets committed by management for disposal within one year are accounted for at the lower of amortized cost or fair value, less cost to sell. Acquisition costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense. No impairment has been recognized for the years ended December 31, 2006 and 2005.

Maintenance and Repair

Maintenance and repairs, which are not significant improvements, are expensed when incurred.

Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects that, theoretically, could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period that activities are in progress to bring these projects to their intended use. During 2006 and 2005, interest capitalized related to capital projects amounted to US\$ 11.2 million and US\$ 12.6 million, respectively.

Property Dispositions

When complete units of depreciable property are retired or sold, the asset cost and related accumulated depreciation are eliminated, with any gain or loss reflected in the consolidated statements of income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

Minority Interest in Subsidiary Companies

Minority interest in the consolidated balance sheets reflects minority owners' percent share of shareholders' capital in subsidiaries. The minority interest is calculated based on the shareholders' equity of each subsidiary as determined under US GAAP. The actual Ruble denominated balance attributable to minority interests may differ from this amount.

Minority owners' interest in the Company's subsidiaries is as follows:

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Voting</u>	<u>Total</u>	<u>Voting</u>	<u>Total</u>
Geofizika	19%	19%	19%	19%
Meretoyahaneftgas	33%	33%	33%	33%
Sibneft-Ugra	1%	1%	1%	1%
Tyumennefteproduct	10%	10%	10%	10%

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

OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
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Income Taxes

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit of each subsidiary as determined under the local accounting principles at a rate of 24%, as of December 31, 2006 and 2005, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

Deferred income taxes are determined using the asset and liability approach in accordance with SFAS No. 109, "Accounting for Income Taxes". This method gives consideration to the future tax consequences based on the enacted tax rate associated with differences between the financial reporting and tax basis of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets when management believes it is more likely than not that a tax benefit will not be realized.

Earnings per Share

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

Accounting for Contingencies

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

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

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

Recognition of Revenues

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

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

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Revenues are stated net of VAT and excises on oil products.

Transportation Costs

The Company incurred US\$ 1,411 million and US\$ 1,041 million on delivering of crude oil and refined products to its customers for the years ended December 31, 2006 and 2005, respectively. Shipping and handling costs are included within selling, general and administrative expenses in the consolidated statements of income.

Retirement and Other Benefit Obligations

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

Asset Retirement Obligations

The Company records the fair value of legal obligations to retire and remove long-lived assets in the period in which the obligation is incurred (typically when the asset is installed at the production location or when drilling is commenced). When the liability is initially recorded, the Company capitalizes this cost by increasing the carrying amount of the related properties, plants and equipment. Over time the liability is increased for the change in its present value, and the capitalized cost in properties, plants and equipment is depreciated over the useful life of the related asset. See Note 16—Asset Retirement Obligations.

Recent Accounting Standards

Conditional asset retirement obligations: In March 2005, the Financial Accounting Standards Board (“FASB”) issued FIN No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143. This interpretation clarifies that an entity is required to recognize a liability for a legal obligation to perform asset retirement activities when the retirement is conditional on a future event if the liability’s fair value can be reasonably estimated. If the liability’s fair value cannot be reasonably estimated, then the entity must disclose (1) a description of the obligation, (2) the fact that a liability has not been recognized because the fair value cannot be reasonably estimated, and (3) the reasons why the fair value cannot be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of this standard did not have a material impact on the Company’s financial statements.

Inventory costs: In November 2004, FASB Statement No. 151, “Inventory Costs”, an Amendment of ARB No. 43, (SFAS 151) was issued and became effective for the Company on 1 January 2006. The standard amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. In addition, the standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this standard did not have a material effect of the Company’s results of operations, financial position or cash flows.

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Suspended Well Costs: In April 2005, the FASB issued FASB Staff Position (“FSP”) No. FAS 19-1, Accounting for Suspended Well Costs, which amended the guidance for suspended exploratory well costs in SFAS No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies. SFAS No. 19 requires costs of drilling exploratory wells be capitalized pending determination of whether the well has found proved reserves. When a classification of proved reserves cannot yet be made, FSP No. FAS 19-1 allows exploratory well costs to continue to be capitalized when (1) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (2) the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. FSP No. FAS 19-1 also requires provision of certain disclosures regarding capitalized exploratory well costs. The provisions of FSP FAS 19-1 are effective for the first reporting period beginning after April 4, 2005 and should be applied prospectively to existing and newly capitalized exploratory well costs. The adoption of the provisions of FSP FAS 19-1 did not have a material impact on the Company’s results of operations, financial position or cash flows.

Exchanges of Non-monetary Assets: In December 2004, the FASB issued SFAS No. 153, “Exchanges of Non-monetary Assets”. This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change. The provisions of SFAS 153 are effective for asset exchanges occurring during the fiscal years beginning after June, 2005. The adoption of the provisions of SFAS 153 did not have a material impact on the Company’s results of operations, financial position or cash flows.

Accounting changes and error correction: In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections.” SFAS No. 154 requires companies to recognize (1) voluntary changes in accounting principles and (2) changes required by a new accounting pronouncement, when the pronouncement does not include specific transition provisions, retrospectively to prior periods’ financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December, 2005. The adoption of the provisions of SFAS No. 154 did not have a material impact on the Company’s results of operations, financial position or cash flows.

Buy/Sell Transactions: In September 2005, FASB ratified the consensus reached by the EITF on Issue No.04-13, “Accounting for Purchases and Sales of Inventory with the Same Counterparty.” The consensus concluded that two or more legally separate exchange transactions with the same counterparty should be combined and considered as a single arrangement for accounting purposes, if they are entered into “in contemplation” of one another. The EITF also reached a consensus that nonmonetary exchanges of inventory within the same business should be recognized at fair value. The adoption of this standard on April 1, 2006 did not have a material impact on the Company’s results of operations, financial position or cash flows.

Fair Value Measurements: In September 2006, FASB issued SFAS No. 157, “Fair Value Measurements,” which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The impact, if any, to the Company from the adoption in 2008 will depend on the Company’s assets and liabilities at that time that are required to be measured at fair value.

Uncertain Tax Positions: In June 2006, FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,” which 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect, if any, the adoption of FIN 48 will have on the Company’s results of operations, financial position or cash flow.

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

Presentation of Taxes Collected From Customers: In June 2006, the FASB ratified EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)." Issue No. 06-3 requires disclosure of either the gross or net method of presentation for taxes assessed by a governmental authority resulting from specific revenue-producing transactions between a customer and a seller. For any such taxes reported on a gross basis, the entity must also disclose the amount of the tax reported in revenue in the interim and annual financial statements. The Company reports revenues net of excise taxes and VAT as further described in *Revenue Recognition* policy noted above.

Reclassifications

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

3. Cash and Cash Equivalents

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

	2006	2005
Cash in bank - Rubles	\$ 346,266	\$ 145,731
Cash in bank - foreign currency	274,581	137,401
Bank deposits	712,336	21,455
Cash on hand	1,550	660
Total cash and cash equivalents	\$ 1,334,733	\$ 305,247

Bank deposits represent cash deposited in major western banks for a period less than three months bearing a weighted average interest rate of 6.0% per annum on US Dollars deposit.

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

As of December 31, 2006 cash in bank includes US\$ 3.6 million and bank deposits include US\$ 300 million held with Gazprombank, a related party.

4. Short-term Investments

As of December 31, 2006 short term investments consists entirely of bank deposits with maturities at the date of purchase in excess of 90 days. There were no such deposits as of December 31, 2005.

5. Loans Receivable

Current loans receivable of US\$ 125.8 million and US\$ 106.4 million are mostly due from related parties at December 31, 2006 and 2005, respectively. These Ruble denominated loans mature between one month and one year and bear no interest. The fair value of these loans approximate their carrying value in the consolidated financial statements due to their short-term nature.

Long-term loans receivables of US\$ 128.1 million and US\$ 5.4 million are mostly due from related parties as of December 31, 2006 and 2005, respectively. These loans bear no interest and mature between 2008 and 2011. The fair value of these loans is approximately US\$ 108 million at December 31, 2006 assuming a discount rate of 10.5% (CBR interbank refinancing rate).

6. Accounts Receivable

The composition of accounts receivable is as follows as of December 31, (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Trade receivables	\$ 896,170	\$ 737,308
Value added tax receivable	752,051	858,210
Customs duties receivable	284,646	248,929
Related party receivables	13,029	-
Other receivables	530,299	71,043
Less allowance for doubtful accounts	<u>(24,207)</u>	<u>(47,366)</u>
Total accounts receivable	<u>\$ 2,451,988</u>	<u>\$ 1,868,124</u>

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

Other receivables are comprised of export value added tax receivable, excise tax receivable and other receivables.

7. Inventories

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

	<u>2006</u>	<u>2005</u>
Crude oil	\$ 101,571	\$ 46,381
Petroleum products	269,108	150,308
Materials and supplies	290,226	182,842
Other	120,805	57,053
Total inventories	<u>\$ 781,710</u>	<u>\$ 436,584</u>

8. Other Current Assets

The following are the major components of other current assets as of December 31, (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Advances paid to suppliers	\$ 599,946	\$ 428,195
Prepaid expenses	<u>20,621</u>	<u>21,324</u>
Total other current assets	<u>\$ 620,567</u>	<u>\$ 449,519</u>

9. 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 December 31, 2006 and 2005 (in US\$ thousands):

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	Ownership percentage at	Net book value at		Group's share of income for the year ended December 31,	
	December 31, 2006	December 31, 2006	December 31, 2005	2006	2005
Investments in equity affiliates:					
AO NGK Slavneft	49.9	\$ 2,186,742	\$ 1,971,251	\$ 502,546	\$ 777,542
Moscow Oil Refining Plant	38.8	304,596	300,199	4,397	4,663
Total investments in equity affiliates/ income		<u>2,491,338</u>	<u>2,271,450</u>	<u>506,943</u>	<u>782,205</u>
Long-term investments, at cost:					
Mosnefteproduct	27.4	56,018	56,018		
Other various marketing entities		160,808	56,782		
Other entities		52,279	32,265		
Total long-term investments, at cost		<u>269,105</u>	<u>145,065</u>		
Total long-term investments		<u>\$ 2,760,443</u>	<u>\$ 2,416,515</u>	<u>\$ 506,943</u>	<u>\$ 782,205</u>

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 trust. During 2005, the Company and TNK-BP agreed to jointly manage the refineries of the Slavneft group with each party purchasing its share of production, refer also to Note 20 Related Party Transactions. During 2006, Slavneft announced and paid dividends to the Company of US\$ 287.1 million (US\$ 591.0 million in 2005).

The following table summarizes the Company's proportional interest in Slavneft's financial information as of December 31, (in US\$ thousands):

	2006	2005
Current assets	\$ 489,856	\$ 607,688
Long-term assets	2,349,099	2,137,009
Current liabilities	309,616	496,699
Long-term liabilities	349,258	348,929
Sales	3,282,469	3,278,359
Net Income	502,546	777,542

The following table summarizes the Company's proportional interest in the financial information of Moscow Oil Refining Plant as of December 31, (in US\$ thousands):

	2006	2005
Current assets	\$ 61,425	\$ 55,753
Long-term assets	114,626	111,157
Current liabilities	61,232	56,492
Long-term liabilities	43	38
Sales	101,512	67,864
Net Income	4,397	4,663

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

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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.

10. Oil and Gas Properties

Oil and gas properties as of December 31, are as follows (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Oil and gas properties	\$ 10,869,740	\$ 9,742,584
Less: Depreciation, depletion and amortization	(6,300,596)	(5,885,506)
Total oil and gas properties, net	<u>\$ 4,569,144</u>	<u>\$ 3,857,078</u>

The Company's oil and gas fields and related hydrocarbons belong to government authorities. The Company obtains licenses from such government authorities and pays royalties to explore and produce from these fields. These licenses expire between 2013 and 2050. During 2006 management was successful in extending several licences and believes the remaining licences may be extended at the initiative of the Company and management intends to extend such licenses for properties expected to produce subsequent to their original license expiry dates.

11. Property, Plant and Equipment

Property, plant and equipment as of December 31, is as follows (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Buildings	\$ 3,107,905	\$ 2,729,568
Machinery and equipment	1,317,741	1,127,461
Vehicles and other equipment	67,591	71,715
	<u>4,493,237</u>	<u>3,928,744</u>
Less: Accumulated depreciation	(3,641,032)	(3,184,118)
Total property, plant and equipment, net	<u>\$ 852,205</u>	<u>\$ 744,626</u>

12. Construction-in-Progress

Construction-in-progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2006, detail of construction in progress is as follows (in US\$ thousands):

	<u>Construction Work in Progress</u>	<u>Machinery/ Equipment To be installed</u>	<u>Total</u>
Buildings	\$ 32,063	\$ -	\$ 32,063
Plant and machinery	44,097	-	44,097
Vehicles and other equipment	47,710	37,332	85,042
Total	<u>\$ 123,870</u>	<u>\$ 37,332</u>	<u>\$ 161,202</u>
Comparative balance at December 31, 2005	<u>\$ 226,475</u>	<u>\$ 29,160</u>	<u>\$ 255,635</u>

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

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13. Short-Term Loans

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

	2006	2005
Banks	\$ 40,385	\$ 60,000
Related parties	731	45,907
Other	15,041	14,276
Total	<u>\$ 56,157</u>	<u>\$ 120,183</u>

In general, short-term loans are used for the provision of working capital needs. As of December 31, 2006 more than 50.0% of the loans were provided in US Dollars.

At December 31, 2006 the Company has a US\$ 40.0 million loan outstanding from Raiffeisenbank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.5% and matures on August 26, 2007. At December 31, 2005, the Company had a US\$ 40.0 million secured loan from Raiffeisen bank which bore interest at LIBOR plus 1.7%. The loan was repaid in full during 2006.

At December 31, 2005 the Company had a US\$ 20.0 million loan from Citibank which bore interest at 5.4%. The loan was repaid in full during 2006.

The Company has two loans from Gazprombank repayable in Rubles amounting to US\$ 0.7 million. The loans bear interest at rates of 12.0% and 16.5% and mature on July 12, 2007 and October 5, 2007, respectively. Gazprombank is also a related party to the Company.

At December 31, 2005, the Company had a loan from Gazprombank of US\$ 45.9 million which bore interest at 8.0%. This loan was repaid in full during 2006. Gazprombank is also a related party to the Company.

Other short-term loans are represented by a number of Ruble denominated non-banking borrowings bearing no interest.

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. Weighted average interest rates related to the short-term loans outstanding as of December 31, 2005 for US Dollar and Ruble denominated loans equal 5.8% and 6.2%, respectively.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, comprise the following (in US\$ thousands):

	2006	2005
Trade accounts payable	\$ 265,397	\$ 267,844
Advances received from customers	217,432	126,542
Related party accounts payable	69,408	19,662
Accrued interest	45,574	45,369
Other payables	50,713	68,438
Total accounts payable	<u>\$ 648,524</u>	<u>\$ 527,855</u>

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

15. Income and Other Taxes Payable

Income and other taxes payable comprise the following, as of December 31 (in US\$ thousands):

	2006	2005
Value added tax	\$ 218,220	\$ 288,337
Mineral extraction tax	216,824	182,200
Property tax	37,109	11,701
Excise tax	11,940	10,063
Income tax	3,246	6,291
Other	10,053	12,368
Total income and other taxes payable	<u>\$ 497,392</u>	<u>\$ 510,960</u>

Taxes other than income taxes in the consolidated statement of income include mineral extraction tax expense of US\$ 2,718.8 million and US\$ 2,170.1 million for the years ending December 31, 2006 and 2005, respectively.

16. 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 clear or 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 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)

	<u>2006</u>	<u>2005</u>
Beginning balance as of January 1,	\$ 260,983	\$ 284,023
New obligations	5,817	70,520
Amount spent in the current period	-	(116,022)
Accretion expense	20,931	22,462
Ending balance as of December 31,	<u>\$ 287,731</u>	<u>\$ 260,983</u>

17. Long-Term Debt

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

	<u>2006</u>	<u>2005</u>
Bonds	\$ 900,000	\$ 900,000
Bank loans outstanding	681,696	485,793
Other borrowings	34,069	4,583
Less current portion of long- term debt	<u>(638,363)</u>	<u>(235,310)</u>
Total long-term debt	<u>\$ 977,402</u>	<u>\$ 1,155,066</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\$ 25.4 million at December 31, 2006 and 2005.

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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 and 2005. 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 rates of LIBOR plus 0.6%.

During 2006 the Company obtained a US\$ 51.7 million loan from Gazprombank (all current), bearing interest at a rate of 6.0%. Gazprombank is also a related party to the Company.

The Company had a US\$ 45.3 million loan from ABN AMRO Bank N.V. secured by Noyabrsk export proceeds loan bearing interest at LIBOR plus 1.4%. The loan was fully repaid in July 2006.

The Company had a US\$ 110.5 million loan from BNP Paribas S.A. maturing in June 2007, bearing floating interest at rates of LIBOR plus 3.0%. This loan was secured by Noyabrsk export proceeds. The loan was repaid in full during 2006.

The Company had a US\$ 180.0 million loan from RZB, bearing floating interest at rates of LIBOR plus 1.6%. This loan was secured by Noyabrsk export proceeds and was repaid in full during 2006.

The Company had a US\$ 150.0 million secured loan from Citibank, bearing floating interest at rates of LIBOR plus 1.0%. This loan was secured by Noyabrsk export proceeds and was repaid in full during 2006.

As of December 31, 2006 other borrowings represent a number of Ruble denominated subordinated interest-free loans with maturity dates from 2008 to 2011. As of December 31, 2005 other borrowings represented a number of Ruble denominated subordinated interest-free loans with maturity dates from 2008 to 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 December 31, 2006 and 2005, respectively.

Maturities of long-term - loans as of December 31, 2006 are as follows (in US\$ thousands):

<u>Year due</u>	<u>Amount due</u>
2007	\$ 638,363
2008	281,246
2009	692,759
2010	-
2011	3,397
	<u>\$ 1,615,765</u>

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

18. 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.

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

In June 2006 the Company declared dividends of US\$ 1,386 million for the year ended December 31, 2005. On May 18, 2007 the Company's Board of Directors recommended annual dividends for the year ended December 31, 2006 of 8.1 Rubles per common share (approximately US\$ 1,485 million) to be approved by the shareholders.

In accordance with the current legal regulations of the Russian Federation, earnings available for dividends are limited to profits, retained earnings and other income, denominated in Rubles, after certain deductions as calculated pursuant to Russian accounting standards. Retained earnings available for dividends may differ from amounts included in the Company's consolidated financial statements.

As of December 31, 2006 and 2005, the Company has no comprehensive income.

19. Fair Value of Financial Instruments

Fair values

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

The net carrying values of cash and cash equivalents, other short-term investments, short-term loans receivable, accounts receivable and payable, taxes payable and accrued liabilities approximate their fair values because of the short maturities of these instruments. As discussed in Note 5, the fair value of the long-term loans receivable from related parties is approximately US\$ 108 million.

As discussed in Note 9, the Company has investments in certain Russian and CIS companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Credit risk

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

The Company deposits available cash mostly with a variety of Russian banks and Russian affiliates of international banks. Deposit insurance is not offered to financial institutions operating in Russia. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

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

20. Income Taxes

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

	2006	2005
Current income taxes	\$ 1,112,827	\$ 949,310
Deferred income taxes	80,381	(68,260)
Total provision for income taxes	<u>\$ 1,193,208</u>	<u>\$ 881,050</u>

The current portion of income taxes represents the total income tax expense for the Company and each of its subsidiaries. Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense, for the years ended December 31, 2006, is as follows (in US\$ thousands):

	2006	2005
Income before income taxes	\$ 4,854,050	\$ 3,685,996
Statutory income tax rate	24%	24%
"Expected" income tax expense	1,164,972	884,639
Add (deduct) tax effect of:		
Benefit of income taxed at lower rate	(176)	(51,330)
Difference between enacted tax rate and taxes to be withheld from dividends	(19,612)	(43,740)
Change in deferred tax for previous years	-	(36,866)
Non-deductible expenses and other permanent accounting differences	48,024	128,347
Income taxes	<u>\$ 1,193,208</u>	<u>\$ 881,050</u>
Effective tax rate	<u>25%</u>	<u>24%</u>

Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred tax assets and liabilities for the period ended December 31, 2006 and 2005 (in US\$ thousands):

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

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	2006	2005
Assets arising from the tax effect of:		
Allowance for doubtful accounts	\$ 5,581	\$ 12,564
Inventories	9,269	10,416
Prepaid expenses	13,493	-
Current deferred tax assets	<u>\$ 28,343</u>	<u>\$ 22,980</u>
Asset retirement obligation	\$ 69,047	\$ 62,627
Tax loss carryforward	55,498	79,143
Fixed assets	8,197	1,702
Non-current deferred tax assets	<u>132,742</u>	<u>143,472</u>
Equity Investment and other investments	(12,499)	(21,961)
Fixed assets	(160,707)	(76,231)
Non-current deferred tax liability	<u>\$ (173,206)</u>	<u>\$ (98,192)</u>
Net deferred tax (liability) asset	<u>(12,121)</u>	<u>68,260</u>

For Russian income tax purposes, certain subsidiaries of the Company have accumulated tax losses totalling US\$ 231 million, resulting in associated deferred tax assets of US\$ 55 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 December 31, 2006, 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 December 31, 2006 and 2005 was approximately US\$ 790 and US\$ 696 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.

21. Commitments and Contingencies

Taxes

The tax authorities are currently reviewing the operation of the Company and its subsidiaries for the year 2004. The review is in process; the impact of the result of the tax review is not determinable, however management believes that the ultimate resolution of this matter will not have a material impact on the Company's financial position, results of operations and cash flows.

Russian tax legislation is subject to varying interpretations and constant changes. Further, the interpretations of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. Also interpretations on the application of the tax legislation may vary between regional and Federal tax authorities. As a result, transactions may be challenged by tax authorities and the Company may be assessed for additional taxes, penalties and interest. Consolidated tax returns are not permitted under existing Russian tax legislation and tax audits are performed on an individual entity basis only. Tax periods remain open to review by the tax authorities for three years. The years 2005 and 2006 are currently open for review.

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

Operating Environment

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

Environmental Matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Company has met the government's requirements concerning environmental matters, and therefore believes that the Company does not have any material current environmental liabilities.

22. Related party transactions

OAQ Moscow Oil Refining Plant (MNPZ)

During the period ending December 31, 2006 the Company processed 3.2 million tons of crude oil (3.1 million tons in 2005) 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 December 31, 2006 was US\$ 64.4 million (US\$ 49.1 million for 2005). The Company has US\$ 2.3 million and US\$ 1.9 million of net payables to MNPZ as of December 31, 2006 and December 31, 2005, respectively.

Slavneft Group (Slavneft)

During the period ending December 31, 2006 the Company conducted numerous transactions with Slavneft group companies. The Company sold directly 2 million tons of crude oil (2.3 million tons in 2005) to Slavneft amounting to US\$ 559 million (US\$ 501 million in 2005) and 0.2 million tons of oil products (0.1 million tons of oil products in 2005) amounting to US\$ 84.9 million (US\$ 25.1 million in 2005). The Company and TNK-BP have in principle agreed to split Slavneft's production based on each party's respective interest. During the period ending December 31, 2006 the Company bought from Slavneft 10.2 million tons of crude oil and 1.5 million tons of oil products amounting to US\$ 1,852 million and US\$ 419 million, respectively. During 2005 the Company bought from Slavneft 2.7 million tons of crude and 2.5 million tons of products amounting to US\$ 434 million and US\$ 655 million, respectively. From late December 2002 the Company started processing crude oil in Yaroslavl Oil Refining Plant (Slavneft's subsidiary) based on processing agreements. During the period ending December 31, 2006 the Company processed 4.8 million tons of crude oil for the total cost of processing amounting to US\$ 126.9 million. Since April 2006 the Company operates processing transactions in Yaroslavl Oil Refining Plant. During the period ending December 31, 2006 the Company processed 0.1 million tons of crude oil for the total cost of processing amounting to US\$ 2.7 million. During the period ending December 31, 2006 the Company bought 0.4 million cubic meters of gas amounting to US\$ 2.9 million from Slavneft. The Company has US\$ 39.5 million payables to Slavneft and US\$8.9 million receivable from Slavneft as of December 31, 2006. As of December 31, 2005 the Company had US\$ 18 million of net payables to Slavneft.

During 2005, the Company operated as an agent for crude and products export sales of Slavneft. The total amount of proceeds under the agent agreement is US\$ 400 million and US\$ 582 million for crude and products, respectively. During 2005 the Company earned US\$ 0.1 million in commission fees related to this agent agreement.

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Gazprom Group (Gazprom)

The Company conducted numerous transactions with OAO Gazprom, its primary shareholder. During the period ending December 31, 2006 the Company bought from Gazprom 0.6 million cubic meters of gas amounting to US\$ 16.4 million and sold to Gazprom 2.0 million cubic meters of gas amounting to US\$ 13.9 million. During the period ending December 31, 2006 Gazprom performed construction works for the Company amounting to US\$ 61.6 million, and the Company rendered various services to Gazprom amounting to US\$ 2.9 million. The Company has US\$ 27.6 million payables to Gazprom and US\$ 4.1 million receivable from Gazprom as of December 31, 2006. There were no material transactions with Gazprom during 2005 or balances as of December 31, 2005.

23. Segment information

Presented below is information about the Company's operating segments for the period ended December 31, 2006 and 2005. The Company determined its operating segments based on differences in the nature of their operations. The exploration and production segments explore, find, develop and produce crude oil and natural gas. The manufacturing, marketing and distribution segments process crude oil into refined products and purchase, sell and transport crude oil and refined petroleum products.

Operating Segments 2006 (in US\$ thousands):

	Exploration and Production	Marketing and Distribution	Refining	Other	Consolidated
Revenues					
Total	\$ 11,469,687	\$ 10,926,827	\$ 536,888	\$ 244,860	\$ 23,178,262
Inter-segment revenues	(2,457,384)	(11,904)	(536,888)	-	(3,006,176)
Revenues from external customers	9,012,303	10,914,923	-	244,860	20,172,086
Operating income	1,425,111	2,758,278	177,111	5,356	4,365,856
Capital expenditures, net	1,396,558	82,162	43,069	3,320	1,525,109
Depreciation, depletion and amortization	711,627	12,690	76,828	1,396	802,541
Interest income	-	577	73	38,511	39,161
Interest expense	3	1,995	91	124,257	126,346
Share in the net income of equity investees	502,546	-	4,397	-	506,943
Income tax expense	466,718	658,571	66,779	1,140	1,193,208
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

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

OAQ Gazprom Neft (formerly OAO Siberian Oil Company)
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Operating Segments 2005 (in US\$ thousands):

	Exploration and production	Marketing and distribution	Refining	Other	Consolidated
Revenues					
Total	\$ 9,146,224	\$ 7,005,067	\$ 315,679	\$ 289,804	\$ 16,756,774
Inter-segment revenues	<u>(1,849,947)</u>	<u>(5,834)</u>	<u>(315,679)</u>	-	<u>(2,171,460)</u>
Revenues from external customers	7,296,277	6,999,233	-	289,804	14,585,314
Operating income	889,028	2,130,806	20,817	1,897	3,042,548
Capital expenditures, net	969,023	38,316	56,738	2,800	1,066,877
Depreciation, depletion and amortization	929,620	14,848	69,973	3,992	1,018,433
Interest income	1	2,075	578	30,084	32,738
Interest expense	5	213	36	118,910	119,164
Share in the net income of equity investees	777,542	-	4,663		782,205
Income tax expense	302,784	554,767	23,114	385	881,050
Investment in equity method investees at December 31, 2005	1,971,251	-	300,199	-	2,271,450
Segment assets at December 31, 2005	6,979,042	1,939,198	1,711,040	10,286	10,639,566

No individual customer comprised more than 10 percent of the Company's sales during 2006 or 2005. Management does not believe that the Company is reliant on any particular customer. The geographical segmentation the Company's revenue is presented below (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Export	\$ 14,027,199	\$ 10,099,030
Domestic	4,904,758	3,701,095
CIS	1,240,129	785,189
Total revenues from external customers	<u>\$ 20,172,086</u>	<u>\$ 14,585,314</u>

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

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

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

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

The supplemental disclosure below does not include the information required by SFAS No. 69 related to the Company's investment in Slavneft, which is accounted for under the equity method, refer to Note 9 of the consolidated financial statements.

Capitalized Costs Relating to Oil and Gas Producing Activities

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the period ended December 31, 2006 and 2005, respectively (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Total capitalized costs of oil and gas properties	\$ 10,869,740	\$ 9,742,584
Less: Accumulated depreciation, depletion and amortization	<u>(6,300,596)</u>	<u>(5,885,506)</u>
Total net capitalized costs of oil and gas properties	<u>\$ 4,569,144</u>	<u>\$ 3,857,078</u>
	<u>2006</u>	<u>2005</u>
Total costs incurred in oil and gas properties development activities	<u>\$ 1,396,558</u>	<u>\$ 969,023</u>

Results of Operations from Oil and Gas Producing Activities

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

Results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the years ended, respectively, adjusted for tax deductions, tax credits and allowances. For the period ended December 31, 2006 and 2005, respectively (in US\$ thousands):

	<u>2006</u>	<u>2005</u>
Revenues from net production		
Sales	\$ 9,012,032	\$ 7,296,277
Transfers	<u>2,677,970</u>	<u>1,993,975</u>
Total revenues	11,690,002	9,290,252
Production costs	(1,305,342)	(895,515)
Depreciation, depletion and amortization	(711,627)	(929,620)
Taxes, other than income tax	<u>(6,359,004)</u>	<u>(4,269,478)</u>
Pretax income from producing activities	3,314,029	3,195,639
Income tax expenses	<u>(814,588)</u>	<u>(763,758)</u>
Results of oil and gas producing activities	<u>\$ 2,499,441</u>	<u>\$ 2,431,881</u>

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

**OAQ Gazprom Neft (formerly OAQ Siberian Oil Company)
 Supplement Information on Oil and Gas Activities (Unaudited)
 December 31, 2006 and 2005**

Proved Oil and Gas Reserve Quantities

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

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

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

"Net" reserves exclude quantities due to others when produced.

A significant portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. The developed non-producing proved reserves can be produced from existing well bores but require capital costs for workovers, recompletions, or restoration of shut-in wells, additional completion work or future recompletion prior to the start of production. Of the developed non-producing proved reserves, a significant portion represents existing wells which are expected to be put back into production at a future date.

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

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to Commonwealth of Independent States ("CIS") countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes.

As determined by the Company's independent reservoir engineers, Miller and Lents (DeGolyer and MacNaughton in 2005), the following information presents the balances of proved oil and gas reserve quantities as of December 31, 2006 and 2005, respectively.

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

	2006	2005
Proved Reserves at January 1,	3,398	4,119
Production	(243)	(265)
Purchase of reserves in place	-	-
Revision of previous estimates and improved recovery	676	(456)
Proved reserves at December 31,	3,831	3,398
Minority's share included in the above proved reserves	(26)	(19)
Proved developed reserves	2,732	1,670

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

**OAO Gazprom Neft (formerly OAO Siberian Oil Company)
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Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

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

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

	2006 (in US\$ thousands)	2005 (in US\$ thousands)
Future cash inflows	\$ 119,469,620	\$ 83,694,589
Future production and development costs	(67,152,318)	(39,051,566)
Future income tax expenses	<u>(12,859,593)</u>	<u>(10,669,682)</u>
Future net cash flows	39,457,709	33,973,341
Future net cash flow 10% annual discount for estimated timing of cash flow	<u>(21,286,191)</u>	<u>(15,765,048)</u>
Standardized measure of discounted future net cash flows	<u>\$ 18,171,518</u>	<u>\$ 18,208,293</u>

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

AO Gazprom Neft (formerly AO Siberian Oil Company)
Supplement Information on Oil and Gas Activities (Unaudited)
December 31, 2006 and 2005

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

	2006	2005
	(in US\$ thousands)	(in US\$ thousands)
Discounted present value as of beginning of year	\$ 18,208,293	\$ 10,054,235
Sales and transfers of oil produced, net of production costs and other operating expenses	(2,499,441)	(2,431,881)
Net change in prices received per barrel, net of production costs and other operating expenses	679,293	22,000,283
Changes in future development costs	(1,700,574)	(2,516,312)
Development costs incurred during the period	1,396,558	969,023
Revisions of previous quantity estimates	5,629,027	(4,147,984)
Net change in income taxes	(203,738)	(2,367,096)
Accretion of discount	2,295,865	1,274,568
Other	(5,633,765)	(4,626,543)
Discounted present value as of end of year	<u>\$ 18,171,518</u>	<u>\$ 18,208,293</u>

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

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