

OAO NGK SLAVNEFT AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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, 2011 and December 31, 2010, 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.

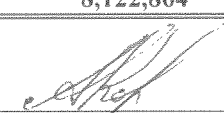
ZAO PricewaterhouseCoopers Audit

February 16, 2012

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

	Notes	December 31, 2011	December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	3	213,211	124,707
Accounts receivable, net	4	208,863	194,864
Inventories	5	153,258	163,020
Deferred income tax assets	13	20,940	26,295
Assets held for sale	6	229,323	366,091
Other current assets	7	172,153	283,394
Total current assets		997,748	1,158,371
Investments	8	10,444	12,935
Property, plant and equipment	9	6,941,515	6,700,207
Deferred income tax assets	13	94,583	66,066
Other non-current assets	10	78,574	27,686
Total assets		8,122,864	7,965,265
LIABILITIES AND SHAREHOLDERS' CAPITAL			
Current liabilities			
Accounts payable		283,459	308,739
Short-term debt and current portion of long-term debt	11	437,862	252,806
Taxes payable	13	480,485	391,998
Dividends payable		5,410	238,333
Liabilities associated with assets held for sale	6	54,417	65,918
Other current liabilities	14	71,729	58,101
Total current liabilities		1,333,362	1,315,895
Long-term debt	12	1,134,869	749,979
Asset retirement obligations	9	217,423	187,679
Deferred income tax liabilities	13	305,258	326,715
Other non-current liabilities		46,671	8,977
Total liabilities		3,037,583	2,589,245
Shareholders' capital			
Common shares (0.001 Russian Ruble par value, 4,754,238,000 shares authorized and issued)		2,201	2,201
Additional paid in capital		1,801,333	1,758,518
Retained earnings		1,022,834	1,451,723
Total Group shareholders' capital		2,826,368	3,212,442
Non-controlling interest	16	2,258,913	2,163,578
Total shareholders' capital		5,085,281	5,376,020
Total liabilities and shareholders' capital		8,122,864	7,965,265


 Sukhanov Yu.E.
 President
 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, 2011	Year ended December 31, 2010
Revenues			
Sales		5,192,803	4,023,588
Other		234,191	287,107
Net revenues		5,426,994	4,310,695
Costs and other deductions			
Operating expenses		(1,245,589)	(1,076,131)
Selling, general and administrative expenses		(173,721)	(180,756)
Cost of other sales		(221,906)	(243,272)
Taxes other than income taxes	13	(2,879,917)	(1,985,747)
Depreciation, depletion and amortization		(840,004)	(480,437)
Exploration expenses		(42,513)	(33,726)
Gain / (loss) on disposal of assets, net	15	14,533	(36,279)
Income from operating activities		37,877	274,348
Interest expense		(44,636)	(46,931)
Interest income		12,840	6,988
Foreign currency gain / (loss)		48,184	(23,812)
Other non-operating gain, net		5,934	8,211
Income before income taxes		60,199	218,804
Current income tax expense		(581)	(32,384)
Deferred income tax benefit		34,040	66,445
Total income tax benefit	13	33,459	34,061
Net income from continuing operations		93,658	252,865
Net loss from discontinued operations	6	(81,708)	(57,965)
Net Income		11,950	194,900
Less: net income attributable to non-controlling interest	16	(95,335)	(125,164)
Net (loss) / income attributable to Group shareholders		(83,385)	69,736

Consolidated Statements of Changes in Shareholders' Capital

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

	Number of ordinary shares (thousands)	Com- mon shares	Addition al paid in capital	Retained earnings	Total Group sharehold- ers' capital	Non controllin g interest	Total sharehold- ers' capital
Balance as of January 1, 2010	4,754,238	2,201	1,717,621	1,859,723	3,579,545	2,038,414	5,617,959
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)
Balance as of December 31, 2010	4,754,238	2,201	1,758,518	1,451,723	3,212,442	2,163,578	5,376,020
Net income	-	-	-	(83,385)	(83,385)	95,335	11,950
Primary Shareholders' contribution to additional capital	-	-	42,815	-	42,815	-	42,815
Dividends declared (Note 19)	-	-	-	(345,504)	(345,504)	-	(345,504)
Balance as of December 31, 2011	4,754,238	2,201	1,801,333	1,022,834	2,826,368	2,258,913	5,085,281

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

	Year ended December 31, 2011	Year ended December 31, 2010
Cash flows from operating activities		
Net income	11,950	194,900
Adjustments to reconcile net income to net cash provided by operating activities:	-	
(Gain) / loss on sale of assets, net	(14,561)	47,261
Depreciation, depletion and amortization	840,008	490,810
Foreign currency (gain) / loss	(42,084)	18,190
Deferred income taxes	(13,849)	(66,528)
(Increase) / decrease in accounts receivable and other non-current assets	(48,570)	29,263
Decrease / (increase) in inventories and other current assets	207,416	(35,072)
(Decrease) / increase in accounts payable	(27,079)	134,012
Increase in taxes payable	121,541	14,513
Increase in other current liabilities	16,994	5,688
Change in provisions	66,778	20,687
Assets held for sale impairment	72,989	45,115
Other	7,763	(9,014)
Net cash provided by operating activities	1,199,296	889,825
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and long-term investments	125,008	100,069
Purchases of property, plant and equipment and other non-current assets	(1,217,883)	(1,208,507)
Net cash used in investing activities	(1,092,875)	(1,108,438)
Cash flows from financing activities		
Proceeds from issuance of short-term debt	201,900	-
Repayments of short-term debt	(345,000)	(76,898)
Dividends paid	(556,736)	(247,091)
Proceeds from issuance of long-term debt	740,000	647,500
Repayments of long-term debt	(37,517)	(250,000)
Net cash provided in financing activities	2,647	73,511
Effect of exchange rate changes on cash and cash equivalents	(20,564)	(2,337)
Net decrease in cash and cash equivalents	88,504	(147,439)
Cash and cash equivalents at beginning of period	124,707	272,146
Cash and cash equivalents at end of period	213,211	124,707
Supplemental disclosures of cash flow information		
Interest paid	42,702	44,532
Income taxes paid	90,568	77,651

Note 1. General information

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”).

These are the Group’s last financial statements that have been prepared in accordance with US GAAP. The Group will prepare the consolidated financial statements in accordance with IFRS for the first time for reporting year ending December 31, 2012.

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 2011 and 2010, exchange rates were 32.1961 and 30.4769 Russian Rubles to the USD, respectively. Average exchange rates for 2011 and 2010 were 29.3874 and 30.3692 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 materially 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, 2011 and December 31, 2010 the Group accounted for its investment in ОАО «Мозырск» НПЗ 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 non 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 collectability is reasonably assured. Revenues from processing are recognised when processing services to customers are rendered and collectability is reasonably assured.

Starting from 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 net presentation 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 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 does not have a 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 non-public (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.

Recent accounting pronouncements

In July 2010, ASU No. 2010-20 *Receivables (Topic 310). 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.

On April 5, 2011, the FASB issued ASU No 2011-02 *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which amends the content in ASC 310 related to identifying TDRs and effectively nullifies ASU 2011-01. This ASU removes the deferral of the TDR disclosure requirements of ASU 2010-20 for public entities and thus establishes the effective date for those disclosures. For non-public Entities the amendments in this Update are effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

On May 12, 2011, 2011 ASU No 2011-04—*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* was issued by FASB. This ASU supersedes most of the guidance in Accounting Standards Codification Topic 820 (formerly FASB Statement no. 157), although many of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. It also reflects FASB's consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. For non-public Entities the amendments in this Update are effective for annual periods beginning 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.

In June 2011 the FASB issued ASU 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which improves the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

In September 2011 the FASB issued ASU 2011-08 *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which simplifies how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amendments are effective for fiscal years ending after December 15, 2011, and interim and annual periods thereafter. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity. In September 2011 the FASB issued ASU 2011-09 *Compensation – Retirement benefits – Multiemployer plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*, which addresses concerns of financial statements on the lack of transparency about an employer's participation in a multiemployer pension plan. For non-public entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments should be applied retrospectively for all prior periods presented. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity. In December 2011 the FASB issued ASU 2011-10 *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate – a Scope Clarification*. ASU 2011-10 provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Codification Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date, with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For nonpublic entities, ASU 2011-10 is effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. The adoption of this Statement will not have material effect on the Group's results of operations, financial position or liquidity.

In December 2011 the FASB issued ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*. The ASU 2011-11 amendments to US GAAP disclosure requirements include certain minimum disclosures that need to be included in notes to financial statements in a tabular format, unless another format is considered to be more appropriate. Reporting entities need to comply with the new disclosure requirements in annual reporting periods beginning on/after January 1, 2013, and for interim periods within those annual reporting periods. The amendments should be applied retrospectively for all prior periods presented. 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, 2011	December 31, 2010
Cash held in banks – Russian Rubles	7,744	5,341
Cash held in banks – other currencies	23,854	4,520
Short-term deposits – Russian Rubles	179,115	110,571
Short-term deposits – other currencies	2,498	4,275
	213,211	124,707

Note 4. Accounts receivable, net

Accounts receivable include the following:

	December 31, 2011	December 31, 2010
Trade accounts receivable	172,476	131,412
VAT receivable	24,708	33,222
Other accounts receivable	12,276	34,822
	209,460	199,456
Allowance for doubtful accounts	(597)	(4,592)
	208,863	194,864

Note 5. Inventories

Inventories include the following:

	December 31, 2011	December 31, 2010
Petroleum products	4,961	10,014
Materials and supplies	52,689	80,925
Crude oil	87,238	65,613
Other	8,370	6,468
	153,258	163,020

As of December 31, 2011 and December 31, 2010, inventories are presented net of allowance of USD 1,284 and USD 6,019 respectively, which relates to slow-moving and obsolete materials and supplies.

Note 6. Assets held for sale and discontinued operations

Assets held for sale and associated liabilities include the following:

	December 31, 2011	December 31, 2010
Assets held for sale:		
ZAO "Messoyahaneftgaz"	-	81,703
ZAO "SP MeCaMineft"	-	34,158
OOO "Megion service"	-	29,109
OOO "MUBR"	85,869	87,300
OOO "BNGRE"	101,077	107,359
OOO "Megion geology"	60,703	41,540
OOO "Ob' geology"	61,478	30,037
ZAO "Upravlenie Otgruzok"	38,300	-
less impairment (net of deferred tax – 34,789 as of 31.12.2011)	(118,104)	(45,115)
	229,323	366,091
Liabilities associated with assets held for sale:		
ZAO "SP MeCaMineft"	-	5,800
OOO "Megion service"	-	15,586
OOO "MUBR"	22,198	29,009
OOO "BNGRE"	13,984	15,523
OOO "Megion geology"	8,772	-
OOO "Ob' geology"	8,753	-
ZAO "Upravlenie Otgruzok"	710	-
	54,417	65,918

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, 2011 the criteria for recognition of these assets as held for sale have been met for certain core service subsidiaries of the Group: OOO "BNGRE", OOO "Ob' geology", OOO "Megion geology" and OOO "MUBR". The Group has recognized an impairment loss in respect of these entities in total amount of USD 152,893 (USD 118,104 net of deferred tax), which represents the excess of the carrying value of the assets to be disposed of over the Management's best estimate of the expected selling price based on existing negotiation. Management of the Group expects that these assets will be sold during 2012 year. Management believes that the remaining asset balances will be fully recovered through the intended sale.

The fair values for the Group's assets held on a non-recurring basis were determined using Level 3 inputs, primarily the estimated future cash flows discounted for inherent risk associated with each asset (Further information on fair values is presented in Note 20).

In April 2011 and August 2011 the Group completed the sale of ZAO "SP MeCaMineft" and OOO "Megion service" to third parties for USD 34,447 and USD 45,000 respectively.

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

	Year ended December 31, 2011	Year ended December 31, 2010
Net revenues	44,476	75,390
Costs and other deductions	(28,635)	(77,951)
Income / (Loss) from operating activities	15,841	(2,561)
Other non-operating (loss) / income	(5,952)	1,646
Impairment	(107,787)	(60,535)
Income tax expense	(14,211)	(5,763)
Deferred income tax benefit	25,764	20,237
Net loss from discontinuing operations of core services	(86,345)	(46,976)

Disposal of other fixed assets

In November 2010, the Group's Board of Directors took a decision to separate and subsequently sell business activities and fixed assets (rail cars) engaged in oil products transportation services. For this purpose the Group established ZAO "Upravlenie otgruzok" ("Department of shipments"). In May 2011 the Group's management took a decision to sell these fixed assets. For year ended 31 December 2011 the amount of net gain from this discontinued operation is USD 4,637. Management of the Group expects that these assets will be sold in the 2012 year. Management believes that the asset balances held for sale will be fully recovered through the intended sale.

In August 2009, the Group completed the sale of Yaroslavl retail operations to the Group's Primary Shareholders. Further to this transaction in May 2011 the Group took a decision to sell other fixed assets of OAO "Slavneft-Yaroslavlnefteproduct" not associated with retail operations (oil tank farm). As a result, the Group has classified these assets in the amount of USD 2,794 as held for sale as at September 30, 2011. These assets were sold during the fourth quarter of 2011 to third parties for USD 3,531.

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. 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.

For the year ended 31 December 2010 the amount of net loss from this discontinued operation is USD 10,110.

As a result of this deal, the Group recorded these transactions similar to transactions under common control and recognized total shareholders' contribution to additional paid-in capital in the amount of USD 83,712, which includes USD 40,897 contribution made during 2010 and USD 42,815 in the year ended 31 December 2011.

Disposal of noncore service subsidiaries of the Group

In April 2010, the Group's Board of Directors took a decision to sell noncore service subsidiary of the Group ZAO "Stroitel'naya kompaniya "Slavneftstroy" to a third party. As a result, the Group has classified these assets as held for sale and reported them as discontinued operations in the interim consolidated financial statements as at June 30, 2010. These assets were sold to third parties in third quarter of 2010.

In February 2010, the Group's Board of Directors took a decision to sell certain noncore service subsidiaries of the Group: OOO "AutoTransService", OOO "NefteSpetsTrans" and OOO "NefteSpetsStroy" to third parties through open tender. These assets were sold during the year ended December 31, 2010. Net loss from these discontinued operations for the year ended 31 December 2010 is USD 879.

Note 7. Other current assets

Other current assets include the following:

	December 31, 2011	December 31, 2010
Prepaid expenses	63,652	115,600
Tax prepayments	103,748	62,957
Loan issued to affiliated companies	3,059	101,832
Short-term investments	1,694	3,005
	172,153	283,394

Note 8. Investments

Investments include the following:

	December 31, 2011	December 31, 2010
Investments in related parties	10,139	12,635
Other long-term investments, at cost	305	300
	10,444	12,935

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

Property, plant and equipment

Property, plant and equipment include the following:

	December 31, 2011	December 31, 2010
Oil and gas properties	6,252,072	5,521,098
Plant and equipment	2,420,851	2,074,549
Construction in progress	1,086,066	1,315,179
	9,758,989	8,910,826
Less accumulated depreciation, depletion and amortization	(2,817,474)	(2,210,619)
	6,941,515	6,700,207

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

Capitalized exploratory well cost as of December 31, 2011 and December 31, 2010 are USD 172,499 and USD 207,528 respectively. At December 31, 2011 and 2010 all capitalized exploratory well cost relate to our Krasnoyarsk project.

Krasnoyarsk is a strategic project for the Group. The project contains 2 oilfields in the Krasnoyarsk region and 6 license areas without oilfields. 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 2016 and the Group aims to commence full operation after the pipeline's completion.

Asset retirement obligations

As of December 31, 2011 the asset retirement obligation amounted to USD 217,423. The changes in the asset retirement obligations during the year ended December 31, 2011 and 2010 are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Asset retirement obligations, beginning of the period	187,679	169,332
Accretion expense	19,863	16,001
Liabilities incurred	4,130	16,559
Liabilities settled	(980)	(1,305)
Changes in estimate and other	6,731	(12,908)
	217,423	187,679

Change in estimates relates to changes in expected well abandonment costs.

Note 10. Other non-current assets

Other non-current assets include the following:

	December 31, 2011	December 31, 2010
Long-term trade accounts receivable	197	403
Catalysts	61,986	21,429
Other	16,391	5,854
	78,574	27,686

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:

	December 31, 2011	December 31, 2010
Short-term debt	81,438	3,784
Current portion of long-term debt	356,424	249,022
	437,862	252,806

Short-term debt as of December 31, 2011 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, 2011 and December 31, 2010 is 3.0 % and 5.0% respectively.

Note 12. Long-term debt

Long-term debt includes the following:

	December 31, 2011	December 31, 2010
ZAO Natixis bank	52,500	60,000
ZAO BNP Paribas bank	100,000	100,000
ZAO Raiffeisenbank	87,500	87,500
ZAO UniCreditbank	250,000	250,000
Vnesheconombank	107,182	129,892
OAO Sberbank	-	220,000
ING Bank N.V. (London branch)	650,000	-
ZAO ING Bank Eurasia	150,000	150,000
OAO Rosbank (ex. BSGV)	90,000	-
Other	4,111	1,609
	1,491,293	999,001
Less current portion	(356,424)	(249,022)
	1,134,869	749,979

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 April 30, 2015. Loan outstanding as at 31 December, 2011 is 8,250,868 **thousand** Japanese yen. Interest on the loan is 4.9% per annum.

In addition, as of 31 December 2011 the Group has USD 1,384,111 of long-term debt from a number of banks, nominated in USD (including USD 325,800 current portion). As of 31 December 2010 the Group had USD 869,109 of long-term debt from a number of banks, nominated in USD (including USD 220,158 current portion). The floating interest rates vary from LIBOR +1,75% to LIBOR +3,5%.

Debt repayment schedule

Contractual repayments of long-term debt outstanding at December 31, 2011 are as follows:

01.01.2012- 31.12.2012	01.01.2013- 31.12.2013	01.01.2014- 31.12.2014	01.01.2015- 31.12.2015	01.01.2016 and thereafter
356,424	570,182	346,073	152,655	65,959

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 2011 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, 2011, the Group's income tax expense includes a tax benefit relating to these tax incentive of USD 4,022.

The components of income taxes were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Current income tax expense	(581)	(32,384)
Deferred income tax benefit	34,040	66,445
Total income tax benefit	33,459	34,061

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.

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, 2011	Year ended December 31, 2010
Income before income tax	60,199	218,803
Computed "expected" income tax expense	(12,040)	(43,761)
(Increase) reduction in the income tax due to:	-	-
non-deductible items	(16,087)	(26,484)
foreign currency effect	31,368	(1,582)
valuation allowance	(9,442)	9,843
investment tax credits	3,907	8,294
deferred tax on undistributed earnings of subsidiaries	43,435	99,931
prior periods adjustments	-	(12,043)
disposal of ZAO "SP McCaMineft" and OOO "Megion service"	(7,644)	-
other	(38)	(137)
Total income tax benefit	33,459	34,061

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 2010. 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:

	December 31, 2011	December 31, 2010
Deferred income tax assets		
Property, plant and equipment	57,053	47,357
Operating loss carry-forward	51,170	39,884
Asset retirement obligations	43,844	36,665
Other current liabilities	20,592	
Prepaid expenses	6,606	8,760
Other non-current liabilities	5,537	
Accounts receivable	1,263	1,317
Accounts payable	-	24,595
Other	5,069	147
Total deferred income tax assets	191,134	158,725
Less valuation allowance	(32,659)	(23,254)
Total deferred income tax assets less allowance	158,475	135,471
Deferred income tax liabilities		
Property, plant and equipment	(318,928)	(303,269)
Undistributed earnings of subsidiaries	(14,591)	(58,025)
Inventories	(10,916)	(9,165)
Financial investments	(3,993)	
Other non-current assets	(1,327)	
Other	(3,269)	(30)
Total deferred income tax liabilities	(353,024)	(370,489)
Net deferred income tax liability	(194,494)	(235,018)

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

	December 31, 2011	December 31, 2010
Deferred income tax assets - current	20,940	26,295
Deferred income tax assets – non-current	127,242	89,320
Less valuation allowance	(32,659)	(23,254)
Total deferred income tax asset	115,523	92,361
Other liabilities - current	(4,759)	(664)
Deferred income tax liabilities – non-current	(305,258)	(326,715)
Net deferred income tax liability	(194,494)	(235,018)

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 deferred tax liability related to the 9% withholding tax on unremitted earnings of Russian subsidiaries that comply with certain tax legislation provisions. The Group reversed the deferred tax liability in the amount of USD 106,123 in 2010 as the Company believes that 0% withholding taxes on dividend distributions from OAO Slavneft-Megionneftegaz will be applied when such dividends are distributed. And in 2011 the Group reversed additional deferred tax liabilities in the amount of USD 31,721 for other subsidiaries that comply with the same tax legislation provisions.

As of December 31, 2011 the Group had operating loss carry forwards of USD 255,849 attributable to Russian Group subsidiaries that expire up to 2021. For loss carry forward 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, 2011 the valuation allowance increased by USD 9,405 to USD 32,659 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 tax expense were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Unified production tax	2,734,315	1,851,492
Property taxes and other	145,602	134,255
	2,879,917	1,985,747

Taxes payable

Taxes payable include the following:

	December 31, 2011	December 31, 2010
Unified production and subsoil use taxes	222,643	187,370
Value added tax	166,057	116,695
Excise tax	54,385	36,844
Income tax	-	16,385
Property tax	23,207	22,563
Other taxes	14,193	12,141
	480,485	391,998

Note 14. Other current liabilities

	December 31, 2011	December 31, 2010
Accrued charges	27,372	35,726
Salaries payable	7,895	9,169
Deferred income tax liabilities – current	4,759	664
Environmental provision	27,310	5,526
Other	4,393	7,016
	71,729	58,101

Note 15. Gain / Loss on disposal of assets, net

Net gain / loss on disposal of assets in the consolidated statements of income for the year ended December 31, 2011 includes gain from sale of finance investments in the total amount of USD 36,675 and loss from disposal and sale of property, plant and equipment and CIP in the total amount of USD 17,398.

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. Also this line includes gain from sale of noncore service subsidiaries in the total amount of USD 15,598.

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, 2011 and December 31, 2010 includes USD 1,988,815 and 1,885,902 respectively, attributable to the Primary Shareholders' interests.

Included in non-controlling interest on the consolidated statements of income for the year ended December 31, 2011 and 2010 is USD 102,913 and USD 114,999 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 1 January 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.

However, starting from 1 January 2012 new transfer pricing rules, designed to eliminate the existing deficiencies, have come into force. The new rules redefine the list of "controlled transactions", the list of parties deemed to be related and the methods of price determination, introduce documentation and reporting requirements and allow, under certain conditions, for corresponding adjustments and advance pricing agreements with tax authorities. "Controlled" transactions now include transactions with related parties and also the set of transactions with participation of third parties in case third parties do not perform any functions except organization of transaction, carry any risk and use any assets within the transaction, foreign trade transactions, transactions with counterparties incorporated in the jurisdictions which are on Minfin's "black list".

Since 2012, with respect to "controlled transactions", the tax authority may adjust the tax base for corporate profits tax (and in some circumstances for VAT and MET) based on the average arm's length market price for the same or similar goods (services). Breach of the transfer pricing rules and making "controlled transactions" at a price not in compliance with the market price without self-adjustments for tax purposes may result in the imposition of back-taxes, late-payment interest and, starting in 2014, severe fines (20% of the amount of unpaid tax from 2014 to 2016 and 40% from 2017).

Herewith it should be noted that new transfer pricing legislation will be applicable only to transactions executed in 2012 and the following years, so it should not carry any additional tax risks or impose restrictions on legal relations arising on 2011 or previous years.

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 condensed 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 at December 31, 2011 a provision in the amount of USD 68,605 (included USD 27,310 in Other current liabilities and USD 41,295 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, 2011 and 2010, 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, 2011	Year ended December 31, 2010
OAO Gazprom Neft	Crude oil	2,317,062	1,745,564
ZAO TNK-Trade	Crude oil	-	1,005,340
ZAO SL Trading	Crude oil	2,322,147	748,306
OAO Gazprom Neft	Processing services	265,032	257,492
OAO TNK-BP Holding	Processing services	265,031	257,455
Other	Oil products and other	84,408	70,323
		5,253,680	4,084,480

Operating expenses

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

Customer	Description	Year ended December 31, 2011	Year ended December 31, 2010
ZAO Trade-Oil	Oil products	-	11,628
Other	Oil products and other	28,831	38,661
		28,831	50,289

Interest expenses

Interest expenses incurred with related parties were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
OAO Gazprombank		9,050
		9,050

Cash and cash equivalents

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

	December 31, 2011	December 31, 2010
OA0 Gazprombank	43	43
	43	43

Trade accounts and notes receivable

Receivables from related parties were as follows:

	December 31, 2011	December 31, 2010
OA0 TNK-BP Holding	34,165	22,871
ZAO TNK Trade	-	11,351
OA0 Gazprom Neft	62,034	45,453
OA0 Gazprom NNG	-	1,443
ZAO SL Trading	24,268	7,752
Other	2,555	7,961
	123,022	96,831

Short-term receivables from related parties were as follows:

	December 31, 2011	December 31, 2010
ZAO "Messoyahaneftgaz" (included into "Other current assets")	-	101,832
ZAO "Messoyahaneftgaz" (included into "Assets held for sale")	-	101,832
		203,664

Accounts payable

Accounts payable to related parties were as follows:

	December 31, 2011	December 31, 2010
OA0 Gazprom Neft	47,361	19,363
OA0 TNK-BP Holding	23,609	25,438
Other	3,313	16,320
	74,283	61,121

Dividends payable

Dividends payable to Shareholders were as follows:

	December 31, 2011	December 31, 2010
OA0 Gazprom Neft	-	117,975
OA0 TNK-BP Holding	-	117,975
	-	235,950

Other current liabilities

Other current liabilities to related parties were as follows:

	December 31, 2011	December 31, 2010
OAO Gazprom Neft	1,185	350
OAO TNK-BP Holding	969	495
OOO Gazprom Neft SM	2	23
Other	2	7
	2,158	875

OAO Gazprom Neft, OAO TNK-BP Holding, ZAO TNK-Trade, OAO Gazprombank, OOO Gazprom Neft SM, ZAO SL Trading, ZAO Trade Oil and OAO Gazprom NNG are entities associated with the Primary Shareholders.

Note 19. Dividends

Annual general meeting of Company's shareholders was held on June 29, 2011. The shareholders approved dividends of RUB 2.01 per ordinary share (approximately \$0.07 per ordinary share) with total dividends declared is USD 345,504.

Annual general meeting of Company's shareholders was held on June 29, 2010. The shareholders approved dividends of RUB 1.1 per ordinary share (approximately \$0.03 per ordinary share). 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). Total amount of dividends declared in the year 2010 is USD 405,648.

During 2009 and 2010, the Group issued loans and had accounts receivable from companies affiliated with the Primary Shareholders in connection with the disposal of the Group's Byelorussian retail operations to its 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 was USD 100,148, however as at December 31, 2011 the amount of the loans issued decreased to USD 35,569 as a result of a decrease in the value of the Byelorussian Rouble relative to the United States dollar in 2011.

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 defines fair value, provides a framework for measuring the fair value of assets and liabilities under GAAP, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1. Fair value determined based on quoted prices in active markets for identical assets or liabilities.

Level 2. Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3. Fair value determined based on 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

Subsequent events have been evaluated through February 16, 2012, the date of issuance of these financial statements.