JSC Gazprom Neft

Consolidated Financial Statements

As of December 31, 2009 and 2008 and
for the years ended December 31, 2009, 2008 and 2007

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Contents

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of JSC Gazprom Neft and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

March 3, 2010

JSC Gazprom Neft
Consolidated Balance Sheets
As of December 31, 2009 and 2008

Currency – US$ millions

	Notes	2009	2008
Assets			
Current assets:			
Cash and cash equivalents	4	$ 868	$ 2,075
Short-term investments		45	143
Short-term loans receivable		108	17
Accounts receivable, net	5	2,818	1,866
Inventories	6	1,737	1,194
Other current assets, net	7	1,226	580
Total current assets		**6,802**	**5,875**
Long-term investments and loans receivable	8	6,972	4,812
Property, plant and equipment, net	9	14,265	9,231
Goodwill and other intangible assets	10	1,347	92
Other non-current assets		402	80
Non-current deferred income tax assets	17	124	115
Total assets		**$ 29,912**	**$ 20,205**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term debt	11	$ 682	$ 613
Accounts payable and accrued liabilities	12	2,434	1,102
Income and other taxes payable	13	694	308
Dividends payable		416	525
Current portion of long-term debt	14	1,466	1,472
Total current liabilities		**5,692**	**4,020**
Long-term debt	14	4,162	1,608
Asset retirement obligations	15	367	330
Other long-term liabilities		279	-
Deferred income tax liabilities	17	755	147
Total liabilities		**11,255**	**6,105**
Equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Additional paid-in-capital		573	573
Retained earnings		15,621	13,431
Less: Common stock held in treasury, at cost (23,359,582 shares as of December 31, 2009)		(45)	(45)
Total shareholders' equity		**16,151**	**13,961**
Non-controlling interest		**2,506**	**139**
Total equity		**18,657**	**14,100**
Total liabilities and shareholders' equity		**$ 29,912**	**$ 20,205**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

V. V. Yakovlev
Chief Financial Officer
JSC Gazprom Neft

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

	Notes	2009	2008	2007
Revenues				
Refined products and oil and gas sales		$ 23,648	$ 33,205	$22,248
Other		518	665	520
Total	20	24,166	33,870	22,768
Costs and other deductions				
Cost of purchased oil, gas, petroleum products		5,636	8,296	3,928
Operating expenses		1,862	2,015	1,941
Selling, general and administrative expenses		1,280	1,046	854
Transportation expenses		1,982	1,810	1,279
Depreciation, depletion and amortization		1,475	1,309	929
Export duties		3,948	7,328	4,372
Taxes other than income taxes	13	3,982	5,353	4,107
Exploration expenses		147	193	184
Cost of other sales		283	271	275
Loss on sale of assets, net		142	-	-
Total		20,737	27,621	17,869
Operating income		3,429	6,249	4,899
Other income (expense)				
Share in income of equity affiliates	8	212	407	408
Gain on investment		470	-	-
Interest income		108	100	94
Interest expense		(369)	(167)	(149)
Other (expense) income, net		(3)	89	45
Foreign exchange gain (loss), net		50	(517)	161
Total		468	(88)	559
Income before income taxes		3,897	6,161	5,458
Provision for income taxes	17	804	1,425	1,342
Deferred income tax expense (benefit)	17	12	39	(27)
Total		816	1,464	1,315
Net income		$ 3,081	$ 4,697	$ 4,143
Less: Net income attributable to non-controlling interest		(68)	(39)	-
Net income attributable to Gazprom Neft		$ 3,013	4,658	4,143
Basic and Diluted Net income per Common Share attributable to Gazprom Neft (US$ per share)		0.64	0.98	0.87
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,736	4,741

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

For the years ended December 31, 2009, 2008 and 2007 Currency – US$ millions

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Shareholders' Equity	Non-controlling Interest	Total Shareholders' Equity
Balance as of December 31, 2006	**$ 2**	**$ 2,727**	**$ -**	**$ 7,202**	**$ 9,931**	**$ -**	**$ 9,931**
Net income for the year	-	-	-	4,143	4,143	-	4,143
Common stock dividends	-	-	-	(1,487)	(1,487)	-	(1,487)
Recognition of the financial effect of a transaction under common control (see Note 8)	-	(2,154)	-	-	(2,154)	-	(2,154)
Balance as of December 31, 2007	**$ 2**	**$ 573**	**$ -**	**$ 9,858**	**$ 10,433**	**$ -**	**$ 10,433**
Net income for the year	-	-	-	4,658	4,658	39	4,697
Common stock dividends	-	-	-	(1,085)	(1,085)	-	(1,085)
Other	-	-	(45)	-	(45)	100	55
Balance as of December 31, 2008	**$ 2**	**$ 573**	**$ (45)**	**$ 13,431**	**$ 13,961**	**$ 139**	**$ 14,100**
Net income for the year	-	-	-	3,013	3,013	68	3,081
Common stock dividends	-	-	-	(823)	(823)	-	(823)
Changes in non-controlling interest	-	-	-	-	-	2,299	2,299
Balance as of December 31, 2009	**$ 2**	**$ 573**	**$ (45)**	**$ 15,621**	**$ 16,151**	**$ 2,506**	**$ 18,657**

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

Currency – US$ millions

	2009	2008	2007
Operating activities			
Net income	$ 3,013	$ 4,658	$ 4,143
Reconciliation of net income to net cash provided by operating activities:			
Share in income of equity affiliates, net of dividends received	11	(230)	(331)
Gain on investment	(470)	-	-
Non-controlling interest	68	39	-
Deferred income tax expense (benefit)	12	39	(27)
Depreciation, depletion and amortization	1,475	1,309	929
Asset retirement obligation accretion expense, net of spending on existing obligations	27	13	22
Allowance for doubtful accounts	(26)	44	(8)
Loss on disposal of property, plant and equipment	(6)	(16)	(16)
Loss on disposal of assets	142	-	-
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(393)	413	123
Inventories	(248)	(173)	(302)
Other current assets	(290)	89	23
Other non-current assets	(185)	(60)	(55)
Accounts payable, accrued liabilities and other long-term liabilities	156	(70)	485
Income and other taxes payable	188	(572)	330
Net cash provided by operating activities	**3,474**	**5,483**	**5,316**
Investing activities			
Purchase of investments, net of cash acquired (Note 3)	(2,282)	(33)	(3,747)
Acquisition of short-term investments	(360)	-	-
Proceeds from sales of short-term investments	459	-	-
Loans issued	(346)	(557)	(42)
Loans proceeds received	247	372	334
Proceeds from disposals of property, plant and equipment	10	82	31
Capital expenditures	(2,607)	(3,366)	(2,212)
Net cash used in investing activities	**(4,879)**	**(3,502)**	**(5,636)**
Financing activities			
Short and long-term loans proceeds received	5,702	2,367	4,906
Short and long-term loans repaid	(4,580)	(2,096)	(3,155)
Dividends paid	(937)	(792)	(2,071)
Purchase of treasury shares	-	(45)	-
Net cash provided by (used in) financing activities	**185**	**(566)**	**(320)**
Effect of foreign exchange on cash and cash equivalents	**13**	**(61)**	**26**
(Decrease) increase in cash and cash equivalents	(1,207)	1,354	(614)
Cash and cash equivalents as of the beginning of the period	2,075	721	1,335
Cash and cash equivalents as of the end of the period	**$ 868**	**$ 2,075**	**$ 721**
Supplemental disclosures of cash flows information			
Cash paid for interest, net of amount capitalized	$ 329	$ 159	$ 158
Cash paid for income taxes	$ 528	$ 1,819	$ 1,087

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

1. General

Description of Business

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

OAO Siberian Oil Company ("Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 OAO Gazprom ("Gazprom") completed its acquisition of a 75.68% stake in Sibneft, becoming a subsidiary of Gazprom. On May 30, 2006 Sibneft was renamed "JSC Gazprom Neft". In April 2009, Gazprom exercised its option to acquire an additional 20% interest in the Company and increased its interest to 95.68%.

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 mostly 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").

Management Estimates

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

Foreign Currency Translation

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

The official rates of exchange of the Ruble to the US Dollar as of December 31, 2009, 2008 and 2007 were 30.24 Rubles, 29.38 Rubles and 24.55 Rubles per US $1.00, respectively.

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of majority-owned subsidiaries where no minority shareholder or group of minority shareholders exercise a majority of the substantive participating rights, and variable interest entities for which the Company is determined to be the primary beneficiary. Investments in entities that the Company does not control, but has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method. Accordingly, the Company's share of net earnings from these companies is included in the consolidated statements of income as income from equity affiliates. All other investments are recorded at cost and adjusted for impairment, as appropriate.

Business Combinations

From January 1, 2009, the Company accounts for its business combinations according to FASB ASC 805, *Business Combinations*, and FASB ASC 810, *Consolidation*. The Company applies the acquisition method of accounting and recognizes the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions.

Goodwill and Other Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired. The excess of the fair value of net assets acquired over acquisition cost represents negative goodwill which is recognized as a gain in the consolidated statement of income during the period of the acquisition.

In accordance with FASB ASC 350, *Intangibles – "Goodwill and Other"*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested for impairment at least on an annual basis. An impairment loss is recognized when the carrying value of goodwill exceeds its fair value. Impairment testing is a two-step process. The first step compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, no impairment is recognized. Otherwise, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss resulting from the excess of the reporting unit's carrying value over its fair value. The loss recognized cannot exceed the carrying amount of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or the period set by legislation.

Non-Controlling Interest

Effective January 1, 2009, and retroactive to the earliest period presented the Company has adopted the provisions for the accounting and reporting of non-controlling interests in a subsidiary in consolidated financial statements as required by the Consolidations topic of the Codification. Prospectively, certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary is to be initially measured at fair value. In addition ownership interests in the company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the consolidated balance sheet. The amount of consolidated net income attributable to the parent and the non-controlling interests are both presented on the face of the consolidated statement of income.

Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts including accrued interest, which can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be convertible to a certain cash amount and mature within three months or less from the date of purchase. They are recognized based on the cost of acquisition plus accrued interest, which approximates fair value.

Loans and Accounts Receivable

Loans and accounts receivable are stated at net realizable value. Allowances are provided for estimated losses and for doubtful debts based on estimation of 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.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of weighted average cost or market value. Market value should not exceed net realizable value (i.e. estimated selling price less reasonable predictable costs of completion and disposal), and should not be less than net realizable value reduced by an allowance for an estimated normal profit margin. Costs include both direct and indirect expenditures and charges incurred in bringing an item or product to its existing condition and location.

Financial Investments

In accordance with FASB ASC 825, *"Fair value option for financial assets and financial liabilities"* including amendment to ASC 320 financial investments are recorded at fair value. Fair value of investments is based on market quotes, if any, or on present value of expected cash flow with discount rates applied for their calculation in accordance with the level of risks associated with these investments.

All debt and equity securities held by the Company are classified as follow: trading securities, available-for-sale securities or held-to-maturity securities.

Trading securities are purchased and held primarily for resale in the nearest future. Held-to-maturity securities represent financial instruments that the Company has both the intent and the ability to hold to maturity. All other securities, which do not fall into these two categories, are classified as available-for-sale securities.

Unrealized gains or losses on trading securities and held-to-maturity securities are included in the Consolidated Statements of Income. Unrealized gain or loss on available-for-sale securities less related tax effect are recorded up to the date of their sale as a separate element of comprehensive income. Realised gain and loss on sale of securities available for sale are determined separately for each type of securities. Dividends and interest receivable are recorded on accrual basis.

Investments in shares or interests of companies where the Company has less than 20% equity interest and does not have significant influence, which are not publicly traded, and their market value cannot be calculated directly, are recorded at cost.

Oil and Gas Properties

In accordance with FASB ASC 932, *"Extractive Activities - Oil and Gas"*, oil and gas acquisition, exploration and development costs are recognized under the successful efforts method.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration costs include:

- Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

Exploration drilling costs are capitalised until it is determined that the well has proved oil and gas reserves and the reserves found are sufficient to justify its development. The site is a cost centre. If proved reserves are not found, the capitalised drilling costs are charged to exploration expenses incurred in the period when it is determined that such cost would not bring additional proved oil and gas reserves.

Other exploration costs are charged to expense when incurred.

Development costs include expenditures incurred to:

- Gain access to and prepare well locations for drilling;
- Drill and equip development wells and service wells;
- Acquire, construct, and install production facilities; and
- Provide improved recovery systems.

Property, Plant and Equipment

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

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

Depreciation, Depletion and Amortization

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on the proved developed reserves respectively. Acquisition costs of unproved properties are not amortized. These costs are reclassified as proved properties when the relevant reserve reclassification is made.

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is calculated 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:

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

Impairment of Long-Lived Assets

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with FASB ASC 360 *"Property, Plant and Equipment"*. ASC 360-10-35 provides a list of events or changes in circumstances that may indicate the need to conduct a test for impairment of long-lived assets: (1) a significant decrease in the market price of a long-lived asset; (2) a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition; (3) a significant adverse change in legal factors or in the business climate; (4) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of a long-lived asset; (5) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a negative projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; or (6) a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Oil and gas properties are assessed whenever events or changes in circumstances indicate potential impairment. If the carrying value of oil and gas properties is not recoverable through undiscounted cash flows, an impairment is recognized. The impairment is determined on the basis of the estimated fair value of oil and gas properties which, in turn, is measured by discounting future net cash flows.

Discounted future net cash flows from oil and gas fields are based on management's best estimate of future prices, which are determined with reference to recent historical prices and published forward prices, applied to projected production volumes of individual fields and discounted at a rate commensurate with the risks involved. The projected production volumes represent reserves, including risk-adjusted probable and possible reserves, expected to be produced based on a stipulated amount of capital expenditure. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information.

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, 2009, 2008 and 2007.

Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects that could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period when construction activities are actually in progress and until the resulting properties are put into operation. During 2009, 2008 and 2007 interest capitalized related to capital projects amounted to US$ 22 million, US$ 16 million and US$ 8 million, respectively.

Asset Retirement Obligations

The Company has asset retirement obligations associated with its core activities. The nature of the assets and potential obligations are as follow:

Exploration and Production: the Company's activities in exploration, development and production of oil and gas in the deposits are related to usage of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permits for mineral resources extraction require certain actions to be taken by the Company in respect of liquidation of these assets after oil field closure. Such actions include liquidation of wells, dismantling of equipment, soil recultivation and other remediation measures. Upon entire depletion of an oil field the Company will incur costs related to well retirement and environmental protection measures associated with abandonment of such wells in accordance with ASC 410-20 *"Asset Retirement Obligation"*.

Refining, Marketing and Distribution: the Company's oil refining operations are carried out at large manufacturing facilities. Such manufacturing facilities have been operated for several decades. Based on principles of operations of such facilities, it is impossible to determine the ultimate date of decommissioning of sites and facilities, although some functioning parts and equipment have definite useful lives. Current regulatory and licensing rules do not provide for liabilities related to liquidation of such manufacturing facilities and retail outlets. Therefore, the Company's management believes that there are no obvious legal or contractual obligations related to decommissioning or other disposal of these assets.

FASB ASC 410-20 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry in Russia has few examples of credit-worthy third parties who are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the Company's assets retirement obligation estimates.

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.

Income Taxes

Russian legislation does not contain the concept of a "consolidated tax payer" and, accordingly, the Company is not subject to taxation on a consolidated basis. Current income taxes are provided on taxable profit of each subsidiary as determined under mostly the Russian Federation Tax Code at a rate of 20% after adjustments for certain items which are not deductible for taxation purposes. Prior to January 1, 2009, the income tax rate was 24%.

Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amounts determined by the Company using the liability method in accordance with FASB ASC 740 *"Income Taxes"*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities be settled. A valuation allowance for deferred tax asset is recorded when management believes, that it is more likely than not, that this tax asset will not be realized in the future.

Derivative Instruments

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

Derivative instruments are recorded at fair value in either other assets or liabilities on the Consolidated Balance Sheet. Realized and unrealized gains and losses are presented in the Consolidated Statements of Income on a net basis. These transactions are not accounted for as hedges pursuant to FASB ASC 815 *"Derivatives and Hedging"*.

Common stock

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

Treasury stock

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

Earnings per Share

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

Contingencies

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

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

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

Retirement and Other Benefit Obligations

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

Recognition of Revenues

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

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

Revenues are presented net of VAT.

Buy/Sell Transactions

The Company accounts for buy/sell transactions in accordance with FASB ASC 845-15 *"Non-monetary Transactions"* which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, should be combined and considered as a single arrangement. The Company accounts for matching buy/sell arrangements entered into as exchanges of inventory.

Transportation Costs

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

Maintenance and Repair

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

Accounting Standards Adopted

Effective June 30, 2009 the Company adopted the Codification. The Codification is now the source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but was not intended to change or alter existing US GAAP.

Effective January 1, 2009 the Company adopted the provisions for accounting for certain transactions with equity-method investees as required by the Consolidation Topic of the Codification. The Codification Topic addresses the initial measurement, decreases in value and changes in the level of ownership of the equity method investment. The adoption did not have a significant impact on the Company's results of operations, financial position or cash flows.

Effective January 1 2009, the Company adopted the provisions for accounting for business combinations as required by the Business Combinations Topic of the Codification. Under the provisions an acquiring entity will be required to recognize all the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair value with limited exceptions. The definition of a business is expected to be applicable to more transactions than under previous guidance. The specific provisions amend the accounting treatment for changes in control, step acquisitions, transaction costs, acquired contingent liabilities, in-process research and development, restructuring costs, changes in deferred tax asset valuation allowances as a result of a business combination and changes in income tax uncertainties after the acquisition date. Accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations will impact tax expense instead of impacting recorded goodwill. Additional disclosures are also required. The Company's acquisitions subsequent to the adoption (Note 3 "Business combinations") have been accounted for under the provisions the Business Combinations Topic.

Effective January 1, 2009 the Company adopted the fair value measurement provisions required by the Fair Value Measurements and Disclosure Topic of the Codification as it relates to measurement practices regarding non-financial assets and liabilities. Adoption did not have a significant effect on the Company's consolidated financial statements.

Effective June 30, 2009 the Company adopted the interim disclosure provisions about the fair value of financial instruments as required by the Fair Value Measurement and Disclosures Topic of the Codification. These provisions require disclosures about the fair value of financial instruments, previously only required in annual financial statements, to be included in interim financial statements.

Effective June 30, 2009 the Company adopted the subsequent events provisions of the Codification. These provisions provide guidance on management's assessment of subsequent events. Management evaluated subsequent events through March 2, 2009 which is the date the financial statements were available to be issued. The adoption of these provisions did not have an impact on the Company's consolidated financial statements.

In January 2009, the SEC published its final rule, Modernization of Oil and Gas Reporting, which modifies the SEC's reporting and disclosure rules for oil and natural gas reserves. The most notable changes of the final rule include the replacement of the single day period end pricing to value oil and natural gas reserves to a 12-month average of the first day of the month price for each month within the reporting period. The final rule also permits voluntary disclosure of probable and possible reserves, a disclosure previously prohibited by SEC rules. Early adoption is not permitted.

On January 6, 2010, the FASB issued Statement of Financial Accounting Standards updated 2010-03 Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures (the "ASC"), an update of ASC Topic 932 Extractive Industries – Oil and Gas, which substantially aligns the reserve estimation, disclosure requirement, and definition of Topic 932 with the disclosure requirements of the Final Rule issued by the SEC. The Group adopted Extractive Industries – Oil and Gas Topic as of December 31, 2009. Adoption did not have a significant affect on the Group's estimation and disclosure regarding reserve quantities. The company adopted the ASU as of December 31, 2009.

(in millions of US Dollars)

Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued provisions related to accounting for transfers of financial assets removing the concept of a qualifying special-purpose entity and the exception from applying guidance related to variable interest entities that are qualifying special-purpose entities. The new provisions require that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The standard also requires additional disclosures about any transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The provisions are effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the provisions on its financial position, results of operations and cash flows.

In June 2009, the FASB issued provisions related to how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting entity's ability to direct the activities of the other entity that most significantly impact its economic performance. The provisions also require additional disclosures about a reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. The provisions are effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting the provisions on its financial position, results of operations and cash flows.

Reclassifications

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

3. Business Combinations

Acquisition of Naftna Industrije Sjrbije

On February 3, 2009, the Company acquired a 51% interest in Serbia's Naftna Industrija Srbije (NIS) for € 400 million (US$ 521 million). As part of the purchase agreement the Company pledged to invest € 547 million (approximately US$ 712 million) to rebuild and upgrade NIS's refining facilities by 2012. NIS is one of the largest vertically integrated oil companies in central Europe, operating two oil refineries in Pancevo and Novi Sad, Serbia with a total processing capacity of 7.2 million tonnes per year. NIS also has crude oil and gas production of approximately 6.3 million barrels of oil equivalent per year from its oil and gas exploration and production operations in Serbia, holds a minority share in a PSA in Angola and operates a network of retail stations throughout Serbia.

The following table summarizes the consideration transferred to acquire NIS, as well as the fair value of the non-controlling interest as of the acquisition date:

Cash	521
Fair value of the non-controlling interest in NIS	501
Total fair value	1,022

From the acquisition date to December 31, 2009 the Company updated the initial assessment of the estimated fair values of certain of the assets and liabilities acquired based on further analysis in that period. The principal changes to the assessment of fair values relate to changes in the fair value of the downstream refining assets, upstream production licenses and trade receivables that are not recoverable.

(in millions of US Dollars)

As of December 31, 2009 the purchase price allocation remains provisional as the Company continues to evaluate certain assets and liabilities acquired, principally property plant and equipment and certain long term receivables and investments.

The following table summarizes the revised estimates of fair value of the assets and liabilities acquired as of February 3, 2009.

	As of the acquisition date
Cash and cash equivalents	$ 22
Accounts receivable, net	198
Inventories	235
Other current assets	53
Intangible assets	150
Property, plant and equipment	1,485
Other non-current assets	4
Total assets acquired	**$ 2,147**
Short term loans and current portion of long-term debt	$ (645)
Other current liabilities	(307)
Long-term debt	(186)
Other non-current liabilities	(336)
Total liabilities assumed	**$ (1,474)**
Total identifiable assets acquired and liabilities assumed	**$ 673**
Consideration paid	**$ (1,022)**
Goodwill	**349**

The primary reasons for the acquisition and the principal factors contributing to goodwill are the Company's ability to deliver its own crude oil to the NIS refineries and the expected increase in refining throughput and improvement of product mix, which will allow for future increases in refined product sales to the export market. All of the goodwill has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes.

The fair value of the non-controlling interest of US$ 501 million was estimated by applying the income approach as there are no market comparatives. This fair value measurement is based on significant inputs not observable in the market and thus represents Level 3 measurement as defined by the Business Combinations Topic of the Codification. The fair value estimate is based on discount rates between 15.2% and 17.3%, financial forecasts prepared in nominal US Dollars and publicly available macroeconomic and industry information.

The acquisition of NIS contributed revenues of approximately US$ 2,293 million and net income of approximately US$ 5 million during the period February 3, 2009 through December 31, 2009. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2009 after applying the Company's accounting policies:

	Pro forma December 31, 2009
Revenues	24,293
Net income	3,012

Presenting unaudited pro forma information for the comparative period ending December 31, 2009 is impractical as NIS has not historically prepared US GAAP information and does not have data to objectively determine adjustments to statutory accounts to derive US GAAP financial information for any period during 2008 or 2007.

(in millions of US Dollars)

Acquisition of Sibir Energy

In the period from April 23, 2009, being the date of the Company's first acquisition of shares in Sibir Energy plc ("Sibir "), until June 23, 2009, the Company invested £1,057 million (approximately US$ 1,662 million) to acquire 54.71% of the ordinary shares of Sibir. This acquisition of shares of Sibir provided the Company with effective control over Sibir and indirect control over Moscow Refinery, having increased its effective interest in Moscow Refinery from 38.63% to 59.75%. The Company previously accounted for its 38.63% interest in Moscow Refinery as an equity method investment.

Sibir is a vertically integrated oil company operating in the Russian Federation. Sibir's primary upstream assets include JSC Magma Oil Company (95% Sibir owned) and a 50% interest in Salym Petroleum Development (a joint venture with Royal Dutch Shell). Sibir's upstream assets are located in Khanti-Mansiysky Autonomous Region and comprise annual production interest of over 80,000 barrels of oil per day (bopd). Sibir also holds a 38.63% stake in the Moscow Oil Refinery ("Moscow Refinery"), which is jointly managed with Gazprom Neft, and a network of 134 retail stations in the City of Moscow and the Moscow region through JSC Moscow Fueling Company and JSC Mosnefteproduct.

The following table summarizes the consideration transferred to acquire Sibir, including the fair value of the non-controlling interests in both Sibir and Moscow refinery at the acquisition date as well as the fair value of the Company's pre-existing interest in Moscow refinery at the acquisition date:

Cash paid	$ 1,662
Fair value of the non-controlling interest in Sibir	1,056
Fair value of the non-controlling interest in Moscow Refinery	839
Fair value of the Company's investment in Moscow Refinery held before the business combination	806
Total fair value	**4,363**

The following table summarizes the revised estimates of fair value of the assets and liabilities acquired as of June 23, 2009. The purchase price allocation is preliminary as the Company is in the process of finalizing the fair value estimates for certain assets and liabilities, primarily for property, plant and equipment and determining the completeness of liabilities recorded:

		As of the acquisition date
Cash and cash equivalents	$	181
Accounts receivable, net		335
Inventories		60
Other current assets		246
Intangible assets		618
Property, plant and equipment		2,421
Other non-current assets		1,621
Total assets acquired	**$**	**5,482**
Short-term and current portion of long-term debt	$	(233)
Other current liabilities		(432)
Long-term debt		(174)
Other non-current liabilities		(559)
Total liabilities assumed	**$**	**(1,398)**
Total identifiable assets acquired and liabilities assumed	**$**	**4,084**
Consideration transferred	**$**	**(4,363)**
Goodwill		**279**

As a result of the Company obtaining control over Moscow refinery, the Company's previously held 38.63% interest was re-measured to fair value, resulting in a gain of US$ 470 million. This has been recognized in the line item "Other income (expense), net" in the Consolidated Statement of Income.

(in millions of US Dollars)

The fair values of the non-controlling interests in Sibir and Moscow refinery of US$ 1,056 million and US$ 839 million respectively were estimated by applying an income approach as there are no market comparatives. The fair value measurement are based on significant inputs not observable in the market and thus represent Level 3 measurement as defined by the Business Combinations Topic of the Codification. The fair value estimates are based on discount rates between 10.8% and 13.6%, financial forecasts prepared in nominal US Dollars and publicly available macroeconomic and industry information.

The acquisition of Sibir contributed revenues of approximately US$ 1,345 million and net income of approximately US$ 96,3 million during the period June 23, 2009 through December 31, 2009. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2007:

	Pro forma December 31, 2009	**Pro forma December 31, 2008**	**Pro forma December 31, 2007**
Revenues	25,189	37,589	24,536
Net income	3,073	4,669	4,425

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Sibir and Moscow Refinery to reflect the additional depreciation and amortization arising from the purchase accounting that would have been charged assuming the fair values adjustments to property plant and equipment and intangible assets had been applied from January 1, 2007.

The goodwill recognized as a result of the business combination is attributable to the Company's ability to increase the delivery of its own crude to the Moscow refinery and the expected increase in refining throughput and improved flexibility of product sales which will increase access to various product sales channels and result in higher net back prices. All of the goodwill arising on the business combination has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes.

Acquisition of Orton Oil Limited

On July 21, 2009 the Company acquired 100% of Orton Oil Limited ("Orton"), an un-listed investment and financing company registered in Cyprus. The purchase consideration comprised $109 million in cash. The only asset held by Orton is a 50% investment in Bennfield Limited ("Bennfield") which, in turn, holds a 25.66% interest in Sibir.

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of July 21, 2009.

	As of the acquisition date
Long-term Investment	$ 741
Total assets acquired	**$ 741**
Other current liabilities	(666)
Total liabilities assumed	**(666)**
Total identifiable assets acquired and liabilities assumed	**$ 75**
Consideration paid	**$ (109)**
Goodwill	**34**

The primary reasons for the acquisition and the principal factors contributing to goodwill relate to the Company's ability to increase its influence on Sibir Energy. All of the goodwill has been assigned to the Company's Refining and Marketing Segment. The goodwill is non deductible for tax purposes.

(in millions of US Dollars)

Other current liabilities of US$ 666 million represent a payable to a related party as of the date of acquisition and as of December 31, 2009.

As a result of an outstanding shareholder dispute related to the 50% of Bennfield not held by Orton, the Company has been unable to exert influence in the period since the acquisition over the governance of Bennfield or exercise the rights that would typically exist as an equity investor.

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2009 and 2008 comprise the following:

	2009	2008
Cash in bank – Rubles	$ 119	$ 424
Cash in bank – foreign currency	172	359
Bank deposits and other cash equivalents	455	1,290
Cash on hand	122	2
Total cash and cash equivalents	$ 868	$ 2,075

As of December 31, 2009 and 2008 the majority of bank deposits are represented by US Dollars. Bank deposits represent deposits with original maturities of less than three months.

5. Accounts Receivable, net

Accounts receivable as of December 31, 2009 and 2008 comprise the following:

	2009	2008
Trade receivables	$ 1,772	$ 818
Value added tax receivable	974	555
Related party receivables	44	34
Other receivables	590	518
Less allowance for doubtful accounts	(562)	(59)
Total accounts receivable	$ 2,818	$ 1,866

Trade receivables represent amounts due from customers in the ordinary course of business, denominated primarily in US Dollars, and are short-term in nature. Other receivables consist primarily of profit taxes receivable and other miscellaneous receivables.

6. Inventories

Inventories as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Crude oil	$ 437	$ 106
Petroleum products	618	295
Materials and supplies	599	758
Other	83	35
Total inventories	$ 1,737	$ 1,194

(in millions of US Dollars)

7. Other Current Assets, net

Other current assets as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Prepaid customs duties	$ 411	$ 216
Advances paid	530	334
Prepaid expenses	45	22
Other assets	240	8
Total other current assets	$ 1,226	$ 580

8. Long-Term Investments and Loans Receivable

Long-Term Investments

None of the companies listed below are publicly traded in Russia and due to the nature of the financial markets it is not possible to obtain current market price for these investments. The significant equity and other long-term investments as of December 31, 2009 and 2008 are summarized below:

	Ownership Percentage	Net book value as of December 31,	
Investments in equity affiliates:	December 31, 2009	2009	2008
JSC Slavneft	49.9	$ 2,792	$ 2,710
JSC Tomskneft VNK	50.0	1,470	1,458
JSC Moscow Oil Refinery*		-	331
Salym Petroleum Development N.V.	50.0	1,220	-
Total investments in equity affiliates		5,482	4,499
Total long-term investments, at cost		1,097	225
Long-term loans receivable		393	88
Total long-term investments		$ 6,972	$ 4,812

* As a result of the acquisition of Sibir Energy on June 23, 2009 the Company gained control of JSC Moscow Oil Refinery and, accordingly, JSC Moscow Oil Refinery is now consolidated within these financial statements (Note 3 "Business Combinations").

Total long term investment at cost includes the Company's investment in Bennfield, acquired as part of the acquisition of Orton in 2009 (Note 3 "Business Combinations")

(in millions of US Dollars)

The Company's share in income of equity affiliates including share in non-controlling interest consists of the following for the years ended December 31, 2009, 2008 and 2007:

	December 31, 2009	December 31, 2008	December 31, 2007
Equity affiliates:			
JSC Slavneft	$ 113	$ 353	$ 392
JSC Tomskneft VNK	138	39	5
JSC Moscow Oil Refinery	5	15	11
Salym Petroleum Development N.V.	37	-	-
Total share of income in equity affiliates	$ 293	$ 407	$ 408
Amortization of fair value recognized at acquisition	(81)	-	-
Total result from equity affiliates	$ 212	$ 407	$ 408

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

The following table summarizes the financial information of Slavneft as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008:

	2009	2008
Current assets	$ 1,011	$ 1,002
Long-term assets	6,508	6,453
Total liabilities	1,901	2,051
Revenues	3,827	7,378
Net income including non-controlling interest	227	708

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

The following table summarizes the financial information of Tomskneft as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008:

	2009	2008
Current assets	$ 858	$ 881
Long-term assets	3,596	4,762
Total liabilities	2,309	2,495
Revenues	2,259	3,241
Net income	277	78

(in millions of US Dollars)

In June 2009 and as part of the acquisition of Sibir Energy (Note 3 "Business Combinations") the Company acquired a 27.4% equity interest in Salym Petroleum Development N.V. ("Salym"). Salym is owned 50% by Sibir Energy and 50% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of Salym relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarizes the financial information of Salym as of December 31, 2009. Revenue and net income are shown for the post-acquisition period June 23, 2009 through December 31, 2009.

	2009
Current assets	$ 272
Long-term assets	964
Total liabilities	980
Revenues	1,372
Net income	74

Long-Term Loans Receivable

Long-term loans receivables of US$ 393 million and US$ 88 million are mostly due from related parties as of December 31, 2009 and 2008, respectively. These loans bear interest rates from nil to 16.0%. The fair value of these loans is approximately US$ 303 million and US$ 52 million as of December 31, 2009 and 2008 assuming an average discount rate of 9.0% and 13.0% for the periods ended December 31, 2009 and 2008, respectively (CBR interbank refinancing rate).

9. Property, Plant and Equipment

As of December 31, 2009 property, plant and equipment comprise the following:

	Cost	**Accumulated DD&A**	**Net book value**
Exploration and production	$ 20,456	$ (11,122)	$ 9,334
Refining	4,719	(1,822)	2,897
Marketing and distribution	1,474	(188)	1,286
Other	21	(1)	20
Assets under construction	728	-	728
Total	$ 27,398	$ (13,133)	$ 14,265
Comparative balance as of December 31, 2008	$ 21,206	$ (11,975)	$ 9,231

10. Goodwill and intangible assets

Changes in the amount of carrying value of goodwill for the year ended December 31, 2009 by reportable segment are as follows:

	Exploration and Production	**Refining, Marketing and Distribution**	**Total**
Balance as of December 31, 2008	$ -	$ -	$ -
Acquisitions	-	662	662
Balance as of December 31, 2009	-	662	662

(in millions of US Dollars)

In 2009 the Company acquired NIS, Sibir Energy and Orton Oil and recognized goodwill in the amount of US$ 349 million, US$ 279 million and US$ 34 million, respectively. The goodwill recognized for these acquisitions was assigned to the respective downstream assets acquired. The Company has assessed the carrying value of goodwill related to each acquisition for impairment as of December 31, 2009. No impairment was recognized as of December 31, 2009.

Other intangible assets as of December 31, 2009 and 2008 comprise the following:

	2009	2008
Licenses	$ 82	$ 21
Software	20	52
Land rights	571	-
Other intangible assets	12	19
Total other intangible assets	$ 685	$ 92

Land rights relate to the right to use land plots at the Moscow Refinery location and certain other retail and wholesale sites in Moscow and the Moscow region where the Company owns and operates refining and other assets.

11. Short-Term Loans

As of December 31, 2009 and 2008 the Company has short-term loans outstanding as follows:

	2009	2008
Banks	$ 251	$ 302
Related parties	428	306
Other	3	5
Total short-term loans	$ 682	$ 613

As of December 31, 2009 short-term loans were provided by international and Russian banks for funding of working capital and consisted of unsecured facilities.

As of December 31, 2009, the Company has US$ 251 million in short term loans from a number of European and Russian banks, primarily repayable in US Dollars. These loans bear interest rates fluctuating from LIBOR/EURIBOR plus margin of 1.1% to 5.0%. As of December 31, 2008, the Company had US$ 302 million in various short-term bank loans repayable in US Dollars. These loans bore interest between LIBOR plus 0.55% to LIBOR plus 4.75%.

As of December 31, 2009 the Company has several interest-free loans from Tomskneft in the amount of US$ 346 million, repayable in Rubles which mature between April-December 2010. As of December 31, 2008 the Company had several interest-free loans from Tomskneft in the amount of US$ 289 million. Tomskneft is a related party to the Company.

As of December 31, 2009 weighted average interest rates related to the short-term loans in foreign currency and in Rubles were 4.4% and 0%, respectively. As of December 31, 2008 weighted average interest rates related to the short-term loans in foreign currency and in Rubles were 5.6% and 0.3%, respectively.

(in millions of US Dollars)

12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2009 and 2008 comprise the following:

	2009	2008
Trade accounts payable	$ 943	$ 511
Advances received from customers	287	165
Related party accounts payable	101	87
Accrued interest	46	40
Other payables	1,057	299
Total accounts payable	$ 2,434	$ 1,102

13. Income and Other Taxes Payable

Income and other taxes payable as of December 31, 2009 and 2008 comprise the following:

	2009	2008
Mineral extraction tax	$ 224	$ 114
Value added tax	198	53
Excise tax	127	51
Income tax	62	37
Property tax	44	31
Unified social tax	12	9
Other taxes	27	13
Total income and other taxes payable	$ 694	$ 308

Taxes other than income taxes expense for the years ended December 31, 2009, 2008 and 2007 comprise the following:

	2009	2008	2007
Mineral resource extraction tax	$ 2,215	$ 4,202	$ 3,139
Excise duties	1,412	828	681
Property tax	123	107	87
Unified social tax	157	131	109
Other taxes	75	85	91
Total taxes other than income taxes expense	$ 3,982	$ 5,353	$ 4,107

14. Long-Term Debt

As of December 31, 2009 and 2008 the Company has long-term outstanding loans as follows:

	2009	2008
Bonds	$ 595	$ 500
Bank loans outstanding	4,900	2,564
Other borrowings	133	16
Less current portion of long- term debt	(1,466)	(1,472)
Total long-term debt	$ 4,162	$ 1,608

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

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

On April 21, 2009, the Company placed ten-year Ruble Bonds (04 series) with the total par value of RUR 10 billion (approximately US$ 331 million). The bonds bear interest of 16.7% per year with a 2 year put option and have semi-annual coupon payments.

On July 21, 2009, the Company placed seven-year Ruble Bonds (03 series) with the total par value of RUR 8 billion (approximately US$ 264 million). The bonds bear interest of 14.75% per year with 3 year put option and have semi-annual coupon payments.

During 2006 the Company obtained a US$ 630 million syndicated loan from Citibank and ABN-AMRO Bank maturing in July 2009, bearing a floating interest of LIBOR plus 0.6%. This loan matured and was repaid in full in July 2009. As of December 31, 2008 the amount outstanding under the loan was US$ 163 million (all current).

During 2007 the Company obtained a US$ 2.2 billion syndicated loan from Calyon, ABN-AMRO, Commerzbank and Citibank maturing in September 2010, bearing a floating interest rate of LIBOR plus 0.75%. As of December 31, 2009, the amount outstanding under this syndicated loan is US$ 600 million (all current). As of December 31, 2008 the amount outstanding under the loan was US$ 1.4 billion (including current portion of US$ 800 million).

During 2008 the Company obtained a US$ 1 billion syndicated loan in two tranches from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank. The first tranche in the amount of US$ 315 million bears a floating interest rate of LIBOR plus 1.5% and matures in May 2011. The second tranche in amount of US$ 685 million bears a floating interest rate of LIBOR plus 1.75% and matures in May 2013. As of December 31, 2009 the Company had US$ 1 billion outstanding under the syndicated loan (including current portion of US$ 158 million). As of December 31, 2008 the amount outstanding under the loan was US$ 1 billion (all non-current).

During 2008 the Company was granted a credit line from the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) for a total of US$ 750 million repayable in US Dollars (including current portion of US$ 150 million as of December 31, 2009). This loan bears an interest rate of LIBOR plus 5.0% and matures in December 2011.

During 2009 the Company obtained several loans from Sberbank in the amount of US$ 857 million repayable in US Dollars (including current portion of US$ 312 million as of December 31, 2009). These loans bear a fixed interest rate of 8.46% and mature in September 2012.

During 2009 the Company obtained a loan from a Club of banks (The Bank of Tokyo-Mitsubishi UFJ, Raiffeisenbank, Nordea Bank, UniCredit Bank and Societe Generale) in the amount of US$ 500 million repayable in US Dollars (including current portion in the amount of US$ 111 million as of December 31, 2009). This loan bears a floating interest rate of LIBOR plus 5.0% and matures in October 2012.

During 2009 the Company obtained a loan from Russian Commercial Bank in the amount of US$ 624 million repayable in US Dollars (all non-current as of December 31, 2009). This loan bears a fixed interest rate of 6.50% and matures in December 2012.

As of December 31, 2009 the Company has US$ 569 million in long term loans from a number of banks (including current portion of US$ 108 million as of December 31, 2009). These loans bear interest rates fluctuating from LIBOR/EURIBOR plus 3.2% to fixed interest rate of 6.6%.

(in millions of US Dollars)

The loan agreements contain financial covenants that require the Company's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of December 31, 2009 and 2008, respectively.

Maturities of long-term loans as of December 31, 2009 are as follows:

Year due	Amount due
2010	$ 1,466
2011	2,167
2012	1,747
2013	131
2014 and further	117
	$ 5,628

15. Asset Retirement Obligations

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

	2009	2008
Beginning balance as of January 1	$ 330	$ 324
Change in estimate	(1)	(15)
New obligations incurred	11	8
Spending on existing obligations	(1)	(12)
Accretion expense	28	25
Ending balance as of December 31	$ 367	$ 330

16. Fair Value of Financial Instruments

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

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

As discussed in Note 8, the Company has investments mostly 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. Management believes the carrying values of short-term and long-term debt are not materially different from their fair values.

The Fair Value Measurement and Disclosure Topic of the Codification establish a formal fair value hierarchy based on the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

(in millions of US Dollars)

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

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

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

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

The Company uses derivative financial instruments to manage its exposure to changes in foreign currency exchange rates. A majority of Company's revenues are received in US Dollars, a growth or a decline in the value of the US Dollar against the Russian Ruble impacts the Company's operating results and cash flows. These transactions are not accounted for as hedges pursuant to the Fair Value Measurements and Disclosures Topic of the Codification.

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

At December 31, 2009 and 2008 the Company had outstanding currency exchange derivative contracts for a total notional value of US$ 616 million and US$ 50 million respectively.

The following table presents the fair values and corresponding balance sheet captions of the Company's derivative instruments as of December 31, 2009 and 2008:

	2009	2008
Assets		
Other current assets	$ 13	-
Other non-current assets	121	-
Total assets	134	-
Liabilities		
Other current accrued liabilities	-	$ 9
Total liabilities	-	9

During the years ended December 31, 2009 and 2008, the Company recognized US$ 134 million in unrealized gain and US$ 9 million, respectively, in unrealized losses in foreign exchange (gain) loss, net in the Consolidated Statement of Income.

17. Income Taxes

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

	2009	2008	2007
Current income taxes expense	$ 804	$ 1,425	$ 1,342
Deferred income taxes expense (benefit)	12	39	(27)
Total provision for income taxes	816	1,464	1,315

(in millions of US Dollars)

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

	2009	2008	2007
Income before income taxes	$ 3,897	$ 6,161	$ 5,458
Statutory income tax rate	20.0%	24.0%	24.0%
"Expected" income tax expense	779	1,479	1,310
Add (deduct) tax effect of:			
Foreign income taxed at different rates	(4)	5	(8)
Difference between enacted tax rate and taxes to be withheld from dividends	(15)	(1)	(10)
Non-deductible expenses and other permanent accounting differences	56	(19)	23
Income taxes	816	1,464	$ 1,315
Effective tax rate	20.9%	23.8%	24.1%

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

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

	2009	2008
Assets arising from the tax effect of:		
Allowance for doubtful accounts	$ 4	$ 2
Prepaid expenses	7	6
Current deferred income tax assets	$ 11	$ 8
Asset retirement obligation	$ 70	$ 66
Tax loss carryforward	3	27
Fixed assets and other non-current assets	51	22
Non-current deferred income tax assets	$ 124	$ 115
Equity investment and other assets	(20)	(22)
Fixed assets	(735)	(125)
Deferred income tax liability	$ (755)	$ (147)
Net deferred income tax asset (liability)	$ (620)	$ (24)

For Russian income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling US$ 17 million as of December 31, 2009 (US$ 135 million as of December 31, 2008), resulting in associated deferred income tax assets of US$ 3 and US$ 27 million, respectively. Tax losses carried forward as of December 31, 2009 expire between 2012 and 2017.

18. Commitments and Contingencies

Taxes

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

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

Operating Environment

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

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, has also led to bank failures and or bank rescues. While the Russian government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, such circumstances could affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2008 and 2009.

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

Environmental Matters

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

(in millions of US Dollars)

19. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

For the years ended December 31, 2009, 2008 and 2007 and up to the date control was obtained (Note 3 Business combinations) the Company processed crude oil based on processing agreements and conducted other transactions with Moscow Refinery. Such transactions are in the ordinary course of business and on terms available to other suppliers. The information on transactions with Moscow Refinery for the years ended December 31 is presented below:

	2009*	2008	2007
Processing fees	$ 34	$ 100	$ 95
Oil products purchased	1	8	7
Oil products sales	-	10	9

* The data presented is for the period ended June 23, 2009 when control was obtained and Moscow Refinery became the Company's subsidiary.

As of December 31, 2008 the Company had US$ 14 million in payables to Moscow Refinery.

Slavneft Group (Slavneft)

During 2009 the Company conducted numerous transactions with Slavneft or its subsidiaries. The Company and TNK-BP have in principle agreed to split Slavneft's production based on each party's respective interest. The information on transactions with Slavneft for the years ended December 31 is presented below:

	2009	2008	2007
Processing fees	$ 218	$ 234	$ 196
Crude, gas and oil products purchased	1,729	3,199	2,510
Crude and oil products sales	720	609	555

As of December 31, 2009 the Company has US$ 77 million in payables to Slavneft and US$ 21 million in receivables from Slavneft. As of December 31, 2008 the Company had US$ 54 million in payables to Slavneft and US$ 16 million in receivables from Slavneft.

Gazprom Group (Gazprom)

During 2009 the Company conducted numerous transactions with Gazprom, its primary shareholder, or its subsidiaries. The information on transactions with Gazprom for the years ended December 31 is presented below:

	2009	2008	2007
Gas and oil products purchased	$ 2	$ 64	$ 36
Crude oil, gas and oil products sales	32	67	17

As of December 31, 2009 the Company has US$ 7 million in payables to Gazprom and US$ 17 million in receivables from Gazprom. As of December 31, 2008 the Company had US$ 9 million in payables to Gazprom and US$ 11 million in receivables from Gazprom.

(in millions of US Dollars)

Tomskneft Group (Tomskneft)

During 2009 the Company conducted numerous transactions with Tomskneft and its subsidiaries. The information on transactions with Tomskneft for the years ended December 31 is presented below:

	2009	2008
Crude and gas purchased	$ 997	$ 1,326

As of December 31, 2009 the Company has US$ 16 million in payables to Tomskneft and US$ 5 million in receivables from Tomskneft. As of December 31, 2008 the Company had US$ 10 million in payables to Tomskneft and US$ 7 million in receivables from Tomskneft.

Salym Petroleum Development (SPD)

For the period from June 23, 2009 (the date of acquisition of Sibir Energy) to December 31, 2009 the Company purchased crude from SPD amounting to US$ 554 million. As of December 31, 2009 the Company has US$ 1 million in payables to SPD and US$ 1 million in receivables from SPD.

20. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2009, 2008 and 2007. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the chief operating decision maker to make decisions about resources to be allocated and to assess performance of the Company.

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

EBITDA represents earnings before interest, income tax, depreciation and amortization. EBITDA (Earnings Before Interest, Income Tax, Depreciation and Amortization) is a supplemental non-GAAP financial measure used by management to evaluate operations. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. Adjusted EBIDTA represents the Company's EBITDA and its share in equity affiliates' EBITDA

Operating Segments as of and for the year ended December 31, 2009:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 76	$ 24,090	-	$ 24,166
Inter-segment revenues	6,519	66	(6,585)	-
Total	6,595	24,156	(6,585)	24,166
Adjusted EBITDA	3,241	2,736	-	5,977
Capital expenditures	1,975	632	-	2,607
Depreciation, depletion and amortization	1,302	173	-	1,475
Income tax expense	152	664	-	816
Segment assets as of December 31, 2009	$ 17,187	$ 22,756	(10,031)	$ 29,912

(in millions of US Dollars)

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

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 127	$ 33,743	-	$ 33,870
Inter-segment revenues	8,250	102	(8,352)	-
Total	8,377	33,845	(8,352)	33,870
Adjusted EBITDA	2,810	5,800	-	8,610
Capital expenditures	2,979	387	-	3,366
Depreciation, depletion and amortization	1,193	116	-	1,309
Income tax expense	281	1,183	-	1,464
Segment assets as of December 31, 2008	$ 13,086	$ 15,868	(8,749)	$ 20,205

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

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 86	$ 22,682	-	$ 22,768
Inter-segment revenues	8,209	21	(8,230)	-
Total	8,295	22,703	(8,230)	22,768
Adjusted EBITDA	3,776	2,825		6,601
Capital expenditures	2,045	167		2,212
Depreciation, depletion and amortization	838	91		929
Income tax expense	281	1,034		1,315
Segment assets as of December 31, 2007	$ 11,074	$ 15,025	(9,490)	$ 16,606

EBITDA for the year ended December 31, 2009, 2008 and 2007 is reconciled below:

	2009	2008	2007
Adjusted EBITDA	$ 5,977	$ 8,610	$ 6,601
The Company's share in EBITDA of equity affiliates	(931)	(1,052)	(773)
Gain from acquisition of Sibir Energy	470	-	-
Share in income of equity affiliates	212	407	408
Foreign exchange (loss) gain, net	50	(517)	161
Other income (expenses), net	(3)	89	45
Loss on sale of assets, net	(142)	-	-
Interest expense	(369)	(167)	(149)
Interest income	108	100	94
Depreciation, depletion and amortization	(1,475)	(1,309)	(929)
Income before income taxes	$ 3,897	$ 6,161	$ 5,458

For the years ended December 31, 2009, 2008 and 2007 the Company had one customer which accounted for approximately 18.9%, 20.3% and 25.7% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

(in millions of US Dollars)

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

		2009		2008		2007
Export	$	14,223	$	19,809	$	13,934
Domestic		7,870		11,321		7,110
CIS		2,073		2,740		1,724
Total revenues from external customers	$	24,166	$	33,870	$	22,768

The Company's long-lived assets are mostly located in the Russian Federation.

21. Subsequent Events

On January 12, 2010 the Company's Board of Directors approved a compensation plan to certain members of management for the period from 2009 to 2011, which is based upon the Company's common stock appreciation from 2009 to 2011, with rights vesting after the date of the compensation plan's termination.

On February 18, 2010 the Company completed the acquisition of 100% of the share capital of OOO STS-Service, a company previously owned by Malka Oil AB, for a cash consideration of 820,000,000 Swedish Kroner (approximately US$ 113 million). STS-Service owns Block 87 in the Tomsk Region comprising Zapadno-Luginetskoye field (currently under development), Nizhneluginetskoye and a part of Shinginskoye field. C1+C2 category reserves comprise 11.5 mln tons, and there are 11 prospective structures within the area. Along with the prospective structures, these fields are located in the immediate neighborhood of Shinginskoye field developed by the Company's subsidiary, Gazpromneft-Vostok LLC, which will integrate OOO STS-Service into its own structure.

On February 24, 2010 the Company closed a transaction on an intermediate unsecured loan facility totaling US$ 100 million outstanding from Nordea Bank AB (Publ). The loan bears floating interest rates based on LIBOR plus margin of 3.15%. The loan matures on February 24, 2014

(in millions of US Dollars)

As required by FASB ASC 932.235, *"Extractive Activities – Oil and Gas"*, the Company makes 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 proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Company's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do include the relevant information related to NIS.

With the exception of NIS, the Company's exploration and development activities are exclusively within the Russian Federation; therefore, all of the information provided in relation to reserve quantities and standardized measure of future net cash flows pertain entirely to the Russian Federation.

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, 2009, 2008 and 2007:

Consolidated subsidiaries	**2009**	**2008**	**2007**
Proved oil and gas properties	$ 19,563	$ 15,181	$ 12,599
Less: Accumulated depreciation, depletion and amortization	(10,540)	(7,622)	(6,797)
Net capitalized costs of oil and gas properties	$ 9,023	$ 7,559	$ 5,802
Company's share of equity method investees			
Proved oil and gas properties	$ 6,092	$ 4,987	$ 4,258
Less: Accumulated depreciation, depletion and amortization	(1,693)	(874)	(694)
Net capitalized costs of oil and gas properties	$ 4,399	$ 4,113	$ 3,564
Total capitalized costs consolidated and equity interests	**$ 13,422**	**$ 11,672**	**$ 9,366**

Cost Incurred in Oil and Gas Property Acquisition, Exploration and Development

Consolidated subsidiaries	**2009**	**2008**	**2007**
Property acquisition	$ -	$ -	$ 51
Exploration costs	147	193	184
Development costs	1,976	2,979	2,044
Costs incurred	$ 2,123	$ 3,172	$ 2,279
Company's share of equity method investees			
Property acquisition			
Exploration costs	25	52	65
Development costs	722	658	386
Costs incurred	$ 747	$ 710	$ 451
Total costs incurred consolidated and equity interests	**$ 2,870**	**$ 3,882**	**$ 2,730**

(in millions of US Dollars)

Results of Operations from Oil and Gas Producing Activities

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

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

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, 2009, 2008 and 2007 results of operations are as follow:

	2009	2008	2007
Consolidated subsidiaries			
Revenues:			
Sales	$ 6,909	$ 10,262	$ 6,687
Transfers	3,218	4,713	4,540
Total revenues	10,127	14,975	11,227
Production costs	(1,338)	(1,602)	(1,590)
Exploration expenses	(147)	(193)	(184)
Depreciation, depletion and amortization	(1,289)	(1,225)	(861)
Taxes, other than income tax	(5,229)	(8,905)	(5,579)
Pretax income from producing activities	2,124	3,050	3,013
Income tax expenses	(404)	(637)	(659)
Results of oil and gas producing activities	$ 1,720	$ 2,413	$ 2,354
Company's share of equity method investees			
Revenues:			
Sales	$ 3,071	$ 4,383	$ 2,478
Total revenues	3,071	4,383	2,478
Production costs	(674)	(885)	(285)
Exploration expenses	(16)	(38)	(29)
Depreciation, depletion and amortization	(551)	(429)	(149)
Taxes, other than income tax	(1,350)	(2,196)	(1,053)
Pretax income from producing activities	480	835	962
Income tax expenses	(96)	(179)	(231)
Results of oil and gas producing activities	384	656	731
Total consolidated and equity interests in results of oil and gas producing activities	**$ 2,104**	**$ 3,069**	**$ 3,085**

Proved Oil and Gas Reserve Quantities

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

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

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

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

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

	2009	2008	2007
Consolidated subsidiaries			
Beginning of year	3,247	4,203	3,963
Production	(247)	(248)	(271)
Purchases of minerals in place	2	-	-
Revision of previous estimates and improved recovery	658	(708)	511
End of year	3,660	3,247	4,203
Proved developed reserves	2,258	2,281	2,923
Proved undeveloped reserves	1,402	966	1,280
Company's share of equity method investees			
Beginning of year	1,676	1,874	1,325
Production	(132)	(123)	(80)
Purchases of minerals in place	277		513
Revision of previous estimates and improved recovery	257	(75)	116
End of year	2,078	1,676	1,874
Proved developed reserves	1,472	1,278	1,441
Proved undeveloped reserves	606	398	433
Total consolidated and equity interests in proved reserves – end of year	**5,738**	**4,923**	**6,077**

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

(in millions of US Dollars)

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 FASB ASC 932.235. Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent management's estimate of the Company's expected future cash flows or of the value Company's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The valuation prescribed under FASB ASC 932.235 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.

	2009	2008	2007
Consolidated subsidiaries			
Future cash inflows	$ 100,844	$ 64,610	$ 206,836
Future production costs	(51,798)	(32,607)	(101,112)
Future development costs	(7,434)	(3,991)	(7,770)
Future income tax expenses	(6,558)	(4,515)	(24,351)
Future net cash flow	35,054	23,497	73,603
10% annual discount for estimated timing of cash flow	(17,230)	(11,412)	(39,337)
Standardized measure of discounted future net cash flow	**$ 17,824**	**$ 12,085**	**$ 34,266**
Company's share of equity method investees			
Future cash inflows	54,554	30,327	87,011
Future production costs	(12,466)	(7,377)	(36,256)
Future development costs	(20,300)	(13,716)	(3,085)
Future income tax expenses	(4,488)	(1,806)	(11,607)
Future net cash flow	17,300	7,428	36,063
10% annual discount for estimated timing of cash flow	(8,827)	(3,875)	(19,220)
Standardized measure of discounted future net cash flow	**8,473**	**3,553**	**16,843**
Total consolidated and equity interests in the standardized measure of discounted future net cash flow	**$ 26,297**	**$ 15,638**	**$ 51,109**

Changes in the Standardized Measure of Discounted Cash Flows

	2009	2008	2007
Consolidated subsidiaries			

Discounted present value as of beginning of year	**$ 12,085**	**$ 34,266**	**$ 18,172**
Sales and transfers of oil produced, net of production costs and other operating expenses	(3,560)	(4,467)	(4,058)
Net change in prices received per barrel, net of production costs and other operating expenses	4,801	(31,333)	17,885
Changes in future development costs	(1,997)	(115)	(2,167)
Development costs incurred during the period	2,123	2,975	2,095
Revisions of previous quantity estimates	4,049	(838)	5,595
Accretion of discount	(946)	8,687	(5,414)
Net change in income taxes	2,092	1,780	2,252
Other	(823)	1,130	(94)
Discounted present value as of end of year	**$ 17,824**	**$ 12,085**	**$ 34,266**
Company's share of equity method investees			
Discounted present value as of beginning of year	**$ 3,553**	**$ 16,843**	**$ 4,810**
Sales and transfers of oil produced, net of production costs and other operating expenses	(880)	(1,301)	(1,139)
Net change in prices received per barrel, net of production costs and other operating expenses	3,085	(17,437)	7,272
Changes in future development costs	(219)	1,168	217
Development costs incurred during the period	661	710	452
Revisions of previous quantity estimates	647	137	639
Accretion of discount	(701)	3,732	(2,165)
Net change in income taxes	1,058	414	1,431
Net change due to purchases and sales of minerals in place	2,299	-	5,384
Other	(1,030)	(713)	(58)
Discounted present value as of end of year	**$ 8,473**	**$ 3,553**	**$ 16,843**