

**OAO NGK SLAVNEFT AND SUBSIDIARIES**  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(WITH INDEPENDENT AUDITORS' REPORT THEREON)



## Report of Independent Auditors


To the Board of Directors and Shareholders of  
OAO Neftegazovaya Kompania Slavneft:


In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' capital and cash flows present fairly, in all material respects, the financial position of OAO Neftegazovaya Kompania Slavneft and its subsidiaries ("OAO NGK Slavneft" or the "Company") at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*ZAO PricewaterhouseCoopers Audit*

February 11, 2011

	Notes	December 31, 2010	December 31, 2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	124,707	272,146
Accounts receivable, net	4	194,864	231,385
Inventories	5	163,020	201,617
Deferred income tax assets	13	26,295	14,703
Assets held for sale	6	366,091	145,662
Other current assets	7	283,394	145,581
<b>Total current assets</b>		<b>1,158,371</b>	<b>1,011,094</b>
Investments	8	12,935	14,526
Property, plant and equipment	9	6,700,207	6,391,206
Deferred income tax assets	13	66,066	49,994
Other non-current assets	10	27,686	52,029
<b>Total assets</b>		<b>7,965,265</b>	<b>7,518,849</b>
<b>LIABILITIES AND SHAREHOLDERS' CAPITAL</b>			
<b>Current liabilities</b>			
Accounts payable		308,739	232,877
Short-term debt and current portion of long-term debt	11	252,806	29,446
Taxes payable	13	391,998	391,173
Dividends payable		238,333	5,753
Liabilities associated with assets held for sale	6	65,918	2,850
Other current liabilities	15	58,101	58,324
<b>Total current liabilities</b>		<b>1,315,895</b>	<b>720,423</b>
Long-term debt	12	749,979	635,344
Asset retirement obligations	9	187,679	169,332
Deferred income tax liabilities	13	326,715	366,543
Other non-current liabilities		8,977	9,248
<b>Total liabilities</b>		<b>2,589,245</b>	<b>1,900,890</b>
<b>Shareholders' capital</b>			
Common shares (0.001 Russian Ruble par value, 4,754,238,000 shares authorized and issued)		2,201	2,201
Additional paid in capital		1,758,518	1,717,621
Retained earnings		1,451,723	1,859,723
<b>Total Group shareholders' capital</b>		<b>3,212,442</b>	<b>3,579,545</b>
Non-controlling interest	16	2,163,578	2,038,414
<b>Total shareholders' capital</b>		<b>5,376,020</b>	<b>5,617,959</b>
<b>Total liabilities and shareholders' capital</b>		<b>7,965,265</b>	<b>7,518,849</b>

  
 Zhagrin A. V.  
 Vice President on oil production and  
 geology OAO NGK Slavneft

  
 Kovalenko A.V.  
 Vice-president on economics and finance  
 OAO NGK Slavneft

OAO NGK Slavneft  
Consolidated Statements of Income  
(All amounts in thousands of USD, except for share data)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
<b>Revenues</b>			
Sales		4,023,588	3,505,449
Other		287,107	160,886
<b>Net revenues</b>		<b>4,310,695</b>	<b>3,666,335</b>
<b>Costs and other deductions</b>			
Operating expenses		(1,076,131)	(893,982)
Selling, general and administrative expenses		(180,756)	(127,212)
Cost of other sales		(215,056)	(212,039)
Taxes other than income taxes	13	(1,985,747)	(1,489,271)
Depreciation, depletion and amortization		(480,437)	(445,958)
Exploration expenses		(61,942)	(30,654)
Gain / (loss) on disposal of assets, net	14	(36,279)	(20,584)
<b>Income from operating activities</b>		<b>274,348</b>	<b>446,635</b>
Interest expense		(46,931)	(68,425)
Interest income		6,988	18,056
Foreign currency gain / (loss)		(23,812)	(37,086)
Other non-operating gain, net		8,211	12,227
<b>Income before income taxes</b>		<b>218,804</b>	<b>371,407</b>
Current income tax expense		(32,384)	(118,344)
Deferred income tax benefit / (expense)		66,445	39,344
<b>Total income tax benefit / (expense)</b>	13	<b>34,061</b>	<b>(79,000)</b>
<b>Net income from continuing operations</b>		<b>252,865</b>	<b>292,407</b>
Net loss from discontinuing operations	6	(57,965)	(35,977)
<b>Net Income</b>		<b>194,900</b>	<b>256,430</b>
Less: net income attributable to non-controlling interest	16	(125,164)	(140,826)
<b>Net income attributable to Group shareholders</b>		<b>69,736</b>	<b>115,604</b>

Consolidated Statements of Changes in Shareholders' Capital

(All amounts in thousands of USD, except for share data)

	Number of ordinary shares (thousands)	Comm on shares	Additional paid in capital	Retained earnings	Total Group shareholde rs' capital	Non controlling interest	Total shareholde rs' capital
<b>Balance as of January 1, 2009</b>	<b>4,754,238</b>	<b>2,201</b>	<b>1,717,621</b>	<b>1,772,179</b>	<b>3,492,001</b>	<b>1,912,198</b>	<b>5,404,199</b>
Net income	-	-	-	115,604	115,604	140,826	256,430
Non-controlling interest related to disposed subsidiaries	-	-	-	-	-	(14,610)	(14,610)
Loans issued to companies affiliated with Primary Shareholders (Note 19)	-	-	-	(28,060)	(28,060)	-	(28,060)
<b>Balance as of December 31, 2009</b>	<b>4,754,238</b>	<b>2,201</b>	<b>1,717,621</b>	<b>1,859,723</b>	<b>3,579,545</b>	<b>2,038,414</b>	<b>5,617,959</b>
Net income	-	-	-	69,736	69,736	125,164	194,900
Primary Shareholders' contribution to additional capital	-	-	40,897	-	40,897	-	40,897
Loans issued to companies affiliated with Primary Shareholders (Note 19)	-	-	-	(72,088)	(72,088)	-	(72,088)
Dividends declared (Note 19)	-	-	-	(405,648)	(405,648)	-	(405,648)
<b>Balance as of December 31, 2010</b>	<b>4,754,238</b>	<b>2,201</b>	<b>1,758,518</b>	<b>1,451,723</b>	<b>3,212,442</b>	<b>2,163,578</b>	<b>5,376,020</b>

OAO NGK Slavneft  
Consolidated Statements of Cash Flow  
(All amounts in thousands of USD, except for share data)

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Cash flows from operating activities</b>		
Net income	194,900	256,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of assets, net	47,261	26,251
Depreciation, depletion and amortization	490,810	464,761
Deferred income taxes	(66,528)	(42,987)
Increase in accounts receivable and other non-current assets	29,263	27,785
(Increase) / decrease in inventories and other current assets	(35,072)	50,030
Increase / (decrease) in accounts payable	134,012	(31,614)
Increase / (decrease) in taxes payable	14,513	201,508
Increase / (decrease) in other current liabilities	5,688	(1,619)
Change in provisions	62,672	(13,564)
Other	12,306	20,320
<b>Net cash provided by operating activities</b>	<b>889,825</b>	<b>957,301</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment and long-term investments	100,069	103,857
Purchases of property, plant and equipment and other non-current assets	(1,208,507)	(843,564)
Change in short-term investments		(617)
<b>Net cash used in investing activities</b>	<b>(1,108,438)</b>	<b>(740,324)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of short-term debt	-	419,302
Repayments of short-term debt	(76,898)	(841,735)
Dividends paid	(247,091)	(216,818)
Proceeds from issuance of long-term debt	647,500	428,500
Repayments of long-term debt	(250,000)	(25,820)
<b>Net cash provided / (used) financing activities</b>	<b>73,511</b>	<b>(236,571)</b>
Effect of exchange rate changes on cash and cash equivalents	(2,337)	(16,116)
<b>Net decrease in cash and cash equivalents</b>	<b>(147,439)</b>	<b>(35,710)</b>
Cash and cash equivalents at beginning of period	272,146	307,856
<b>Cash and cash equivalents at end of period</b>	<b>124,707</b>	<b>272,146</b>
Supplemental disclosures of cash flow information		
Interest paid	44,532	68,331
Income taxes paid	77,651	83,861

## **Note 1. General information and basis of presentation and specific risk factors**

### ***Nature of operations***

OAo NGK Slavneft (the “Company”) and its subsidiaries (jointly referred to as “the Group”) are engaged in exploration, development, production, refining and marketing activities for oil in the Russian Federation.

The Company was established as an open joint-stock company in August 1994 in accordance with the Decree of the Government of the Russian Federation № 305, issued April 8, 1994, the Decree of the Council of Ministers of Byelorussia # 589-r, issued June 15, 1994 and the Charter agreement from June 27, 1994. Under the provisions of the decrees and the Charter agreement, the Russian Federation transferred to the Company 60.5% of voting shares of OAo Slavneft-Megionneftegaz, currently the principal oil producing subsidiary of the Group, and 50.7% of voting shares of OAo Megionneftegazgeologiya, Byelorussia transferred to the Company 17.6% of OAo Mozyrsky NPZ and another 15% of OAo Mozyrsky NPZ was transferred to the Company by a number of individuals in exchange for the Company’s shares. Upon formation of the Company, 86.3% of its share capital was owned by the Russian Federation, 7.2% by Byelorussia and 6.5% by a number of individuals.

In a series of transactions through January 2003, including participation in privatization auctions in the Russian Federation and Byelorussia, 99% of the Company’s shares were ultimately acquired together by OAo Siberian Oil Company (currently known as OAo Gazprom Neft) and TNK-BP (the “Primary Shareholders”).

### ***Basis of presentation***

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The Company and its subsidiaries maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with US GAAP.

### ***Comprehensive income***

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 220 *Comprehensive Income* requires disclosure of all changes in equity during a period except those resulting from investments by and distributions to the Company’s shareholders. There is no difference between the Company’s net income and comprehensive income for all periods presented.

### ***Functional and reporting currency***

The Group’s functional and reporting currency is the US dollar (“USD”).

Monetary assets and liabilities denominated in currencies other than the USD have been remeasured into USD at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities acquired or assumed in currencies other than the USD have been remeasured into USD at historical rates. Revenues, expenses and cash flows not already measured in USD have been remeasured into USD at the average exchange rates for the period. Differences resulting from the remeasurement are included in the consolidated statement of income.

As of 31 December 2010 and 2009, exchange rates were 30.4769 and 30.2442 Russian Rubles to the USD, respectively. Average exchange rates for 2010 and 2009 were 30.3692 and 31.7231 Russian Rubles to the USD, respectively.

Any remeasurement of Russian Rouble amounts to US dollars should not be construed as a representation that such Russian Rouble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

### ***Use of estimates***

The preparation of the consolidated financial statements in accordance with US GAAP requires management of the company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, valuation of accounts receivable and inventory and asset retirement obligations. Actual results could differ from those estimates.

### ***Russian Federation***

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and a volatile economic environment. Management is unable to predict all developments which could have an impact on the oil and gas industry and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

### ***Volatility in global and Russian oil prices***

Crude oil prices are subject to external factors over which the company has no control, including product demand connected with global economic conditions, industry inventory levels, production quotas imposed by the Organization of Petroleum Exporting Countries (OPEC), weather-related damage and disruptions, competing fuel prices, and regional supply interruptions or fears thereof that may be caused by military conflicts, civil unrest or political uncertainty.

Management is unable to reliably estimate the effects on the Group's financial position of any further increased volatility in oil prices. These circumstances may also necessitate a reassessment of the viability / timeline of ongoing projects in the near term. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

### ***Reclassifications***

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

## **Note 2. Summary of significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements.

### ***Principles of consolidation***

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.



### ***Cash and cash equivalents***

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

### ***Accounts receivable***

Accounts receivable are recorded at the invoiced amount less allowances for doubtful accounts.

### ***Inventories***

Inventories primarily consist of crude oil, petroleum products, materials and supplies. Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined using a weighted average cost method.

### ***Investments***

#### ***Investments in equity securities***

The equity method of accounting is used to account for the Group's share of total recognized earnings or losses in investments where the Group has a significant influence but not control.

As of December 31, 2010 and December 31, 2009 the Group accounted for its investment in OAO Mozyrsky NPZ on a cost basis as, due to political and other macroeconomic considerations, it does not exercise significant influence on these Byelorussia based investments.

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investment are carried at cost less allowance for any permanent diminution in value.

### ***Property, plant and equipment***

The Group follows the successful efforts method of accounting for its oil and gas properties, whereby property acquisitions, successful exploratory wells, all development costs (including developmental dry holes) and support equipment and facilities are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells or other exploration activities are determined to be non-productive. The Group carries as an asset exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

Proved oil and gas properties and other long-lived assets are assessed for possible impairment in accordance with ASC 360 *Property, Plant and Equipment* which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined by estimating discounted future net cash flows to be generated by the assets.

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties and equipment is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a "life of field" basis as management believes it will continue to be successful in the renewal of its oil and gas licenses.

Property, plant and equipment which is not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line method basis as follows:

Capitalized costs of plant and equipment not directly associated with oil production are depreciated on a straight-line method over the following estimated useful lives of such assets:

Buildings and constructions	30 years
Machinery and equipment	10-25 years
Motor vehicles and other equipment	5 years

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements which extend the useful lives of the assets are capitalized.

Gains or losses from retirements or sales are included in the determination of net income.

### ***Impairment of long-lived assets***

Long-lived assets, such as oil and gas properties and other property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future net cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated future net cash flows, an impairment charge is recognized by the amount in which the carrying amount of the asset group exceeds the fair value.

### ***Asset retirement obligations***

The Group incurs asset retirement obligations primarily for its upstream assets. The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated over its estimated useful life. Some of our assets, primarily related to our downstream operations, do have contractual or regulatory obligations to perform remediation and, in some instances, dismantlement and removal activities when the assets are abandoned. Our refineries have been in existence for many years and with regular maintenance will continue to be in service for many years to come. Also, it is not possible to predict when demand for petroleum products will cease and we do not believe that such demand will cease for the foreseeable future. Accordingly, the Group believes the date when these assets will be abandoned is indeterminate. With no reasonably determinable abandonment date, we cannot reasonably estimate the fair value of the associated asset retirement obligations. We will record asset retirement obligations for these assets in the period in which sufficient information becomes available for us to reasonably determine the settlement dates.

### ***Income taxes***

Deferred income tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with ASC 740 *Income Taxes*.

Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Included in this calculation are deferred income taxes for unremitted earnings of equity affiliates and subsidiaries on basis differences between the relevant parent company financial statement carrying amounts and the respective tax basis of its investments in subsidiaries and equity affiliates. Management periodically assesses possible methods of remitting the earnings to the parent and adjusts the liability to the amount calculated at enacted rates corresponding to the expected method of distribution. Valuation allowances are provided for deferred income tax assets when management believes it is more likely than not that the assets will not be realised.

The Group uses a two-step approach for recognizing and measuring uncertainties in income tax positions. The first step is recognition: the Group recognizes a threshold and a measurement attribute for the financial statement recognition. The second step is measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognised, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset or an increase in a deferred tax liability.

Interest costs and penalties related to unrecognized tax benefits are classified as “Income tax expense” in the consolidated statements.

### ***Commitments and contingencies, including environmental liabilities***

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Environmental remediation liabilities are not discounted for the time value of future expected payments.

### ***Revenue Recognition***

Revenues from the production and sale of crude oil and petroleum products are recognised when deliveries to customers are made, title has transferred and collectibility is reasonably assured. Revenues from processing are recognised when processing services to customers are rendered and collectibility is reasonably assured.

Starting 2010 the results of operations of the Group’s Belgian subsidiary are recognized on a net basis, as the basis for gross presentation was not met. For comparability purposes the netting has been made to previously reported balances to conform to the current period’s presentation. Such netting has no effect on net income or shareholders’ capital.

### ***New accounting standards adopted.***

In August 2009, ASU No. 2009-5, *Measuring Liabilities at Fair Value*, was issued and became effective for the Group on 1 January 2010. This ASU amends ASC 820, *Fair Value Measurements and Disclosures*, and provides additional guidance on how companies should measure liabilities at fair value. While reaffirming the existing definition of fair value, this ASU reintroduces the concept of entry value into the determination of fair value. Entry value is the amount an entity would receive to enter into an identical liability. Under the new guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The adoption of this ASU had no material effect on the Group’s results of operations, financial position or liquidity.

In January 2010, ASU No. 2010-6, *Fair Value Measurements and Disclosures*, was issued. The ASU amends ASC 820, *Fair Value Measurements and Disclosures*, and requires separate disclosures of transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers. Also the ASU requires disclosure of activity in Level 3 fair value measurements on a gross basis rather than as one net number. The guidance requires the Group to provide fair value measurement disclosure for each class of assets and liabilities as well as disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall either in Level 2 or Level 3. The provisions of this ASU became effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which will become effective on 1 January 2011.

In February 2010, ASU No. 2010-9, *Amendments to Certain Recognition and Disclosure Requirements*, was issued and became effective for the Group upon issuance. This ASU amends ASC 855, *Subsequent Events*, and requires an entity which is either a Securities and Exchange Commission filer or a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date that the financial statements are issued. An entity that meets neither of those criteria is required to evaluate subsequent events through the date the financial statements are available to be issued. Pursuant to the

requirements of this ASU, the Group evaluates subsequent events through the date the financial statements are available to be issued.

### ***Recent accounting pronouncements.***

In July 2010, ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, was issued. This ASU requires providing information for both the financing receivables and the related allowance for credit losses at disaggregated levels. This ASU introduces two new defined terms that will govern the level of disaggregation: a portfolio segment and a class of financing receivables. The portfolio segment is defined as the level at which an entity determines its allowance for credit losses. The class of financing receivable is defined as a group of financing receivables determined on the basis of their initial measurement attribute. As the Group is non-public company, the extensive new disclosures requirements in respect of information as of the end of a reporting period will become effective for the Group starting the annual reporting period ending on 31 December 2011. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

In December 2010 ASU No. 2010-28 Intangibles—Goodwill and Other, was issued. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The provisions of this ASU became effective for the Group on 1 January 2011. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

In December 2010 ASU No. 2010-29 Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations was issued by FASB. This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity as defined by Topic 805, Business Combinations, that enters into business combinations that are material on an individual or aggregate basis. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The provisions of this ASU became effective for the Group on 1 January 2011 and later. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

In January 2011 the FASB issued ASU 2011-01 *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, which temporarily defers the effective date in ASU 2010-20 for disclosures about troubled debt restructurings (TDRs) by creditors until the FASB finalizes its project on determining what constitutes a TDR for a creditor. The ASU requires nonpublic (private) entities to apply the TDR disclosure requirements in ASU 2010-20 for periods ending on or after December 15, 2011. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

### Note 3. Cash and cash equivalents

Cash and cash equivalents include the following:

	December 31, 2010	December 31, 2009
Cash held in banks – Russian Rubles	5,341	61,513
Cash held in banks – other currencies	4,520	119,616
Short-term deposits	114,846	91,017
	<b>124,707</b>	<b>272,146</b>

### Note 4. Accounts receivable, net

Accounts receivable include the following:

	December 31, 2010	December 31, 2009
Trade accounts receivable	131,412	199,409
VAT receivable	33,222	29,924
Advance excise tax	-	302
Other accounts receivable	34,822	18,384
	<b>199,456</b>	<b>248,019</b>
Allowance for doubtful accounts	(4,592)	(16,634)
	<b>194,864</b>	<b>231,385</b>

### Note 5. Inventories

Inventories include the following:

	December 31, 2010	December 31, 2009
Petroleum products	10,014	13,942
Materials and supplies	80,925	122,104
Crude oil	65,613	48,444
Other	6,468	17,127
	<b>163,020</b>	<b>201,617</b>

As of December 31, 2010 and December 31, 2009, inventories are presented net of allowance of USD 6,019 and USD 19,573 respectively, which relates to slow-moving and obsolete materials and supplies.

## Note 6. Assets held for sale and discontinuing operations

Assets held for sale and associated liabilities include the following:

	December 31, 2010	December 31, 2009
<b>Assets held for sale:</b>		
ZAO "Messoyahaneftgaz"	81,703	129,759
Byelorussian retail operations	-	15,903
ZAO "SP MeCaMineft"	34,158	-
OOO "Megion service"	29,109	-
OOO "MUBR"	87,300	-
OOO "BNGRE"	107,359	-
OOO "Megion geology"	41,540	-
OOO "Ob' geology	30,037	-
less impairment	(45,115)	-
	<b>366,091</b>	<b>145,662</b>
<b>Liabilities associated with assets held for sale:</b>		
ZAO "Messoyahaneftgaz"	-	2,850
ZAO "SP MeCaMineft"	5,800	-
OOO "Megion service"	15,586	-
OOO "MUBR"	29,009	-
OOO "BNGRE"	15,523	-
	<b>65,918</b>	<b>2,850</b>

### Disposal of ZAO Messoyahaneftgaz

In September 2009, the Group's Board of Directors took a decision to sell ZAO "Messoyahaneftgaz" to the Group's Primary Shareholders.

In December 2010, the Group completed the sale of ZAO Messoyahaneftgaz's 50% equity share to OAO "TNK-BP Holding" for USD 19,195. As a result of this sale, the Group recognized the excess of the selling price over 50% of the net assets of ZAO Messoyahaneftgaz in the amount of USD 40,897 as a shareholders contribution to additional paid-in capital.

	December 31, 2010
Total assets of ZAO "Messoyahaneftgaz"	165,174
Total liabilities ZAO "Messoyahaneftgaz"	(208,578)
<b>Net assets ZAO "Messoyahaneftgaz"</b>	<b>(43,404)</b>
50% of net assets	(21,702)
Purchase consideration for 50% shares	19,195
<b>Shareholders contribution to additional paid-in capital</b>	<b>40,897</b>

In December 2010 the agreement to dispose the remaining 50% of shares with OOO "Gazpromneft-Invest" was signed, however the title has not been transferred as of December 31, 2010 (see Note 21 "Subsequent events").

The net loss associated from ZAO "Messoyahaneftgaz" discontinuing operations for or year ended December 31, 2010 and December 31, 2009 are USD 10,110 and USD 22,373, respectively.

### ***Disposal of core service subsidiaries of the Group***

In September 2009, the Group's Board of Directors took the decision to dispose certain core service and other subsidiaries and certain fixed assets associated with the service subsidiaries' business. As of December 31, 2010 the criteria for recognition of these assets as held for sale have been met for certain noncore service subsidiaries of the Group: ZAO "SP MeCaMineft", OOO "BNGRE", OOO "Ob' geology", OOO "Megion geology", OOO "Megion service" and OOO "MUBR". The Group recognized the impairment loss in respect of these entities in total amount of USD 60,535, which represents the excess of the carrying value of the assets to be disposed of over the Management best estimate of the expected selling price based on existing negotiation. Management of the Group expects that these assets will be sold in the first quarter of 2011. Management believes that respective asset balances will be fully recovered through the intended sale.

The net loss associated with core services operations is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Net revenues	75,390	48,361
Costs and other deductions	(77,951)	(58,090)
<b>Loss from operating activities</b>	<b>(2,561)</b>	<b>(9,729)</b>
Other non-operating gain	1,646	1,021
Impairment	(60,535)	-
Income tax expense	(5,763)	1,694
Deferred income tax	20,237	-
<b>Net loss from discontinuing operations</b>	<b>(46,976)</b>	<b>(7,014)</b>

### ***Disposal of noncore service subsidiaries of the Group***

In February - April 2010, the Group's management took a decision to sell certain noncore service subsidiaries of the Group: ZAO "Stroitel'naya kompaniya "Slavneftstroy" OOO "AutoTransService", OOO "NefteSpetsTrans" and OOO "NefteSpetsStroy" to third parties. These assets were sold in their entirety over the second and third quarters of 2010. In July 2010 the Group has liquidated OOO "Triftines Investments".

The net loss associated from these discontinuing operations for or the year ended December 31, 2010 and 2009 is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Net revenues	22,360	40,129
Costs and other deductions	(22,761)	(46,506)
<b>Loss from operating activities</b>	<b>(401)</b>	<b>(6,377)</b>
Other non-operating gain / (loss)	24	80
Income tax benefit	(502)	(219)
<b>Net loss from discontinuing operations</b>	<b>(879)</b>	<b>(6,516)</b>

### ***Disposal of Byelorussian retail operations***

In September 2009, the Group's Board of Directors took a decision to sell the Group's Byelorussian retail operations comprised entirely of long lived assets (filling stations, oil terminals and other assets) to the Group's Primary Shareholders. These assets were sold in their entirety in the first quarter 2010. Net loss from discontinuing operations for the year ended December 31, 2009 is USD 74.

## Note 7. Other current assets

Other current assets include the following:

	December 31, 2010	December 31, 2009
Prepaid expenses	115,600	85,753
Tax prepayments	62,957	56,062
Loan issued to affiliated companies	101,832	-
Short-term investments	3,005	-
Other	-	3,766
	<b>283,394</b>	<b>145,581</b>

## Note 8. Investments

Investments include the following:

	December 31, 2010	December 31, 2009
Investments in related parties	12,635	12,072
Other long-term investments, at cost	300	2,454
	<b>12,935</b>	<b>14,526</b>

## Note 9. Property, plant and equipment and asset retirement obligations

### *Property, plant and equipment*

Property, plant and equipment include the following:

	December 31, 2010	December 31, 2009
Oil and gas properties	5,521,098	4,902,625
Plant and equipment	2,074,549	2,363,075
Construction in progress	1,315,179	1,165,835
	<b>8,910,826</b>	<b>8,431,535</b>
Less accumulated depreciation, depletion and amortization	(2,210,619)	(2,040,329)
	<b>6,700,207</b>	<b>6,391,206</b>

Costs directly associated with an exploration well are capitalized within property, plant and equipment.

Capitalized exploratory well cost as of December 31, 2010 and December 31, 2009 are USD 207,528 and USD 166,496 respectively. All capitalized exploratory well cost relate to Krasnoyarsk project.

Krasnoyarsk is a strategic project for the Group. The project contains 2 oilfields in the Krasnoyarsk region and 7 license areas. Development of the fields is restricted by an absence of transportation infrastructure, however, the Group plans to construct a pipeline. Construction is expected to be completed by the end of 2014 and the Group aims to commence full operation after the pipeline's completion.



### **Asset retirement obligations**

As of December 31, 2010 the asset retirement obligation amounted to USD 187,679. The changes in the asset retirement obligations during the year ended December 31, 2010 and 2009 are as follows:

	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
Asset retirement obligations, beginning of the period	169,332	153,271
Accretion expense	16,001	24,728
Liabilities incurred	16,559	7,100
Liabilities settled	(1,305)	(5,451)
Changes in estimate and other	(12,908)	(10,316)
	<b>187,679</b>	<b>169,332</b>

Change in estimates relates to the decrease of expected well abandonment costs.

### **Note 10. Other non-current assets**

Other non-current assets include the following:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Nontrading accounts receivable	403	166
Advances to suppliers of property, plant and equipment	-	2,269
Catalysts	21,429	28,530
Other	5,854	21,064
	<b>27,686</b>	<b>52,029</b>

### **Note 11. Short-term debt and current portion of long-term debt**

Short-term debt and current portion of long-term debt includes the following:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Short-term debt	3,784	3,093
Current portion of long-term debt	249,022	26,353
	<b>252,806</b>	<b>29,446</b>

Short-term debt as of December 31, 2010 was provided by third party financial institutions for funding of working capital. The weighted average interest rate on short-term borrowings outstanding as of December 31, 2010 and December 31, 2009 is 5.0% and 4.27% respectively.

## Note 12. Long-term debt

Long-term debt includes the following:

	December 31, 2010	December 31, 2009
Natixis bank	60,000	-
BNP Paribas bank	100,000	-
Raiffeisenbank	87,500	-
UniCreditbank	250,000	-
Vnesheconombank	129,892	140,725
Sberbank	220,000	270,767
ING Bank Eurasia ZAO	150,000	-
OAO Gazprombank	-	250,000
Other	1,609	205
	<b>999,001</b>	<b>661,697</b>
Less current portion	(249,022)	(26,353)
	<b>749,979</b>	<b>635,344</b>

In 1998 the Yaroslavl refinery (YANOS), a subsidiary of the Group obtained a loan from the Ministry of Finance of the Russian Federation (with Vnesheconombank as its Agent) for the reconstruction of YANOS refining facilities. The loan is denominated in Japanese YEN and matures on March 31, 2015. Interest on the loan is 4.9% per annum.

In July 2009 OAO Slavneft-Megionneftegaz obtained a loan from Sberbank in the amount of USD 270,000. The loan is denominated in USD and matures in 2011. Interest on the loan is 6.53% per annum.

In April 2010 OAO NGK Slavneft obtained a loan from UniCreditbank in the amount of USD 80,000. The loan is denominated in USD and matures in 2013. Interest on the loan is LIBOR +3.75% per annum.

In April 2010 OAO Slavneft-Megionneftegaz obtained a loan from UniCreditbank in the amount of USD 85,000. The loan is denominated in USD and matures in 2013. Interest on the loan is LIBOR +3.75% per annum.

In April 2010 Yaroslavl refinery (YANOS), a subsidiary of the Group obtained a loan from UniCreditbank in the amount of USD 85,000. The loan is denominated in USD and matures in 2013. Interest on the loan is LIBOR +3.75% per annum.

In May 2010 Yaroslavl refinery (YANOS), a subsidiary of the Group obtained a loan from Raiffeisenbank in the amount of USD 87,500. The loan is denominated in USD and matures in 2013. Interest on the loan is LIBOR +3.7% per annum.

In August 2010 OAO NGK Slavneft obtained a loan from Natixis bank (ZAO) in the amount of USD 60,000. The loan is denominated in USD and matures in August 2013. Interest on the loan is LIBOR +3.1 % per annum.

In August 2010 Yaroslavl refinery (YANOS), a subsidiary of the Group obtained a loan from BNP Paribas bank in the amount of USD 85,000. The loan is denominated in USD and matures in February 2013. Interest on the loan is LIBOR +3.0 % per annum.

In December 2010 OAO NGK Slavneft obtained a loan from ING Bank Eurasia ZAO in the amount of USD 60,000. The loan is denominated in USD and matures in December 2013. Interest on the loan is LIBOR +2.43 % per annum.

In December 2010 OAO Slavneft-Megionneftegaz obtained a loan from BNP Paribas bank in the amount of USD 15,000. The loan is denominated in USD and matures in June 2013. Interest on the loan is LIBOR +2.35 % per annum.

In December 2010 OAO "ONGG", a subsidiary of the Group, obtained a loan from ING Bank Eurasia ZAO in the amount of USD 90,000. The loan is denominated in USD and matures in December 2013. Interest on the loan is LIBOR +2.43 % per annum.

#### Debt repayment schedule

Contractual repayments of long-term debt outstanding at December 31, 2010 are as follows:

01.01.2011- 31.12.2011	01.01.2012- 31.12.2013	01.01.2013- 31.12.2014	01.01.2014- 31.12.2015	01.01.2015 and thereafter
249,022	28,864	676,364	28,864	15,887

## Note 13. Taxes

### Income taxes

The Group is taxable in various jurisdictions within the Russian Federation and Byelorussia. The Group is subject to a statutory tax rate of 20% in Russian and 24% in Byelorussian jurisdictions.

In 2010 certain subsidiaries of the Group producing mineral resources, incurring exploration expenses and making capital investments in the territory of Khanty-Mansiysk Autonomous District applied a 4% relief to their statutory corporate income tax rate as provided by the regional tax law. For the period ended December 31, 2010, the Group's income tax expense includes a tax benefit relating to these tax incentive of USD 8,294.

The components of income taxes were as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Current income tax expense	(32,384)	(118,344)
Deferred income tax gain	66,445	39,344
<b>Total income tax gain / (expense)</b>	<b>34,061</b>	<b>(79,000)</b>

The temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities primarily relate to property plant and equipment, inventory, accounts payable and undistributed earnings of subsidiaries.

The following is a reconciliation of the amount of income taxes reported in the consolidated statement of income to the amount of income tax expense that would result if the statutory rate of 20% was applied to income before taxes:

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Income before income tax</b>	218,804	371,407
Computed "expected" income tax expense	(43,761)	(74,282)
Increase (reduction) in the income tax due to:		
non-deductable items	(26,484)	(19,382)
foreign currency effect	(1,582)	(15,100)
valuation allowance	9,843	(5,377)
investment tax credits	8,294	37,874
tax accrued based on tax audit results	(4,224)	(4,755)
deferred tax on undistributed earnings of subsidiaries	99,931	(1,617)
prior periods adjustments	(12,043)	-
reassessment of approach to tax accelerated depreciation and associated deferred tax liability	4,607	-
other	(520)	3,639
<b>Total income tax expense</b>	<b>34,061</b>	<b>(79,000)</b>

In 2010 the Company revised the tax basis of certain assets used for the purpose of deferred tax computation which resulted in additional deferred tax of USD 12,043 in the current period. The impact of this adjustment is not considered by management to be material to the periods presented.

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and deferred income tax liabilities are presented below:

	Year ended December 31, 2010	Year ended December 31, 2009
Deferred income tax assets		
Accounts receivable	1,317	5,491
Inventories	147	36
Property, plant and equipment	47,357	45,044
Operating loss carry-forward	39,884	36,620
Accounts payable	24,595	20,203
Prepaid expense	8,760	9,189
Asset retirement obligations	36,665	35,986
<b>Total deferred income tax assets</b>	<b>158,725</b>	<b>152,569</b>
Less valuation allowance	(23,254)	(33,107)
<b>Total deferred income tax assets less allowance</b>	<b>135,471</b>	<b>119,462</b>
Deferred income tax liabilities		
Property, plant and equipment	(303,269)	(265,669)
Inventories	(9,165)	(9,656)
Other, primarily undistributed earnings of subsidiaries	(58,055)	(151,931)
<b>Total deferred income tax liabilities</b>	<b>(370,489)</b>	<b>(427,256)</b>
<b>Net deferred income tax liability</b>	<b>(235,018)</b>	<b>(307,794)</b>

Classification of deferred income tax assets and liabilities on the consolidated balance sheet are presented in the table below:

	December 31, 2010	December 31, 2009
Deferred income tax assets - current	26,295	14,703
Deferred income tax assets – non-current	89,320	83,101
Less valuation allowance	(23,254)	(33,107)
<b>Total deferred income tax asset</b>	<b>92,361</b>	<b>64,697</b>
Other liabilities - current	(664)	(5,948)
Deferred income tax liabilities – non-current	(326,715)	(366,543)
<b>Net deferred income tax liability</b>	<b>(235,018)</b>	<b>(307,794)</b>

As a result of a recent reorganization in the Group’s structure, and in accordance with current Russian tax law, the Group reassessed the appropriateness of the USD 106 million deferred tax liability related to the 9% withholding tax on unremitted earnings of OAO Slavneft -Megionneftegaz. The Group reversed the deferred tax liability in the amount of USD 106 million during the third quarter 2010 as the Company believes that 0% withholding taxes on dividend distributions from OAO Slavneft -Megionneftegaz will be applied when such dividends are distributed.

As of December 31, 2010 the Group had operating loss carry forwards of USD 263,855 attributable to Russian Group subsidiaries that expire up to 2020. For loss carryforward amounts related to exploration entities a valuation allowance has been established reflecting uncertainty as to the Group’s ability to realize the related tax benefits. During the year ended December 31, 2010 the valuation allowance decreased by USD 9,853 to USD 23,254 for subsidiaries of the Group which more likely than not could not realize their deferred tax asset.

*Uncertain tax positions.* The Group adopted accounting guidance on the accounting for uncertainty in income taxes.

The Group’s management evaluates our tax positions and establishes liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statute of limitations. Such adjustments are reflected in the tax provision as appropriate.

### ***Taxes other than income taxes***

Taxes other than income tax expense were as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Unified production tax	1,851,492	1,365,431
Property taxes and other	134,255	123,840
	<b>1,985,747</b>	<b>1,489,271</b>

### **Taxes payable**

Taxes payable include the following:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Unified production and subsoil use taxes	187,370	137,989
Value added tax	116,695	144,203
Excise tax	36,844	36,806
Income tax	16,385	24,054
Property tax	22,563	19,322
Other taxes	12,141	28,799
	<b>391,998</b>	<b>391,173</b>

### **Note 14. Gain / Loss on disposal of assets, net**

Net losses on disposal of assets in consolidated statements of income for the year ended December 31, 2010 include impairment loss for YaNPZ im. Mendeleeva and Slavneft - Start in the total amount of USD 35,691. The impairment represents the excess of the carrying amount of these assets over Management best estimate of fair value using external appraisers.

Also the line includes gain from sale of noncore service subsidiaries in the total amount of USD 15,598 (See Note 6 "Assets held for sale and discontinuing operations").

### **Note 15. Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities include the following:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Accrued charges	35,726	24,857
Salaries payable	9,169	16,601
Deferred income tax liabilities – current	664	5,948
Other	12,542	10,918
	<b>58,101</b>	<b>58,324</b>

### **Note 16. Non-controlling interest**

The Group's Primary Shareholders hold financial interests in a number of the Group's subsidiaries. Non-controlling interest on the consolidated balance sheet as of December 31, 2010 and December 31, 2009 includes USD 1,885,902 and USD 1,766,047 respectively, attributable to the Primary Shareholders' interests.

Non-controlling interest on the consolidated statements of income for the year ended December 31, 2010 and 2009 is USD 114,999 and USD 120,573 respectively, attributable to the Primary Shareholders' interests in the Group's subsidiaries.

## **Note 17. Commitments and contingencies**

### ***Contingencies***

#### *Oil field licenses*

The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses. Management of the Group correspond with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

#### *Insurance*

The Group, except for YANOS does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

#### *Litigation*

The Group is involved in various claims and legal actions arising in the normal course of business. It is the opinion of management that the ultimate disposition of these matters will not have a material adverse effect on the Group's consolidated financial position, results of operations, or liquidity.

#### *Taxation*

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Russian transfer pricing legislation introduced January 1, 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross(border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this regard has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its

interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

#### *Environmental liabilities*

Environmental regulations continue to be developed in the Russian Federation. The Group periodically evaluates its obligations related to environmental issues. When obligations are determined to exist they are recognized immediately, depending on their nature. Management believes there are no significant unrecorded liabilities under existing legislation, which could have a material adverse effect on the operating results or financial position of the Group.

On its interpretations of applicable Russian environmental legislation management has accrued in the balance sheet as of December 31, 2010 a provision in the amount of USD 14,503 (included USD 5,526 in Other current liabilities and USD 8,977 in Other non-current liabilities).

The likelihood and amount of liabilities relating to environmental obligations under proposed or future legislation cannot be reasonably estimated at present and could become material.

### **Note 18. Related party transactions**

As of and for year ended December 31, 2010 and 2009, the Group had the following balances and transactions with related parties:

#### *Sales and other sales*

Sales (including other sales) to related parties were as follows:

Customer	Description	Year ended December 31, 2010	Year ended December 31, 2009
OAO Gazprom Neft	Crude oil	1,745,564	1,530,558
ZAO TNK-Trade	Crude oil	1,005,340	1,530,558
ZAO SL Trading	Crude oil	748,306	
OAO Gazprom Neft	Processing services	257,492	215,346
OAO TNK-BP Holding	Processing services	257,455	215,346
Gazprom Neft Trade Company GmbH Austria	Oil products	-	120,951
ZAO TNK Trade	Oil products	-	113,427
ООО TNK-BP Zapad	Oil products	-	9,416
ООО Gazpromneft- Belnefteproduct (Brest)	Oil products	-	9,747
<b>Other</b>	Oil products and other	70,323	146,732
		<b>4,084,480</b>	<b>3,892,081</b>



### **Operating expenses**

Operating expenses incurred with related parties, representing purchases, were as follows:

<b>Customer</b>	<b>Description</b>	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
OAo Gazprom Neft	Crude oil	-	206,529
OAo Gazprom Neft	Oil products	-	303
OAo TNK-BP Holding	Crude oil	-	250,790
OAo TNK-BP Holding	Oil products	-	71
ZAO Trade-Oil	Oil products	11,628	20,276
OAo Mozyrsky NPZ	Processing services	-	88,111
Other	Oil products and other	38,661	323
		<b>50,289</b>	<b>566,403</b>

### **Interest expenses**

Interest expenses incurred with related parties were as follows:

	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
OAo Gazprombank	9,050	30,168
	<b>9,050</b>	<b>30,168</b>

### **Cash and cash equivalents**

Cash and cash equivalents with banks which are the related parties were as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
OAo Gazprombank	43	14,233
	<b>43</b>	<b>14,233</b>

### **Accounts receivable**

Receivables from related parties were as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
OAo TNK-BP Holding	22,871	22,814
ZAO TNK Trade	11,351	17,608
OAo Gazprom Neft	45,453	41,854
OAo Gazprom NNG	1,443	-
OOO TNK-BP Zapad	-	15,556
OOO Gazpromneft-Belnefteproduct -Brest)	-	34,571
Other	15,713	10,319
	<b>96,831</b>	<b>142,722</b>

**Other assets**

Long-term receivables from related parties were as follows:

	December 31, 2010	December 31, 2009
ОАО ТНК-Ярославль	4	-
ОАО Газпром Нефть	3	-
ОАО ТНК-ВР Holding	3	88
Other	26	4,547
	<b>36</b>	<b>4,635</b>

Short-term receivables from related parties were as follows:

	December 31, 2010	December 31, 2009
ЗАО "Мессояханефтегаз" (included into "Other current assets")	101,832	-
ЗАО "Мессояханефтегаз" (included into "Assets held for sale")	101,832	-
	<b>203,664</b>	<b>-</b>

**Long-term debt**

Long-term debt payable to related parties were as follows:

	December 31, 2010	December 31, 2009
ОАО Газпромбанк	-	250,000
	<b>-</b>	<b>250,000</b>

**Accounts payable**

Accounts payable to related parties were as follows:

	December 31, 2010	December 31, 2009
ОАО Газпром Нефть	19,363	29,307
ОАО ТНК-ВР Holding	25,438	24,486
Other	16,320	17,823
	<b>61,121</b>	<b>71,616</b>

**Dividends payable**

Dividends payable to Shareholders were as follows:

	December 31, 2010	December 31, 2009
ОАО Газпром Нефть	117,975	-
ОАО ТНК-ВР Holding	117,975	-
	<b>235,950</b>	<b>-</b>

**Other current liabilities**

Other current liabilities to related parties were as follows:

	December 31, 2010	December 31, 2009
ОАО Gazprom Neft	350	284
ОАО TNK-BP Holding	495	391
ООО Gazprom Neft SM	23	-
Other	7	47
	<b>875</b>	<b>722</b>

Gazprom Neft Trade Company GmbH Austria, ОАО Gazprom Neft, ОАО TNK-BP Holding, ЗАО TNK-Trade, ООО TNK-BP Zapad, ООО Gazpromneft-Belnefteproduct -Brest, ОАО Gazprombank, ОАО Gazprom Neft Finance, ООО Gazprom Neft SM, ОАО TNK-Yaroslavl, ЗАО SL Trading are entities associated with the Primary Shareholders.

**Note 19. Dividends**

Annual general meeting of Company's shareholders was held on June 29, 2010. The shareholders to approve annual dividends of RUB 1.1 per ordinary share (approximately \$0.03 per ordinary share) for the 2009 year. Total amount of dividends declared is USD 174,092.

Extraordinary general meeting of Company's shareholders was held on December 24, 2010 in the form of absentee voting. The shareholders to approve dividends of RUB 1.49 per ordinary share (approximately \$0.05 per ordinary share) for the 2008 and 2009 and for the first nine months of 2010. Total amount of dividends declared is USD 231,556.

During 2009-2010, the Group issued loans and had accounts receivable from companies affiliated with the Primary Shareholders in connection with the disposal of the Group Byelorussian retail operations to the Primary Shareholders. The loans and accounts receivable have been treated as a reduction of the shareholders' capital in the accompanying financial statements. As at December 31, 2010 the amount of loans issued is USD 100,148, which includes USD 71,960 loans issued during 2010, USD 28,060 loans issued during the year ended December 31, 2009 and USD 128 accounts receivable from companies affiliated with the Primary Shareholders.

**Note 20. Fair values**

The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate. ASC 820, Fair Value Measurements and Disclosures, requires an entity to maximize its use of observable inputs when measuring fair value. In the absence of observable inputs, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize or settle in a market transaction. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated. The Group is also exposed to a credit risk in the event of non-payment by counterparties. The creditworthiness of customers and other counterparties is continually reviewed.

ASC 820, Fair Value Measurements and Disclosures, prioritises the inputs to valuation techniques into three levels as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3. Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The methods and assumptions used to estimate fair value of each class of financial instruments are summarized below.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable. The carrying amounts of these items are a reasonable approximation of their fair value.

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

Long-term debt. Loans under bank arrangements have interest rates that reflect currently available terms and conditions for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

## **Note 21. Subsequent events**

In February 2011 the Group completed the sale of ZAO Messoyahaneftgaz's 50% equity share to OOO "Gazpromneft-Invest" company affiliated with the Primary Shareholder - OAO "Gazprom Neft" for USD 19,275.

Subsequent events have been evaluated through February 11, 2011, the date of issuance of these financial statements.