

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THE FOLLOWING BASE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to any securities, investors must be (i) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) that are also "qualified purchasers" (as defined in Section 2(A)(51) of the U.S. Investment Company Act of 1940, as amended), or (ii) non-U.S. persons (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. Persons. By accessing these materials, you shall be deemed to have represented to us that you (i) are a qualified institutional buyer and a qualified purchaser or (ii) are outside the United States and are not a U.S. Person and are not acting for the account or benefit of a U.S. Person.

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities being offered, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in this Base Prospectus.

The Notes are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. The information provided in this Base Prospectus is not an offer, or an invitation to make offers, sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

This Base Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Gazprom neft, GPN Capital S.A., Crédit Agricole CIB, J.P. Morgan, nor any person who controls them nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from Gazprom neft, GPN Capital S.A., Crédit Agricole CIB and J.P. Morgan.



Joint Stock Company Gazprom neft

USD 10,000,000,000

Programme for the Issuance of Loan Participation Notes

*to be issued by, but with limited recourse to,
GPN Capital S.A. for the sole purpose of financing loans to*

Joint Stock Company Gazprom neft

Under the Programme for the Issuance of Loan Participation Notes (the “Programme”) described in this base prospectus (the “Base Prospectus”), GPN Capital S.A. (the “Issuer”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the “Notes”) on the terms set out herein, as completed by a final terms document (each, “Final Terms”) or a series prospectus (each, “Series Prospectus”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed USD 10,000,000,000 (or the equivalent in other currencies).

Notes will be issued in Series (as defined in “Overview of the Programme”) and the sole purpose of issuing each Series will be to finance loans (each a “Loan”) to Joint Stock Company Gazprom neft (the “Company”) as borrower, on the terms of a facility agreement between the Issuer and the Company dated 2 August 2012 (the “Facility Agreement”), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (as defined below) (each a “Loan Supplement”) and, together with the Facility Agreement, each a “Loan Agreement”) between the Issuer and the Company. Except as provided in the Trust Deed (as defined herein), the Issuer will charge by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed (a) its right to principal, interest and other amounts as lender under the relevant Loan Agreement and (b) amounts received pursuant to the relevant Loan in an account of the Issuer (as described herein), in each case other than the Issuer Reserved Rights (as defined in the Trust Deed) and certain amounts relating to the Issuer Reserved Rights, to Deutsche Trustee Company Limited (the “Trustee”) for the benefit of itself and the Noteholders (as defined herein) and will assign its administrative rights under the relevant Loan Agreement to the Trustee (the “Assigned Rights”).

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to holders of the Notes (“Noteholders”), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any, other than amounts received by the Issuer in respect of the Issuer Reserved Rights) actually received by or for the account of the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Company in respect of the financial servicing of the Notes.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “*RISK FACTORS*” BEGINNING ON PAGE 5.

The Notes and the corresponding Loans (together, the “Securities”) have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)). Depending on the terms of the particular Series of Notes, the Notes may be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act (“Rule 144A”)) that are also qualified purchasers (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”)) in reliance on the exemption from registration provided by Rule 144A (the “Rule 144A Notes”) and (ii) to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (the “Regulation S Notes”). The Issuer has not been and will not be registered under the Investment Company Act. Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

This Base Prospectus has been approved by the Central Bank of Ireland (the “Central Bank”), as competent authority under Directive 2003/71/EC (the “Prospectus Directive”). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes that are to be admitted to trading on the regulated market of the Irish Stock Exchange (the “Irish Stock Exchange”) or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the “Official List”) and trading on its regulated market (the “Main Securities Market”). Reference in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange). The Central Bank has only approved this document in relation to Notes that are to be listed on the Irish Stock Exchange or another Main Securities Market in the European Economic Area, and the Central Bank has neither reviewed nor approved this document in relation to any unlisted Notes.

Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (each, a “Regulation S Global Note”), without interest coupons, which will be deposited with a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), and registered in the name of the nominee of the common depository, on its issue date as set out in the relevant Final Terms (the “Issue Date”). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by a global restricted Note in registered form (each, a “Rule 144A Global Note”) and together with any Regulation S Global Notes, the “Global Notes”), without interest coupons, which will be deposited with a custodian for, and registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “*Clearing and Settlement*”. Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The credit ratings included in this Base Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the “CRA Regulation”) by Standard & Poor’s Credit Market Services Europe Limited (“Standard & Poor’s”) and Moody’s Investors Service Ltd (“Moody’s”). Standard and Poor’s and Moody’s are established in the European Union (the “EU”) and registered under the CRA Regulation. As such, Standard and Poor’s and Moody’s are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Final Terms.

The Issuer does not intend to issue any Notes under the Programme with a denomination of less than EUR 100,000 (or its equivalent in any other currency as at the date of issue of the Notes). In the case of Rule 144A Notes, denominations will be no less than USD 200,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Arrangers

Crédit Agricole CIB

J.P. Morgan

The date of this Base Prospectus is 2 August 2012

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Company and its subsidiaries taken as a whole (the “Group”) which, due to the particular nature of the Issuer, the Company, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Company and the Group. The Issuer (whose registered office appears on page 38 of this Base Prospectus) and the Company (whose registered office appears on page 38 of this Base Prospectus) each accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and the Company (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is factually accurate and does not omit anything likely to affect the import of such information.

This Base Prospectus does not constitute an offer to sell Notes, or an invitation by or on behalf of the Issuer, the Company, the Dealers or the Arrangers (each as defined under “*Overview of the Programme*”) to subscribe for or purchase any Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons who come into possession of this Base Prospectus are required by the Issuer, the Company, the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered or sold in the United States or to U.S. persons. Further information with regard to restrictions on the offers and sale of the Notes and the distribution of this Base Prospectus is set out under “*Subscription and Sale*”.

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, the Company, the Trustee, the Paying Agents, Transfer Agents, Principal Paying Agent, Calculation Agent and Registrars (the “Agents”), any of the Dealers or the Arrangers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, at any time or in any circumstances, imply that the information contained in it is correct as at any time subsequent to its date. The websites of the Company and the members of the Group and the information posted thereon do not form any part of the contents of this Base Prospectus.

Neither the delivery of this Base Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or the Group since the date of this Base Prospectus.

None of the Issuer, the Company, the Trustee, the Agents, the Dealers or the Arrangers or any of its or their respective representatives makes any representation or warranty, express or implied, to any offeree or purchaser of the Notes offered hereby, regarding the legality of an investment by such offeree or purchaser under applicable investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of any purchase of the Notes. To the fullest extent permitted by law, none of the Dealers or the Arrangers accepts any responsibility for the contents of this Base Prospectus or for any other statement made or purported to be made by a Dealer or the Arrangers or on its behalf in connection with the Issuer, the Company or the issue and offering of the Notes. Each Dealer and the Arrangers accordingly disclaims any and all liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained by such prospective purchaser. The Company, the Issuer, the Trustee, the Agents, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisers regarding such matters. This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Company, the Arrangers or the Dealers that any recipient of this Base Prospectus should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers undertakes to review the financial condition or affairs of the Issuer or the Company during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arrangers.

The Arrangers, the Dealers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivatives transactions with, the Company and its affiliates. The

Dealers and Arrangers are acting exclusively for the Company and the Issuer and no one else in connection with the Programme and the Notes and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (“Luxembourg”). The Issuer is not a subsidiary of the Company. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and the Issuer is registered with the *Registre de Commerce et des Sociétés à Luxembourg* (the Register of Commerce and Companies in Luxembourg) under number B 168.434. For further information about the Issuer, see “*GPN Capital S.A.*”.

This Base Prospectus has been filed with and approved by the Central Bank of Ireland as required by the Prospectus (Directive 2003/71/EC) Regulations 2005.

Any investment in any Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland.

In connection with the issue of any Series of Notes, the Dealers (if any) named as stabilising manager(s) (the “Stabilising Manager(s)”) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, this is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS BASE PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE DEALERS, THE ARRANGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, THE COMPANY AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

INFORMATION CONTAINED IN THIS BASE PROSPECTUS IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, SELL, PURCHASE, EXCHANGE OR TRANSFER ANY SECURITIES IN THE RUSSIAN FEDERATION, AND DOES NOT CONSTITUTE AN ADVERTISEMENT OF OFFERING OF ANY SECURITIES IN THE RUSSIAN FEDERATION. THE SECURITIES REFERENCED TO IN THIS BASE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED IN THE RUSSIAN FEDERATION OR ADMITTED TO PUBLIC PLACEMENT AND/OR PUBLIC CIRCULATION IN THE RUSSIAN FEDERATION AND ARE NOT INTENDED FOR “PLACEMENT” OR “CIRCULATION” IN THE RUSSIAN FEDERATION EXCEPT AS PERMITTED BY RUSSIAN LAW.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

Each of the Company and the Issuer has agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company or the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

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OVERVIEW

The Group is one of the leading Russian vertically integrated oil companies, and by sales volume in 2011 was Russia's fifth largest producer of crude oil, third largest refiner of oil and oil products, second largest seller of fuel oil and diesel and largest seller of automobile and jet fuel, according to Interfax. The Group's three key areas of operations are exploring, developing, producing and selling crude oil and gas; refining oil and selling refined petroleum products; and distributing petroleum products through its retail outlets. Headquartered in St. Petersburg, the Group comprises over 70 production, refining and marketing companies in Russia, the CIS and abroad. Except where expressly stated otherwise, all Group operational information herein includes the share of any minority interest owners and also the Group's proportionate share of the respective results of operations of the Equity Affiliates (as defined below).

The Group's principal upstream production operations are located among the largest oil and gas regions in Russia: Yamalo-Nenets, Khanty-Mansiysk, Omsk, Tomsk, Orenburg, Tyumen and Krasnoyarsk. As of 31 December 2011, the Group's proved reserves under PRMS classification were 8,320 mmbbl, including 6,790 mmbbl of crude oil and 9.2 tcf of gas. The Group is currently developing 42 fields (excluding those of the Equity Affiliates) in Russia and Europe and taking part in joint exploration and development projects of oil fields in Iraq, Venezuela, Equatorial Guinea, Angola and Cuba. The Group's total hydrocarbon production was 108.5 mmboe and 421.6 mmboe for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively.

The Group's major downstream refining facilities are located in Omsk, Moscow and (through an Equity Affiliate) Yaroslavl in Russia and Pančevo and Novi Sad in Serbia. The Group refines more than 80% of the oil it produces, among the highest such industry ratios in Russia. As of 31 December 2011, the Group's refining capacity was 46.0 mmt/yr, and its refining throughput was 10.2 mmt/yr and 40.5 mmt/yr for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Omsk Refinery is one of the largest refineries in Russia as measured by processing volumes, producing high-quality refined products such as automotive petrol, fuel for diesel and jet engines, fuel oil, bitumen and aromatic hydrocarbons. The Moscow Refinery is the largest provider of oil products in Moscow and the Moscow region as measured by volume with a 40% market share, according to Petromarket.

The Group sells its products in Russia through its extensive sales network and also exports to over 50 countries. As of 31 March 2012, the Group's network of petrol stations consisted of approximately 1,670 stations in Russia, the CIS and Eastern Europe. To market petroleum products, the Group has established dedicated business units for the sales of jet fuel, bunkering and the production and sale of lubricants, including Gazprom Neft-Aero, Gazprom Neft-Marine Bunker and Gazprom Neft-Lubricants, respectively.

The Equity Affiliates contributed 35.0 mmboe, or 32.2%, and 142.6 mmboe, or 33.8%, of the Group's total hydrocarbon production for the three months ended 31 March 2012 and year ended 31 December 2011, respectively. In addition, as of 31 December 2011, the Group's share in the Equity Affiliates' proved hydrocarbon reserves under PRMS standards was 2,648 mmboe, or 31.8% of the Group's total reserves, including 1,887 mmbbl of crude oil and 4.6 tcf of gas.

For the three months ended 31 March 2012, total consolidated revenues of the Group, as reported under IFRS, were RUB 277,976 million. Revenues from crude oil sales for the three months ended 31 March 2012 were RUB 53,265 million, or 19.2% of total revenues, while revenues from petroleum product sales for the three months ended 31 March 2012 were RUB 211,850 million, or 76.2% of total revenues. Revenues from export and sales on international markets (excluding export sales to the CIS) for the three months ended 31 March 2012 were RUB 115,585 million (RUB 40,480 million from crude oil, RUB 73,683 million from petroleum products and RUB 1,422 million from gas), or 41.6% of total revenues, while revenues from domestic sales for the three months ended 31 March 2012 were RUB 133,944 million (RUB 2,914 million from crude oil, RUB 126,066 million from petroleum products and RUB 4,964 million from gas), or 48.2% of total revenues. Export sales to the CIS for the three months ended 31 March 2012 were RUB 21,972 million (RUB 9,871 million from crude oil and RUB 12,101 million from petroleum products), or 7.9% of total revenues.

In 2011, total consolidated revenues of the Group, as reported under U.S. GAAP, were USD 44,172 million. Revenues from crude oil sales in 2011 were USD 11,756 million, or 27% of total revenues, while revenues from petroleum product sales in 2011 were USD 30,877 million, or 70% of total revenues. In 2011, revenues from export and sales on international markets (excluding export sales to the CIS) were USD 23,458 million (USD 10,347 million from crude oil, USD 12,929 million from petroleum products and USD 182 million from gas), or 53.1% of total revenues, while revenues from domestic sales in 2011 were USD 16,970 million (USD 168 million from crude oil, USD 453 million from gas and USD 16,349 million from petroleum products), or 38.4% of total revenues. Export sales to the CIS in 2011 were USD 2,840 million (USD 1,241 million from crude oil and USD 1,599 million from petroleum products), or 6.4% of total revenues.

Competitive Strengths

The Group believes that it benefits from the following competitive strengths:

- **Leading Russian vertically integrated oil company.** The Group is a leading vertically integrated enterprise that seeks to optimise the management of the main activities of its subsidiaries. Due to its high degree of vertical integration, the Group is active across the entire hydrocarbon value chain, including the exploration, development and production of crude oil, refining, wholesale sales and marketing of retail products. The Group's total hydrocarbon production was 108.5 mmbbl and 421.6 mmbbl for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Group's vertical integration also allows it to process and refine a high level of its captive production. The Group's refining throughput was 10.2 mmt and 40.5 mmt for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively, and its refining/production ratio was 82% in 2011. In addition, the Group's extensive retail network also affords the Group the opportunity to sell a significant portion of its processed production directly to end-consumers. Total sales of the Group's petroleum products were 9.3 mmt in the three months ended 31 March 2012 and 38.3 mmt in the year ended 31 December 2011.
- **Extensive resource base and high reserves-to-production ratio.** As of 31 December 2011, the Group's proved reserves under the PRMS classification were 8,320 mmbbl, including 6,790 mmbbl of crude oil and 9.2 tcf of gas. At current production levels, under the PRMS standards, the Group has a reserves-to-production ratio for proved hydrocarbon reserves of approximately 20 years and a reserves-to-production ratio for proved plus probable hydrocarbon reserves of approximately 30 years. In 2011, the Group's replacement ratio was 286%. The Group's resource base also includes a large portion of ABC Russian classification reserves based on exploration results in its current fields. In 2011, the Group held a leading position among Russian vertically integrated oil companies in the effectiveness of its exploratory drilling, securing average growth in recoverable reserves of 343 toe under the ABC Russian classification for each metre drilled. In addition, since 2009, the Group's resource base has experienced expansion through acquisitions and joint ventures in Russia and abroad.
- **Productive and increasingly modern refinery fleet.** As of 31 December 2011, the Group's refining capacity was 46.0 mmt per year, and its refining throughput was 10.2 mmt and 40.5 mmt for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Group's main refining asset, the Omsk Refinery, had a processing depth of 84.1% and Nelson complexity index of 7.64 in 2011 and is one of the largest refineries in Russia by processing volumes, producing high-quality refined products such as automotive petrol, fuel for diesel and jet engines, fuel oil, bitumen and aromatic hydrocarbons. The Moscow Refinery is the largest provider of oil products in Moscow and the Moscow region as measured by volume with a 40% market share, according to Petromarket. The NIS Refineries in Serbia and the Group's stake in the YANOS Refinery in Yaroslavl also represent significant refining assets of the Group. In addition, the Group has commenced substantial modernisation programmes at its refineries. In 2008, a ten-year, RUB 100 billion modernisation programme commenced at the Omsk Refinery to expand the volume and range of its products, including high-octane petrol, diesel fuels, aromatics, coke, modern bitumen materials and petrochemicals, while also improving the refinery's environmental performance. In 2010, the Group began a large-scale modernisation programme at the Moscow Refinery, which is planned to continue through 2020 and entails reconstructing existing assets, constructing new refining capacities, improving safety for operating procedures and implementing environmental projects at the refinery.
- **Efficient marketing segment in Russia and abroad.** The Group sells its products in Russia through an extensive sales network and also exports to over 50 countries. A proprietary marketing network enables the Group to monitor and increase its fuel sales. In the three months ended 31 March 2012, total sales of the Group's petroleum products were 9.3 mmt, compared to 8.9 mmt in the three months ended 31 March 2011. Group petroleum product sales amounted to 38.3 mmt, 35.6 mmt and 31.5 mmt in 2011, 2010 and 2009, respectively. The Group sells most of its petroleum products in Russia and neighbouring countries through 20 subsidiaries. Sixteen of the subsidiaries are retail distribution companies, selling petroleum products both wholesale and retail through petrol stations. As of 31 March 2012, the Group's retail network comprised approximately 1,670 filling stations in Russia, CIS and Eastern Europe. In addition, the Group is also actively developing its aviation fuel and lubrication sales segments and in 2011 was a leader in plane fuelling and one of the largest bunkering fuel suppliers in Russia.
- **Growth potential in all segments.** The Group is well-positioned for growth in all key aspects of its business. In addition to seeking opportunities to expand its resource potential both organically and through acquisitions, the Group has the ability to leverage its already substantial resource base, and thus the capacity to substantially increase its oil production. Further, the modernisation programmes at its refineries provide an opportunity for the Group to increase throughput as well as the quality and quantity of its refined product production. Finally, the Group's investment in its retail network holds the promise of enabling it to expand the sales of its petroleum products, with particular emphasis placed on growing premium segment sales, such as petrol, jet fuel, bunkering and motor oil sales.
- **Strong relationship with the Russian Federation and Gazprom.** Since 2005, the Company's controlling shareholder has been Gazprom, which in turn is controlled by the Russian Federation. State-owned oil and gas

companies enjoy certain benefits in Russia, including strong support in funding from state-owned banks and exclusive access to exploration and production licences for offshore blocks. The Group also has acquired oil assets from Gazprom and plans to continue to do so in the future. Also, the Group believes that its relationship with Gazprom, which owns and operates the Russian natural gas transmission system, and which provides the Group with operational support on many of its gas-related activities, will help improve and optimise its gas business.

- **Extensive experience of successful participation in joint ventures and integration of acquisitions in Russia and abroad.** The Group aims to increase its resource potential and refining capacity through the development of operations in various countries around the world. The Group has a proven record of successful organic growth and participation in joint ventures as well as acquisitions of Russian and foreign oil, gas, refining and marketing assets. Since 2009, the Group has obtained several significant assets, including stakes in NIS and the Moscow Refinery. In addition, the Group's existing joint ventures include partnerships with TNK-BP, Rosneft, Royal Dutch Shell, Petronas and Novatek.

Strategy

The Group seeks to continue to be a major international player in the oil and gas business with a regionally diversified pool of assets operated on a vertically integrated basis, while exercising a high level of social and environmental responsibility. In 2009, the Company's Board of Directors approved development strategies for exploration and production, oil refining and petroleum products sales to 2020 under which the Group has set the following goals. There can be no assurance, however, that the Group will be able to achieve these targets. The targets are necessarily based upon a number of assumptions and estimates that, while considered reasonable by the Group, are inherently subject to significant market, business, actuarial, operational, political, economic, tax and competitive uncertainties and contingencies, many of which are beyond the Group's control, and upon assumptions with respect to future business decisions that are subject to change. These targets also assume the success of the Group's business strategy. The success of this strategy is subject to significant uncertainties and contingencies beyond the Group's control, and no assurance can be given that the strategy will be effective or that the anticipated benefits from the strategy will be realized in the periods for which targets have been prepared, or at all. Accordingly, the Group cannot provide any assurance that these targets will be realized. The targets may vary materially from the Group's actual results. Prospective investors in the Notes are cautioned not to place undue reliance on this information. See *"Forward-Looking Statements"* and *"Risk Factors"*.

- **Increase crude oil production.** The Group aims to increase crude oil production to 100 mmt tonnes per year. In addition, the Group seeks to achieve a reserves-to-production ratio of no less than 20 years with projects in initial development providing for at least 50% of total production and foreign production projects providing 10 mmt tonnes per year. To achieve these objectives, the Group will consider acquiring new assets, both in Russia and abroad, accelerate field development when appropriate, improve exploration technology used at its sites and continue to improve well efficiency. The Group will also leverage the crude production at its international operations, which has the additional benefit of mitigating the risks of geographic concentration.
- **Increase refining throughput.** The Group will seek to increase its refining capacity to 65 to 70 mmt tonnes per year (with approximately 40 mmt tonnes in Russia and 25 to 30 mmt tonnes abroad), with a target production crude allocation of 40% refined in Russia, 25% to 30% refined abroad and 20% to 25% sold directly as crude oil (with the remainder represented by gas production). The Group's refining capacity may be increased by a variety of methods, such as processing or tolling agreements or asset acquisitions. In addition, the Group is undertaking several on-going modernisation programmes to improve the quality of its refining and ensure higher production rates of Euro 4 and 5 fuels; approximately USD 10 billion is expected to be spent on refining capability upgrades by 2020. Retrofitting of catalytic cracking units is planned at all of the Group's refineries as well. The Group also aims to improve oil-refining depth at its facilities to between 90% and 93% by 2020, increase the production of light distillates, and expand its hydrocracking capabilities, available as the date hereof only at the YANOS Refinery. The Group expects to spend over USD 2 billion to bring hydrocracking capabilities to the Omsk and Moscow Refineries, producing capacities of 2.0 and 1.5 mmt tonnes, respectively, at the facilities.
- **Expand the sale of petroleum products.** The Group has set a target to expand its sales of petroleum products to 40 mmt tonnes in Russia and abroad, in part by entering new markets and increasing its total presence to 36 regions in Russia and the CIS countries. High-quality products and a developed distribution network will continue to be the driving forces behind the Group's leading position in the domestic petroleum products market. The Group is expanding its distribution network and increasing its share in the domestic and international petroleum products markets through ongoing investment in the modernisation of its refining facilities and the extension of its network of petrol stations. The Group also seeks to increase its motor fuel sales to 11.5 mmt tonnes per year by promoting its high-quality "G-Family" product line. In addition, the Group plans to maximise its use of a newly acquired facility in Fryazino, Moscow region, which produces 40,000 tonnes of packaged motor, transmission and industrial oils annually.

- **Develop retail network and sales.** By leveraging its strong retail brand, the Group will work to increase the average sales at its petrol stations by more than 50% and double the revenue generated by the sale of related goods and services at these stations. In addition to continuing to promote its corporate and loyalty programmes at its petrol stations, the Group also targets an expansion in Russia and the CIS to 2,100 petrol stations, including entry into Kazakhstan and the southern regions of Russia. The Group also intends to further develop its petrol station presence in Ukraine, in which the Group opened its first stations in June 2012. The Group will seek to acquire existing retail chains in other markets as well. In total, the Group expects to spend approximately RUB 8.6 billion on the rebranding, renovation and construction of petrol stations in 2012, compared to RUB 4.8 billion in 2011, with a large portion of these expenditures to be used to integrate newly acquired petrol stations into the Group's network.
- **Grow business in premium segments.** The Group is committed to expanding its premium retail segments, including the production and sale of jet fuel, lubricants, bitumen, petrochemicals, and bunkering, with the goal of raising total premium segment sales to more than 16.5 mmt tonnes per year. Already the leader in jet fuel retail sales and the second largest provider of jet fuel supplies in the Russian market in 2011, Gazprom Neft-Aero has a long-term strategy focusing on the development and expansion of its corporate network of modern fuel service complexes. By 2020, Gazprom Neft-Aero seeks to own a network of over 50 fuel services complexes at domestic and international airports and conduct operations at 70 additional airports. Gazprom Neft Marine Bunker's development strategy is aimed at extending its activities to Europe, the Middle East and Asia, and the subsidiary plans to increase its fleet from seven to 15 ships by 2020 to expand its operations. The Group aims to further increase bitumen sales both in Russia and abroad and has begun production at the Omsk Refinery of premium bitumen products that meet European standards. This new production is expected to include polymer-bitumen binders and bitumen emulsions with a capacity of up to 10,000 and 3,000 tonnes per year, respectively. For its petrochemical operations, the Group aims to create a vertically integrated petrochemical business by 2020 that will focus on the production of aromatics and other high-margin petrochemical products.

Change in Basis of Accounting of Financial Statements

Prior to 1 January 2012, the Group prepared its financial statements in accordance with U.S. GAAP and its functional and presentational currency was the U.S. dollar. From 1 January 2012, the Group prepares its financial statements in accordance with IFRS, and its functional and presentational currency is the Rouble.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Base Prospectus prior to making any decision to invest in any Notes. Each of the risks highlighted below could have a material adverse effect on the Group's businesses, operations, financial condition or prospects, which in turn could have a material adverse effect on its ability to service the Company's payment obligations under the Loan and thus on debt service on the Notes. In addition, the trading price of the Notes could decline due to any of these risks, and investors could lose some or all of their investment.

Potential investors should note that the risks described below are not the only risks the Group faces. The Group has described only the risks it considers to be material. However, there may be additional risks that the Group currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

Risks Relating to the Group and the Oil and Gas Industry

Global economic developments and Russian market conditions may adversely affect the Group's business, financial condition and results of operations.

The Group's results of operations are significantly influenced by general economic conditions, in particular in the countries in which it operates and those in which it makes sales. The economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. Volatility and market disruption have continued throughout 2010, 2011 and into 2012. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Japan, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. Though repeated summits of, and attempts by, European leaders to find a lasting solution to market concerns about such countries' ability to repay their debt have produced bail-out packages and restructuring agreements for certain sovereign debtors such as Greece, there remain continuing doubts concerning the stability of the European monetary system and economy. There can be no assurance that a further economic downturn or financial crisis will not occur. The countries in which the Group operates, particularly Russia, and most of the countries in which the Group's products are sold, have experienced declining gross domestic product ("GDP"), reduced industrial production, increasing rates of unemployment and decreasing asset values. For example, in January 2012, Fitch Ratings Ltd. lowered its credit outlook for the Russian Federation from positive to stable based on perceived increased political uncertainty and the global economic outlook.

A deterioration in the financial condition of the Group's customers could have an adverse impact on their credit ratings and/or access to capital which, in turn, could lower demand for the Group's products and services. Furthermore, a worsening in the financial condition of the Group's joint venture partners or counterparties (e.g., failure to meet applicable capital commitments or insolvency) could adversely affect the Group's operations. In addition, a deterioration in the global financial markets could lead to the downgrade of lenders' credit ratings, both in Russia and abroad, making access to credit more difficult and costly.

Adverse economic developments of the kind described above have negatively affected and may continue to negatively affect the Group's business in a number of ways and could have a material adverse effect on the Group's business, financial condition and result of operations, as well as the value of the Notes.

A substantial or extended decline in crude oil, refined products or petrochemical products prices would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's business, financial condition and results of operations depend substantially upon prevailing prices of crude oil, refined products and petrochemical products. Historically, prices for oil, refined products and petrochemical products have fluctuated widely in response to even relatively minor changes in many factors. The Group does not and will not have control over certain factors affecting prices for crude oil, refined products and petrochemical products. These factors include:

- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products or petrochemical products;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes on crude oil and refined products, which can substantially affect profitability;
- the ability and willingness of the Organisation of Petroleum Exporting Countries ("OPEC") and other crude oil-producing nations to influence global production levels and prices;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism, including in the United States, the Middle East, the CIS or other resource-producing regions;

- prices and availability of alternative and competing fuels;
- global and regional social, economic and political conditions, particularly in the Middle East and other oil-producing regions;
- prices and availability of new technology; and
- weather and climate conditions, natural disasters and industrial accidents.

In addition, certain other factors, such as the cost of exploring for, developing, producing, processing and marketing crude oil-refined products and petrochemical products, as well as the loss, decline and failure to develop refineries, transport, storage facilities and other infrastructure, though partially controlled by the Group, can be affected by uncontrollable circumstances and developments.

Future crude oil, refined products and petrochemical price movements cannot be predicted with certainty. For example, crude oil pricing has been particularly volatile over the past several years. According to data from the U.S. Department of Energy, the spot price per barrel for Brent crude, an international benchmark oil blend, in 2008 ranged from a low of USD 33.73 on 26 December to a high of USD 143.95 on 3 July, averaging USD 96.94 per barrel for the year; in 2009 ranged from a low of USD 39.41 on 18 February to a high of USD 78.68 on 1 December, averaging USD 61.74 per barrel for the year; in 2010 ranged from a low of USD 67.18 on 25 May to a high of USD 93.63 on December 23, averaging USD 79.61 per barrel for the year; and in 2011 ranged from a low of USD 93.52 on 4 January to a high of USD 126.64 on 2 May, averaging USD 111.26 per barrel for the year. In the first half of 2012, the price ranged from a low of USD 108.38 on 24 January to a high of USD 128.14 on 13 March. On 24 July 2012, the price was USD 103.57 per barrel.

International prices for refined products and petrochemical products, which typically follow changes in international oil prices, have also fluctuated considerably in recent years leading to changes in refining margins that can significantly affect the Group's profitability. The Group's revenues, operating results and future rate of growth are highly dependent on the prices received for its crude oil, refined products and petrochemical products. In addition, lower prices may reduce the amount of crude oil that the Group can produce economically (thereby decreasing the size of its reserves) or reduce the economic viability of projects planned or in development, leading to a reduction in capital expenditures or the inability to meet certain strategic goals. A decline or volatility in the prices of crude oil, refined products or petrochemical products could have a materially adverse effect on the Group's business, financial condition and results of operations, as well as the value of the Notes.

Recent amendments to Russian customs law have shifted the tax dynamics and affected the profitability of the Group's upstream and downstream operations and further Russian tax amendments may negatively affect the Group's profitability.

On 1 October 2011, the first stage of a new tax regime for the Russian oil industry took effect (the "60-66 Amendments"). The 60-66 Amendments reduce the marginal export duty rate on crude oil from 65% to 60% and unify export duties for light and dark oil products at 66% of the export duty on crude oil. More specifically, the 60-66 Amendments increased the export duty on fuel oil from 46.7% to 66% while decreasing the export duty on diesel and jet oil from 67% to 66%, changes which generally have had a net positive effect on the Group's profitability. Further tax amendments aimed at improving the profitability of upstream operations while incentivising Russian oil companies to invest in upgrading their refineries are expected to be passed in the future, and there can be no assurance that such further amendments will positively affect the Group. The government of the Russian Federation (the "Russian Government") receives substantial revenues from export duties on crude oil and refined products, and the Group has no control over changes to Russian customs law. The Russian Government may institute changes in export duties in an attempt to promote macroeconomic goals, while at the same time altering profitability dynamics of the Group's operations negatively, including in ways that could have a material adverse effect on the Group's financial results. The Group has prioritised the modernisation of its refineries, and it has undertaken large-scale operations to raise the complexity and refining depth at its refineries in order to improve production of light oil products which the Russian tax regime currently favours. However, despite the current product mix of the Group's refineries and plans for modernisation, future legislative initiatives may, if approved, adversely affect the Group's business, financial condition or prospects and results of operations, as well as the value of the Notes. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Operating Results – Taxation*".

The Group may not be able to achieve its strategic targets and it may not be able to finance its planned capital expenditures or complete them on time or on budget.

In 2009, the Company's Board of Directors approved development strategies for exploration and production, oil refining, and petroleum products sales under which the Group seeks to achieve several ambitious operational targets by 2020. See "*Business – Strategy*". There can be no assurance, however, that the Group will be able to meet any of these strategic goals on time or at all.

In addition, the Group's business requires significant capital expenditures, including in the areas of exploration and development, production, transportation and refining, and to meet the Group's obligations under environmental laws

and regulations. The Group also is currently undertaking a series of large-scale modernisation projects at its refineries, aimed at improving efficiency and production capabilities at these facilities. See “*Business – Operations – Downstream Business – Refining*”. The Group’s growth strategy is therefore dependent to a certain extent on the availability of financing. If the Group is unable to obtain adequate financing at a reasonable cost and on acceptable terms, it may delay or abandon its business or technical plans, fall behind in its maintenance requirements or be unable to take advantage of business opportunities.

The Group relies on cash flows from its operating activities and external sources, including bank borrowings and offerings of debt securities (which, prior to the date of this Base Prospectus, were limited to Rouble-denominated bond offerings in Russia) to finance its capital expenditures. The global banking and capital markets have experienced a significant disruption since August 2008, which has been characterised by severe reductions in liquidity, greater volatility and the general widening of credit spreads. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in emerging markets, and there has been a general increase in the cost of borrowing for private-sector borrowers. If current conditions in the capital markets deteriorate and the Group’s cash flows decrease or the Group is unable to raise financing at a reasonable cost and on acceptable terms, the Group will have to reduce its planned capital expenditures. Any such reduction could materially adversely affect the Group’s ability to expand its business, achieve its strategic targets and, if the reductions are severe enough, could materially adversely affect its ability to maintain its operations at current levels. If any of these risks were to materialise, it could have a material adverse effect on the Group’s business, financial condition and results of operations.

The Group’s subsoil licences may be suspended or revoked prior to their expiration and the Group may be unable to obtain or maintain various permits or authorisations.

In accordance with Russian law, many of the Group’s business operations are subject to licensing or obtaining of various permits and authorisations. The Group has been able to obtain and extend licences, permits and authorisations necessary to carry out its operations, but no assurance can be given that it will be able to do so in the future. The licensing regime in Russia for the exploration and production of oil and gas is governed primarily by the Law “*On Subsoil*” dated 21 February 1992, as amended (the “Subsoil Law”), and related regulations. Under current Russian legislation, the Federal Agency for Subsoil Use (“Rosnedra”) and the Federal Service for Supervision in the Sphere of Nature Use (“Rosprirrodnadzor”), both operating under the jurisdiction of the Ministry of Natural Resources and Ecology of the Russian Federation (“MNR”), are responsible, respectively, for issuing subsoil licences and monitoring compliance with subsoil licence terms. The Subsoil Law provides that fines may be imposed and/or licences may be suspended, amended, or terminated if the relevant licensee fails to comply with licence requirements (such as development and operational obligations), make timely payments of levies and taxes for the subsoil use, provide geological information to controlling bodies or meet other requirements. The imposition of any such penalties may have an adverse effect on the Group’s operations and the value of its assets.

The Group currently conducts its operations under multiple exploration and production licences. See “*Business – Operations – Exploration, Development and Production – Licences*”. The Group has from time to time requested and received appropriate amendments to certain licences, and has not had any material licences revoked or suspended. There can be no assurances that the decisions of the Russian Government regulators in the future will always be favourable for the Group. The production licences for 14 of the Group’s oil production fields in Russia expire in 2013 and 2014; most of the Group’s other licences extend significantly longer. In accordance with current legislation and government approval processes, the Group plans to extend its licences that have a fixed term to the end of the economic life of the field to which such licence relates. Although historically the Group has been able to obtain such extensions, the Group may fail to do so in the future.

To conduct its oil business, the Group also is required to obtain other licences, permits and approvals, such as land allotments, approvals of design and feasibility studies, pilot projects and development plans, approvals for construction of any on-site facilities, and licences for use of hazardous objects such as pipelines and refining equipment. In Russia, procedures for obtaining such licences, permits and approvals are often bureaucratic, which may make it difficult for the Group to obtain or renew all required permits in the future in a timely manner, without significant expense, or at all.

In general, regulatory authorities can exercise considerable discretion in issuing and renewing licences and in monitoring licensees’ compliance with licence terms. Compliance with the requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations. Operational figures for the Group’s expected future production and reserves in this Base Prospectus are based on the assumption that the Group’s licences will be extended, as necessary. However, there can be no assurance that governmental authorities will not, in the future, impose sanctions on the Group with respect to its licences, including possible suspension or revocation of such licences, which could have a material adverse effect on the Group’s operations, financial results and value of the Notes.

The Group's development, exploration and production projects involve many uncertainties and operating risks that can prevent the Group from finding or developing additional reserves or from meeting its production targets.

The Group's proved reserves will decline as reserves are extracted unless such reserves are replaced. In addition, the volume of production from oil and natural gas properties generally declines as reserves are depleted. Western Siberia, one of the Group's main oil producing regions, is maturing. The Group's long-term production is therefore dependent upon its success in finding or acquiring, as well as developing, additional reserves.

The Group is exploring and producing in various geographical areas, including certain remote areas where environmental conditions are challenging, access is limited and costs can be high. See "*Business – Operations – Exploration, Development and Production*". The cost of drilling, completing and operating wells can be uncertain. As a result, the Group may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including difficult drilling conditions, dry holes, abnormal pressure or irregularities in geological formations, equipment failures or accidents, power shortages and other mechanical difficulties, adverse climate conditions (which may limit access to sites to certain times of the year), compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. Exploratory projects may require the use of new and advanced technologies, which can be expensive and difficult to implement, and may not function as expected. In addition, the Group's overall drilling activity or drilling activity within a particular project area may fail to find commercially productive reservoirs.

If the Group is unsuccessful in its exploration and development activities, it may not meet its production targets and its total proved reserves and production will decline over time, which could adversely affect the Group's business, financial condition, results of operations and prospects.

Oil, natural gas and gas condensate reserves data in the Base Prospectus are only estimates, and the Group's actual production, revenues and expenditures with respect to its reserves may differ materially from those estimates.

DeGolyer and MacNaughton ("D&M") carried out independent audits of the reserve estimates of the Group's consolidated subsidiaries and (with the exception of Messoyakhaneftegaz, for which a reserves estimate under SEC standards was not made in 2011) of each Equity Affiliate (as defined below) as at 31 December 2011 (collectively, the "2011 Reserves Reports"), in each case according to Petroleum Resource Management System ("PRMS") standards and the standards of the U.S. Securities and Exchange Commission (the "SEC"). A summary of the 2011 Reserves Reports is included as Annex A to this Base Prospectus. See "*Annex A: Summary Reserves Report from DeGolyer and MacNaughton*". There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond the control of the Group. The oil, natural gas and gas condensate reserves data included in this Base Prospectus represent only estimates and should not be construed as exact quantities. Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner, and estimates can vary significantly. Estimates of the value and quantity of economically recoverable oil and gas reserves, rates of production, future net revenues and the timing of development expenditures are based on existing economic and operating conditions using prices and costs as at the date the estimate is made. In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other comparable producing areas;
- interpretation of geological and geophysical data; and
- the assumed effects of regulations by governmental agencies.

Because all reserves estimates are subjective, each of the following items may prove to differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production and operating costs incurred;
- the amount and timing of future development expenditures; and
- oil and gas prices.

Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in the Group's reserves data. Reserve estimates may be materially different than the quantities of crude oil that are ultimately recovered, and, if recovered, the revenue therefrom could be materially less than, and the costs related thereto could be higher than estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they were based, the quality of the information available and the ability to verify such information against industry standards. The reserves estimates assume, among other things, that the future development of the Group's oil fields and the future marketability of the Group's oil will be similar to past development and marketability. These economic assumptions may prove to be incorrect. In particular, the Russian economy is more unstable and subject to more significant and sudden changes than the economies of many other

countries, and thus economic assumptions in Russia are subject to a significant degree of uncertainty. Potential investors should not place undue reliance on the forward-looking statements in this Base Prospectus regarding the Group's estimated reserves or on comparisons of similar estimates concerning companies established in places with more mature economic systems.

The discounted and undiscounted pre-tax future net revenues included in this Base Prospectus should not be considered as the market value of the reserves attributable to the Group's properties. The Group's actual pre-tax future net revenues will be affected by factors such as:

- the amount, timing and cost of actual production;
- supply, demand and price for oil and gas; and
- changes in governmental regulations.

Additionally, in estimating its proved oil and gas reserves, the Group has assumed that the production licences for its Russian fields will be renewed and the fields will be produced until the economic limit of production is reached. If any production licences for its Russian fields are not renewed, the Group-estimated oil and gas reserves may materially decrease.

PRMS standards differ in certain material respects from SEC standards. See "*Classification of Reserves*". The amount of estimated proved crude oil reserves reported under SEC standards could potentially be lower than those reported under PRMS standards. An eventual decrease in the amount of crude oil reserves reported by the Group could, if material, affect certain financial data reported by the Group in its consolidated financial statements in future periods.

The Russian Government has exercised, and can be expected to continue to exercise, a strong influence over the Group's operations.

The Group's parent company is Gazprom, and in turn the Russian Federation, which currently controls more than 50% of Gazprom's shares. See "*Shareholding Structure*". Some of the Company's directors simultaneously serve as directors, nominated by the Russian Federation, of Gazprom's Board of Directors, including Alexei Miller, the Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee. Through its indirect control and representation on the Company's Board of Directors, the Russian Federation may have a strong influence over the Group's operations. The Russian Government has previously required Russian companies, including the Group, to take certain actions, such as the undertaking of projects and the supply of goods and services to customers in the interests of the Russian Federation and/or regional governments in Russia. If the Russian Government were to require the Group to undertake activities not in the best interests of the Group, this could have a material adverse effect on the Group's business, financial condition and results of operations, as well as the value of the Notes.

Russian Government policies to ensure sufficient supplies of oil and refined products in the domestic market could impact the Group's ability to sell its products at the best available prices and disrupt the Group's relations with its export customers.

The Group sells a portion of its crude oil and a majority of its refined products in the Russian domestic market. Historically, the Russian Government has used and continues to use various administrative and fiscal measures to ensure sufficient supplies of oil and refined products are made available to the domestic market. There is no significant active commodity exchange market for crude oil in Russia and, as a result, prices are contract-specific. Although netbacks generated from domestic sales are generally consistent with the netbacks generated from export sales, domestic crude oil prices trade significantly below international market prices as export duties and additional transportation costs raise the prices of exported crude oil. For a more detailed discussion of export and domestic crude oil pricing, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Operating Results – Price of Crude Oil and Petroleum Products*".

In addition, the Russian Government has the authority to direct the Group to deliver significant volumes of crude oil or refined products to the Russian domestic market, which may take precedence over non-Russian sales. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban on export sales, could be used if the domestic market experiences a shortage of crude oil, liquid hydrocarbons or refined products. The Group may be directed to make deliveries to Russian Government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in Russia in general. Depending on the level of such required supplies, any Russian Government-directed deliveries may force the Group to curtail its export of crude oil or refined products, may disrupt the Group's relations with its customers and may lead to delays in payments for crude oil and refined products. In addition, Russian Government-directed deliveries may create an oversupply of crude oil or refined products in the domestic market, with a resulting decline in the sale price and in the netbacks realised by the Group. Any failure by the Group to make Russian Government-directed deliveries may also affect the Group's ability to export its crude oil. For example, the Russian Government has previously threatened to limit the access of Russian oil companies to export pipelines and sea terminals for failing to provide domestic refineries with the required supply of oil. As a result of these factors, an increase in the levels of Russian Government-directed deliveries, a revocation of export rights or any further increase in export duties on crude oil or refined

products, as well as any resulting increasing disparity between Russian and international market prices for crude oil and refined products, could materially adversely affect the Group's business.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil or refined products or gas. However, the legislation may change, and quantitative restrictions on existing or extended legal grounds may be reintroduced.

Transneft and other third-party operators control the transport of crude oil and crude oil products in Russia and the Group must rely on these entities to maintain transport infrastructure and is subject to price increases for their services.

Transneft

The majority of the Group's crude oil is transported through the Russian national crude oil pipeline network, which is operated as a monopoly by the state-owned company OAO AK Transneft ("Transneft"). While alternative means of transportation that are not dependent on the Transneft system exist in Russia, such means are generally more expensive than the Transneft pipeline system. Transneft has generally avoided serious disruptions in the transport of crude oil and, to date, the Group has not suffered significant losses arising from the failure of the pipeline system. Nonetheless, the Transneft-operated system may experience outages or capacity constraints during required maintenance periods resulting in the delay or suspension of shipments. At the same time, while Transneft has been making significant investments to enable the system to expand capacity to accommodate the growth in oil production (specifically, in Eastern Siberia), those efforts have contributed to significant increases in Transneft's tariffs in recent years. Increases in Transneft's tariffs, above those projected and budgeted by the Group, could have a material adverse effect on the Group's business and financial results.

The Russian Government allocates access to Transneft's pipeline network and is required to provide equitable access to the pipeline to all entities meeting certain technical requirements. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter. Generally, a Russian oil company is given an allocation for export that equals approximately 40% of its crude oil so produced and delivered in the preceding quarter.

The Group, along with all other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil through the Transneft network. The Federal Tariff Service (the "FTS") is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. Failure to pay these fees could result in the termination or temporary suspension of the Group's access to the Transneft network. Although Transneft has not constrained the Group's production deliveries in the last five years, significant increases in Transneft's fees or the termination or suspension of the Group's access to the Transneft network would materially adversely affect the Group's business, as would any disruption in (or in the Group's access to) the Transneft system.

Historically, the Transneft system did not have sufficient capacity to meet the total demand for crude oil pipeline exports from Russian oil producers. However, Transneft has made substantial investments in the development of additional export routes and trans-shipment terminals (e.g., at the Primorsk port) in order to increase capacity. In the last two years, there has been spare capacity in Transneft's pipeline network, despite the fact that Russian oil companies transport approximately 90% of their crude oil through the Transneft system. However, failure by Transneft to maintain or sufficiently increase the capacity of the Transneft system, breakdowns and leakages could require the Group to utilise more expensive alternative export routes or to sell excess production on the local market. This could result in a decline in the Group's profit margins.

The crude oil that the Group transports through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. The Group's sales of crude oil that it transports through the Transneft system are of the crude oil blend that results from the combination of different types and qualities of crude oil in the system, which is usually referred to as "Urals blend" crude oil. Therefore, the price the Group obtains for such blended crude oil may be lower than had the Group been able to transport its produced, un-blended crude oil independently of Transneft. Any decrease in the average quality of the blended crude oil transported through Transneft could reduce the marketability of the blended crude oil the Group sells and thereby materially affect its business, financial conditions and results of operations.

A separate Russian national pipeline network for refined products is operated, as a monopoly, by OAO AK Transnefteprodukt ("Transnefteprodukt"), a subsidiary of Transneft, which transports roughly 10% of refined products produced in Russia. Its transport fees are set by the FTS. Any escalation in the fees for using the Transnefteprodukt pipeline, as well as a disruption in, or the imposition of limitation on the use of the pipeline system, could have a material adverse impact on the Group's business.

Rail

The Group transports a portion of its crude oil (approximately 350 mmt tonnes planned in 2012) and a majority of its refined products through Russia's rail network. Due to the increased levels of oil production in Russia and the potential for limitations of export capacity through the Transneft system, significant investment in export infrastructure and, in particular, railways has taken place in recent years. However, such alternative means are generally more expensive than transport through the Transneft pipeline system. The Russian national rail system is operated, as a monopoly, by the state-owned company OAO Russian Railways ("Russian Railways"); its transport fees, which are subject to state oversight, have been increasing (by approximately 6% in 2012, compared to 2011 rates).

Use of the Russian railway system exposes the Group to certain risks, such as the disruption in transportation schedules due to the declining physical condition of Russian railway facilities, theft during transport and spills, which may result from poorly maintained tank cars or train collisions. Additional costs and logistical constraints are imposed by the incompatibility of the Russian broad-gauge railway system with the railway systems of neighbouring countries.

Since the profit margin of exporting by rail is lower than exporting by pipeline in a declining oil price environment, increased reliance on rail exports could potentially materially adversely affect the Group's results of operations should the Group be unable to utilise other transportation methods.

Increased reliance on these alternative means of transportation could lead to a general increase in transportation costs to the point where export economics are adversely impacted, or to an inability of the Group and other Russian oil companies to meet export plans, causing a temporary diversion of crude and oil products onto the domestic market and a reduction in domestic prices. Such an increase could materially adversely affect the Group's business, financial condition and result of operations

Export pipelines

Pipeline capacity outside of Russia, particularly in CIS countries, has occasionally been subject to disruption due to political disputes. In January 2007, a dispute between Belarus and Russia regarding the use of the main oil pipeline through Belarus resulted in Belarus' decision to impose transit fees on Russian oil in response to Russian duties levied on oil exports to Belarus. For three days in January 2007, Russia suspended shipments of crude oil through the pipeline through Belarus to Germany, Poland, Hungary, the Czech Republic and Slovakia. Such pipelines could be subject to future disruptions which could affect the Group's deliveries of crude outside of Russia, possibly requiring the Group to ship oil through less profitable routes.

Ports

The Group utilises ports for the transport of a portion of its production. Port transport in Russia is associated with certain risks, including the possibility of bottlenecks due to increasing volumes as well as delays. In addition, severe winters can result in ice conditions that disrupt vessel arrival and departure schedules as well as the loading and unloading of cargo. Further, it is also possible that the ports may be unable to accommodate new generations of larger, more efficient deep-draft vessels without dredging.

The Group faces foreign exchange and inflation risks that could materially adversely affect its business.

Over the past ten years, the U.S. dollar/Rouble exchange rate has been volatile. Although the Rouble steadily appreciated during the first half of 2011 and the first months of 2012, it experienced depreciation in the second half of 2011 and further into 2012. In the past three years, the Rouble has had periods of material depreciation. For example, the Rouble depreciated against the U.S. dollar by almost 40% and against the Euro by nearly 30% from October 2008 to February 2009, due in part to significant declines in the prices of oil and commodities, which are the principal generators of Russia's export earnings. The Russian Government has used significant amounts of its international currency reserves to support the Rouble, but has expressed that it may be unwilling or unable to continue such support in the future. While a majority of the Group's revenues are either denominated in U.S. dollars or are correlated to U.S. dollar oil prices, most of the Group's costs (other than debt services costs and costs that are linked to U.S. dollar oil prices, such as mineral extraction taxes ("MET"), export duties, pipeline tariffs on exports and crude oil and refined product purchases) are denominated in Roubles. The Group's results of operations are, therefore, significantly affected by the relative movements of Rouble inflation and exchange rates. In particular, the Group's operating margin is generally adversely affected by the appreciation of the Rouble against the U.S. dollar as this generally causes the Group's costs to increase in real terms relative to the Group's revenues. Conversely, the Group's operating margin is generally positively affected by a decrease in the value of the Rouble against the U.S. dollar as this generally causes the Group's costs to decrease in real terms relative to its revenues. The Group selectively hedges certain foreign exchange rate exposures. See "Note 19 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

In addition, the relatively high rate of inflation in Russia reduces the value of the Group's Rouble-denominated cash assets, including Rouble deposits, domestic debt instruments and accounts receivable. According to the Federal State Statistics Service, inflation in Russia in 2011, 2010 and 2009 was 6.1%, 8.8% and 8.8%, respectively. According to the CBR, the nominal depreciation of the Rouble against the U.S. dollar in 2011, 2010 and 2009 was 6.1%, 0.8% and 2.9%, respectively, while in real terms the Rouble rose 0.4%, 7.9% and 5.6% against the U.S. dollar in those same

periods, respectively. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Key Factors Affecting Operating Results – Rouble/U.S. Dollar Exchange Rate and Inflation*”.

The Rouble also remains largely non-convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting or prohibiting such conversion. From 1 August 2008 to 1 April 2012, Russia’s foreign currency and gold reserves decreased from USD 596.6 billion to USD 513.5 billion. Although Russia’s current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term could materially adversely affect the Group’s business, financial condition, results of operation and prospects.

During the financial crisis in late 2008 and early 2009, the Russian Government used significant amounts of its international currency reserves to support the Rouble, but expressed that it may be unwilling to continue such support in the future. Even though the decline in real terms of the Rouble against the U.S. dollar or Euro normally has a positive effect on the Group’s profit margin as it reduces the Group’s costs in real terms in relation to its sales revenue, it also increases the Rouble-equivalent of the Group’s debt denominated in foreign currencies and the Rouble-equivalent of the cost of such debt which could lead to difficulty in refinancing such debt.

The Group faces intense competition from other oil and gas companies in all areas of its operations, including the acquisition of licences, exploratory prospects and producing properties, and it may encounter competition from suppliers of alternative forms of energy sources.

The oil industry is intensely competitive. The Group competes with other major Russian and international oil companies, some of which have greater resources and have been operating in a competitive economic environment for longer than the Group has. The Group’s ability to market its products and crude oil and gas depends on its ability to negotiate contracts with its customers. The key activities in which the Group faces competition are:

- the acquisition of subsoil licences at auctions or tenders run by governmental authorities and obtaining desirable licences for future exploration and production;
- the acquisition of other companies that may already own licences or existing hydrocarbon-producing assets;
- the implementation of foreign exploration and development projects;
- the engagement of leading third-party service providers (including, among others, oil field services providers) whose capacity to provide key services may be limited;
- the purchase of capital equipment that may be scarce;
- the employment of the best-qualified and most experienced staff;
- access to critical transportation infrastructure;
- the acquisition of existing retail outlets or of sites for new retail outlets;
- the acquisition of or access to refining capacity; and
- marketing of crude oil, oil products and gas.

In addition, the Group may encounter competition from suppliers of alternative forms of energy sources, including environmentally friendly renewable energy sources such as solar power or wind-generated power, as a result of continuing high hydrocarbon prices or potential depletion of hydrocarbon reserves in the future. Increased competition, or the inability of the Group to remain competitive with its peers, for any of the reasons outlined above, could have a materially adverse effect on the Group’s business, financial condition and results of operations, as well as the value of the Notes.

Disagreements may develop with the Group’s joint venture partners or other operational partners.

The Group participates in several joint ventures and holds the following interests: a 49.9% holding in Slavneft (in which TNK-BP also holds 49.9%), a 50% interest in Messoyakhaneftegaz (in which TNK-BP also holds 50%), a 50% holding in Tomskneft (in which Rosneft also holds 50%), a 50% share in Salym Petroleum Development (“SPD”) (in which Royal Dutch Shell also holds 50%) and a 25.5% holding in Sever Energia (in which Novatek holds 25.5% and Eni S.p.A. and Enel S.p.A. together hold 49%) (collectively, the “Equity Affiliates”). Many of the Group’s partners in the Equity Affiliates are competitors of the Group. In addition, the Group relies on other third-party field partners, particularly in its international projects, for the operational success of exploratory and other upstream activities.

A protracted disagreement between the Group and any of its partners could seriously disrupt the normal operations and management of the Group’s projects, and materially adversely affect the Group’s revenues from them. Furthermore, even though the Group does not currently expect any material changes to the ownership of the Equity Affiliates, there is a possibility that one shareholder may purchase all or part of the other shareholder’s stake, or that the Equity

Affiliates may otherwise undergo other significant changes. As such, there can be no assurance that there will be no changes in the ownership or management structure of the Equity Affiliates, or any other joint venture that the Group may enter into in the future, and the effect of any such change or failure to conduct business as planned could have a material adverse effect on the Group's investment in them. See *"Business – Operations – Equity Affiliates"*.

The introduction of new specifications for fuel quality standards may force the Group to incur further capital expenditures to upgrade its refineries.

Fuel production from the Group's refineries currently meets Russian domestic quality standards, and in some cases European standards. The Group's investment plans for its refineries anticipate a progressive strengthening of Russian domestic fuel standards. The cost of making technical upgrades at the refineries to meet new Russian domestic standards have already been included in the Group's investment plans and the Group intends to work closely with the relevant federal and local authorities to understand the timing for any such changes in standards. However, there is a risk that the Russian Government may accelerate the introduction of standards for cleaner fuels or that such changes, when introduced, may vary from the Group's current expectations with respect thereto, which could force the Group to incur greater than expected capital expenditures to upgrade its operations and could limit the Group's fuel supply for the domestic market until the necessary technical upgrades at affected refineries are completed. See *"Business — Operations — Downstream Business — Refining"*.

Substantial leverage and debt-services obligations may adversely affect the Group's cash flow.

The Group may have substantial amounts of outstanding indebtedness, primarily under the Loan(s) funding debt service on the Notes, previously issued Rouble bonds and its obligations under existing credit arrangements. The Group may also obtain working capital lines of credit, additional long-term debt, vendor financing and capital lease arrangements. The Group may not be able to generate enough cash to pay the principal, interest and other amounts due under all of the Group's indebtedness.

The Group's substantial leverage could have significant negative consequences, including:

- increasing the Group's vulnerability to general adverse economic and industry conditions;
- limiting the Group's ability to obtain additional financing, refinance existing indebtedness or dispose of certain production subsidiaries;
- requiring the dedication of a substantial portion of the Group's cash flow from operations to service the Group's indebtedness, thereby reducing the amount of the Group's cash flow available for other purposes, including capital expenditures;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business and the industry in which it competes; and
- placing the Group at a possible competitive disadvantage relative to less leveraged competitors and competitors that have greater access to capital resources.

There can be no assurance that the Group will be able to meet any such obligations, including its obligations under the Loan(s) funding debt service on the Notes. If the Group is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, the Group would be in default under the terms of its indebtedness, which would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause defaults under the Group's various indebtedness, including the Notes. Such defaults could delay or preclude payments of interest or principal on the Group's indebtedness, including the Loan(s) funding debt service on the Notes, which could have a material adverse effect on the Group's business, financial condition and prospects.

The Group may incur material costs to comply with, or as a result of, environmental, health, and safety laws and regulations.

The Group's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work in relation thereto. Environmental laws regulate, among other things: the composition and quantity of emissions into the atmosphere, water and soil; the volume, use, storage, and transport of the by-products of production; the restoration of contaminated sites; and the dismantlement and rehabilitation of properties at the end of their useful lives. In addition, the Group conducts environmental clean-up work at some of its previously-owned and decommissioned sites and facilities.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement or new interpretations or application of existing laws, regulations and licences or the discovery of previously unknown contamination or pollution may require the Group to modify, curtail or cease certain activities or require further expenditures. These expenditures may include expenditures to install pollution-control equipment, perform site clean-ups and pay fines or make other payments for discharges or other breaches of environmental standards. The Group's operations could also expose it to civil claims by third parties for alleged liability resulting from contamination of the environment or personal injuries caused by environmental damage.

Russian environmental legislation consists of numerous federal and regional regulations which occasionally conflict with each other and are subject to differing interpretations. As a result, there can be no assurance that the Group will achieve full compliance with all applicable environmental regulations. In respect of the operation of the Moscow Refinery, the Group has been pursuing an emissions license from Rosprirodnadzor, the lack of which could result in a suspension of the Moscow Refinery's operations. In addition, Russian federal, regional and local authorities may adopt stricter environmental standards than those now in effect and will likely trend toward increasingly stringent enforcement of existing laws and regulations.

The Group also complies with and monitors developments in environmental legislation in the various countries in which it operates. In the future, costs associated with environmental compliance or liabilities resulting from environmental damage caused by the Group could be substantial and could have a material adverse effect on the Group's business, financial condition and results of operations, as well as the value of the Notes.

The Group produces associated gas, and in locations where there are poor transportation facilities or no commercial market, it endeavours to use this gas in its own operations or to build the infrastructure required to deliver this gas to sales points. However, the Group flares some of this gas. In 2012, the Group expects to utilise more than 80% of its associated gas. The Russian Government has enacted legislation restricting gas flaring and mandating the utilisation of 95% of associated gas produced during oil extraction. In light of these requirements, the Group is accelerating gas delivery projects to meet the utilisation rate mandated by their respective licences by 2014. The Group may nevertheless incur fines for failing to reach the 95% utilisation rate mandated by Russian law. Although the Group does not expect these fines to be material, there can be no guarantee that changes in Russian legislation will not significantly raise these fines to levels that would have a material adverse effect on the Group's business, financial condition and results of operations. See "*Business – Operations – Exploration, Production and Development – Gas Production – Associated Gas*".

The Group faces numerous operational risks in its crude oil exploration, production, transportation and other core activities, which may result in losses and additional expenditures and which may not be covered by insurance.

Exploration for, the production of, and the transportation of oil and natural gas is hazardous, and natural disasters, operator error or other occurrences can result in oil spills, gas leaks, loss of containment of hazardous materials, cratering, fires, equipment failure and loss of well control. Failure to manage these risks could result in injury or loss of life; damage or destruction of wells, production facilities pipelines and other property; and damage to the environment. For example, in 2010, a major oil spill resulting in substantial damage occurred offshore in the Gulf of Mexico at a site operated by British Petroleum.

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous materials could occur during transportation by pipeline, rail, road or ship. Given the high volumes of hydrocarbon transported by the Group in the normal course of business, such potential loss represents a significant liability risk due to the serious impact a release would have on the environment and surrounding population.

The Group's existing insurance only covers operational risks that could lead to a material reduction in the Group's financial position as well as certain medical and accident insurance coverage for its employees. The Group does not have full insurance coverage against all possible risks associated with its plants and facilities, business interruption or third-party liability in respect of property or environmental damage relating to its operations. Thus, in certain circumstances, the Group would have to cover financial losses from its own cash flow, which could materially adversely affect the operations and financial position of the Group, and, ultimately, the value of the Notes. In addition, there can be no guarantee that the Group will be able to secure adequate insurance coverage in the future, on economically viable terms or at all, or that the insurance obtained will cover all losses incurred in connection with a particular occurrence.

The Group is exposed to risks regarding the safety and security of its operations.

The Group's core operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, labour disputes, natural disasters, political disputes and terrorist attacks or industrial sabotage. Inability to provide safe environments for the Group's workforce and the public could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to its reputation. Security threats require continuous oversight and control. A breach of security, such as an act of terrorism or industrial sabotage against the Group's plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people. In addition, accidents, explosions or malfunctions at the Group's refineries could halt or significantly slow down refining activities. Any of these safety and security risks could have a material adverse effect on the Group's business, financial condition and results of operations, as well as the value of the Notes.

The Group may fail to integrate its acquisitions successfully.

The Group has expanded its operations significantly through acquisitions in recent years, both in Russia and internationally, and the Group expects to continue to do so in the future. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Changes in Group Structure from 1 January 2009 to 31 March*".

2012". The integration of these recently acquired businesses, and of businesses the Group may acquire in the future, requires significant time and effort of its senior management, who are also responsible for managing the Group's existing operations. Integration of new businesses can be difficult, as the Group's culture may differ from the cultures of the businesses it acquires, unpopular cost-cutting measures may be required and control over cash flows and expenditures may be difficult to establish. In addition, difficulties can arise in retaining key employees crucial to the success of newly acquired businesses. Thus, there can be no assurance that past, ongoing or future integrations of acquired businesses will be successful or achieve desired or expected results. Difficulties with the integration of acquired businesses could have a material adverse effect on the Group's business, financial condition and result of operations.

The Group's business depends on the services of key personnel and may be affected by shortages of skilled labour, in particular in engineering and technology areas.

The success of the Group depends in part upon the efforts and abilities of key personnel, in particular skilled technical personnel in both upstream and downstream activities, as well as upon the Group's ability to continue to attract and retain such personnel. The competition in Russia for such personnel can be intense due to the limited number of qualified individuals, and the failure to attract new qualified personnel and/or retain current qualified personnel may put the Group at a disadvantage against competitors. The demand and related costs for skilled employees is expected to continue to increase, reflecting significant demand from other industries and public projects. Although the Group offers competitive salaries for the industry and has in place staff training and continuity programmes, continued high demand for skilled labour and continued increases in labour costs could have a material adverse effect on the Group's business, financial condition, results of operations or prospects, or on the value of the Notes.

Violations of sanctions regimes could subject the Group to penalties that could have an adverse effect on the Group.

International sanctions (as implemented by relevant domestic laws) apply to companies engaging in specified levels or types of business with specified countries, including Iran and Cuba. While the Group is pursuing projects in Cuba and has considered conducting business in Iran in the past, the Group believes it is in compliance with all applicable sanctions regimes.

In October 2010, the Group entered into an agreement with Petronas relating to the assignment of its 30% participation interest in a production sharing agreement in respect of four deep-water blocks on the shelf of Cuba to the Group. In July 2011, the agreement became fully effective; an initial exploration well has been completed, and following its analysis by the project partners, a decision on further action at the site is expected to be taken by the end of 2012. See "Business – Operations – Exploration, Production and Development – International Projects – Cuba".

In November 2009, the Group and the National Iranian Oil Company entered into a memorandum of understanding providing for potential joint exploration of fields in Iran pursuant to a service contract under which the Group's investments could exceed USD 20 million. The Group believes that the memorandum is, in substance, only a letter of intent, which is not binding upon either of the parties and does not provide for any active or inactive business operations in Iran. As of the date of this Base Prospectus, the Group has not taken any decision with respect to participation in any projects or performed any work in relation to implementation of any projects contemplated by the memorandum. In addition, as of the date of this Base Prospectus, the Group has no plans to take any further action in relation to the memorandum.

If the Group violates sanctions regimes to which it is subject, penalties could include a prohibition or limitation on its ability to obtain goods and services on the international market or to access U.S. or other capital markets or financing. The Group believes that it is not currently involved in any transactions in Iran, Cuba or other countries that could result in sanctions against the Group. However, there can be no assurance that the applicable enforcement authorities would not arrive at a different conclusion or that new sanctions may not be imposed in the future. Any violations of sanctions by the Group could have a material adverse effect on the Group's business, financial condition, results of operations or prospects, or on the value of the Notes.

Risks Relating to the Russian Federation

The Company is a Russian company and substantially all of its fixed assets are located in, and a significant portion of the Group's revenues are derived from, Russia. There are certain risks associated with an investment in Russian businesses.

Political, Economic and Social Risks

Political and governmental instability could materially adversely affect the value of investments in Russia, including the Notes, as well as the Group's business, financial condition and prospects.

Since 1991, Russia has evolved from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in

some respects been uneven, and the composition of the Russian Government, including the prime minister and the other head of federal ministries, has at times been unstable. For example, there were six different prime ministers in the period between March 1998 and May 2008.

Vladimir Putin was elected president of Russia in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. In March 2008, Dmitry Medvedev was elected president of Russia, and Mr. Putin served as his prime minister for his entire administration. In March 2012, Vladimir Putin was re-elected as president and inaugurated 7 May 2012, for a term of six years; Dmitry Medvedev now serves as prime minister.

Future political instability could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation in Russia also could lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia and the Notes in particular, as well as on the Group's business, its ability to obtain financing in the international markets and its financial condition or prospects.

Emerging markets such as Russia are also subject to heightened volatility resulting from political and economic conflicts. Any disruption or reversal of the reform policies or any recurrence of political or governmental instability or significant or recurring terrorist attacks may lead to a deterioration in Russia's investment climate and trading volatility, which could materially adversely affect the Group's ability to raise equity or debt capital in the international markets, as well as its business, financial condition, results of operations or prospects.

Future changes in the Russian Government, the Duma or the presidency, the creation, abolishment or reform of Russian Government bodies regulating the oil and gas industry, major policy shifts or eventual lack of consensus between the president, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Notes in particular.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia resulted in a significant overall price decline for listed Russian securities. The emergence or escalation of any tensions in Russia or with neighbouring countries could negatively affect the economy of Russia. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the Notes and the Group's ability to raise debt or equity capital in the international capital markets.

Conflicts between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that may hinder the Group's long-term planning ability and could adversely affect the value of investments in Russia, including the value of the Notes.

Russia is a federation of various sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some exercising considerable autonomy over their internal affairs pursuant to agreements with the federal authorities and in accordance with applicable laws. In practice, the division of authority between federal and regional authorities, in certain instances, remains uncertain and contested. This uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in its operating environment, any of which may prevent the Group from effectively and efficiently carrying out its business strategy.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. In the future, such tensions, military conflict or terrorist activities could have significant political and economic consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could disrupt normal economic activity in Russia and materially adversely affect the Group's business, financial condition, results of operations or prospects and the value of the Notes.

Instability in the Russian economy could materially adversely affect the Group's business.

Over the last two decades, the Russian economy has experienced at various times:

- significant declines in its GDP;
- high levels of inflation;
- high levels of corruption and the penetration of organised crime into the economy;
- increases in, or high, interest rates;
- sudden price declines in the natural resources sector;
- instability in the local currency market;
- high levels of government debt relative to GDP;

- the lack of reform in the banking sector and a weak banking system, providing limited liquidity to Russian enterprises;
- the continued operation and loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- widespread tax evasion;
- the growth of a black- and grey-market economy;
- pervasive capital flight;
- unstable credit conditions;
- a weakly diversified economy which depends significantly on global prices of raw materials;
- significant increases in unemployment and underemployment;
- ethnic and religious tensions;
- low personal income levels of a significant part of the Russian population; and
- a major deterioration of physical infrastructure.

The recent global financial turmoil has also adversely affected the Russian economy. Changes in emerging economies can occur quickly, and financial turmoil in any emerging market tends to adversely affect equity markets in all emerging areas, as investors move their money to more developed markets. In the past few years, the Russian economy has been characterised by extreme volatility in the debt and equity markets (which experienced significant declines in the second half of 2008), causing market regulators to temporarily suspend trading multiple times on the principal Russian securities exchanges, Moscow Interbank Currency Exchange and Russian Trading System. The Russian economy has also been characterised by significant reductions in foreign investment and sharp decreases in GDP. For example, in 2009, Russian GDP declined 7.8%.

As Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 but experienced significant decreases during the global financial crisis beginning in the second half of 2008. Russian banks, and the Russian economy generally, have also been adversely affected by the global financial crisis. During the crisis, the Russian economy has been characterised by volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP. The Russian economy has not fully recovered from the economic crisis. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of the financial and economic crisis will result in a sustainable recovery of the Russian economy. Current macroeconomic challenges, low or negative economic growth in the United States, Japan and Europe and market volatility may prolong the economic crisis. In recent months, global markets have shown increased volatility due to continued macroeconomic challenges. The Russian economy remains vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors – so-called “contagion effects”. Russia has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investment, including the Notes, will be similarly affected in the future by negative economic or financial developments in other countries. There can be no assurance that recent economic volatility, or a future economic crisis, will not negatively affect investors’ confidence in the Russian markets, economy or ability to raise capital in the international debt markets, any of which, in turn, could have a material adverse effect on the Russian economy and the Group’s result of operations, financial condition and prospects. In addition, any declines in the price of crude oil, natural gas or other commodities could further disrupt the Russian economy and materially adversely affect the Group’s business.

The Russian banking system remains underdeveloped, and another banking crisis in Russia could place severe liquidity constraints on the Group’s business, materially adversely affecting its business, financial condition and results of operations.

Russia’s banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There are currently a limited number of creditworthy Russian banks, most of which are headquartered in Moscow. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market

downturn and economic slowdown. The credit crisis that began in the United States in the autumn of 2008 has resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Efforts by the Russian Government to increase liquidity have been stymied by the unwillingness or inability of major banks to transfer money to the economy in the form of loans. The current lack of liquidity and economic slowdown have raised the possibility of Russian corporate defaults and led to bank failures and downgrades of Russian banks by credit rating agencies. More bank failures and credit downgrades may result in a crisis throughout the Russian banking sector. Starting from the fourth quarter of 2008, the majority of Russian banks experienced difficulties with funding on domestic and international markets and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. Credit ratings of several banks have been lowered. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect the Group's business and its ability to complete banking transactions in Russia.

The Group is required to repatriate its export sales revenues. The Group may be required to convert some portion of its export sales into Roubles in the future while its ability to convert Roubles into other currencies may be limited.

The Group is subject to the requirement of mandatory repatriation of its export sales revenues. As of the date of this Base Prospectus, the CBR does not require any portion of the Group's proceeds from export sales to be converted into Roubles. In the past, however, the Group has been required to convert into Roubles a percentage of its proceeds from export sales, and at times this percentage has been as high as 75%. There can be no assurance that the CBR will not require the Group to convert into Roubles a percentage of its export sale in the future.

The Russian Government and the CBR may impose burdensome requirements governing currency operations, as they have done in the past. If these restrictions were re-introduced, they could prevent or delay any acquisition opportunities outside Russia that the Group might wish to pursue. Additionally, any delay or other difficulty in converting Roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit the Group's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. There are also only a limited number of available Rouble-denominated instruments in which the Group may invest its excess cash. Conversely, any balances maintained in Roubles would give rise to losses if the Rouble were to depreciate against major foreign currencies.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity and efforts by the Russian Government to improve the country's infrastructure may result in increased costs for the Group.

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately maintained and developed due to insufficient funding and policy decisions. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. The further deterioration of Russia's physical infrastructure could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations.

In an effort to improve national infrastructure, the Russian Government is reorganising the nation's rail, electricity and telephone systems. These reorganisations may result in increased charges and tariffs but not produce the desired improvements in infrastructure. In addition, these reorganisations may be halted or delayed in the event of a prolonged economic downturn, which would likely lead to a further deterioration in Russia's infrastructure network. The occurrence of any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

If the Company wishes to incur secured indebtedness, the Group may be required by the International Bank for Reconstruction and Development to equally and rateably pledge the Group's assets, which may affect the Company's ability to obtain secured financing.

The Russian Federation is subject to a negative pledge clause in its borrowings from the International Bank for Reconstruction and Development (the "IBRD") in accordance with Article 9.03 of the IBRD's General Terms for loan and guarantee agreements. The negative pledge clause prevents the Group, as an entity owned or controlled by, or operating for the account of benefit of, the Russian Federation, from pledging any of the Group's assets to secure certain further borrowings unless the IBRD is equally and rateably secured. In this context, if the Group wishes to incur its own secured indebtedness, there is a risk that the Company may be required by the IBRD to equally and rateably pledge its assets with regard to the Russian Federation's indebtedness.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation could affect the value of the Notes.

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime established by the 1993 Federal Constitution, the Civil Code, other federal laws and decrees, orders and regulations issued by the Russian President, the Russian Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal standards at times overlap with or contradict one another. The recent nature of much Russian legislation and the rapid

evolution of the Russian legal system cast doubt on the enforceability and underlying constitutionality of certain laws and result in ambiguities, inconsistencies and anomalies.

In addition, the powers of the various Russian Government agencies are not always clearly delineated, which may lead to administrative and/or legal conflicts and challenges to transactions authorised and/or entered into by the relevant agencies with third parties, including in connection with the Notes.

Russia is a civil law jurisdiction, and, as such, judicial precedents have no binding effect on subsequent decisions. Among the risks of the current Russian legal system are: the limited availability of judicial and administrative guidance on interpreting Russian legislation; substantial gaps in the regulatory structure due to delay or absence of implementing legislation; the relative inexperience of judges and courts, especially in lower courts, in interpreting Russian legislation and in business and corporate law generally; the relative lack of independence of the judiciary; the difficulty in enforcing court judgments in practice; and corruption and bankruptcy procedures that are insufficiently developed and subject to abuse. Any of these weaknesses, as well as others, could hinder, delay or prevent the ability of investors to have their rights upheld in a Russian court.

If the Russian Federal Antimonopoly Service (“FAS”) were to conclude that the Group has conducted its business in contravention of antimonopoly legislation, it could impose administrative sanctions on the Group.

The oil industry in Russia is subject to strict pricing control by state authorities who, *inter alia*, monitor oil product prices. As a result, unjustified increases in oil product prices can result in complaints to regulatory and control bodies and the commencement by FAS of charges of violating Russian antimonopoly legislation. In the past, FAS has fined the Group in connection with charges of abusing dominant market positions. See “*Business – Litigation – FAS Administrative Fines*”.

Pursuant to Article 5.1 of the Russian law “On the Protection of Competition”, if a business (or several businesses) in a market of certain goods are able to exert a highly significant influence on the general conditions for such goods’ circulation and/or remove competitors from the market or impede their access thereto, the business may be deemed to hold a dominant position. While a business’ dominant position in a commodity market does not itself constitute a violation of current Russian legislation, such business’ activities are controlled by the antimonopoly authorities. According to FAS decisions, supported by the Presidium of the Supreme Arbitrazh Court of the Russian Federation, the Company, jointly with other vertically integrated Russian oil companies, has been recognised to have a collective dominant position on the motor fuel, diesel and aviation fuel markets in Russia. Regional branches of FAS have also included certain members of the Group on a list of business entities whose share in the market of certain goods exceeds 35% in certain constituent entities of Russia, a status that imposes restrictions on the Company in carrying out business activities intended to protect and develop competitive market conditions.

As a result, the Group’s ability to set prices for its oil products is constrained. Sale prices for oil products must be economically justifiable, consistent with market prices and apply equally for all counterparties. Also, the Group may not refuse to enter into a supply contract if it has sufficient capacity or include in the contract any terms under which a particular counterparty may be placed in an unequal position compared to other businesses (including subsidiaries and dependent companies of the Group). The Company also must sell certain quantities of oil products at open exchange auctions; it may not reduce or discontinue production of oil products if there are no technological reasons to do so or remove goods from circulation by discontinuing sales. In addition, the Company may not cooperate with other oil companies in a way that could affect the price of goods and competition levels. Court practice related to challenging FAS decisions, in particular abuses of dominant position in the market by setting high prices and performing concerted actions with other market participants, is varied, but often Russian courts support the position of the antimonopoly authorities.

On 6 January 2012, amendments to the Russian antimonopoly legislation entered into force. These amendments relate, *inter alia*, to the methodology of calculating administrative fines for the violation of antimonopoly legislation. More specifically, the amendments provide that a business abusing its dominant market position that results in the possible restriction of competition on a particular market is subject to an administrative fine of up to 15% of its revenue derived from the sale of goods on the relevant market. The amendments also provide for certain aggravating and mitigating circumstances which should be taken into account by the antimonopoly authorities in determining the amount of fines. As a result of these amendments, the potential consequences of violating antimonopoly legislation have considerably increased.

In addition, FAS has prepared draft laws “On Market Pricing of Oil and Oil Products” and “On Turnover of Oil and Oil Products in the Russian Federation” that hold other potential risks for the Group, including:

- the possible prohibition for businesses (such as a vertically-integrated oil company like the Group) having a dominant position on combining wholesale and retail sales of motor and diesel fuels, as well as on selling wholesale quantities of jet fuel from an oil refinery and selling jet fuel to aviation companies;

- the possible prohibition for businesses with more than a 25% market share in a given motor fuel retail sales market on acquiring or leasing additional petrol stations or land plots for the construction of petrol stations intended for the retail sale of motor fuel (a market share that the Group has in a number of Russian markets);
- the possible requirement on businesses having more than 25% of the total motor fuel-storage capacity in a regional market to make available to third parties motor fuel storage services on a non-discriminatory basis; and
- the introduction of a methodology for calculating competitive domestic market prices, a deviation from which may be treated by FAS as setting monopolistic prices. According to the draft law, the new methodology would use comparative foreign market price indices (on a netback parity principle), domestic over-the-counter market price indices (based on commodity exchange-registered over-the-counter-transactions, as well as indices regularly published by various research and analytical agencies), and domestic commodity exchange price indices.

Although the draft laws have not yet been submitted to the State Duma for consideration, there is a risk that they ultimately will be adopted. Such draft laws, if implemented, could materially affect the sales of the Group's oil products in Russia.

If FAS were to conclude that the Group's business had been conducted in a prohibited manner, it could impose administrative sanctions on the Group, which could materially adversely affect the Group's business. See "*Business – Litigation*" for information about recent proceedings by the FAS against the Group.

Selective or arbitrary government action could materially adversely affect the Group's business.

Governmental authorities in Russia have a high degree of discretion and may at times exercise their discretion arbitrarily, without hearing or prior notice, or in a manner that is unduly influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. In addition, governmental authorities have also tried, in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often to further interests different from the formal substance of the claims. The occurrence of such selective or arbitrary action against the Group could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and the value of the Notes.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effective redress in court proceedings.

The Russian judicial system is not immune from economic and political influences. The court system is understaffed and underfunded, and many judges and courts are inexperienced in the area of business and corporate law. Under Russian legislation, judicial precedents generally have no binding effect on subsequent decisions and are not recognised as a source of law. However, in practice, courts usually consider judicial precedents in their decisions. Enforcement of court judgments can in practice be very difficult in Russia. Additionally, court claims are sometimes used in furtherance of political and commercial aims. All of these factors can make judicial decisions in Russia difficult to predict and make effective redress uncertain in certain instances.

Russia is not a party to treaties for the mutual enforcement of court judgments with most Western countries. Consequently, if a judgment is obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, Russia (as a successor to the Soviet Union) is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "New York Convention"). A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil procedure and other procedures and requirements established by Russian legislation). The Arbitration Procedural Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognise and enforce foreign arbitral awards and court judgments. Nonetheless, in practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing substantial delay, difficulty and uncertainty into the process of enforcing any foreign judgment or any foreign arbitral award in Russia. Such issues could prevent the Group or investors from obtaining effective redress in court proceedings in Russia.

Credit risks of the Group's customers in emerging markets are higher than those of the Group's customers in developed countries.

The Group's business is exposed to the risk that the amounts owed by the Group's customers for products sold or services rendered will not be paid when due, and that some of them may not be able to perform timely and fully their obligations. In such cases, the Group seeks to resolve any disputes and recover amounts owed to the Group in conformity with the laws of the jurisdictions where the Group operates and with established business practices. In

developed countries it is comparatively less cumbersome to settle such disputes due to better-developed laws and the financial services market. In developed markets, corporate debt is a financial asset which may be used as security, pledged, sold and purchased; therefore, such debt often has high liquidity. As a result of longer periods which the Group may need to recover overdue debts from the Group's customers in Russia and other emerging markets, the Group may need substantial financial resources to maintain its financial stability.

Shareholder liability under Russian legislation could cause the Group to become liable for the obligations of its subsidiaries.

Russian legislation generally provides that shareholders in a Russian joint stock company or members in a Russian limited liability company are not liable for the obligations of the joint stock company or limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the "effective parent") is capable of making decisions for another company (the "effective subsidiary") on the basis of an agreement or in accordance with the charter of the subsidiary. Under certain circumstances, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out such decisions. In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. Accordingly, if the Company acts as the effective parent of its subsidiaries, the Company as parent could be liable for their debts.

Interested party transactions of the Group require the approval of disinterested directors or disinterested shareholders.

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special prior approval procedures. Under Russian law, an "interested party" of a company includes: (i) members of the board of directors, (ii) the executive body of the company, including the managing organisation or hired manager, (iii) a member of a collegial executive body, (iv) a shareholder who, together with its affiliates, owns at least 20% of the company's voting shares or (v) a person who has the right to give mandatory instructions to the company. The above persons are considered interested parties in a transaction if they, a close relative or an affiliate of such person, is:

- a party, representative, intermediary or a beneficiary of the transaction;
- the owner, whether individually or collectively, of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or an officer of the managing organisation of such company; or
- in other cases provided for by the company's charter.

Under applicable Russian law, interested party transactions require approval by a majority of the disinterested (or, if the company has more than 1,000 shareholders, also independent) directors or disinterested shareholders of the company. A majority vote of the disinterested shareholders of the company is required if (i) the number of disinterested directors is less than the required quorum for board of directors (supervisory council) meetings (or, if a company with more than 1,000 shareholders, there are no disinterested independent directors), (ii) the value of the transaction (or of a number of interrelated transactions) is equal to or exceeds 2% of the balance sheet value of the company's assets (determined under Russian Accounting Standards according to its latest balance sheet) or (iii) the transaction (or a number of interrelated transactions) involves the issuance or sale by the company of ordinary shares or securities convertible into such shares, in an amount exceeding 2% of the company's issued ordinary shares. A failure to obtain the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or its shareholders made within three months from the day when the decision in question was known or should have been known and the reasons for which it may be declared invalid.

One or more of the Group's subsidiaries may be forced into liquidation due to technical non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its technical non-compliance with certain requirements during formation, reorganisation or operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities (if no decision is taken to liquidate the company within six months of the end of the financial year). Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets. However, their solvency (i.e., their ability to pay debts as they come due) is not otherwise adversely affected by such negative net assets.

Some of the companies in the Group currently have negative net assets. Although the Group does not consider these companies to be of strategic importance, it is taking action to rectify this situation. In addition, although some of its subsidiaries may have failed from time to time to fully comply with all the applicable legal requirements, the Group believes that neither it, nor any of its subsidiaries, should be subject to liquidation on such grounds, and none of the possible violations has been of a material or substantial nature. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then the Group may be forced to reorganise the operations it currently conducts through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect the Group's business, financial condition and results of operations.

The Russian taxation system is relatively underdeveloped.

The Russian Government is constantly reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the "Russian Tax Code"). These changes have resulted in some improvement in the tax climate. As of 1 January 2009, the corporate profits tax rate was reduced to 20%. For individuals who are tax residents in Russia, the current personal income tax rate is 13%. The general rate of VAT is 18%. Since 1 January 2010, the Unified Social Tax was replaced by social security charges payable to the Russian pension, social security and medical insurance funds. Since 1 January 2012, the total security charge generally equals 30%. Since 1 January 2012 the new Russian transfer pricing legislation is in force. See " – *New Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities*".

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian Government's adoption of steps in recent years to reduce the overall tax burden in line with its objectives, there is a possibility that the Russian Federation may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Group's business, results of operations and financial condition or prospects.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures, result in a greater than expected tax burden, and have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is undertaken. Generally, the tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited. The statute of limitations for the commission of a tax offence is also limited to three years from the date on which it was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the tax offence statute of limitations may be extended beyond three years.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of management resources. The outcome of these audits or inspections could have a material adverse effect on the Group's business, results of operations, financial condition or prospects or the trading price of the Notes.

In October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a ruling concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. The ruling provides that where the true economic intent of operations is inconsistent with the manner in which they have been taken into account for tax purposes a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. However, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities are seeking to apply this concept when challenging tax positions taken by taxpayers in court. Although the intention of this ruling was to combat tax law abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court of the Russian Federation.

The above conditions create tax risks in the Russian Federation that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management resources. Further, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group's business, results of operations, financial condition or prospects.

Furthermore, Russian tax legislation is becoming increasingly more complex. It is possible that new revenue raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. The Group cannot offer prospective investors any assurance that additional tax exposures will not arise. Additional tax exposures could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

New Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities.

Since 1 January 2012, new transfer pricing legislation has been introduced to the Russian tax law.

This transfer pricing legislation results in new transfer pricing rules, in particular:

- expansion of the methods for monitoring the prices of controlled transactions; and
- expansion of the list of controlled transactions to include:
 - cross-border transactions with certain types of commodities where the amount of income attributable to one counterparty exceeds RUB 60 million;
 - Russian domestic transactions between related entities if the total annual turnover of such transactions exceeds RUB 1 billion (RUB 3 billion for 2012 and RUB 2 billion for 2013);
 - transactions with residents of certain identified offshore jurisdictions where the amount of income attributable to one counterparty exceeds RUB 60 million; and
 - transactions between Russian legal entities and related foreign legal entities.

The amended transfer pricing law requires taxpayers to notify the Russian tax authorities of all controlled transactions (for 2012 and 2013, the notification should be made where the income attributable to one counterparty exceeds RUB 100 million and RUB 80 million, respectively). Taxpayers are also required to present transfer pricing documentation to the Russian tax authorities upon their request. The implementation of the new Russian transfer pricing law could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Risks Relating to Issuer, Notes and Trading Market

The right of the Issuer to receive payments under the Loans (and therefore its ability to make payments under the corresponding series of the Notes as they fall due) are effectively subordinated to any liabilities of the Company's subsidiaries and the Company and many of its subsidiaries, as Russian companies, are subject to Russian bankruptcy laws and procedures.

Many of the Group's operations are conducted through subsidiaries of the Company and to a certain extent, the Company depends on the earnings and cash flows of these subsidiaries to meet the Company's debt obligations, including the Company's obligations under each Loan. In addition, the Company's subsidiaries' assets constitute a material part of its operating assets. Finally, the Company's subsidiaries have material liabilities, including accounts payable and accrued charges, taxes payable, restructured tax liabilities, other long-term liabilities and provisions for liabilities and charges. Because the Company's subsidiaries do not guarantee the payment obligations of the Company under each Loan or the Issuer's payment obligations under the Notes, neither the Issuer nor holders of Notes will have any direct claims on the Company's subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganisation of any of the Company's subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets for those subsidiaries before any cash flows or assets are made available for distribution to the Company as a shareholder. This may adversely affect the Company's ability to service its payment obligations under the Loan.

The Issuer is a special purpose vehicle and payments under any Series of Notes are limited to amounts of certain payments received under the relevant Loan Agreement.

The Issuer is a special purpose vehicle with no business other than issuing notes and advancing loans under a Loan Agreement and has no assets other than such loans. The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equal to, and in the same currency as, the sum of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from the Company pursuant to the relevant Loan Agreement. Consequently, if the Company fails to meet its payment obligations under the relevant Loan

Agreement in full, this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

Noteholders will not have direct recourse to the Company.

Except as otherwise expressly provided in the “Terms and Conditions of the Notes” and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer’s rights under or in respect of the relevant Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the relevant Loan Agreement or have direct recourse to the Company except through action by the Trustee under the Charge (as defined in the “Terms and Conditions of the Notes”) or assignment of rights. In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by the Company of its obligations under the relevant Loan Agreement. See “*Terms and Conditions of the Notes – 1. Status*”.

The protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the Notes.

The Company has agreed in clause 10.1 of the Facility Agreement not to, and to procure that no Principal Subsidiary (as defined therein) will, create or permit to subsist any Security Interest (as defined therein) other than a Permitted Security Interest (as defined therein) upon the whole or any part of its assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined therein) (i) payment of any sum due in respect of any such Relevant Indebtedness; (ii) any payment under any guarantee of any such Relevant Indebtedness; or (iii) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness; without in any such case at the same time or prior thereto procuring that the Company’s obligations under each Loan Agreement (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Issuer as lender in its reasonable opinion shall deem to be not materially less beneficial or (z) as shall be approved by an Extraordinary Resolution (as defined in the Principal Trust Deed) of the Noteholders. The application of this negative pledge and the protection that it affords to holders of the Notes is limited. For example, the definition of Relevant Indebtedness is limited to the Group’s present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, the Group will be permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of Consolidated Assets (as defined in Facility Agreement), without any obligation to afford any equal and rateable security to holders of the Notes. As a result, the Group will be permitted to secure a range of other forms of indebtedness and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and rateable security in respect of the Loans, as the case may be, which may adversely affect the value of the Notes and/or effectively cause holders of Notes to rank in terms of priority behind such secured creditors.

Holders of the Notes may not be adequately protected against corporate restructurings or highly leveraged transactions.

The terms of the Notes do not contain provisions that would afford Noteholders protection in the event of a decline in the Group’s credit quality resulting from highly leveraged or other similar transactions in which the Group may engage. The Group is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Holders of the Notes do not have the right to require the Group to repurchase or redeem the Notes in the event of many types of highly leveraged transactions.

The lack of a public market for the Notes could reduce the value of an investment in the Notes.

There may not be an existing market for the Notes at the time they are issued. Each Series of Notes is expected to be listed and admitted to trading on the Main Securities Market of the Irish Stock Exchange (or another stock exchange). However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value or that the Notes will remain listed.

Payments on the relevant Loan may be subject to Russian withholding tax.

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20% for legal entities and 30% for non-resident individuals, unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice received, the Company believes that interest payments on the relevant Loan made to the Issuer should not be subject to withholding tax under the terms of the applicable Convention between the Grand Duchy

of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital signed on June 28, 1993 (the “Convention”).

A new protocol to the Convention was signed in 2011, which, upon ratification, would introduce certain changes to the provisions of the Convention. Such changes include, *inter alia*, a limitation of benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was receipt of treaty benefits as well as extension of procedures to exchange information. Once the protocol is ratified and becomes effective, it may have an impact on future payments under the Loan Agreement.

The application of tax benefits under the double tax treaty could be influenced by changes in the position of the Russian tax authorities to look beyond the mere form of the transaction while assessing the availability of treaty benefits.

The amendments to the Russian Tax Code introduced by Federal Law No. 97 FZ dated 29 June 2012 (the “2012 Russian Tax Code Amendments”) should allow the interest on the Loan not to be subject to withholding. In particular, the 2012 Russian Tax Code Amendments introduce into the Russian Tax Code an exemption from the obligation to withhold tax from interest paid under transactions similar to the transactions described herein. The 2012 Russian Tax Code Amendments entered into force beginning 1 July 2012.

According to the 2012 Russian Tax Code Amendments, in respect of bonds issued prior to 1 January 2014, Russian borrowers are exempted from the obligation to withhold Russian withholding tax from interest payments made to foreign companies on debt obligations arising in connection with placement by these foreign companies of quoted bonds, provided that (i) there is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer, and (ii) the issuer duly confirms its tax residence. The 2012 Russian Tax Code Amendments do not provide a tax exemption for the non-resident holders of the Notes from Russian tax on interest payments, although at present there is no mechanism or requirement for non-residents to self-assess and pay the tax.

For the purpose of the 2012 Russian Tax Code Amendments, “quoted bonds” means bonds and other debt obligations which passed the listing procedure and/or were admitted to circulation on one or more foreign stock exchanges and/or rights to which are recorded by a foreign depository-clearing organisation provided such foreign stock exchange and depository-clearing organisation are specified in the list approved by the Federal Authority for Securities Markets (the “FSFM”) in consultation with the Ministry of Finance of the Russian Federation. Until such list is adopted bonds and other debt obligations that passed the listing procedure and/or were admitted to circulation on one or more foreign stock exchanges and/or rights to which are recorded by a foreign depository-clearing organisation should be recognised as quoted bonds. According to publicly available information, this list has not been drafted yet.

According to the 2012 Russian Tax Code Amendments, the above exemption established for the interest payments is also applicable to (i) income payable by a Russian legal entity in connection with a guarantee, surety or other security granted by such Russian organisation with respect to a debt obligation to a foreign organisation and/or with respect to quoted bonds, and (ii) to other income payable by a Russian organisation providing that the payment of such income is established by the provisions of the respective debt obligation or such income is paid due to a change in the terms and conditions of the respective quoted bonds and/or debt obligations including the cases of their early repurchase or redemption.

The 2012 Russian Tax Code Amendments address Russian withholding tax treatment of interest payments or other above payments to be made to foreign companies on debt obligations arising in connection with the issuance by these foreign companies of quoted bonds before 1 January 2014. The 2012 Russian Tax Code Amendments do not address Russian tax treatment of payments under quoted bonds issued on or after 1 January 2014.

If any payments under the relevant Loan are subject to any Russian (or Luxembourg) withholding tax, the Company will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of Luxembourg taxes except as required by law. Based on professional advice that it has received, the Company believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Luxembourg taxes as described in “Taxation — Luxembourg”. In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from the Company under the relevant Loan Agreement. While the Loan Agreement provides for the Company to pay such corresponding amounts in these circumstances, there are some doubts as to whether a tax gross up clause such as that contained in the Loan Agreement is enforceable under Russian law. Due to the limited recourse nature of the Notes, if the Company fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by the Company to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances, in the event that the Company is obliged to increase the amounts payable, it may prepay the principal amount of the Loan together with accrued interest and/or additional amounts payable (if any) thereon, and all outstanding Notes would be redeemed by the Issuer (to the extent that it has actually received the relevant funds from the Company).

The Issuer will grant security over certain of its rights in the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of an Event of Default or a Relevant Event, as defined in the Loan Agreement and the Trust Deed. In these circumstances, payments under the relevant Loan Agreement (other than in respect of Issuer Reserved Rights as defined in the Trust Deed) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Company to the Trustee will in general be subject to Russian income tax withholding at a rate of 20% (or, potentially, 30% in respect of non-resident individual Noteholders). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who may be eligible for an exemption from Russian withholding tax under double tax treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund.

There is a risk that under the Russian thin capitalisation rules in certain circumstances where parties related to the Company hold Notes part or all of the interest to be paid by the Company under the Loan could be reclassified as dividends for Russian tax purposes. This would occur if the overall amount of the “controlled debt” of the Company, calculated on an individual related party basis, exceeded the capital of the Company, calculated in accordance with the requirements of the Russian Tax Code, by more than three times. Interest on the amount of such excess would be reclassified as dividends for Russian tax purposes. There is a risk that the “controlled debt” of the Company may include all or part of a Loan, to the extent that any related parties acquire any portion of the Notes.

Such reclassification of all or a portion of the interest under a Loan as dividends could potentially lead to the imposition of Russian withholding tax on such reclassified interest at the rate of 15%, subject to possible tax relief under the double tax treaty between the Russian Federation and Luxembourg, and the non-deductibility of such interest for Russian profits tax purposes by the Company. Also, such withholding on dividends would trigger the gross-up obligation of the Company discussed above.

Based on the assumption that the amount of the Company’s “controlled debt” calculated in accordance with the requirements of Article 269 of the Russian Tax Code will not exceed by more than three times the amount of “own capital” (“собственный капитал”) of the Company calculated on an individual related party basis, the current Russian thin capitalisation rules should not apply currently to the interest on a Loan. However, changes in these assumptions could result in all or a portion of such interest being subject to the thin capitalisation rules in the future so as to treat “excess interest” related to the Loan as a dividend under the double tax treaty between the Russian Federation and Luxembourg subject to 15% withholding tax applicable to dividends (subject to possible Luxembourg or other double tax treaty relief, if any) rather than zero withholding tax applicable to interest. Such withholding on dividends would trigger the gross-up obligation of the Company discussed above.

As indicated above, it is currently unclear whether the provisions obliging the Company to gross-up payments will be enforceable in the Russian Federation. If, in the case of litigation in the Russian Federation, a Russian court does not rule in favour of the Issuer or the Trustee and Noteholders, there is a risk that the tax gross-up for withholding tax will not take place and that payments made by the Company under the Loan Agreement will be reduced by Russian income tax withheld by the Company at a rate of 20% (or, potentially, 30% in respect of individual Noteholders). See “*Taxation — Russian Taxation*”.

Tax might be withheld on disposals of the Notes in the Russian Federation, reducing their value.

If a non-resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20% Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30% on gross proceeds from such disposal of the Notes less any available cost deduction. There can be no assurance that advance double tax treaty relief would be granted to any investor, and obtaining a refund may involve considerable practical difficulties. The imposition or risk of imposition of this withholding tax could adversely affect the value of the Notes. See “*Taxation—Russian Taxation*”.

Payments on the Notes may be subject to U.S. withholding tax under FATCA beginning in 2017.

The Foreign Account Tax Compliance Act (“FATCA”) rules were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and other financial institutions to provide information to the U.S. Internal Revenue Service (the “IRS”) about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as the Issuer) to conduct diligence on their account holders and investors to determine whether the instruments they hold or their accounts are “U.S. accounts,” and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments made to

them. The U.S. Treasury Department has not yet released final regulations clarifying the statutory language of FATCA, so the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on, beginning no earlier than 2017, certain “pass-thru payments” to the Issuer, as well as certain “pass-thru payments” from the Issuer to certain Noteholders. Neither a holder nor a beneficial owner of the Notes will be entitled to any additional amounts in the event such withholding tax is imposed. It is also possible that the Issuer could incur material costs in implementing information-gathering systems to comply with FATCA. Given the lack of final regulations or other binding guidance, it is impossible to evaluate the potential effect of FATCA at this time.

An investment in the Notes is subject to ERISA restrictions.

A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as equity interests in a separate entity whose sole asset is the Loan corresponding with that Series. Accordingly, the Notes should not be acquired by any “Benefit Plan Investor” within the meaning of Section 3(42) of ERISA (“Benefit Plan Investor”). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made representations that it is not a Benefit Plan Investor. Potential purchasers should read the sections entitled “*Certain U.S. Employee Benefit Plan Considerations*” and “*Transfer Restrictions*”.

Ratings of the Notes may be limited.

In general, European-regulated investors are restricted under Regulation (EC) No. 1060/2009 (the “CRA Regulation”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes and details of the relevant rating agency will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Final Terms.

Other Risks

The Group has not independently verified information it has received from third-party sources.

The Group has sourced certain information contained in this Base Prospectus from third parties, including private companies and Russian state agencies, and the Group has relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This Base Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings “Overview”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” (including, but not limited, to the “Strategy” section therein). The Group may from time to time make written or oral forward-looking statements in reports to its shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to, statements of plans, objectives or goals, including those related to products or services; statements of future economic performance; and statements of assumptions underlying such statements.

Forward-looking statements that may be made from time to time may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as “believes”, “anticipates”, “expects”, “estimates”, “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the prevailing global and domestic economic environment;
- inflation, interest rate and exchange rate fluctuations;
- the prices of crude oil and petroleum products;
- the Group’s ability to finance its anticipated capital expenditures through the global capital markets, revenue from operations or otherwise;
- the effects of, and changes in, the policies of the Russian Government;
- the inherent uncertainties in estimating the Group’s reserves of crude oil;
- the effects of competition in the geographic and business areas in which the Group conducts operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- the Group’s ability to increase market share for its products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on the Group’s businesses;
- the Group’s ability to manage operational risks in its crude oil exploration, production and transportation activities and other business operations; and
- the Group’s success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Group does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law or under the Prospectus Directive and the relevant implementing measures in Ireland. The Group does not make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Forward-looking statements also appear in the “Summary Reserves Report from DeGolyer and MacNaughton” set forth in Annex A. The report sets forth estimates of the Group’s reserves and revenues as of 31 December 2011 based on data derived from studies relating to the Group’s interest in reserves of crude oil and gas at its properties and the Group’s pro rata shares of such reserves of the Equity Affiliates, and contains projections and estimates relating to the Group’s future net revenues and present worth. The estimates and projections contained in the “Summary Reserves Report from DeGolyer and MacNaughton” reflect a number of assumptions, including future global and domestic pricing for crude oil and oil products, expected taxation levels, the application of Russian law and regulations

consistent with the Group's expectations and compliance by the Group with its license obligations. A field examination of the Group's properties was not considered necessary for the purposes of the 2011 Reserves Reports. The estimates found in the "Summary Reserves Report from DeGolyer and MacNaughton" may differ materially from actual results. See *"Risk Factors – Risks Relating to the Group and the Oil and Gas Industry – Oil, natural gas and gas condensate reserves data in the Base Prospectus are only estimates, and the Group's actual production, revenues and expenditures with respect to its reserves may differ materially from those estimates"*. The Group may not pursue its development plans in their current form and there can be no assurance that the results and events contemplated by the forward-looking statements contained in this Base Prospectus will, in fact, occur. Prospective investors should specifically consider the factors identified in this Base Prospectus which could cause actual results to differ before making an investment decision.

ENFORCEABILITY OF JUDGMENTS

The Company is a joint stock company incorporated under the laws of Russia, and all or a substantial portion of its assets are located outside the United States and the United Kingdom. In addition, all of its directors and executive officers are residents of countries other than the United States and the United Kingdom. The Issuer is a “*société anonyme*” incorporated in Luxembourg with limited liability. As a result, it may not be possible for investors to:

- effect service of process within the United Kingdom or the United States upon the Group or any such person; or
- enforce, in the English or U.S. courts, judgments obtained outside English or U.S. courts against the Group or any such person in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or the U.S. federal securities laws.

Courts in Russia will generally recognise judgments rendered by a court in any jurisdiction outside Russia if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered; or
- a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments.

No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between Russia and the United States or the United Kingdom and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

Each Loan Agreement will be governed by English law and will provide the option for disputes, controversies and causes of action arising out of or in connection with such Loan Agreement to be settled by arbitration in accordance with the rules of the London Court of International Arbitration (“LCIA”), although both the Issuer and the Company have the option to have any such matter instead be resolved by an English court. The Russian Federation is a party to New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to, *inter alia*:

- the inexperience of the Russian courts in enforcing international commercial arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors; and
- the Russian courts’ inability or unwillingness to enforce such orders.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the rules of the LCIA and the application of English law to the Loan Agreements may be limited by the mandatory provisions of Russian law relating to the exclusive jurisdiction of Russian courts and the application of Russian law with respect to bankruptcy, winding up or liquidation of Russian companies.

SUPPLEMENTAL BASE PROSPECTUS

Each of the Company and the Issuer will agree to comply with any undertakings given by it from time to time to the Irish Stock Exchange in connection with listed Notes and, without prejudice to the generality of the foregoing, the Company and the Issuer will each, so long as any of its Notes remains outstanding and admitted to trading on the Main Securities Market, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Irish Stock Exchange.

The Company has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment by investors of any Notes and the corresponding Loan and whose inclusion in this Base Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and the Group (subsidiaries and controlled affiliates), and the rights attaching to such Notes and Loan, the Company shall prepare an amendment or supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Notes.

The Company and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a Series Prospectus or a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF CERTAIN INFORMATION

References

In this Base Prospectus, the term “Group” refer to Joint Stock Company Gazprom neft (also known as JSC Gazprom neft) and its consolidated subsidiaries, taken as a whole, unless the context otherwise requires. The terms “Gazprom Neft” and the “Company” refer to JSC Gazprom neft.

The following terms have the following meanings as used in this Base Prospectus:

“Equity Affiliates” refers collectively to Slavneft, Tomskneft, SPD, Sever Energia and Messoyakhaneftegaz.

“Gazprom” refers to OJSC Gazprom.

“Gazpom Neft-Aero” refers to CJSC Gazprom Neft-Aero.

“Gazprom Neft-Khantos” refers to Gazpromneft-Khantos LLC.

“Gazprom Neft Lubricants” refers to Gazprom Neft-Lubricants LLC.

“Gazprom Neft Marine Bunker” refers to Gazprom Neft Marine Bunker LLC.

“Gazprom Neft Nefteservice” refers to Gazprom Neft-Nefteservice LLC.

“Gazprom Neft-Orenburg” refers to CSJC Gazpromneft-Orenburg.

“Gazprom Neft Trading” refers to Gazprom Neft Trading GmbH.

“Gazprom Neft-Vostok” refers to Gazpromneft-Vostok LLC.

“Khanty-Mansiysk” refers to the Khanty-Mansiysk Autonomous Okrug.

“LUKOIL” refers to OJSC Oil Company LUKOIL.

“Malka Oil” refers to Malka Oil AB.

“Messoyakhaneftegaz” refers to CJSC Messoyakhaneftegaz.

“Moscow Refinery” refers to Gazpromneft-MNPZ.

“Mozyr Refinery” refers to OJSC Mozyrskiy neftepererabatyvayushchiy zavod.

“NIS” refers to Naftna Industrija Srbije j.s.c. Novi Sad.

“NIS Refineries” refers collectively to Rafinerija nafte Pančevo and Rafinerija nafte Novi Sad.

“Novatek” refers to OJSC Novatek.

“Noyabrskneftegaz” refers to OJSC Gazpromneft-Noyabrskneftegaz.

“Omsk Refinery” refers to OJSC Gazpromneft-Omskiy NPZ.

“Petronas” refers to Petroliaam Nasional Berhad.

“Rosneft” refers to OJSC Rosneft Oil Company.

“Royal Dutch Shell” refers to Royal Dutch Shell plc.

“Sever Energia” refers to Sever Energia LLC.

“Sibir Energy” refers to Sibir Energy plc.

“Sibneft” refers to OJSC Siberian Oil Company.

“SIBUR” refers to CJSC SIBUR Holding.

“Slavneft” refers to OJSC Neftegazovaya Kompaniya Slavneft.

“SPD” refers to Salym Petroleum Development N.V.

“Surgutneftegas” refers to OJSC Surgutneftegas.

“TNK-BP” refers to OJSC TNK-BP Holding.

“Tomskneft” refers to OJSC Tomskneft VNC.

“Yamalo-Nenets” refers to the Yamalo-Nenets Autonomous Okrug.

“YANOS Refinery” refers to OJSC Slavneft-YANOS.

“Zapolyarneft” refers to Zapolyarneft LLC.

Presentation of Financial Information

Prior to 1 January 2012, the Group prepared its financial statements in accordance with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) and its functional and presentational currency was the U.S. dollar. From 1 January 2012, the Group prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”), and its functional and presentational currency is the Rouble.

The financial information of the Group included herein as at and for the years ended 31 December 2011, 2010 and 2009, unless otherwise indicated, has been derived from its audited consolidated financial statements prepared in accordance with U.S. GAAP (the “Audited U.S. GAAP Financial Statements”), as audited by the Group’s independent auditors, ZAO PricewaterhouseCoopers Audit (“PwC”). Interim financial information included herein, unless otherwise indicated, has been derived from the Group’s unaudited consolidated financial statements as at and for the three months ended 31 March 2012, prepared in accordance with IFRS, applicable to interim consolidated financial reporting (the “Unaudited IFRS Interim Condensed Consolidated Financial Statements” and, together with the Audited U.S. GAAP Financial Statements, the “Financial Statements”). In *Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*, the Group has presented a reconciliation from U.S. GAAP (reported in U.S. dollars) to IFRS (reported in Russian Roubles) of its income statement for each of the three months ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011, as well as its balance sheet as of 1 January, 31 March, 30 June, 30 September and 31 December 2011.

The Financial Statements are contained elsewhere in this Base Prospectus and should be read, where applicable, in conjunction with the relevant notes and auditor’s reports thereto.

This Base Prospectus does not present the Company’s consolidated historical financial information under a common set of accounting principles or a common presentational currency. As a result, the discussion and analysis of the Group’s results of operations and financial condition in this Base Prospectus compares its results of operations (i) for the years ended 31 December 2011, 2010 and 2009 under U.S. GAAP and presented in U.S. dollars; and (ii) and for the three-month period ended 31 March 2012 and 2011 under IFRS and presented in Russian Roubles. There are significant differences between U.S. GAAP and IFRS and, as a consequence, results of operations under U.S. GAAP are not necessarily comparable with results of operations under IFRS.

The International Accounting Standards Board (“IASB”) has ongoing projects that could result in the promulgation of additional IFRS principles or amendments to currently applicable IFRS principles. In the event that any such additional principles or amendments to current principles are implemented in future periods, the Unaudited IFRS Interim Condensed Consolidated Financial Statements may not be comparable to the Group’s consolidated financial statements prepared in future periods, unless they are restated in accordance with such additional principles or amendments to current principles. It is possible that the Group will be obliged to restate the Unaudited IFRS Interim Condensed Consolidated Financial Statements so that they are comparable with future periods. Furthermore, such additions to, or changes in, the IFRS principles could have a material impact on the Group’s results of operations and/or financial condition in future periods.

In making an investment decision, investors must rely upon their examination of the Group and the Financial Statements. Investors should consult professional advisers for an understanding of (i) the differences between U.S. GAAP and IFRS and how those differences might affect the financial information included in this Base Prospectus and (ii) the impact that future additions to, or amendments of, IFRS principles may have on the Group’s results of operations and/or financial condition and on the comparability of prior periods.

Certain parts of this Base Prospectus contain references to EBITDA and Adjusted EBITDA. In respect of the period covered by the Audited U.S. GAAP Financial Statements, EBITDA is defined as earnings before interest, income tax, depreciation and amortisation. In respect of the period covered by the Unaudited IFRS Interim Condensed Consolidated Financial Statements, EBITDA is defined as earnings before interest, income tax, net foreign exchange gain (loss), depreciation and amortisation. For all periods under review, Adjusted EBITDA represents the Group’s EBITDA and its share in the Equity Affiliates’ EBITDA. For a reconciliation of Adjusted EBITDA to the Group’s income before income taxes for the years ended 31 December 2011, 2010 and 2009, see *Note 22 to the Audited U.S. GAAP Financial Statements*; for a reconciliation of Adjusted EBITDA to the Group’s profit for the three months ended 31 March 2012 and 2011 see *Note 23 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*. EBITDA and Adjusted EBITDA are not measurements of performance under IFRS or U.S. GAAP and should not be considered by prospective investors as an alternative to (a) net profit/ (loss) as a measure of operating performance; (b) net cash flows from operating, investing and financing activities as a measure of the Group’s ability to meet its cash needs or (c) any other measure of performance under IFRS or U.S. GAAP. The Group believes that EBITDA and Adjusted EBITDA are relevant measures for assessing performance because they eliminate variances caused by the effects of differences in taxation, the amounts and types of capital employed and amortisation policies. However, because different accounting principles are applied in the preparation of financial statements from which EBITDA and Adjusted EBITDA have been calculated, EBITDA and Adjusted EBITDA are not comparable between the periods covered by the Audited U.S. GAAP Financial Statements and those by the Unaudited IFRS Interim Condensed Financial Statements. Since EBITDA and Adjusted EBITDA are not measures of performance under IFRS or U.S.

GAAP, all companies may not calculate EBITDA and Adjusted EBITDA on a consistent basis and the Group's presentation of EBITDA and Adjusted EBITDA may not be comparable to measures used by other companies under the same or similar names. Accordingly, undue reliance should not be placed on the EBITDA and Adjusted EBITDA data contained in this Base Prospectus.

Certain operational and statistical information relating to the Group's operations included herein is unaudited and has been derived from its financial statements and/or accounting records.

Oil and Gas Information

This Base Prospectus contains information concerning the Group's estimated proved, probable and possible oil and gas reserves that has been derived from reports of D&M and which are estimated in accordance with the following two sets of global standards of reserves measurement:

- PRMS standards (formerly called SPE, approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Engineers); and
- the standards of reserves measurement applied by the SEC, including such standards on the basis of reserves being calculated through the current licence period (the "SEC-LE basis") and such standards on the basis of reserves being calculated through the economic life of the fields (the "SEC-LOF basis").

Annex A ("Summary Reserves Report from DeGolyer and MacNaughton") to this Base Prospectus contains:

- a summary reserves report as of 31 December 2011 insofar as it relates to the review of the Group's oil and gas fields based on the SEC's reserves methodology; and
- a summary reserves report as of 31 December 2011 insofar as it relates to the review of the Group's oil and gas fields based the PRMS reserves methodology.

D&M is a Delaware corporation with offices at 5001 Spring Valley Road, Suite 800 East, Dallas, Texas 75244, United States of America. The firm's professional engineers, geologists, geophysicists, petrophysicists, and economists are engaged in the independent appraisal of oil and gas properties, evaluation of hydrocarbon and other mineral prospects, basin evaluations, comprehensive field studies, equity studies, and studies of supply and economics related to the energy industry.

The Group also present estimates of its reserves under the Russian reserves classification system, which is based on data approved by the relevant Russian governmental authorities. The Russian reserves system differs significantly from the SEC and PRMS reserves methodologies, in particular with respect to which and the extent to which commercial factors are taken into account in calculating reserves. Reserves that are calculated using different methods cannot be accurately reconciled.

PRMS standards differ in certain material respects from SEC standards. See "*Classification of Reserves*". The SEC standards permit oil and gas companies, in their filings with the SEC, to disclose only proved reserves, probable reserves and possible reserves, each term as defined by the SEC. This Base Prospectus contains data presented in accordance with PRMS standards, which the SEC's guidelines would prohibit the Group from including in filings with the SEC. Accordingly, information concerning descriptions of oil and gas reserves contained in this document may not be comparable to information required or permitted to be made public by U.S. or other international companies engaged in oil and gas producing activities and subject to the reporting and disclosure requirements of the SEC.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond the Group's control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserves estimates, the reserves amounts disclosed in this Base Prospectus may change as additional information becomes available. Prospective investors should not place undue reliance on the ability of the Reserves Reports to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems. See "*Classification of Reserves*".

Presentation of Reserves and Production Data

All numerical data regarding figures for production of crude oil presented in this Base Prospectus are presented in gross terms without any deduction for wastage or own use at the field unless otherwise stated by reference to net numerical data.

The following abbreviations have the following meanings as used in this Base Prospectus:

"bbl" means barrel(s);

"bcf" means billion cubic feet;

"bcm" means billion cubic metres;

“boe” means barrel of oil equivalent;
“bpd” means barrel per day;
“mmbbl” means million barrels;
“mmbd” means million barrels per day;
“mmboe” means million barrels of oil equivalent;
“mmboed” means million barrels of oil equivalent per day;
“mmtoe” means million tons of oil equivalent;
“mmtonnes” means million tonnes;
“tcf” means trillion cubic feet;
“tcm” means trillion cubic metres; and
“toe” means ton of oil equivalent.

Conversion of Hydrocarbon Volumetric Data

This Base Prospectus presents data relating to the Group’s production, refining and marketing operations, which is expressed in barrels. As is common in the reporting of hydrocarbon production in countries of the Commonwealth of Independent States (“CIS”), the Group maintains its internal records regarding such data in metric tonnes.

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of the Group’s oil fields. Crude oil purchased as well as other operational indicators expressed in barrels are translated from tonnes using a conversion rate of 7.33 barrels per tonne. Translations of cubic metres to cubic feet are made at the rate of 35.3147 cubic feet per cubic meter. Translations of barrels of crude oil into boe are made at the rate of one barrel per boe, and of cubic feet into boe at the rate of six thousand cubic feet per boe.

Rounding of Figures

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

In this Base Prospectus, references to “Russian Roubles”, “Roubles” and “RUB” are to the lawful currency of Russia; references to “U.S. dollars”, “USD”, “dollars” and “U.S.\$” are to the lawful currency of the United States of America; references to “£” are to the lawful currency of the United Kingdom and references to “€” and “EUR” are to the lawful currency of the member states of the EU that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

Solely for the convenience of the reader, this Base Prospectus contains certain translations from Roubles or other currencies into USD. These translations should not be construed as representations that the amounts actually represent such equivalent U.S. dollar amount or could be, or could have been, converted into U.S. dollars at the rate indicated as of the dates mentioned herein or at all.

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of Russia (“CBR”) for the relevant period. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other financial information presented in this Base Prospectus.

Period	<i>RUB per USD 1.00</i>			
	<i>High</i>	<i>Low</i>	<i>Period end</i>	<i>Period average⁽¹⁾</i>
2007	26.58	24.26	24.55	25.58
2008	29.38	23.13	29.38	24.86
2009	36.43	28.67	30.24	31.72
2010	31.78	28.93	30.48	30.37
2011	32.68	27.26	32.20	29.35
January 2012	31.93	30.36	30.36	31.24
February 2012	30.41	28.95	28.95	29.88
March 2012	29.67	29.02	29.33	29.38

Period	RUB per USD 1.00			
	High	Low	Period end	Period average ⁽¹⁾
April 2012.....	29.80	29.27	29.36	29.49
May 2012.....	32.45	29.37	32.45	30.80
June 2012.....	34.04	32.13	32.82	32.92
July 2012.....	32.99	31.95	32.19	32.50

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into Roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all. **The exchange rate between the Rouble and the U.S. dollar has fluctuated significantly during the periods covered by the Financial Statements. The CBR rate on 1 August 2012 was RUB 32.21 = USD 1.00.**

Industry and Market Data

In this Base Prospectus, the Group refers to information regarding its business, the business of its competitors and the market in which it operates and competes. The Group obtained this information in part from various third-party sources, such as the Central Dispatching Department of Fuel Energy Complex (“CDU TEK”) and Infotek-Consulting and in part from its own internal estimates (“Group data”). Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. The Group has relied on the accuracy of the information from industry publications, surveys and forecasts without carrying out an independent verification thereof and cannot guarantee their accuracy or completeness. Such information appears in the sections of this Base Prospectus entitled “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, and “*Business*”, among others. The Group confirms that such third-party information has been accurately reproduced, and as far as the Group is aware and is able to ascertain from information published by such third parties, no facts have been omitted from the information in this Base Prospectus that would render it inaccurate or misleading. See “*Risk Factors — Other Risks — The Group has not independently verified information it has received from third-party sources*”.

Some of the information contained in this Base Prospectus has been derived from the official data of Russian state agencies. Some of the official data and statistics published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to the potential inaccuracy of available official and public information.

In addition, in many cases, the Group has made statements in this Base Prospectus regarding the Russian oil industry and the Group’s position in this industry based on its own experience and investigation of market conditions. The Group cannot assure investors that any of its assumptions are accurate or correctly reflect its position in the industry, and its statements have not been verified by any independent sources.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “*Facility Agreement*” and “*Terms and Conditions of the Notes*” appearing elsewhere in this Base Prospectus.

Summary of Loans under the Programme

Each transaction will be structured as a Loan to the Company by the Issuer. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan (and such Loan will in effect provide 100% collateralization on the relevant Issue Date) for such Notes. Each Series will be constituted by a supplemental trust deed which is supplemental to a principal trust deed dated 2 August 2012 (together, the “Trust Deed”), each entered into between the Issuer and Deutsche Trustee Company Limited (the “Trustee”). Pursuant to the Trust Deed, the Issuer will: (i) charge as security certain of its rights and interests under such Loan to the Trustee for the benefit of the Noteholders of the corresponding Series of Notes; and (ii) assign its rights under the relevant Loan Agreement to the Trustee as security (other than certain Issuer Reserved Rights, as defined in the Trust Deed) (together, the “Security Interests”) for its payment obligations in respect of such Series of Notes. As a consequence of the assignment of the rights under the relevant Loan Agreement, the Trustee shall assume the rights of the Issuer (other than certain Issuer Reserved Rights, as defined in the Trust Deed) as set out in the relevant provisions of the Trust Deed. If and when the charge of certain of the Issuer’s rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such Loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

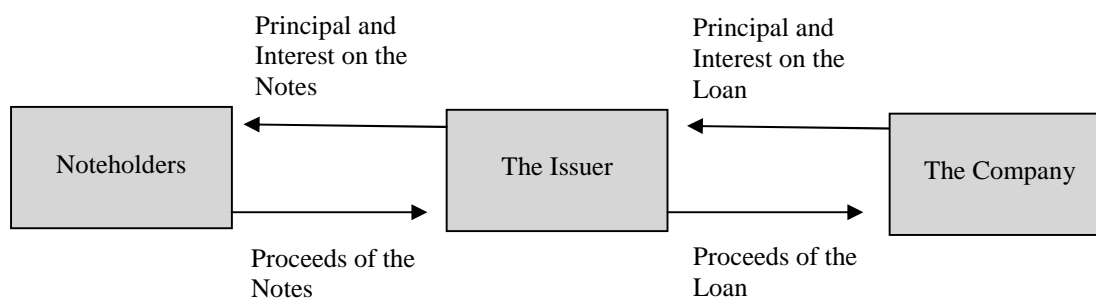
Each Series of Notes will be issued on a limited recourse basis and the Issuer will not have any obligations to the Noteholders of such Series of Notes save for to account to the Noteholders of the relevant Series for amounts equivalent to the amounts of payments of principal and interest received by the Issuer under the corresponding Loan if and to the extent received by it from the Company. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered pursuant to the corresponding Loan, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts. The Issuer will have no other financial obligations under the relevant Series of Notes and no assets of the Issuer (including the Issuer’s rights with respect to any Loan relating to any other Series of Notes) will be available to such Noteholders.

The Issuer will agree in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the relevant Loan Agreement unless the Trustee has given its prior written consent. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the relevant Loan Agreement, except as provided in the Trust Deed and except in respect of Issuer Reserved Rights (as defined in the Trust Deed). The Issuer will notify the relevant Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee’s consent in accordance with the Terms and Conditions of the relevant Notes, which amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of each Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from the Company pursuant to the relevant Loan Agreement. In addition, payments under each Loan Agreement will be made without deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the corresponding Loan Agreement, the Company must, except in certain limited circumstances, increase the amounts payable under such Loan Agreement by an amount equivalent to the required tax payment.

The Company may prepay each Loan at its principal amount, together with accrued and unpaid interest and additional amounts, if any, if (i) the Company is required to increase the amount payable or to pay additional amounts on account of the taxes in respect of which it is required to pay additional amounts under the relevant Loan Agreement or (ii) if it is required to pay additional amounts on account of certain costs incurred by the Issuer or (iii) if it becomes unlawful for the Issuer to allow the relevant Loan or the corresponding Notes to remain outstanding. Each Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the corresponding Notes.

Set forth below is a diagram of the structure for the Notes and the Loans:



Notes to be issued under the Programme and the corresponding Loans

Issuer:	GPN Capital S.A., a “ <i>société anonyme</i> ” incorporated in Luxembourg with limited liability with its registered office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Register of Commerce under the number B 168.434.
Company:	Joint Stock Company Gazprom neft with its registered office and business headquarters at 5A Galernaya Street, 190000 Saint Petersburg, Russian Federation.
Description:	Programme for the Issuance of Loan Participation Notes with limited recourse pursuant to which the Issuer may issue loan participation notes (the “Notes”).
Programme Size:	Up to USD 10,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Company may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). For the purpose of calculating the aggregate principal amount of Notes outstanding, the premium of Notes issued at a premium shall be added to their principal amount.
Arrangers:	Crédit Agricole CIB and J.P. Morgan.
Dealers:	Pursuant to the terms of the Dealer Agreement, the Issuer may appoint a person as a dealer under the Programme in respect of a Series of Notes. The Dealers in respect of a Series of Notes will be specified in the Final Terms or Series Prospectus relating to such Series of Notes.
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent:	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another principal agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying Agent” are to Deutsche Bank AG, London Branch or such other alternative principal paying agent, as the case may be.
Registrars:	Deutsche Bank Luxembourg S.A. in respect of the Regulation S Notes and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A, , unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to “Registrar” are to Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas, or such other alternative registrar, as the case may be.
Paying Agents:	Deutsche Bank AG, London Branch, Deutsche International Corporate Services (Ireland) Limited and Deutsche Bank Luxembourg S.A., and, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another paying agent is

appointed in respect of that Series. References in this Base Prospectus to “Paying Agents” are to Deutsche Bank AG, London Branch, Deutsche Bank International Corporate Services (Ireland) Limited, Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A, or such alternative paying agent, as the case may be.

Transfer Agents:

Deutsche Bank Luxembourg S.A., and, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms or Series Prospectus relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Transfer Agents” are to Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A or such alternative transfer agent, as the case may be.

Method of Issue:

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in a final terms document (each, “Final Terms”) which shall complete the Terms and Conditions of the Notes or a series prospectus (each, a “Series Prospectus”), which shall either complete or restate the Terms and Conditions of the Notes, as the case may be.

Issue Price of Notes:

Notes may be issued at their principal amount or at a discount or premium to their principal amount.

Status of the Notes:

Each Series of Notes will constitute limited recourse secured obligations of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, less any amounts in respect of the Issuer Reserved Rights, all as more fully described in “Terms and Conditions of the Notes—1. Status”.

Ranking of the Loans:

None of the Loans will be secured by any collateral. Each Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of the Company but will effectively rank below all of the Company’s secured debt and the debt and other liabilities of the Company’s subsidiaries.

Security:

Each Series of Notes will be secured by way of first fixed charge on:

- all principal, interest and other amounts payable by the Company to the Issuer as lender under the relevant Loan Agreement and the right to receive all sums payable by the Company under any claim, award or judgment relating to such Loan Agreement other than any amounts in respect of Issuer Reserved Rights; and
- all of the Issuer’s rights, title and interest in and to all sums of money held from time to time in an account specified in the relevant Final Terms or Series Prospectus, as the case may be, together with the debts represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed, in each case, other than certain Issuer Reserved Rights and any amounts in respect thereof.

Assignment of Rights:

The Issuer with full title guarantee will assign absolutely its rights under the relevant Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.

Form of the Notes:	The Notes will be issued in registered form. Each Series of Notes will be represented by a global unrestricted Note (each, a “Regulation S Global Note”) and, in the case of Rule 144A Notes, a global restricted Note (each, a “Rule 144A Global Note” and, together with any Regulation S Global Notes, the “Global Notes”), in each case without interest coupons. Global Notes will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Notes.
Clearing Systems:	DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Company, the Principal Paying Agent, the Registrar, the Trustee and the relevant Dealer(s).
Initial Delivery of Notes:	On or before the Issue Date for each Series, the Regulation S Global Notes shall be deposited with Deutsche Bank AG, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Company, the Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the relevant Dealers.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Company and the relevant Dealers.
Specified Denomination:	Notes will be in such denominations as may be specified in the relevant Final Terms save that unless otherwise permitted by the then current laws and regulations (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) will have a minimum denomination of £100,000 (or its equivalent in other currencies); (ii) Notes resold pursuant to Rule 144A Notes will be issued in denominations of USD 200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, Company and the relevant Dealer(s) and integral multiples of USD 1,000 in excess thereof; and (iii) the minimum denomination of any Notes shall in any event be EUR 100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
Rate of Interest:	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes:	Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms or Series Prospectus.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms, or Series Prospectus, as the case may be) as adjusted for any applicable margin.
Interest Periods and Interest	The length of the interest periods for the Notes and the applicable interest

Rates:	rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms, or Series Prospectus, as the case may be.
Redemption:	The relevant Final Terms, or Series Prospectus, as the case may be, will specify the basis for calculating the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants:	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, among other things, incur any other indebtedness for borrowed moneys (other than issuing loan participation notes for the purposes of making loans to the Company), or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See <i>"Terms and Conditions of the Notes—4. Restrictive Covenants"</i> .
Optional Redemption by the Noteholders upon a Change of Control:	Upon the occurrence of a Change of Control (as defined in the Loan Agreement) the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued and unpaid interest, if any, as more fully described in the "Loan Agreement" and "Terms and Conditions of the Notes."
Withholding Tax and Increased Costs:	<p>If any payments to be made by the Issuer under any Notes become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer or any taxing authority thereof, the Issuer will be required (subject to certain customary exemptions (including the ICMA Standard EU Tax exemption Tax Language) and subject to receiving funds from the Company in respect thereof) to pay an additional amount to compensate Noteholders for any amounts so withheld.</p> <p>If any payments to be made by the Company under a Loan Agreement become subject to any withholding tax imposed by the Russian Federation or the country of incorporation of the Issuer (or following the enforcement of the security created in the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs associated with the corresponding Loan, the Company will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.</p>
Early Redemption:	<p>If the Company is required to pay additional amounts under a Loan Agreement as described above, it will have the right to prepay the corresponding Loan, upon not less than 10 days' notice to the Issuer, in whole (but not in part) at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment at any time.</p> <p>If it becomes unlawful for the Issuer to fund a Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Notes to remain outstanding, as more fully described in the Loan Agreement, the Loan is to be repaid in full, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.</p> <p>In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such redemption.</p>

Relevant Events:	In the case of certain events (as defined in the Trust Deed) in relation to the Issuer the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Certain Restrictions and Covenants:	The Issuer will have the benefit of certain covenants made by the Company, including a negative pledge and restrictions on mergers and disposals, all as fully described in the relevant Loan Agreement.
Events of Default:	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by the Company to be due and payable.
Use of Proceeds of the Notes and the Loans:	The Issuer will lend the gross proceeds of the offering of each Series of Notes to the Company. The Company intends to use the proceeds, less any commission or expenses payable by it in connection with the relevant Series and the corresponding Loan, from such offering for general corporate purposes.
Further Issues:	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall further be consolidated and form a single Series with such existing Notes of the same Series.
Listing and Admission to Trading:	Application will be made, where specified in the relevant Final Terms or Series Prospectus, as the case may be, for a Series of Notes to be listed on the Official List of the Irish Stock Exchange and to admit them to trading on its regulated market or such other stock exchange as shall be specified in the relevant Final Terms or Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.
Rating:	<p>As of the date of this Base Prospectus, the Company had a long-term corporate rating of “BBB” with stable outlook from Standard & Poor’s, and a long-term corporate rating of “Baa3” with stable outlook from Moody’s. Standard and Poor’s and Moody’s are established in the EU and registered under the CRA Regulation. As such, Standard and Poor’s and Moody’s are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.</p> <p>A Series of Notes issued under the Programme may be rated or unrated. If a Series of Notes is rated, such rating will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Final Terms. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.</p>
Governing Law:	The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.
Selling Restrictions:	United Kingdom, United States, Russian Federation and any other jurisdiction relevant to any Series. See “ <i>Subscription and Sale</i> ”.

ERISA Considerations:

Notes should not be acquired by any “Benefit Plan Investor” within the meaning of Section 3(42) of ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled “*Certain ERISA Considerations*” and “*Transfer Restrictions*”.

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. Except as otherwise specified in the relevant Final Terms or Series Prospectus, the proceeds of such Loan, less any commissions or expenses payable by the Company in connection with such Series and the corresponding Loan, will be used for general corporate purposes.

CAPITALISATION

The following table shows the Group's capitalisation as of 31 March 2012. For further information regarding the Group's financial condition, see "*Summary Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements.

	As of 31 March 2012 <i>RUB million</i>
Short-term debt	
Bank loans	1,542
Other borrowings	8,648
Finance lease liabilities	1,000
Current portion of long-term debt	40,183
Total short-term debt and current part of long-term debt	51,373
Long-term debt	
Bank loans	118,021
Other borrowings	1,022
Bonds	82,866
Finance lease liabilities	3,234
Less current portion of debt	(40,183)
Total long-term debt	164,960
Equity attributable to the Group's owners	
Share capital	98
Treasury shares	(1,170)
Additional paid-in capital	9,833
Retained earnings	725,320
Other reserves	4,026
Equity attributable to the Group's owners	738,107
Total capitalisation	954,440

Other than as noted below, there have been no material changes in the capitalisation of the Group since 31 March 2012:

On 8 June 2012, the Company held its annual general meeting of shareholders (the "AGM"). The AGM approved an annual dividend of RUB 7.30 per ordinary share, or RUB 34.6 billion in total for the 2011 financial year.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Group as of the dates and for the periods indicated. The statement of financial position as of 31 December 2011, 2010 and 2009 and statement of income and cash flow information for the years ended 31 December 2011, 2010 and 2009, as reported under U.S. GAAP, have been extracted without material adjustment from the Audited U.S. GAAP Financial Statements. The statement of financial position as of 31 March 2012 and statement of income and cash flow information for the three months ended 31 March 2012 have been extracted without material adjustment from the Unaudited IFRS Interim Condensed Consolidated Financial Statements.

Prior to 1 January 2012, the Group prepared its financial statements in accordance with U.S. GAAP and its functional and presentational currency was the U.S. dollar. From 1 January 2012, the Group prepares its financial statements in accordance with IFRS, and its functional and presentational currency is the Rouble. See *“Presentation of Financial Information”*. Alongside the statement of income below for the years ended 31 December 2011, 2010 and 2009 and statement of financial position as of 31 December 2011, 2010 and 2009, as reported under U.S. GAAP and in USD, statement of income data for the year ended 31 December 2011 and statement of financial position data as of 31 December 2011 have been presented under IFRS, in Roubles. This unaudited financial information is extracted without material adjustment from *“Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements”*, in which the Group has presented a reconciliation from U.S. GAAP to IFRS of its statement of income for the periods ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011, as well as its statement of financial position as of 1 January, 31 March, 30 June, 30 September and 31 December 2011.

This Summary Consolidated Information, when read in conjunction with *“Note 25 of the Unaudited IFRS Interim Condensed Consolidated Financial Statements”*, contains all information necessary to present the Group’s statement of financial position as of 31 December 2011 and statement of comprehensive income for the year ended 31 December 2011 in a form consistent with that which the Group expects will be adopted in its 2012 annual financial statements. However, changes in accounting standards or legislation applicable to the Group’s 2012 annual financial statements could result in changes to the form of these financial statements that the Group cannot currently foresee. See *“Note 2 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements”* for a summary of significant accounting policies made in relation to the Group’s results as reported under IFRS. In addition, preparing financial statements in accordance with IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. See *“Note 3 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements”* for a summary of the critical accounting estimates, assumptions and judgments used.

All information in this Summary Consolidated Financial Information should be read in conjunction with *“Use of Proceeds”*, *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”* and the Financial Statements included in this Base Prospectus.

Selected Consolidated Unaudited Historical Financial Information for the Three Months Ended 31 March 2012 and 2011

The following tables set forth selected unaudited financial information for the Group as of and for the three months ended 31 March 2012 and 2011, prepared in accordance with IFRS or based on IFRS data.

Statement of income (IFRS)

**For the three months ended 31 March
(Unaudited)**

	2012	2011
	(RUB million)	
Revenue		
Sales.....	344,535	288,311
Less export duties and sales related excise tax	(66,559)	(56,292)
Total revenue from sales	277,976	232,019
Costs and other deductions		
Purchases of oil, gas and petroleum products	(87,571)	(65,498)
Production and manufacturing expenses.....	(27,042)	(24,042)
Selling, general and administrative expenses.....	(14,008)	(13,098)
Transportation expenses	(23,775)	(20,162)
Depreciation, depletion and amortisation	(14,070)	(12,097)
Taxes other than income tax	(64,283)	(46,976)
Exploration expenses	(355)	(522)
Total operating expenses	(231,104)	(182,395)
Other income, net.....	237	298
Operating profit	47,109	49,922
Share of profit of equity accounted investments	12,087	1,700
Net foreign exchange gain	2,552	3,813
Finance income	543	376
Finance expense.....	(2,338)	(3,019)
Total other income/expense	12,844	2,870
Profit before income tax	59,953	52,792
Current profit tax expense.....	(8,325)	(12,156)
Deferred profit tax (expense) benefit	(1,540)	132
Total income tax expenses	(9,865)	(12,024)
Profit for the period	50,088	40,768
Other comprehensive income/(loss):		
Currency translation differences	(6,602)	(3,478)
Share of other comprehensive income of associates	-	7
Cash flow hedge	9,517	7,345
Other comprehensive income for the period	2,915	3,874
Total comprehensive income for the period	53,003	44,642
Profit attributable to:		
- Gazprom Neft shareholders	48,373	39,990
- Non-controlling shareholders	1,715	778
Profit for the period	50,088	40,768
Total comprehensive income attributable to:		
- Gazprom Neft shareholders	53,339	44,875
- Non-controlling shareholders	(336)	(233)
Total comprehensive income for the period	53,003	44,642

Cash flow data (IFRS)

	For the three months ended 31 March (Unaudited)	
	2012	2011
	(RUB million)	
Net cash provided by operating activities	62,237	20,353
Net cash used in investing activities	(35,741)	(25,895)
Net cash provided by/(used in) financing activities	4,413	(1,544)
Increase/(decrease) in cash and cash equivalents	30,909	(7,086)
Effect of foreign exchange on cash and cash equivalents	(1,777)	(878)
Cash and cash equivalents at beginning of the period.....	29,435	34,928
Cash and cash equivalents at end of the period.....	58,568	26,964

Statement of financial position (IFRS)

	As of 31 March (Unaudited)	As of 31 December (Unaudited)
	2012	2011
	(RUB million)	
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	58,568	29,435
Short-term financial assets	25,095	18,951
Trade and other receivables	70,014	70,780
Inventories	77,426	74,201
Current income tax payments	9,605	12,377
Other current assets.....	90,187	89,518
Assets classified as held for sale	777	2,029
Total current assets.....	331,672	297,291
<i>Non-Current Assets</i>		
Property, plant and equipment	581,861	574,982
Goodwill and other intangible assets	38,096	40,194
Investments in associates and joint ventures.....	187,257	175,315
Long-term trade and other receivables.....	211	219
Long-term financial assets	13,213	9,487
Deferred income tax asset.....	12,053	11,934
Other non-current assets	9,072	8,737
Total non-current assets	841,763	820,868
Total Assets	1,173,435	1,118,159
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Short-term debt and current portion of long-term debt	51,373	44,330
Trade and other payables	43,841	41,196
Other current liabilities	25,153	25,165
Current income tax payable	1,299	1,994
Other taxes payable.....	41,441	30,089
Provisions for liabilities and charges	8,009	6,888
Liabilities associated with assets classified as held for sale.....	7	667
Total current liabilities	171,123	150,329
<i>Non-current liabilities</i>		
Long-term debt	164,960	176,979
Other non-current financial liabilities	999	6,824
Deferred income tax liability	33,721	32,443
Provisions for liabilities and charges	16,114	17,458
Other non-current liabilities	1,892	1,956
Total non-current liabilities	217,686	235,660
<i>Equity</i>		
Share capital	98	98
Treasury shares	(1,170)	(1,170)
Additional paid-in capital	9,833	10,022
Retained earnings.....	725,320	676,947
Other reserves	4,026	(940)
Equity attributable to the Company's owners	738,107	684,957
Non-controlling interest.....	46,519	47,213

Statement of financial position (IFRS)

	As of 31 March (Unaudited)	As of 31 December (Unaudited)
	2012	2011
Total equity	784,626	732,170
Total liabilities and shareholders' equity	1,173,435	1,118,159

Other financial information

	For the three months ended 31 March (Unaudited)	
	2012	2011
	(RUB million)	
EBITDA ⁽¹⁾	60,942	61,721
Adjusted EBITDA ⁽²⁾	79,262	71,636

(1) In respect of the period covered by the Unaudited IFRS Interim Condensed Consolidated Financial Statements, EBITDA is defined as earnings before interest, income tax, net foreign exchange gain (loss), depreciation and amortisation.

(2) Adjusted EBITDA represents the Group's EBITDA and its share in the Equity Affiliates' EBITDA. The table below presents a reconciliation of Adjusted EBITDA to the Group's profit for the period for the three months ended 31 March 2012 and 2011. See "Note 23 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
	(RUB million)	
Profit for the period	50,088	40,768
Total income tax expenses	9,865	12,024
Finance expense	2,338	3,019
Finance income	(543)	(376)
Depreciation, depletion and amortisation	14,070	12,097
Net foreign exchange gain	(2,552)	(3,813)
less Share of profit of equity accounted investments	(12,087)	(1,700)
Other income, net	(237)	(298)
EBITDA	60,942	61,721
Share of EBITDA in associates and joint ventures	18,320	9,915
Adjusted EBITDA	79,262	71,636

Selected Consolidated Historical Financial Information for the Years Ended 31 December 2011, 2010 and 2009

The following tables set forth selected financial information for the Group as of and for the years ended 31 December 2011, 2010 and 2009. Alongside the statement of income below for the years ended 31 December 2011, 2010 and 2009 and statement of financial position as of 31 December 2011, 2010 and 2009, as reported under U.S. GAAP and in USD, statement of income for the year ended 31 December 2011 and statement of financial position as of 31 December 2011 have been presented under IFRS, in Roubles. This unaudited financial information is extracted without material adjustment from “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”, in which the Group has presented a reconciliation from U.S. GAAP to IFRS of its statement of income for the periods ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011, as well as its statement of financial position as of 1 January, 31 March, 30 June, 30 September and 31 December 2011.

Statement of income

	For the year ended 31 December (IFRS) (unaudited) ¹	For the year ended 31 December (U.S. GAAP)		
	2011 (RUB million)	2011	2010 (USD million)	2009
Revenue²				
Refined products and oil and gas sales ²	N/A ²	43,268	32,176	23,773
Other ²	N/A ²	904	736	532
Sales	1,291,596²	N/A²	N/A²	N/A²
Less export duties and sales related excise tax	(261,973) ²	N/A ²	N/A ²	N/A ²
Total²	N/A²	44,172	32,912	24,305
Total revenue from sales²	1,029,803²	N/A²	N/A²	N/A²
Costs and other deductions				
Cost of purchased oil, gas and petroleum	314,199	10,817	7,459	5,335
Operating expenses ³	N/A ³	2,464	2,126	1,896
Selling, general and administrative expenses	51,430	1,779	1,660	1,287
Production and manufacturing expenses ³	107,523	N/A ³	N/A ³	N/A ³
Transportation expenses	81,935	3,391	2,886	2,262
Depreciation, depletion and amortisation	55,799	1,963	1,649	1,503
Export duties ²	N/A ²	8,092	6,631	3,948
Taxes other than income tax	208,196	8,038	5,301	4,027
Exploration expenses	2,105	74	91	147
Cost of other sales ³	N/A ³	575	436	297
Loss on sale of assets, net	-	-	-	142
Total operating expenses²	821,187²	37,193	28,239	20,844
Other income, net ⁴	925	N/A ⁴	N/A ⁴	N/A ⁴
Operating profit/income⁴	209,541	6,979⁴	4,673⁴	3,461⁴
Other (expense)/income				
Share in net income of equity affiliates	6,874	248	229	212
Gain on sales of investments ⁴	N/A ⁴	104	9	470
Finance/Interest income	1,956	66	48	108
Finance/Interest expense	(11,446)	(329)	(347)	(380)
Other expense, net ⁴	N/A ⁴	(65)	(309)	(1)
Foreign exchange gain/(loss), net	740	(172)	(24)	45
Total⁴	N/A⁴	(148)	(394)	454
Total other income/(expenses)⁴	(1,876)	N/A⁴	N/A⁴	N/A⁴
Income before income taxes	207,665	6,831	4,279	3,915
Current income taxes	33,728	1,173	884	801
Deferred income tax expense/(benefit)	6,268	71	(43)	13
Total	39,996	1,244	841	814
Profit for the period/Net income	167,669	5,587	3,438	3,101
Less: Net income attributable to non-controlling interest	7,307	(235)	(287)	(75)
Net income attributable to the Shareholders of the Company	160,362	5,352	3,151	3,026

- (1) See “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*” for the full reconciliation from U.S. GAAP to IFRS of the Group’s statement of income for the three months ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011.
- (2) To align the presentation of certain items of income and expenses with the requirements of IFRS, “Refined products and oil and gas sales” and “Other”, as reported under U.S. GAAP, have been reclassified into the line item “Sales” in the IFRS reconciliation. In addition, “Export duties” are presented as deductions from “Sales” in the IFRS reconciliation, rather than operating expenses. See “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.
- (3) To align the presentation of certain items of income and expenses with the requirements of IFRS, “Operating expenses” and “Costs of other sales, net”, as reported under U.S. GAAP, have been reclassified into the line item “Production and manufacturing expenses” in the IFRS reconciliation. See “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.
- (4) To align the presentation of certain items of income and expenses with the requirements of IFRS, “Gain on sales of investments” and “Other expense, net”, as reported under U.S. GAAP, have been reclassified into the line item “Other income, net” in the IFRS reconciliation. In addition, “Other income, net” is presented as a component of “Operating profit” in the IFRS reconciliation, rather than of “*Other (expense)/income*”. See “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.

Cash flow data (U.S. GAAP)

	For the year ended 31 December		
	(U.S. GAAP)		
	2011	2010	2009
	(USD million)		
Net cash provided by operating activities	6,001	5,391	3,499
Net cash used in investing activities	(5,474)	(4,852)	(4,908)
Net cash (used in)/provided by financing activities	(752)	(309)	185
Increase in cash and cash equivalents	(225)	230	(1,224)
Cash and cash equivalents at beginning of the period	1,146	869	2,079
Effect of foreign exchange on cash and cash equivalents	(7)	47	13
Cash and cash equivalents at end of the period	914	1,146	868

Statement of financial position

	As of 31 December (IFRS) (Unaudited) ¹	As of 31 December (U.S. GAAP)		
	2011	2011	2010	2009
	(RUB million)	(USD million)		
Assets				
<i>Current Assets</i>				
Cash and cash equivalents	29,435	914	1,146	868
Short-term investments ²	N/A ²	80	110	45
Short-term loans receivable ²	N/A ²	449	108	108
Accounts receivable, net ³	N/A ³	3,562	2,600	2,827
Inventories	74,201	2,343	1,874	1,596
Assets held for sale	2,029	81	189	-
Other current assets, net	89,518	1,642	1,112	1,147
Short-term financial assets ²	18,951	N/A ²	N/A ²	N/A ²
Trade and other receivables ³	70,780	N/A ³	N/A ³	N/A ³
Current income tax prepayments ⁴	12,377	N/A ⁴	N/A ⁴	N/A ⁴
Total current assets	297,291	9,071	7,139	6,591
Long-term investments and loans receivable ⁵	N/A ⁵	6,453	6,994	6,972
Property, plant and equipment, net	574,982	19,313	16,466	14,417
Goodwill and other intangible assets	40,194	1,275	1,274	1,317
Other non-current assets	8,737	357	569	491
Non-current deferred income tax assets	11,934	214	220	124
Investments in associates ⁴	175,315	N/A ⁴	N/A ⁴	N/A ⁴
Long-term trade and other receivables ⁴	219	N/A ⁴	N/A ⁴	N/A ⁴
Long-term financial assets ⁵	9,487	N/A ⁵	N/A ⁵	N/A ⁵
Total Assets	1,118,159	36,683	32,662	29,912
Liabilities and shareholders’ equity				
<i>Current liabilities</i>				
Short-term loans and current portion of long-term debt	44,330	1,277	1,740	2,148
Accounts payable and accrued liabilities ⁶	N/A ⁶	2,078	1,923	2,372
Income and other taxes payable ⁷	N/A ⁷	997	884	694
Dividends payable ⁶	N/A ⁶	48	293	416

Liabilities associated with assets held for sale	667	17	134	-
Trade and other payables ⁶	41,196	N/A ⁶	N/A ⁶	N/A ⁶
Other current liabilities ⁴	25,165	N/A ⁴	N/A ⁴	N/A ⁴
Current income tax payable ⁴	1,994	N/A ⁴	N/A ⁴	N/A ⁴
Provisions for liabilities and charges ⁴	6,888	N/A ⁴	N/A ⁴	N/A ⁴
Other taxes payable ⁷	30,089	N/A ⁷	N/A ⁷	N/A ⁷
Total current liabilities	150,329	4,417	4,974	5,630
Long-term debt	176,979	5,420	4,942	4,162
Asset retirement obligations ⁸	N/A ⁷	393	429	367
Other non-current/long-term liabilities	1,956	493	428	341
Deferred income tax liabilities	32,443	1,014	816	755
Other non-current financial liabilities ⁴	6,824	N/A ⁴	N/A ⁴	N/A ⁴
Provisions for liabilities and charges ⁸	17,458	N/A ⁸	N/A ⁸	N/A ⁸
Total liabilities	385,989	11,737	11,589	11,255
Equity				
Share Capital/Common stock (authorised, issued and outstanding: 4,741,299,639 shares, 0.0016 RUB par value)	98	2	2	2
Additional paid-in capital	10,022	731	677	573
Retained earnings	676,947	22,824	18,223	15,621
Less: Common stock held in treasury, at cost (23,359,582 shares as of 31 December 2011)	(1,170)	(45)	(45)	(45)
Other reserves ⁴	(940)	N/A ⁴	N/A ⁴	N/A ⁴
Total shareholders' equity	684,957	23,512	18,857	16,151
Non-controlling interest	47,213	1,434	2,216	2,506
Total equity	732,170	24,946	21,073	18,657
Total liabilities and shareholders' equity	1,118,159	36,683	32,662	29,912

- (1) See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements" for the full reconciliation from U.S. GAAP to IFRS of the Group's statement of financial position as of 1 January, 31 March, 30 June, 30 September and 31 December 2011.
- (2) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Short-term investments" and "Short-term loans receivable", as reported under U.S. GAAP, have been reclassified into the line item "Short-term financial assets" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (3) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Accounts receivable, net", as reported under U.S. GAAP, has been reclassified as "Trade and other receivables" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (4) "Current income tax prepayments", "Investments in associates", "Long-term trade and other receivables", "Other current liabilities", "Current income tax payable", "Provisions for liabilities and charges", "Other non-current financial liabilities" and "Other reserves" are not presented in the Audited U.S. GAAP Financial Statements, but have been reconciled to the presentation consistent with the Unaudited IFRS Interim Condensed Consolidated Financial Statements. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (5) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Long-term investments and loans receivable", as reported under U.S. GAAP, has been reclassified as "Long-term financial assets" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (6) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Accounts payable and accrued liabilities" and "Dividends payable", as reported under U.S. GAAP, have been reclassified into the line item "Trade and other payables" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (7) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Income and other taxes payable" as reported under U.S. GAAP, has been reclassified as "Other taxes payable" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".
- (8) To align the presentation of certain items of assets and liabilities with the requirements of IFRS, "Asset retirement obligations" as reported under U.S. GAAP, has been reclassified as "Provisions for liabilities and charges" in the IFRS reconciliation. See "Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

Other financial information:

	As of 31 December		
	2011	2010	2009
	(USD million)		
EBITDA ⁽¹⁾	8,942	6,322	5,106
Adjusted EBITDA ⁽²⁾	10,158	7,271	6,037

- (1) In respect of the period covered by the Audited U.S. GAAP Financial Statements, EBITDA is defined as earnings before interest, income tax, depreciation and amortisation
- (2) Adjusted EBITDA represents the Group's EBITDA and its share in the Equity Affiliates' EBITDA. The table below presents a reconciliation of Adjusted EBITDA to the Group's income before income taxes for the years ended 31 December 2011, 2010 and 2009. See "Note 22 to the Audited U.S. GAAP Financial Statements."

	For the year ended 31 December		
	2011	2010	2009
		(USD million)	
Adjusted EBITDA	10,158	7,271	6,037
Company's share in EBITDA of Equity Affiliates	(1,216)	(949)	(931)
Gain on sales of investments	104	9	470
Share in net income of equity affiliates	248	229	212
Foreign exchange (loss) / gain, net	(172)	(24)	45
Other expense, net	(65)	(309)	(143)
Interest expense	(329)	(347)	(380)
Interest income	66	48	108
Depreciation, depletion and amortization	(1,963)	(1,649)	(1,503)
Income before income taxes	6,831	4,279	3,915

2011 U.S. GAAP Reconciliation to IFRS

The tables below present a reconciliation from U.S. GAAP into IFRS of the statement of income for the year ended 31 December 2011 and statement of financial position as of 31 December 2011. This unaudited financial information is extracted without material adjustment from “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”, in which the Group has presented a reconciliation from U.S. GAAP to IFRS of its statement of income for the three months ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011, as well as of its statement of financial position as of 1 January, 31 March, 30 June, 30 September and 31 December 2011.

To align the presentation of certain items of assets and liabilities, income and expenses with the requirements of IFRS, the Group made a number of reclassifications from the Audited U.S. GAAP Financial Statements. The major reclassifications were:

- export duties and excise tax related to sales volumes are presented as deductions from sales under IFRS rather than operating expenses;
- part of transportation expenses (related to transportation to refineries) was transferred to production and manufacturing expenses; and
- tax prepayments were reclassified from trade and other receivables to other current assets and investments in associates were separated from long-term financial assets.

Reconciliation of comprehensive income for the period ended December, 31 2011 (Unaudited)

	Adjustments										Total impact of change to IFRS	Under IFRS
	Under previous U.S. GAAP, USD million	U.S. GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments		
Sales	44,172	1,297,666	-	-	-	-	-	-	(3,685)	(2,385)	(6,070)	1,291,596
- Less export duties and excise tax	(8,092)	(238,076)	(24,568)	-	-	-	-	-	-	851	(23,717)	(261,793)
Total revenue from sales	36,080	1,059,590	(24,568)	-	-	-	-	-	(3,685)	(1,534)	(29,787)	1,029,803
Costs and other deductions												
Purchases of oil, gas and petroleum products	(10,817)	(317,272)	1,573	-	1,295	-	-	-	-	205	3,073	(314,199)
Production and manufacturing expenses	(3,039)	(89,354)	(19,316)	-	-	-	-	-	500	647	(18,169)	(107,523)
Selling, general and administrative expenses	(1,779)	(52,482)	1,345	-	-	-	-	-	156	(449)	1,052	(51,430)
Transportation expenses	(3,391)	(99,542)	17,246	-	-	-	-	-	-	361	17,607	(81,935)
Depreciation, depletion and amortisation	(1,963)	(57,688)	-	(351)	1,334	-	-	-	906	-	1,889	(55,799)
Taxes other than income tax	(8,038)	(235,967)	24,745	-	-	-	-	-	2,155	871	27,771	(208,196)
Exploration expenses	(74)	(2,203)	(88)	-	-	-	-	-	-	186	98	(2,105)
Total operating expenses	(29,101)	(854,508)	25,505	(351)	2,629	-	-	-	3,717	1,821	33,321	(821,187)
Other income, net	39	1,212	1,556	-	(2,204)	-	-	-	-	361	(287)	925
Operating profit	7,018	206,294	2,493	(351)	425	-	-	-	32	648	3,247	209,541
Share of profit of equity accounted investments	248	7,234	(97)	-	-	-	-	-	-	(263)	(360)	6,874
Net foreign exchange (loss) gain	(172)	(4,700)	(1,556)	-	-	-	11,170	-	31	(4,205)	5,440	740
Finance income	66	1,844	97	-	-	-	-	-	-	15	112	1,956
Finance expense	(329)	(9,669)	(937)	-	-	(442)	-	(385)	(156)	143	(1,777)	(11,446)
Total income tax expenses	(187)	(5,291)	(2,493)	-	-	(442)	11,170	(385)	(125)	(4,310)	3,415	(1,876)
Profit before income tax	6,831	201,003	-	(351)	425	(442)	11,170	(385)	(93)	(3,662)	6,662	207,665
Current profit tax expense	(1,173)	(34,217)	-	-	-	-	-	-	-	489	489	(33,728)
Deferred profit tax expense	(71)	(2,018)	-	(2,846)	(1,066)	(88)	-	-	(250)	-	(4,250)	(6,268)
Total income tax expenses	(1,244)	(36,235)	-	(2,846)	(1,066)	(88)	-	-	(250)	489	(3,761)	(39,996)
Profit for the period	5,587	164,768	-	(3,197)	(641)	(530)	11,170	(385)	(343)	(3,173)	2,901	167,669
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	11,170	(385)	(374)	(3,507)	2,536	160,362
- Non-controlling interest	233	6,942	-	-	-	-	-	-	31	334	365	7,307
Consolidated statement of comprehensive income												
Other comprehensive income:												
- Currency translation differences	-	-	-	-	-	-	-	-	-	3,526	3,526	3,526
- Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7	7
- Cash flow hedge	-	-	-	-	-	-	(9,075)	-	-	-	(9,075)	(9,075)
Other comprehensive income for the period	-	-	-	-	-	-	(9,075)	-	-	3,533	(5,542)	(5,542)
Total comprehensive income for the period	5,587	164,768	-	(3,197)	(641)	(530)	2,095	(385)	(343)	360	(2,641)	162,127
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	2,095	(385)	(343)	(1,381)	(4,382)	153,444
- Non-controlling interest	233	6,942	-	-	-	-	-	-	-	1,741	1,741	8,683

Reconciliation of shareholders' equity as of December, 31 2011 (Unaudited)	Under previous U.S. GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		U.S. GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments	
Assets											
Current assets											
Cash and cash equivalents	914	29,427	-	-	-	-	-	-	-	8	29,435
Short-term financial assets	529	17,032	1,932	-	-	-	-	-	-	(13)	18,951
Trade and other receivables	3,562	114,683	(43,851)	-	-	-	-	-	-	(52)	70,780
Inventories	2,343	75,435	-	-	(1,234)	-	-	-	-	-	74,201
Current income tax prepayments	-	-	12,267	-	-	-	-	-	-	110	12,377
Other current assets	1,642	52,866	37,605	-	(66)	(887)	-	-	-	-	89,518
Assets classified as held for sale	81	2,608	-	-	(579)	-	-	-	-	-	2,029
Total current assets	9,071	292,051	7,953	-	(1,879)	(887)	-	-	-	53	297,291
Non-current assets											
Property, plant and equipment	19,313	621,803	1,352	(28,417)	(19,682)	-	-	-	-	(74)	574,982
Goodwill and other intangible assets	1,275	41,050	-	-	(856)	-	-	-	-	-	40,194
Investments in associates	-	-	195,269	-	(19,954)	-	-	-	-	-	175,315
Long-term trade and other receivables	-	-	225	-	-	-	-	-	-	(6)	219
Long-term financial assets	6,453	207,761	(196,042)	-	(2,269)	-	-	-	-	37	9,487
Deferred income tax asset	214	6,890	-	(460)	1,774	-	3,649	175	-	(94)	11,934
Other non-current assets	357	11,494	(1,578)	-	-	(1,411)	-	-	-	232	8,737
Total non-current assets	27,612	888,998	(774)	(28,877)	(40,987)	(1,411)	3,649	175	-	95	820,868
Total assets	36,683	1,181,049	7,179	(28,877)	(42,866)	(2,298)	3,649	175	-	148	1,118,159
Liabilities and shareholders' equity											
Current liabilities											
Short-term debt and current portion of long-term debt	1,277	41,114	3,574	-	-	(368)	-	-	-	10	44,330
Trade and other payables	2,126	68,449	(26,790)	-	-	-	-	-	-	(463)	41,196
Other current liabilities	-	-	23,246	-	-	-	-	-	-	1,919	25,165
Current income tax payable	-	-	1,996	-	-	-	-	-	-	(2)	1,994
Other taxes payable	997	32,100	(1,996)	-	-	-	-	-	-	(15)	30,089
Provisions for liabilities and charges	-	-	7,148	-	-	-	-	-	-	(260)	6,888
Liabilities of disposal groups classified as held for sale	17	547	-	-	-	-	-	-	-	120	667
Total current liabilities	4,417	142,210	7,178	-	-	(368)	-	-	-	1,309	150,329
Non-current liabilities											
Long-term debt	5,420	174,503	3,220	-	-	(707)	-	-	-	(37)	176,979
Deferred income tax liability	1,014	32,647	-	2,805	(3,182)	245	-	-	-	(72)	32,443
Other non-current financial liabilities	-	-	6,858	-	-	-	-	-	-	(34)	6,824
Provisions for liabilities and charges	393	12,653	3,703	-	-	-	-	1,109	-	(7)	17,458
Other non-current liabilities	493	15,873	(13,780)	-	-	-	-	-	-	(137)	1,956
Total non-current liabilities	7,320	235,676	1	2,805	(3,182)	(462)	-	1,109	-	(287)	235,660
Equity											
Share capital	2	64	-	-	34	-	-	-	-	-	98
Treasury shares	(45)	(1,449)	-	-	279	-	-	-	-	-	(1,170)
Additional paid-in capital	731	23,535	-	-	(13,513)	-	-	-	-	-	10,022
Retained earnings	22,824	734,844	-	(31,682)	(26,152)	(1,468)	768	(934)	-	-	676,947
Other reserves	-	-	-	-	-	-	2,881	-	-	(3,821)	(940)
Equity attributable to the Company's owners	23,512	756,994	-	(31,682)	(39,352)	(1,468)	3,649	(934)	-	(2,250)	684,957
Non-controlling interest	1,434	46,169	-	-	(332)	-	-	-	-	1,376	47,213
Total equity	24,946	803,163	-	(31,682)	(39,684)	(1,468)	3,649	(934)	-	(874)	732,170
Total liabilities and shareholders' equity	36,683	1,181,049	7,179	(28,877)	(42,866)	(2,298)	3,649	175	-	148	1,118,159

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Summary Consolidated Financial Information" and the Financial Statements included in this Base Prospectus. This review includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors" appearing elsewhere in this Base Prospectus.

Overview

The Group is one of the leading Russian vertically integrated oil companies, and by sales volume in 2011 was Russia's fifth largest producer of crude oil, third largest refiner of oil and oil products, second largest seller of fuel oil and diesel and largest seller of automobile and jet fuel, according to Interfax. The Group's three key areas of operations are exploring, developing, producing and selling crude oil and gas; refining oil and selling refined petroleum products; and distributing petroleum products through its retail outlets. Headquartered in St. Petersburg, the Group comprises over 70 production, refining and marketing companies in Russia, the CIS and abroad. Except where expressly stated otherwise, all Group operational information herein includes the share of any minority interest owners and also the Group's proportionate share of the respective results of operations of the Equity Affiliates.

The Group's principal upstream production operations are located among the largest oil and gas regions in Russia: Yamalo-Nenets, Khanty-Mansiysk, Omsk, Tomsk, Orenburg, Tyumen and Krasnoyarsk. As of 31 December 2011, the Group's proved reserves under PRMS classification were 8,320 mmbbl, including 6,790 mmbbl of crude oil and 9.2 tcf of gas. The Group is currently developing 42 fields (excluding those of the Equity Affiliates, as defined below) in Russia and Europe and taking part in joint exploration and development projects of oil fields in Iraq, Venezuela, Equatorial Guinea, Angola and Cuba. The Group's total hydrocarbon production was 108.5 mmbbl and 421.6 mmbbl for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively.

The Group's major downstream refining facilities are located in Omsk, Moscow and (through an Equity Affiliate) Yaroslavl in Russia and Pančevo and Novi Sad in Serbia. The Group refines more than 80% of the oil it produces, among the highest such industry ratios in Russia. As of 31 December 2011, the Group's refining capacity was 46.0 mmt/yr, and its refining throughput was 10.2 mmt/yr and 40.5 mmt/yr for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Omsk Refinery is one of the largest refineries in Russia as measured by processing volumes, producing high-quality refined products such as automotive petrol, fuel for diesel and jet engines, fuel oil, bitumen and aromatic hydrocarbons. The Moscow Refinery is the largest provider of oil products in Moscow and the Moscow region as measured by volume with a 40% market share, according to Petromarket.

The Group sells its products in Russia through its extensive sales network and also exports to over 50 countries. As of 31 March 2012, the Group's network of petrol stations consisted of approximately 1,670 stations in Russia, the CIS and Eastern Europe. To market petroleum products, the Group has established dedicated business units for the sales of jet fuel, bunkering and the production and sale of lubricants, including Gazprom Neft-Aero, Gazprom Neft-Marine Bunker and Gazprom Neft-Lubricants, respectively.

The Equity Affiliates contributed 35.0 mmbbl, or 32.2%, and 142.6 mmbbl, or 33.8%, of the Group's total hydrocarbon production for the three months ended 31 March 2012 and year ended 31 December 2011, respectively. In addition, as of 31 December 2011, the Group's share in the Equity Affiliates' proved hydrocarbon reserves under PRMS standards was 2,648 mmbbl, or 31.8% of the Group's total reserves, including 1,887 mmbbl of crude oil and 4.6 tcf of gas.

For the three months ended 31 March 2012, total consolidated revenues of the Group, as reported under IFRS, were RUB 277,976 million. Revenues from crude oil sales for the three months ended 31 March 2012 were RUB 53,265 million, or 19.2% of total revenues, while revenues from petroleum product sales for the three months ended 31 March 2012 were RUB 211,850 million, or 76.2% of total revenues. Revenues from export and sales on international markets (excluding export sales to the CIS) for the three months ended 31 March 2012 were RUB 115,585 million (RUB 40,480 million from crude oil, RUB 73,683 million from petroleum products and RUB 1,422 million from gas), or 41.6% of total revenues, while revenues from domestic sales for the three months ended 31 March 2012 were RUB 133,944 million (RUB 2,914 million from crude oil, RUB 126,066 million from petroleum products and RUB 4,964 million from gas), or 48.2% of total revenues. Export sales to the CIS for the three months ended 31 March 2012 were RUB 21,972 million (RUB 9,871 million from crude oil and RUB 12,101 million from petroleum products), or 7.9% of total revenues.

In 2011, total consolidated revenues of the Group, as reported under U.S. GAAP, were USD 44,172 million. Revenues from crude oil sales in 2011 were USD 11,756 million, or 27% of total revenues, while revenues from petroleum product sales in 2011 were USD 30,877 million, or 70% of total revenues. In 2011, revenues from export and sales on international markets (excluding export sales to the CIS) were USD 23,458 million (USD 10,347 million from crude oil, USD 12,929 million from petroleum products and USD 182 million from gas), or 53.1% of total revenues, while revenues from domestic sales in 2011 were USD 16,970 million (USD 168 million from crude oil, USD 453 million from gas and USD 16,349 million from petroleum products), or 38.4% of total revenues. Export sales to the CIS in 2011 were USD 2,840 million (USD 1,241 million from crude oil and USD 1,599 million from petroleum products), or 6.4% of total revenues.

Changes in Group Structure from 1 January 2009 to 31 March 2012

Set forth below is a description of significant changes in the Group's structure from 1 January 2009 to 31 March 2012.

Acquisition of Sibir Energy and the Moscow Refinery

Through the following acquisitions, the Group has acquired 99.96% of Sibir Energy, and as a result an effective interest of 77.72% in the Moscow Refinery as of 31 March 2012.

Initial Acquisition of Sibir Energy

In 2009, the Group paid total consideration of £1,057 million to acquire a 54.71% stake in Sibir Energy. This acquisition provided the Group with effective control of Sibir Energy and indirect control of the Moscow Refinery by increasing its effective interest in the Moscow Refinery from 38.63% to 59.75%.

Acquisition of Orton Oil Limited

In July 2009, the Group acquired 100% of Orton Oil Limited ("Orton") for USD 109 million in cash. Orton's sole significant asset was a 50% investment in Bennfield Limited ("Bennfield"), which held a 25.66% interest in Sibir Energy.

Acquisition of Bennfield

In May 2010, the Group acquired the remaining 50% stake in Bennfield for USD 741 million (of which USD 525 million was paid in cash and USD 216 million related to the forgiveness of a loan between the Group and the former holder of the shares acquired). The acquisition increased the Group's share in Bennfield to 100%.

Acquisition of Non-Controlling Interest in Sibir Energy

In February 2011, the board of directors of Sibir Energy adopted a resolution to reduce its share capital by 22.39%. Central Fuel Company, an affiliate of the Moscow government, withdrew its membership in Sibir Energy for consideration of USD 740 million paid by the Group in the first quarter of 2011, following which the Group's stake in Sibir Energy increased to 99.96%. Following the reduction in the share capital of Sibir Energy, the Group's effective interest in the Moscow Refinery increased from 69.02% to 77.72%.

Acquisition of NIS

In February 2009, the Group completed the acquisition of a 51% interest in NIS from the government of Serbia. As part of the acquisition, the Group undertook to the government of Serbia to invest a total of EUR 547 million by 2012 in the reconstruction and modernisation of processing capacities of NIS, improving the quality of refining to meet European emission standards and the environmental safety of the refining processes. The Group fully performed its investment obligations by April 2012. In January 2011, in accordance with the terms of the purchase agreement, the Group extended an offer to buy back shares of NIS' minority shareholders (a maximum of 19.12% of NIS equity was available for purchase). Approximately 8.4 million NIS shares were tendered for purchase, for which the Group paid USD 58 million, increasing its stake in NIS to 56.15%. The government of Serbia continues to hold a 29.88% stake in NIS, with the remaining 13.97% of shares held by minority shareholders and publicly-traded in Serbia.

Acquisition of STS-Service LLC

In February 2010, the Group completed the acquisition of 100% of the share capital of STS-Service LLC from Malka Oil for cash consideration of 820 million Swedish Kroner (approximately USD 114 million as of the date of acquisition). STS-Service owns "Block 87" in the Tomsk region, comprising the Zapadno-Luginetskoye, Nizhneluginetskoye and part of the Shinginskoye fields.

Acquisition of Orenburg Assets

In 2011, the Group purchased three assets that form a new production cluster in the Orenburg region. In August 2011, the Group acquired 100% of CJSC Centre of Science-Intensive Technologies, which holds exploration and production licences for the Tsarichanskoye field. In October 2011, the Group also completed its purchase of a 61.8% stake in Gazprom Neft-Orenburg from Gazprom. This entity holds the licence for the eastern part of the Orenburg field. Finally, in November and December 2011, the Group acquired an 87.5% stake in JSC Yuzhuralneftegaz, which owns a licence for the Kapitonovskoye field. Total consideration for the CJSC Centre of Science-Intensive Technologies and JSC Yuzhuralneftegaz amounted to USD 455 million. Total consideration for the stake in Gazprom Neft-Orenburg was RUB 3.6 billion (approximately USD 116 million).

Key Factors Affecting Operating Results

The following factors are key factors that have significantly affected the Group's results of operations and financial condition during the period under review, and the comparability thereof, or which the Group expects will significantly affect (or continue to affect) its operations in the future.

Price of Crude Oil and Petroleum Products

The prices for crude oil and petroleum products in the international and Russian markets are the primary factors affecting the Group's results of operations. Crude oil prices have historically been highly volatile and are sensitive to, among other things, OPEC production levels and the global economic environment. This volatility affects the Group's operations by influencing revenues and taxes, which in Russia are partly set based on market prices. See *"Risk Factors—Risks Relating to the Group and the Oil and Gas Industry — Global economic developments and Russian market conditions may adversely affect the Group's business, financial condition and results of operations"*, *"Risk Factors—Risks Relating to the Group and the Oil and Gas Industry — A substantial or extended decline in crude oil, refined products or petrochemical products prices would have a material adverse effect on the Group's business, financial condition and results of operations"*, and *"—Taxation"*.

There is no significant active commodity exchange market for Russian domestic crude oil and, as a result, prices are contract specific. While domestic crude oil prices trade significantly below international market prices, the netbacks generated from domestic sales are generally consistent with the netbacks generated from export sales. This primarily reflects the Russian tax regime of export duties and additional transportation costs associated with crude oil export.

The price of petroleum products on international and domestic markets is mainly shaped by international oil prices, supply and demand of oil products and competition within various product markets.

The following table represents average annual international and Russian domestic crude oil and petroleum product prices for the years ended 31 December 2011, 2010 and 2009, as well as for the three months ended 31 March 2012 and 2011.

		Three months ended 31 March		Year ended 31 December			% Change		
	Units	2012	2011	2011	2010	2009	1Q 2012/ 1Q 2011	2011/2010	2010/2009
International market									
Brent	USD/bbl	118.60	105.43	111.26	79.50	61.67	12.5%	40.0%	28.9%
Urals (Med/NWE)	USD/bbl	117.18	102.61	109.10	78.28	61.22	14.2%	39.4%	27.9%
Premium petrol (Med/NWE)	USD/tonne	1,052.56	922.24	983.88	735.26	578.99	14.1%	33.8%	27.0%
Naphtha(Med/NWE).....	USD/tonne	1,005.84	900.19	920.81	704.68	527.28	11.7%	30.7%	33.6%
Diesel fuel (Med/NWE).....	USD/tonne	1,010.26	913.43	958.97	689.65	536.98	10.6%	39.1%	28.4%
Gas oil 0.2% (Med/NWE)	USD/tonne	997.17	885.74	931.87	672.65	512.67	12.6%	38.5%	31.2%
Fuel oil 3.5% (Med/NWE).....	USD/tonne	678.45	550.90	602.55	436.17	341.66	23.2%	38.1%	27.7%
Domestic market ¹		RUB/tonne		USD/tonne					
High octane petrol	—	23,918	22,924	836.87	715.05	600.06	4.3%	17.0%	19.2%
Low octane petrol	—	21,987	21,029	751.86	569.15	494.07	4.6%	32.1%	15.2%
Diesel fuel.....	—	23,293	20,092	709.40	507.28	419.88	15.9%	39.8%	20.8%
Fuel oil.....	—	8,918	7,628	296.23	250.73	204.38	16.9%	18.1%	22.7%

Sources: Platts (international market), Kortes (domestic market)

(1) USD figures calculated using average CBR exchange rate for respective period.

Although the price of crude oil has steadily risen since 2009, prices have been volatile throughout the period under review. According to Platts, in the three months ended 31 March 2012, the average Brent oil price increased by 12.5%, to USD 118.60 per barrel, compared to USD 105.43 per barrel in the three months ended 31 March 2011. In 2011, the average Brent oil price increased by 40.0%, to USD 111.26 per barrel, compared to

average prices in 2010. In 2010 and 2009, the average Brent oil prices were USD 79.50 and 61.67 per barrel, respectively, reflecting increases following the gradual recovery from the global economic crisis.

In the three months ended 31 March 2012, the average price of diesel fuel in the international market was USD 1,010.26 per tonne, a 10.6% increase from the average price of USD 913.43 per tonne in the three months ended 31 March 2011. In 2011, the average price of diesel fuel in the international market was USD 958.97 per tonne, a 39.1% increase from 2010 prices. The average prices of diesel fuel in the international market in 2010 and 2009 were USD 689.65 and USD 536.98 per tonne, respectively. In the Russian domestic market, average diesel fuel prices in the three months ended 31 March 2012 were RUB 23,293 per tonne, a 39.8% increase from the average price per tonne in the three months ended 31 March 2011, of RUB 20,092 per tonne. In 2011, the average diesel fuel price on the Russian domestic market was USD 709.40 per tonne, a 39.8% increase from 2010 prices. In 2010 and 2009, the average Russian domestic market prices for diesel fuel were USD 507.28 and USD 419.88, respectively.

In the three months ended 31 March 2012, the average price of fuel oil in the international markets was USD 678.45 per tonne, an increase of 23.2% from the average price in the three months ended 31 March 2011, of USD 550.90 per tonne. In 2011, the average price of fuel oil in the international market was USD 602.55 per tonne, a 38.1% increase from the average 2010 price. The average prices of fuel oil in the international market in 2010 and 2009 were USD 436.17 and USD 341.66 per tonne, respectively. In the three months ended 31 March 2012, the average fuel oil price in the Russian domestic market was RUB 8,918 per tonne, representing a 16.9% increase from the average price of RUB 7,628 per tonne in the three months ended 31 March 2011. In 2011, the average fuel oil price in the Russian domestic market was USD 296.23 per tonne, an 18.1% increase from the average price of RUB 250.73 per tonne in 2010. In 2010 and 2009, the average price for fuel oil in the Russian domestic market was USD 250.73 per tonne and USD 204.38 per tonne, respectively.

Taxation

The Group is subject to numerous taxes, which have had and are expected to continue to have a significant impact on the Group's results of operations. Export duties payable on the sale of crude oil and refined petroleum products to markets outside of Russia and MET on crude oil and natural gas represent the most significant direct duties and taxes to which the Group is subject.

The following table sets forth the export customs duty for various products and the MET for crude oil and natural gas payable by the Group for the three months ended 31 March 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009.

		Three months ended 31 March		Year ended 31 December			% Change		
	Units	2012	2011	2011	2010	2009	1Q 12/ 1Q 11	2011/10	2010/09
Export Customs Duty									
Crude oil.....	USD/tonne	400.80	343.03	408.92	273.61	179.33	16.8%	49.5%	52.6%
Light petroleum products ¹	USD/tonne	264.50	234.33	274.08	196.66	133.13	12.9%	39.4%	47.7%
High octane petrol and naphtha ²	USD/tonne	360.70	—	—	—	—	—	—	—
Heavy petroleum products ³	USD/tonne	264.50	151.37	208.21	105.94	71.74	74.7%	96.5%	47.7%
Mineral Extraction Tax									
Crude oil.....	RUB/tonne	5,284	4,090	4,455	3,074	2,299	29.2%	44.9%	33.7%
Crude oil.....	USD/bbl	24	19	21	14	10	26.3%	49.7%	39.7%
Natural gas	RUB/Mcm	509/251 ⁴	—	237	147	147	—	61.2%	0.0%

(1) Light petroleum products in this category include diesel and jet fuel.

(2) Before May and June 2011, high octane petrol and naphtha, respectively, were taxed as light petroleum products. See “— *Export Customs Duty on Petroleum Products*”.

(3) Heavy petroleum products in this category include fuel oil.

(4) Beginning 1 January 2012, a lower rate of MET was applied to entities that do not own the central gas transportation system and that are not more than 50% owned directly or indirectly by the owners of the central gas transportation system. See “— *Natural Gas MET*”.

Export crude oil and petroleum product duties have been modified several times by the Russian Government in the periods under review, and the Group expects that they may be further amended in the future. See “— *Export Customs Duty on Crude Oil*”, “— *Export Customs Duty on Petroleum Products*”, and “*Risk Factors – Risks Relating to the Group and the Oil and Gas Industry – Recent amendments to Russian customs laws have shifted the tax dynamics and affected the profitability of the Group's upstream and downstream operations and further Russian tax amendments may negatively affect the Group's profitability*”. The 60-66 Amendments, effective as of October 2011, reduced the marginal export duty rate on crude oil from 65% to 60% and unified export duties for light and dark oil products at 66% of the export duty on crude oil by increasing the export duty on fuel oil from 46.7% of the export duty on crude and decreasing export duty on light distillates such as diesel and jet fuel from 67% of the export duty on crude oil. Petrol and naphtha export duty remained unchanged at 90% of the

export duty of crude oil. The 60-66 Amendments generally have had, and are expected to continue to have, a net positive effect on the Group's profitability.

The Russian Federation receives significant revenues from taxation of the Russian oil industry and is expected to continue monitoring events to determine whether the desired effects of altering the correlation between export duties on crude oil and oil products are actually achieved. Further changes to the Russian export duty regime could occur in an effort by the Russian Government to improve the profitability of upstream operations while incentivising Russian oil companies to invest in upgrading their refineries in order to encourage increased export of light distillates.

MET is levied on extracted crude oil, gas condensate, natural gas and a number of other mineral resources. Similar to export duties, MET rates have been revised several times by the Russian Government during the period under review and MET on crude oil has risen significantly since 2009.

In addition to export duties and MET, significant excise tax is levied on petroleum products produced by refineries in Russia and also on sales transactions by NIS in Serbia. See “– *Excise Tax*”. In Russia, excise taxes on oil products are established by the Russian Government and only apply to domestic sales and, because they are paid by the customer, represent an indirect tax on the Group's operations. An increase in excise tax rates generally exerts downward pressure on the domestic demand and price of oil products.

Social taxes, property, income and other taxes also affect the Group's results of operations.

Export Customs duty on Crude Oil

Export customs duty rates per tonne of crude oil are established on a monthly basis by the government of the Russian Federation. The rate is based on the average Urals crude oil price for the period from the 15th calendar day in the month to the 14th calendar day of the following month referred to as the “monitoring period”. The rate is effective from the first calendar day of the month following the monitoring period. During the period under review, through October 2011, customs duty rates were set according to the following formulae:

Urals price, USD bbl	Urals price ¹ , USD tonne	Export customs duty rate per tonne - calculation formula
Greater than 25	Greater than 182.50	USD 29.20 + 65.0% x (Urals price – USD 182.50)

(1) “Urals price” means the Urals (Med/NWE) crude oil average price.

The mechanism for setting the export customs duty rates results in a difference between the duty reference price and the actual Urals price for a given period, referred to as the “duty lag effect”. In periods when prices are rising, this normally results in a benefit to the Group as export duties are levied on a price per barrel which is lower than the actual market price per barrel as of that time or a positive duty lag effect. Conversely, falling prices normally result in a negative duty lag effect.

Crude oil sold for export to Kazakhstan, Tajikistan and Kyrgyzstan is not subject to export duties. In 2009, oil exports to Belarus were subject to decreased export customs duty, which was formulated based on a coefficient of 35.6%.

Effective October 2011, the 60-66 Amendments reduced the then-prevailing 65% export customs duty rate to 60%. See “— *Export Customs Duty on Petroleum Products*”.

Export Customs Duty on Petroleum Products

The Russian Government determines the export customs duty rate on oil products, based on the prices for crude on international markets. Oil products exported to Belarus, Kazakhstan and Kyrgyzstan are not subject to export customs duty.

Before 1 February 2011, Russian export customs duty rate for light and medium distillates was calculated according to the formula: $0.438 \times (\text{price} \times 7.3 - 109.5)$, where the price is the average monthly Urals price at Rotterdam and Mediterranean exchanges (dollar/barrel). Export customs duty rate for dark oil products is calculated according to the formula: $0.236 \times (\text{price} \times 7.3 - 109.5)$.

Beginning 1 February 2011, Russian export customs duty rates on petroleum products were calculated according to the formula: $R=K \times R_{\text{oil}}$, where R_{oil} = export customs duty rate per tonne of oil and K = a design factor with respect to certain categories of petroleum products defined in the following table:

	2011	2012	2013
Light and medium distillates.....	0.67	0.64	0.60
Dark oil products	0.467	0.529	0.60

In May 2011, a protective duty for petrol exports amounting to 90% of the crude oil export duty was introduced to stabilise the Russian domestic market. An equivalent 90% duty was introduced for naphtha exports in June 2011.

As of 1 October 2011, as a result of the 60-66 Amendments, the coefficient K was further amended according to the following table.

	<i>From 1 Oct. 2011 to 31 Dec. 2014</i>	<i>From 1 Jan. 2015</i>
Light and medium distillates.....	0.66	0.66
Dark oil products	0.66	1.00

Mineral Extraction Tax

MET is levied on extracted crude oil, gas condensate, natural gas and a number of other mineral resources.

From 1 January 2009, MET on crude oil (R) is calculated using the formula: $R = \text{base MET rate} * K_c * K_v$, where $K_c = (P-15) * D / 261$, where P is average monthly Urals oil price on the Rotterdam and Mediterranean exchanges (USD/bbl) and D is the average RUB/USD exchange rate. K_v is a factor that decreases the tax rate for fields where accumulated production is more than 80% of reserves. Depletion is measured by N/V , where N is the accumulated production volume from the field and V is the total reserves as recorded by Rosnedra of 1 January 2006 ($ABC_1 + C_2$ reserves volume using the Russian classification). For fields with depletion between 0.8 and 1, $K_v = 3.8 - 3.5 * N / V$. Where depletion is greater than 1, K_v is 0.3. In all other cases $K_v = 1$. As of 1 January 2012, a formula was introduced for small fields: $R = \text{base MET rate} * K_c * K_v * K_z$. K_z is a factor that decreases the tax rate where a field's initial reserves (designated by V_3 , defined as $ABC_1 + C_2$ reserves volume according to the state mineral reserves balance approved in the year proceeding the tax period) are lower than 5 mmt tonnes and depletion (N/V) is less than 0.05, $K_z = 0.125 * V_3 + 0.375$.

In November 2010, base MET rates for crude oil were changed in the above formula for the years 2011 to 2013 by Russian Federal Law No. 307 as follows:

	<i>2011</i>	<i>2012</i>	<i>2013</i>
Crude oil (RUB/tonne).....	419	446	470

Natural Gas MET

The Group began natural gas production in late 2010. MET rates for natural gas were unchanged from 1 January 2006 to 1 January 2012, at RUB 147 per thousand cubic metres of natural gas. Associated gas is not subject to MET. In accordance with Federal Law No. 307 of 27 November 2010, the following MET rates were established for natural gas for the years 2012 to 2014:

	<i>2012</i>	<i>2013</i>	<i>2014</i>
Natural gas, RUB/1,000m ³	251 ¹ /509	265 ¹ /582	278 ¹ /622

- (1) The lower rate of MET applies to tax payers that do not own the central gas transportation system and that are not more than 50% owned directly or indirectly by the owners of the central gas transportation system. Thus, while other gas producers benefit from these lower rates, the Group, as a subsidiary of Gazprom, pays the higher rates.

Excise Tax

Prior to 1 January 2011, excise taxes on oil products were set based on the type of oil product and on its octane level. In accordance with Russian Federal Law No. 306 of 27 November 2010, the following domestic petroleum products excise rates were established from 1 January 2011.

	Year ended 31 December			
	2011	2012 (Jan.-June)	2012 (Jul.-Dec.)	2013
	(RUB/tonne)			
Petrol				
Below Euro 3.....	5,995	7,725	8,225	10,100
Euro 3.....	5,672	7,382	7,882	9,750
Euro 4.....	5,143	6,822	6,822	8,560
Euro 5.....	5,143	6,822	5,143	5,143
Naphtha	6,089	7,824	7,824	9,617
Diesel fuel				
Below Euro 3.....	2,753	4,098	4,300	5,860

Euro 3	2,485	3,814	4,300	5,860
Euro 4	2,247	3,562	3,562	4,934
Euro 5	2,247	3,562	2,962	4,334
Motor oil	4,681	6,072	6,072	7,509

Rouble/U.S. Dollar Exchange Rate and Inflation

The following table sets out rates of inflation and foreign exchange movements for the periods indicated.

Inflation and RUB/USD exchange rate	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
Russian inflation rate.....	1.5%	3.8%	6.1%	8.8%	8.8%
Producer price index ("PPI").....	2.9%	7.0%	12.0%	16.7%	13.9%
RUB/USD exchange rate at period beginning	32.19	30.35	30.35	30.18	29.39
RUB/USD exchange rate at period end	29.33	28.43	32.19	30.47	30.24
Nominal appreciation/(depreciation) of Rouble.....	3.2%	5.0%	3.4%	4.3%	(21.7%)
Real Rouble appreciation/(depreciation)	3.9%	8.0%	8.8%	9.7%	(12.2%)

Sources: CBR and Rosstat (Russian inflation rate and PPI)

Over the past decade, the Rouble has at times fluctuated dramatically against the U.S. dollar. For the three years ending 31 December 2011, 2010 and 2009, the Group's management utilised the U.S. dollar as the Group's functional and reporting currency, as the majority of its revenues, debt and trade liabilities are either priced, incurred, payable or otherwise measured in U.S. dollars.

In the years ended 31 December 2011, 2010 and 2009, the effects of exchange rates movements on revenues, costs and working capital impacted the Group's reported results of operations, in particular with respect to the following items:

- Revenues: the Rouble-denominated portion of domestic product sales as well as sales of gas, gas products and gas condensate;
- Costs: the Rouble-denominated portion of operating, transportation costs, depreciation, depletion and amortisation costs, selling, general and administrative expenses and taxes;
- Rouble-denominated capital expenditures;
- Rouble-denominated debt; and
- Working capital: foreign exchange gains/losses from the period-end revaluation of the Rouble-denominated monetary working capital.

As of 1 January 2012, in connection with its transition to IFRS and in light of growing Rouble-denominated revenues, the Group changed its functional and reporting currency to the Rouble. Despite this change, the Group is still subject to the effects of fluctuation in the USD-Rouble exchange rate. For the periods under discussion, the Group's Rouble-denominated operating costs exceeded its Rouble-denominated revenues, a trend which is expected to continue into the future. During periods when the U.S. dollar was the Group's functional and presentation currency, the Group's financial results experienced a net benefit from Rouble depreciation against the U.S. dollar, as the strengthening U.S. dollar decreased Rouble-denominated costs and debt. Conversely, the Group experienced a net adverse effect during periods of Rouble appreciation against the U.S. dollar. Following the change of the Group's functional and presentation currency to the Rouble, a strengthening of the U.S. dollar as compared to the Rouble will lead to increases in USD-denominated revenue, which are expected to be greater than USD-denominated costs. In addition, the Group's USD-denominated debt will generate a foreign exchange loss during periods when the U.S. dollar strengthens against the Rouble.

To mitigate the effects of currency fluctuation, the Group uses certain foreign currency derivative instruments. See "Note 19 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

Transportation Costs of Crude Oil and Petroleum Products

Russia's main crude oil production regions are remote from the key crude oil and oil products markets. Therefore, access to markets by crude oil production companies operating in such regions is dependent on transport infrastructure and access to it. As a result, transportation costs are an important factor affecting the Group's results of operations. Changes in prices of transportation services charged by third-party providers can lead to increases in transportation costs and affect the Group's margins. In addition, an increase in the proportion of export sales could lead to an increase in transportation costs.

The majority of the Group's crude oil production in Russia is transported via the Transneft system, a state-owned monopoly network of crude oil trunk pipelines in Russia. The Group delivers its crude oil to the Transneft network mainly through its own field gathering pipelines and then through Transneft gathering systems.

Transneft does not operate a quality bank system and it is unable to segregate higher-quality crude oil from lower-quality crudes. As a result, exporters of lighter crude oils with low sulphur content are not able to secure a premium when transporting their product via the Transneft system. In order to secure this premium, Russian producers of higher quality crudes export these grades via rail and seasonal river barge shipments to sea terminals or CIS countries. While the costs of these options are higher than transportation via the Transneft system, they can be economically more attractive to producers because of the higher price that can ultimately be obtained from the end user. In addition, Russian Railways has made significant investments in their systems and offered tariff discounts on certain routes, making rail exports more attractive and also freeing capacity for the transportation of lower-quality crude oil on the Transneft system. Currently, however, pipeline transportation continues to be the most economically efficient mode of transportation for the Group's crude oil, and, as a result, the Group utilises rail and river transport to deliver its crude oil only in exceptional situations, typically when pipeline alternatives are unavailable. In contrast, while Transnefteprodukt operates a separate national pipeline network for refined products, the Group transports most of its refined products by rail.

Pipeline and railway transportation tariffs are defined annually by the FTS, which regulates tariff policy for natural monopolies such as Transneft and Russian Railways. The tariffs are dependent on transport destination, delivery volume, distance of transportation and several other factors. Changes in the tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, the investment needs of the owners of transportation infrastructure, other macroeconomic factors and the compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are revised by FTS at least once annually, and comprise dispatch, loading, transshipment, pumping and other tariffs.

The following table shows average transport costs per tonne (including all modes of transportation used) of the Group's crude oil for export and use at its refineries, as well as costs per tonne for the transportation of its petroleum products from the Omsk, Moscow and YANOS Refineries for export.

	Three months ended 31 March		Year ended 31 December			% Change		
	2012	2011	2011	2010	2009	1Q 2012 / 1Q 2011	2011/10	2010/09
	(RUB per tonne)							
Oil								
Export								
Pipeline.....	1,533.19	1,405.55	1,427.27	1,273.93	937.19	9.1%	11.8%	35.9%
CIS								
Pipeline.....	1,064.24	1,156.82	1,217.41	994.75	749.33	(8.0%)	22.4%	32.8%
Transportation to refineries								
Omsk Refinery.....	477.00	448.00	446.25	416.17	351.51	6.5%	7.2%	18.4%
Moscow Refinery.....	922.00	657.00	667.00	945.49	629.22	40.3%	(29.5%)	50.3%
YANOS Refinery.....	620.00	885.00	903.75	860.70	705.57	(29.9%)	5.0%	22.0%
Petroleum products								
Export from Omsk Refinery								
Petrol.....	2,186.07	2,041.85	2,105.71	1,964.06	1,718.86	7.1%	7.2%	14.3%
Fuel oil.....	3,478.73	3,181.80	3,224.28	3,036.06	2,717.20	9.3%	6.2%	11.7%
Diesel fuel.....	3,093.26	2,466.55	2,578.56	2,573.51	2,056.74	25.4%	0.2%	25.1%
Export from Moscow Refinery								
Petrol.....	1,562.01	1,486.81	732.56	1,569.28	1,263.82	5.1%	(53.3%)	24.2%
Fuel oil.....	1,474.96	1,469.63	1,340.74	1,287.96	1,075.39	0.4%	4.1%	19.8%
Diesel fuel.....	1,646.53	1,461.04	1,419.03	1,361.91	1,347.11	12.7%	4.2%	1.1%
Export from YANOS Refinery								
Petrol.....	1,526.00	1,525.74	1,407.73	1,699.24	1,574.17	0.0%	(17.2%)	7.9%
Fuel oil.....	1,459.97	1,371.19	1,368.56	1,269.50	1,130.93	6.5%	7.8%	12.3%
Diesel fuel.....	1,282.11	1,276.96	1,232.97	927.40	1,005.33	0.4%	32.9%	(7.8%)

The Group exported 19% of its crude oil production in the three months ended 31 March 2012 and 22%, 28% and 34% in 2011, 2010 and 2009, respectively, less than most of its vertically integrated Russian oil-producing peers. The following table shows the percentage of export crude oil volumes transported through various export hubs to non-CIS countries for the three months ended 31 March 2012 and for the years ended 31 December 2011, 2010 and 2009.

	Three months ended 31 March	Years ended 31 December		
	2012	2011	2010	2009
Druzhba pipeline	19.1%	21.7%	25.0%	23.1%
Eastern Siberia-Pacific Ocean oil pipeline	—	14.2%	14.0%	—
China (through Kazakhstan)	—	—	—	5.1%
Primorsk port	66.9%	49.4%	47.9%	45.2%
Novorossiysk port	7.3%	6.4%	3.7%	18.8%
Tuapse port	6.7%	8.3%	9.7%	7.8%
Total	100%	100%	100%	100%

In the three months ended 31 March 2012, the Group exported 66.9% of its total volume of crude oil through the port of Primorsk (48.8% in the three months ended 31 March 2011); 19.1% was exported through the Druzhba pipeline (20.0% in the three months ended 31 March 2011), principally to Germany and the Czech Republic; 7.3% was exported through the port of Novorossiysk (4.0% in the three months ended 31 March 2011); and 6.7% through the port of Tuapse (10.0% in the three months ended 31 March 2011); in the first quarter of 2012 there were no exports through the ESPO pipeline through the port of Kozmino (17.2% in the three months ended 31 March 2011). Of exports of crude oil to CIS countries in the first quarter of 2012, 64.3% were to Belarus (82.1% in the three months ended 31 March 2011) and 35.7% were to Kazakhstan (17.9% in the three months ended 31 March 2011).

In the year ended 31 December 2011, the Group shipped 49.4% of crude oil for export through the Baltic Sea port of Primorsk; 21.7% of crude oil was exported through the Druzhba pipeline mainly to Germany, the Czech Republic and the Polish port of Gdansk; 6.4% of crude oil was shipped from the Black Sea port of Novorossiysk; and 8.3% of crude oil was shipped from the Black Sea port of Tuapse (9.7% in the year ended 31 December 2010); 14.2% of crude oil was exported through the East Siberia – Pacific Ocean pipeline system from the Pacific port of Kozmino. Exports of crude to CIS countries in 2011 were: 89.0% to Belarus and 11.0% to Kazakhstan.

Production Volumes

The Group's revenues and costs are directly affected by the volume of crude oil, petroleum products and gas produced by the Group. The following table sets out certain key operational information for the Group for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		
	2012	2011	% Change
Operational information			
Hydrocarbon production (mmbbl)	108.51	102.61	5.7%
Crude oil production (mmbbl)	92.47	90.00	2.7%
Gas production (bcf)	96.27	75.63	27.3%
Production of petroleum products at refineries (mmtonnes)	9.60	8.94	7.4%

The following table sets out certain key operational information for the Group for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
Operational information¹					
Hydrocarbon production (mmbbl)	421.64	389.57	367.92	8.2%	5.9%
Crude oil production (mmbbl)	368.27	366.13	349.35	0.6%	4.8%
Gas production (bcf)	320.20	140.53	111.42	127.9%	26.1%
Production of petroleum products at refineries (mmtonnes)	38.34	35.63	31.51	7.6%	13.1%

(1) Operational results include Gazprom Neft-Orenburg from the date of its acquisition on 18 October 2011.

Crude oil

Total crude oil production for the Group increased 2.7% to 92.5 mmbbl in the three months ended 31 March 2012, compared to 90.0 mmbbl in the three months ended 31 March 2011. This change was mainly due to growth in crude oil production by consolidated subsidiaries, driven by increased development activity, primarily hydrofracturing and recompletion, and the acquisition of assets in Orenburg.

Total crude oil production for the Group was 368.3 mmbbl in 2011, representing a 0.6% increase from 2010 levels. The 2011 crude oil production levels primarily reflected increases in production from the Priobskoe oil field and the Orenburg assets. In 2010, the Group produced 366.1 mmbbl of crude oil, a 4.8% increase from 2009 levels of 349.4 mmbbl. The increase in 2010 was attributable to gains in crude oil production at the Priobskoe field due to an increase in drilling and hydraulic fracturing, as well as the full-year contribution of SPD.

Petroleum products at refineries

Production of petroleum products increased 7.4% in the three months ended 31 March 2012, to 9.6 mmtonnes, compared to 8.9 mmtonnes in three months ended 31 March 2011. The increase was primarily the result of an increase in petrol production, in particular Euro 4 and 5 grade petrol, which was in turn driven by a trend in Russia toward higher-quality fuel as well as an increase in bunkering fuel production.

Production of petroleum products increased 7.6% in 2011, to 38.3 mmtonnes, compared to 35.6 mmtonnes in 2010. The increase was primarily the result of gains realised from the Group's modernisation programmes at the Omsk and Moscow Refineries. Production of petroleum products increased 13.1%, to 35.6 mmtonnes in 2010, compared to 31.51 mmtonnes in 2009, chiefly as a result of the Group's increased stake in the Moscow Refinery following its acquisition of Sibir Energy.

Gas

Gas production increased in the three months ended 31 March 2012 by 27.3% to 96.27 bcf, compared to 75.6 bcf in the three months ended 31 March 2011. This increase was primarily attributable to production gains resulting from the acquisition of assets in Orenburg as well as the execution of projects to increase the utilisation of associated gas.

Gas production increased in 2011 by 127.9%, to 320.2 bcf, compared to 140.5 bcf in 2010. This increase was primarily attributable to gas production at newly acquired assets in Orenburg. Gas production in 2010 increased 26.1%, to 140.5 bcf, compared to 111.4 bcf in 2009, mainly due to increased gas production at the Muravlenkovskoye and Novogodneye fields in Yamalo-Nenets in the fourth quarter of 2010.

In addition, the Group's production levels also affect the level of its reserves and depreciation, depletion and amortisation. Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves, respectively. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are not amortised. Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics. Catalysts and reagents mainly used in the refining operations are treated as fixed assets. The assets are depreciated based on the straight-line method. See "Note 2 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

Recent Developments

The following developments have occurred between 31 March 2012, the end of the last financial period for which interim financial information has been published, and the date of this Base Prospectus.

2012 Annual General Meeting of Shareholders

On 8 June 2012, the Company held its AGM, which approved an annual dividend of RUB 7.30 per ordinary share, or RUB 34.6 billion in total for the 2011 financial year.

Transition from U.S. GAAP Financial Reporting to IFRS

Prior to 1 January 2012, the Group prepared its financial statements in accordance with U.S. GAAP and its functional and presentational currency was the U.S. dollar. From 1 January 2012, the Group prepares its

financial statements in accordance with IFRS, and its functional and presentational currency is the Rouble. See “*Presentation of Certain Information – Presentation of Financial Information*”. This Base Prospectus does not present the Group’s consolidated historical financial information under a common set of accounting principles or a common presentational currency. As a result, the discussion and analysis of the Group’s results of operations and financial condition in this Base Prospectus compares its results of operations (i) for the years ended 31 December 2011, 2010 and 2009 under U.S. GAAP and presented in U.S. dollars; and (ii) and for the three-month period ended 31 March 2012 and 2011 under IFRS and presented in Russian Roubles. There are significant differences between U.S. GAAP and IFRS and, as a consequence, results of operations under U.S. GAAP are not necessarily comparable with results of operations under IFRS. In Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements, the Group has presented a reconciliation from U.S. GAAP to IFRS of its income statement for the three months ended 31 March, 30 June and 30 September 2011 and the year ended 31 December 2011, as well as its balance sheet as of 1 January, 31 March, 30 June, 30 September and 31 December 2011. See “– *Critical Accounting Policies*” “*Summary Consolidated Financial Information*”, and “*Note 25 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.

Results of Operations for the Three Months Ended 31 March 2012 and 2011, as Reported under IFRS

Financial Overview

The following table sets out certain key financial information for the Group for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		
	2012	2011 (Unaudited)	% Change
Financial information			
Revenues (RUB million)	277,976	232,019	19.8%
Adjusted EBITDA ¹ (RUB million).....	79,262	71,636	10.6%
RUB per boe of production.....	730.5	698.1	4.6%
Profit attributable to the Company (RUB million).....	48,373	39,990	21.0%
RUB per boe of production.....	445.8	389.7	14.4%

(1) Adjusted EBITDA is the EBITDA of the Group plus its share in the EBITDA of the Equity Affiliates. For a reconciliation of Adjusted EBITDA to the Group’s profit for the three months ended 31 March 2012 and 2011, see “*Summary Consolidated Financial Information – Selected Consolidated Unaudited Historical Financial Information for the Three Months ended 31 March 2012 and 2011*” and “*Note 23 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.

The following table sets forth the components of the Group’s profit and total comprehensive income for the three months ended 31 March 2012 and 2011, as reported under IFRS.

	Three months ended 31 March, (Unaudited)	
	2012	2011
	(RUB million)	
Income statement data (IFRS)		
Revenue		
Sales	344,535	288,311
Less export duties and sales related excise tax	(66,559)	(56,292)
Total revenue from sales	277,976	232,019
Costs and other deductions		
Purchases of oil, gas and petroleum products	(87,571)	(65,498)
Production and manufacturing expenses	(27,042)	(24,042)
Selling, general and administrative expenses	(14,008)	(13,098)
Transportation expenses	(23,775)	(20,162)
Depreciation, depletion and amortisation	(14,070)	(12,097)
Taxes other than income tax	(64,283)	(46,976)
Exploration expenses	(355)	(522)
Total operating expenses	(231,104)	(182,395)
Other income, net	237	298
Operating profit	47,109	49,922
Share of profit of equity accounted investments	12,087	1,700
Net foreign exchange gain	2,552	3,813
Finance income	543	376
Finance expense	(2,338)	(3,019)
Total other income/expense	12,844	2,870
Profit before income tax	59,953	52,792

		Three months ended 31 March, (Unaudited)	
		2012	2011
		(RUB million)	
Current profit tax expense	(8,325)	(12,156)	
Deferred profit tax (expense) benefit	(1,540)	132	
Total income tax expenses	(9,865)	(12,024)	
Profit for the period	50,088	40,768	
Other comprehensive income/(loss):			
Currency translation differences	(6,602)	(3,478)	
Share of other comprehensive income of associates	-	7	
Cash flow hedge	9,517	7,345	
Other comprehensive income for the period	2,915	3,874	
Total comprehensive income for the period	53,003	44,642	
Profit attributable to:			
- Company shareholders	48,373	39,990	
- Non-controlling shareholders	1,715	778	
Profit for the period	50,088	40,768	
Total comprehensive income attributable to:			
- Company shareholders	53,339	44,875	
- Non-controlling shareholders	(336)	(233)	
Total comprehensive income for the period	53,003	44,642	

Revenue

The following table shows the Group's total revenues from crude oil, gas and petroleum product sales for the three months ended 31 March 2012 and 2011, as reported under IFRS. Revenues from international markets refer to crude oil, petroleum products and gas produced and sold outside of Russia, which, in the periods under review, reflected sales of NIS. Export revenues refer to crude oil and petroleum products produced in Russia and exported outside of Russia and the CIS. The Group's revenues from sales do not include revenues from the Equity Affiliates, which are accounted for in "Share of profit of equity accounted investments".

		Three months ended 31 March (Unaudited)			
		2012		2011	
		RUB million	% of revenue	RUB million	% of revenue
Crude oil					
Export	39,843	14.3%	40,259	17.4%	(1.0%)
Export sales.....	74,996	27.0%	74,167	32.0%	1.1%
Less related export duties.....	(35,153)	(12.7%)	(33,908)	(14.6%)	3.7%
International markets	637	0.2%	—	—	—
Export to CIS	9,871	3.6%	7,892	3.4%	25.1%
Domestic	2,914	1.1%	58	0.0%	4,924.1%
Total crude oil revenue	53,265	19.2%	48,209	20.8%	10.5%
Gas					
International markets	1,422	0.5%	986	0.4%	44.2%
Domestic	4,964	1.8%	3,582	1.5%	38.6%
Total gas revenue	6,386	2.3%	4,568	1.9%	39.8%
Petroleum products					
Export	59,529	21.3%	53,467	23.0%	11.3%
Export sales.....	85,445	30.7%	69,393	29.9%	23.1%
Less related export duties.....	(25,916)	(9.3)	(15,926)	(6.9)	62.7%
International markets	14,154	5.1%	12,896	5.6%	9.8%
Sales on international markets	18,200	6.6%	17,718	7.7%	2.7%
Excise ¹	(4,046)	(1.5%)	(4,822)	(2.1%)	(16.1%)
CIS.....	12,101	4.4%	8,768	3.8%	38.0%
Export sales and sales in CIS	13,545	4.9%	10,404	4.5%	30.2%
Less related export duties.....	(1,444)	(0.5%)	(1,636)	(0.7%)	(11.7%)
Domestic	126,066	45.4%	98,633	42.5%	27.8%
Total petroleum products revenue	211,850	76.2%	173,764	74.9%	21.9%
Other revenue.....	6,475	2.3%	5,478	2.4%	18.2%
Total revenue.....	277,976	100.0%	232,019	100.0%	19.8%

(1) Excise tax payable by NIS (calculated on revenues based on the volume of products sold).

The following table shows sales volumes of the Group's (excluding the Equity Affiliates) crude oil, gas and petroleum product sales for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March (Unaudited)				
	2012		2011		% Change
	% of total		% of total		
Crude oil (mmtonnes)					
Export and sales on international markets.....	3.01	73.8%	3.47	83.6%	(13.3%)
Export to CIS	0.82	20.1%	0.67	16.2%	22.4%
Domestic sales	0.25	6.1%	0.01	0.2%	2,400.0%
Total crude oil sales.....	4.08	100.0%	4.15	100.0%	(1.7%)
Gas domestic sales (bcm)	2.93	100.0%	2.37	100.0%	23.6%
Petroleum products (mmtonnes)					
Export	3.43	33.4%	3.22	33.3%	6.5%
Sales on international markets.....	0.50	4.9%	0.52	5.4%	(3.8%)
Export and sales in CIS	0.59	5.8%	0.49	5.1%	20.4%
Domestic sales	5.74	55.9%	5.43	56.2%	5.7%
Total petroleum products sales	10.26	100.0%	9.66	100.0%	6.2%

The following table shows average realised sales prices for the Group's (excluding the Equity Affiliates) crude oil and petroleum products for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March (Unaudited)		
	2012	2011	%
	RUB/tonne	RUB/tonne	Change
Crude oil			
Export and sales on international markets	25,127	21,374	17.6%
Export to CIS	12,038	11,779	2.2%
Petroleum products			
Export	24,911	21,551	15.6%
Sales on international markets	36,400	34,073	6.8%
Export and sales in CIS	22,958	21,233	8.1%
Domestic sales	21,963	18,164	20.9%

The following table shows revenues for the Group's (excluding the Equity Affiliates) petroleum products exports for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March (Unaudited)		
	2012	2011	%
	RUB million	RUB million	Change
High octane petrol	2,326	1,278	82.0%
Low octane petrol.....	456	360	26.7%
Naphtha	8,056	4,861	65.7%
Diesel.....	28,053	37,055	(24.3%)
Fuel oil.....	31,988	21,761	47.0%
Jet fuel	1,495	1,129	32.4%
Other.....	13,071	2,949	343.2%
Total petroleum product exports.....	85,445	69,393	23.1%

The following table shows revenues for the Group's (excluding the Equity Affiliates) petroleum products export and sales in the CIS for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March (Unaudited)		
	2012	2011	%
	<i>RUB million</i>	<i>RUB million</i>	<i>Change</i>
High octane petrol	4,043	5,260	(23.1%)
Low octane petrol.....	962	644	49.4%
Naphtha	638	560	13.9%
Diesel.....	3,806	2,247	69.4%
Fuel oil.....	504	-	-
Jet fuel	1,661	414	301.2%
Other.....	1,931	1,279	51.0%
Total petroleum product exports to the CIS	13,545	10,404	30.2%

The following table shows revenues for the Group's (excluding the Equity Affiliates) domestic sales of petroleum products for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March (Unaudited)		
	2012	2011	% Change
	<i>RUB million</i>	<i>RUB million</i>	
High octane petrol	48,386	38,170	26.8%
Low octane petrol.....	2,119	3,819	(44.5%)
Naphtha	6	—	—
Diesel.....	42,851	29,419	45.7%
Fuel oil.....	6,018	9,776	(38.4%)
Jet fuel	10,925	8,872	23.1%
Other.....	15,761	8,577	83.8%
Total petroleum product domestic sales	126,066	98,633	27.8%

Sales

The Group's total sales increased 19.5% in the three months ended 31 March 2012 to RUB 344,535 million, compared to RUB 288,311 million in the three months ended 31 March 2011, primarily due to higher prices for crude oil and petroleum products and increased sales volumes of petroleum products, particularly sales of high octane petrol, diesel and naphtha. Export and international markets sales of crude oil increased 2.0%, to RUB 75,633 million in the three months ended 31 March 2012, compared to RUB 74,167 million in the three months ended 31 March 2011, chiefly as a result of a 17.6% increase in prices in those markets, partially offset by a 18.4% decrease in sales volumes as more crude oil was processed at the Group's refineries, which experienced a throughput increase of 7.8% in the same period. Sales of crude oil exported to the CIS increased 25.1% in the three months ended 31 March 2012, to RUB 9,871 million, compared to RUB 7,892 million in the three months ended 31 March 2011, due to a 22.4% increase in sales volumes and a 2.2% increase in prices in those markets.

The Group's export sales of petroleum products in the three months ended 31 March 2012 increased 23.1%, to RUB 85,445 million, compared to RUB 69,393 million in the three months ended 31 March 2011, primarily due to a 15.6% increase in prices and a 6.5% increase in sales volumes, made possible by a 7.8% increase in refining throughput. In particular, export fuel sales increased 47.0%, to RUB 31,988 million in the three months ended 31 March 2012, compared to RUB 21,761 million in the three months ended 31 March 2011, driven by an increase in prices and a 14.6% increase in sales volumes. Export sales of petroleum products on international markets increased 9.8% in the three months ended 31 March 2012, to RUB 14,154 million, compared to RUB 12,896 million in the three months ended 31 March 2011, chiefly due to a 6.8% increase in prices, while sales volumes sold decreased 3.8%. Export sales and sales of petroleum products in the CIS increased 30.2% in the three months ended 31 March 2012, to RUB 13,545 million, compared to RUB 10,404 million in the three months ended 31 March 2011, primarily due to a 20.4% increase in sales volumes, in particular a 50% increase in diesel fuel volumes and a 133.3% increase in jet fuel volumes. Domestic petroleum products sales increased 27.8%, to RUB 126,066 million in the three months ended 31 March 2012, compared to RUB 98,633 million in the three months ended 31 March 2011, mainly due to growth in revenues from high octane petrol, bunkering fuel and diesel sales. In total, prices of domestic petroleum products grew 20.9% in the three months ended 31 March 2012, while sale volumes rose 5.7%.

For the three months ended 31 March 2012 and 2011, the Group reported two operating segments: upstream (exploration and production) and downstream (refining and marketing). See “*Note 23 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements*”.

Export duties and sales related excise tax

Export duties on crude oil increased 3.7%, to RUB 35,153 million, in the three months ended 31 March 2012, compared to RUB 33,908 million in the three months ended 31 March 2011. Export duties on petroleum products increased 62.7%, to RUB 25,916 million in the three months ended 31 March 2012, compared to RUB 15,926 million in the three months ended 31 March 2011. This increase was attributable to the introduction of the protective duties of 90% of the crude oil rate introduced on automobile petrol and naphtha in 2011, an increase in international crude prices based on which the duties are calculated and an increase in the export of heavy distillates. See “- *Key Factors Affecting Operating Results – Taxation*”. Excise tax paid by NIS on petroleum products sold in international markets, which is calculated based on sales volumes, decreased 16.1%, to RUB 4,046 million, in the three months ended 31 March 2012, compared to RUB 4,822 million in the three months ended 31 March 2011, due to lower sales in the first three months of 2012. Export duties on petroleum products sold in the CIS decreased 11.7%, to RUB 1,444 million, in the three months ended 31 March 2012, compared to RUB 1,636 million in the three months ended 31 March 2011, primarily due to a geographical shift in sales to Kazakhstan and Belarus, for which there is no export duty.

Total revenue from sales

For the reasons described above, the Group’s total revenue in the three months ended 31 March 2012 increased 19.8%, to RUB 277,976 million, compared to RUB 232,019 million in the three months ended 31 March 2011.

Purchases of oil, gas and petroleum products

The Group’s cost of purchased oil, gas and petroleum in the three months ended 31 March 2012 increased 33.7%, to RUB 87,571 million, compared to RUB 65,498 million in the three months ended 31 March 2011, primarily due to higher crude oil and petroleum product prices and larger purchased volumes.

Production and manufacturing expenses

The following table shows a breakdown of the Group’s production and manufacturing expenses for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		
	2012	2011	% Change
	RUB million	RUB million	
Upstream expenses	11,730	11,124	5.4%
RUB per boe of production	159	164	(2.7%)
Downstream expenses	7,512	7,082	6.1%
Refining expenses at refineries	6,469	6,320	2.4%
RUB per boe	87	91	(5.1%)
Lubricants manufacturing expenses	1,043	762	36.9%
Transportation expenses to refineries	6,399	4,899	30.6%
Other	1,401	937	49.5%
Total production and manufacturing expenses	27,042	24,042	12.5%

The Group’s production and manufacturing expenses in the three months ended 31 March 2012 increased 12.5%, to RUB 27,042 million, compared to RUB 24,042 million in the three months ended 31 March 2011. Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of extraction equipment, labour costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at upstream subsidiaries. Upstream expenses increased 5.4% in the three months ended 31 March 2012, to RUB 11,730 million, largely due to inflation and an 8.4% increase in hydrocarbon production volumes at the Group’s consolidated subsidiaries. The Group’s average hydrocarbon extraction costs per boe decreased from RUB 164 to RUB 159, or 2.7%, as a result of cost optimisation programmes including measures such as the closure of non-profitable wells, the use of energy-efficient pumps and the optimisation of repair schedules.

Refining expenses include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs. The Group’s refining expenses increased 2.4%, to RUB 6,469 million in the three months ended 31 March 2012, primarily due to a 7.8% increase in refining throughput. Average refining expenses per boe decreased from RUB 91 to RUB 87, or 5.1%, as a result of cost optimisation programmes.

Transportation expenses to refineries increased 30.6%, to RUB 6,399 million, in the three months ended 31 March 2012, primarily as a result of increased volumes transported.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses include selling and distribution expenses, expenses related to operation of the Group's retail network, wages, salaries (except wages and salaries at production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charitable giving, allowances for doubtful accounts, and other expenses. Selling, general and administrative expenses increased 6.9% in the three months ended 31 March 2012, to RUB 14,008 million, compared to RUB 13,098 million in the three months ended 31 March 2011, primarily due to business expansion, chiefly an increase in premium sales (jet fuel, bunkering fuel, petrol, motor oils, etc.) and inflation.

Transportation expenses

The Group's transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railroad, shipping, handling, and other transportation costs. Transportation expenses increased 17.9% in the three months ended 31 March 2012, to RUB 23,775 million, compared to RUB 20,162 million in the three months ended 31 March 2011, primarily due to higher railway transport tariffs and increased sales volumes. See " – Key Factors Affecting Operating Results – Transportation Costs of Crude Oil and Petroleum Products".

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses include depletion of oil and gas producing assets and depreciation of other fixed assets. Depreciation, depletion and amortisation increased 16.3% in the three months ended 31 March 2012, to RUB 14,070 million, compared to RUB 12,097 million in the three months ended 31 March 2011, primarily due to growth in depreciable assets related to the Group's capital expenditure programme.

Taxes other than income taxes

The following table shows a breakdown of the Group's taxes other than income taxes for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		
	2012	2011	% Change
	RUB million	RUB million	
MET	39,878	29,794	33.8%
Excise tax	19,793	12,690	56.0%
Property tax	1,683	1,514	11.2%
Other taxes.....	2,929	2,978	(1.6%)
Total taxes other than income taxes.....	64,283	46,976	36.8%

Taxes other than income taxes increased 36.8% in the three months ended 31 March 2012, to RUB 64,283 million, compared to RUB 46,976 million in the three months ended 31 March 2011. MET increased 33.8% in the three months ended 31 March 2012 due to increases in tax rates introduced from 1 January 2012 in Russia. MET for gas extraction doubled, while MET for oil extraction changed in line with higher crude oil price. Excise taxes increased 56.0% in the three months ended 31 March 2012 due to increases in tax rates and higher production volumes. See " – Key Factors Affecting Operating Results – Taxation".

Exploration expenses

Exploration expenses, which include exploration-related expenses that do not meet capitalisation criteria, including dry holes expenditures and reserves assessment expenses, decreased 32.0%, to RUB 355 million in the three months ended 31 March 2012, compared to RUB 522 million in the three months ended 31 March 2011. This decrease was due to the fact that no wells that resulted in a dry hole were drilled in the first quarter of 2012.

Other income, net

Other income, which comprises disposal of property, plant and equipment, as well as materials, decreased 20.5%, to RUB 237 million in the three months ended 31 March 2012, compared to RUB 298 million in the three months ended 31 March 2011. This decrease primarily was the result of lower levels of disposals.

Operating profit

For the reasons described above, operating profit decreased 5.6% in the three months ended 31 March 2012, to RUB 47,109 million, compared to RUB 49,922 million in the three months ended 31 March 2011.

Share of profit of equity accounted investments

The Group's share of profit of equity accounted investments increased RUB 10,387 million, to RUB 12,087 million in the three months ended 31 March 2012, from RUB 1,700 million in the three months ended 31 March 2011. This increase was due to the adoption of the 60-66 Amendments in the fourth quarter of 2011, which led to higher domestic prices for crude oil, and consequently to an increase in the profit of the Equity Affiliates selling crude oil domestically.

Net foreign exchange gain

The Group's net foreign exchange gain decreased 33.1%, to RUB 2,552 million, in the three months ended 31 March 2012, compared to RUB 3,813 million in the three months ended 31 March 2011. This decrease primarily resulted from less volatility in the exchange rates underlying assets and liabilities held by the Group in foreign currencies. The Group uses derivative instruments to manage its exposure to changes in foreign currency exchange rates. In the Unaudited IFRS Interim Condensed Consolidated Financial Statements, these derivative instruments are recorded at fair value in the consolidated statement of financial position as other financial assets or liabilities. Changes in the fair value of the derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised in profit and loss. See "Note 19 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

Finance income

Finance income increased 44.4% in the three months ended 31 March 2012, to RUB 543 million, compared to RUB 376 million in the three months ended 31 March 2011, primarily due to increases in cash and deposits in banks.

Finance expense

Finance expense decreased 33.1% in the three months ended 31 March 2012, to RUB 2,552 million, compared to RUB 3,813 million in the three months ended 31 March 2011, primarily due to the Group's success in reducing its effective interest rates on its borrowings.

Total other income/ (expense)

For the reasons outlined above, the Group's total other income increased RUB 9,974 million, or 247.5%, to RUB 12,844 million in the three months ended 31 March 2012, compared to RUB 2,870 million in the three months ended 31 March 2011.

Profit before income tax

For the reasons outlined above, the Group's profit before income taxes increased 13.6% in the three months ended 31 March 2012, to RUB 59,953 million, compared to RUB 52,792 million in the three months ended 31 March 2011.

Current profit tax expense

The Group's current profit tax expense decreased 31.5% in the three months ended 31 March 2012, to RUB 8,325 million, compared to RUB 12,156 million in the three months ended 31 March 2011, primarily due to the application of a decreased income tax rate at Noyabrskneftegaz in the three months ended 31 December of 2011.

The Group's effective income tax rate was 16.5% for the three months ended 31 March 2012, compared to 22.8% in the three months ended 31 March 2011. The Group's effective tax rate, which is lower than the Russian statutory income tax rate, reflects the impact of lower income tax rates for certain of its subsidiaries under applicable Russian regional tax laws.

Deferred profit tax (expense) benefit

The Group recorded a deferred profit tax expense of RUB 1,540 million in the three months ended 31 March 2012, compared to a benefit of RUB 132 million in the three months ended 31 March 2011. This change was a result of an accelerated depreciation coefficient used by certain subsidiaries in the fourth quarter of 2011 and first quarter of 2012.

Total income tax expense

For the reasons described above, the Group's total income tax expense decreased 18.0% in the three months ended 31 March 2012, to RUB 9,865 million, compared to RUB 12,024 million in the three months ended 31 March 2011.

Profit for the period

For the reasons described above, the Group's profit for the three months ended 31 March 2012 increased 22.9%, to RUB 50,088 million, compared to RUB 40,768 million for the three months ended 31 March 2011.

Results of Operations for the Years Ended 31 December 2011, 2010 and 2009, as Reported Under U.S. GAAP

Financial Overview

The following table sets out certain key operational and financial information for the Group for the years ended 31 December 2011, 2010 and 2009, as reported under U.S. GAAP or based on U.S. GAAP data.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
Financial information¹					
Revenues (USD million)	44,172	32,912	24,305	34.2%	35.4%
Adjusted EBITDA ² (USD million).....	10,158	7,271	6,037	39.7%	20.4%
USD per boe of production.....	24.1	18.7	16.4	28.9%	14.0%
Net income attributable to Company (USD million)	5,352	3,151	3,026	69.9%	4.1%
USD per boe of production.....	12.7	8.1	8.2	56.8%	(1.2%)
Net cash provided by operating activities (USD million).....	6,001	5,391	3,499	11.3%	54.1%
USD per boe of production.....	14.2	13.8	9.5	2.9%	45.3%

- (1) The financial data include Gazprom Neft-Orenburg for all periods. Gazprom Neft-Orenburg was acquired from Gazprom. In accordance with U.S. GAAP, the acquisition was classified as carried out under common control and the financial data were adjusted retrospectively. The financial results of Gazprom Neft-Orenburg as a separate entity are provided in Note 3 to the 2011 U.S. GAAP Financial Statements.
- (2) Adjusted EBITDA is the EBITDA of the Company, including its share in the EBITDA of the Equity Affiliates. For a reconciliation of Adjusted EBITDA to the Group's income before income taxes for the years ended 31 December 2011, 2010 and 2009, see "Summary Consolidated Financial Information – Selected Consolidated Historical Financial Information for the Years Ended 31 December 2011, 2010 and 2009", and "Note 22 to the Audited U.S. GAAP Financial Statements".

The following table sets forth the components of the Group's net profit for the periods indicated, as reported under U.S. GAAP.

	Year ended 31 December		
	2011	2010 (USD million)	2009
Income statement data			
Revenue			
Refined products and oil and gas sales	43,268	32,176	23,773
Other	904	736	532
Total	44,172	32,912	24,305
<i>Costs and other deductions</i>			
Cost of purchased oil, gas and petroleum	10,817	7,459	5,335
Operating expenses	2,464	2,126	1,896
Selling, general and administrative expenses	1,779	1,660	1,287
Transportation expenses	3,391	2,886	2,262
Depreciation, depletion and amortisation	1,963	1,649	1,503
Export duties	8,092	6,631	3,948
Taxes other than income tax	8,038	5,301	4,027
Exploration expenses	74	91	147
Cost of other sales	575	436	297
Loss on sale of assets, net	-	-	142
Total	37,193	28,239	20,844
Operating income	6,979	4,673	3,461
<i>Other (expense)/income</i>			
Share in net income of equity affiliates	248	229	212
Gain on sales of investments	104	9	470
Interest income	66	48	108
Interest expense	(329)	(347)	(380)
Other expense, net	(65)	(309)	(1)
Foreign exchange (loss)/gain, net	(172)	(24)	45
Total	(148)	(394)	545
<i>Income before income taxes</i>	6,831	4,279	3,915
Provision for income taxes	1,173	884	801
Deferred income tax expense/(benefit)	71	(43)	13
Total	1,244	841	814
<i>Net income</i>	5,587	3,438	3,101
Less: Net income attributable to non-controlling interest	(235)	(287)	(75)
<i>Net income attributable to the Company</i>	5,352	3,151	3,026

Revenue

The following table shows the Group's revenues from crude oil, gas and petroleum product sales for the years ended 31 December 2011, 2010 and 2009. Revenues from international markets refer to crude oil, petroleum products and gas produced and sold outside of Russia, which, in the periods under review, reflected sales of NIS. Export revenues refer to crude oil and petroleum products produced in Russia and exported outside of Russia and the CIS. The Group's revenues from sales do not include revenues from the Equity Affiliates, which are accounted for in the line item entitled "Share in net income of equity affiliates".

	Year ended 31 December						% Change	
	2011		2010		2009		2011/10	2010/09
	USD million	% of revenue	USD million	% of revenue	USD million	% of revenue		
Crude oil								
Export and sales on the international market	10,347	23.4%	8,941	27.2%	6,749	27.8%	15.7%	32.55
Export to CIS	1,241	2.8%	1,252	3.8%	990	4.1%	(0.9%)	26.5%
Domestic sales	168	0.4%	118	0.4%	164	0.7%	42.4%	(28.0%)
Total crude oil sales	11,756	26.6%	10,311	31.3%	7,903	32.5%	14.0%	30.5%
Gas								
Sales on the international market	182	0.4%	117	0.4%	68	0.3%	55.6%	72.1%
Domestic sales (excluding Orenburg)	453	1.0%	206	0.6%	120	0.5%	119.9%	71.7%
Total gas sales	635	1.4%	323	1.0%	188	0.8%	96.6%	71.8%
Petroleum products								
Export	9,817	22.2%	7,116	21.6%	5,149	21.2%	38.0%	38.2%
International markets	3,112	7.0%	2,590	7.9%	2,095	8.6%	20.2%	23.6%
Export to CIS	1,599	3.6%	1,146	3.5%	907	3.7%	39.5%	26.4%
Domestic sales	16,349	37.0%	10,690	32.5%	7,531	31.0%	52.9%	41.9%
Total petroleum products sales	30,877	69.9%	21,542	65.5%	15,682	64.5%	43.3%	37.4%

	Year ended 31 December						% Change	
	2011		2010		2009		2011/10	2010/09
	USD million	% of revenue	USD million	% of revenue	USD million	% of revenue		
Other sales	904	2.0%	736	2.2%	532	2.2%	22.8%	38.3%
Total sales	44,172	100%	32,912	100%	24,305	100%	34.2%	35.4%

Refined products and oil and gas sales

The following table shows sales volumes of the Group's (excluding the Equity Affiliates) crude oil, gas and petroleum product sales for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December						% Change	
	2011		2010		2009		2011/10	2010/09
	% of total		% of total		% of total			
Crude oil (mmt tonnes)								
Export and sales on the international market	13.08	77.9%	15.94	81.7%	15.57	79.0%	(17.9%)	2.4%
Export to CIS	2.99	17.8%	3.02	15.5%	3.32	16.9%	(1.0%)	(9.0%)
Domestic sales (excluding Orenburg)	0.73	4.3%	0.56	2.9%	0.81	4.1%	30.4%	(30.9%)
Total crude oil sales	16.80	100%	19.52	100%	19.70	100%	(13.9%)	(0.9%)
Gas (bcm)								
Domestic sales	10.22	100%	5.72	100%	4.13	100%	78.7%	38.5%
Petroleum products (mmt tonnes)								
Export	12.63	30.5%	12.31	33.1%	11.36	34.4%	2.6%	8.4%
Sales on the international market	2.43	5.9%	2.61	7.0%	2.29	6.9%	(6.9%)	14.0%
Export and sales in CIS	2.05	5.0%	1.74	4.7%	1.90	5.8%	17.8%	(8.4%)
Domestic sales	24.29	58.7%	20.54	55.2%	17.43	52.9%	18.3%	17.8%
Total petroleum products sales	41.40	100%	37.20	100%	32.98	100%	11.3%	12.8%

The following table shows average realised sales prices for the Group's (excluding the Equity Affiliates) crude oil and petroleum products for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD/tonne	USD/tonne	USD/tonne		
Crude oil					
Export and sales on the international market	791.13	560.92	433.46	41.0%	29.4%
Export to CIS	415.05	414.57	298.19	0.1%	39.0%
Petroleum products					
Export	777.28	578.07	453.26	34.5%	27.5%
Sales on the international market	1,280.66	992.34	914.85	29.1%	8.5%
Export and sales in CIS	780.00	658.62	477.37	18.4%	38.0%
Domestic sales	673.08	520.45	432.07	29.3%	20.5%

The following table shows revenues for the Group's (excluding the Equity Affiliates) petroleum products exports for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
High octane petrol	119	65	224	83.1%	(71.0%)
Low octane petrol	28	14	20	100.0%	(30.0%)
Naphtha	942	1,131	873	(16.7%)	29.6%
Diesel	4,321	3,179	2,477	35.9%	28.3%
Fuel oil	3,757	2,205	1,249	70.4%	76.5%
Jet fuel	158	181	13	(12.7%)	1292.3%
Other	492	341	293	44.3%	(21.3%)
Total petroleum product exports	9,817	7,116	5,149	38.0%	38.2%

The following table shows revenues for the Group's (excluding the Equity Affiliates) petroleum product export and sales to the CIS for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
High octane petrol	531	488	366	8.8%	33.3%
Low octane petrol.....	149	79	61	88.6%	29.5%
Naphtha	84	15	86	460.0%	(82.6%)
Diesel.....	480	264	109	81.8%	142.2%
Fuel oil.....	28	1	5	2700.0%	(80.0%)
Jet fuel	92	114	166	(19.3%)	(31.3%)
Other.....	235	185	114	27.0%	62.3%
Total petroleum export and sales to the CIS	1,599	1,146	907	39.5%	26.4%

The following table shows revenues for the Group's (excluding the Equity Affiliates) domestic sales of petroleum products for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
High octane petrol	6,163	4,006	2,772	53.8%	44.5%
Low octane petrol.....	577	513	449	12.5%	14.3%
Diesel.....	4,791	3,117	2,050	53.7%	52.0%
Fuel oil.....	1,498	1,081	750	38.6%	44.1%
Jet fuel	1,694	1,033	774	64.0%	33.5%
Other.....	1,626	940	736	73.0%	27.7%
Total domestic sales of petroleum products	16,349	10,690	7,531	52.9%	41.9%

The Group's total sales increased by 34.2% in 2011, to USD 44,172 million, compared to USD 32,912 million in 2010, primarily due to higher prices for crude oil and petroleum products and increased sales volumes, particularly sales of high octane petrol, diesel and jet fuel. Sales from crude oil exports and sales on international markets increased by 15.7%, to USD 10,347 million, compared to USD 8,941 million in 2010, chiefly as a result of a 41.0% increase in prices, partially offset by a 17.9% decrease in sales volumes as more crude was processed at the Group's refineries. Sales in 2011 from crude oil export sales to the CIS decreased by 0.9% compared to 2010 levels, due to a 1.0% decrease in sales volumes, while average prices remained flat.

The Group's total sales in 2011 from export sales of petroleum products increased 38%, to USD 9,817 million compared to 2010 levels, primarily due to increases in sales from diesel and fuel oil sales. In total, export sales of petroleum products sales volumes grew 2.6%, while prices rose 34.5% in 2011. The increase in volumes was driven by an increase in refinery throughput. Sales from export sales of petroleum products on international markets (representing sales of NIS) increased by 20.2% in 2011, to USD 3,112 million, compared to 2010 levels, due to 29.1% higher prices, partially offset by a 6.9% decrease in sales volumes. Sales from export and sales of petroleum products in the CIS increased 39.5% in 2011, to USD 1,599 million, compared to 2010 levels, primarily due to an increase in revenues from diesel and petrol sales. In total, export and sales volumes of petroleum products in the CIS increased 17.8%, while sales prices rose 18.4%. Domestic petroleum products sales increased 52.9%, to USD 16,349 million in 2011, compared to 2010 levels, mainly due to an increase in revenues from high octane petrol and diesel sales. Sales of high octane petrol and diesel grew 31% and 10% respectively, due to increased average daily sales at its retail outlets in Russia (14.2 tonnes per day per outlet sold in the year ended 31 December 2011, compared to 10.3 tonnes per day per outlet in the year ended 31 December 2010), as well an increase in the number of the these retail outlets. In total, domestic petroleum products sales volumes increased 18.3%, while prices rose 29.3%.

The Group's total sales increased 35.4% in 2010, to USD 32,912 million, compared to USD 24,305 million in 2010, primarily due to higher prices and an increase in production and sales volumes, particularly sales of high octane petrol, diesel and jet fuel. Crude oil export and sales on international markets sales increased 32.5% in 2010, to USD 8,941 million, compared to USD 6,749 million in 2009, mainly due to a 29.4% growth in sales prices as well as a 2.4% increase in sales volumes. Crude oil export sales to the CIS increased 26.5% in 2010, to USD 1,252 million, compared to USD 990 million in 2009 due to a 39.0% growth in sales prices, which was partly offset by a 9.0% decrease in sales volumes.

In 2010, export sales of petroleum products increased 38.2%, to USD 7,116 million compared to 2009 revenues, primarily as a result of increases in prices and sales of naphtha, diesel and fuel oil. In total, sales prices of export sales of petroleum products increased 27.5% in 2010, while sales volumes grew 8.4%. Export sales of petroleum products on international markets increased 23.6%, to USD 2,590 million, compared to USD 2,095 million in 2009 due to a 14.0% increase in sales volumes and 8.5% growth in sales prices. Export and petroleum products sales in the CIS increased 26.4% in 2010, to USD 1,146 million compared to USD 907 million in 2009, mainly due to increases in revenue from high octane petrol and diesel. In total, sales prices of export and sales of petroleum products in the CIS grew 38.0%, somewhat offset by an 8.4% decrease in sales volumes in 2010. Domestic petroleum products revenues increased 41.9% in 2010, to USD 10,690 million, compared to USD 7,531 million in 2009. The increase was largely due to increases in sales from high octane petrol and diesel. In total, sales volumes of domestic petroleum products grew 17.8% in 2010, while prices rose 20.5%. The increase in volumes was driven by an increase in refinery throughput.

For the years ended 31 December 2011, 2010 and 2009, the Group had one customer which accounted for approximately 6.4%, 13.5% and 18.5% of sales, respectively. The Group's management does not believe the Group is reliant on any particular customer.

For the years ended 31 December 2011, 2010 and 2009, the Group reported two operating segments: exploration and production and refining, marketing and distribution. See "Note 22 to the Audited U.S. GAAP Financial Statements".

Other

Other sales consist primarily of sales of services such as transportation, construction, utilities and other services. In 2011 and 2010, other sales increased by 22.8% and 38.3%, to USD 904 million and USD 736 million, respectively, in comparison with previous periods due to increase in prices and volumes in such other sales.

Cost of purchased oil, gas and petroleum products

The cost of purchased crude oil, gas and petroleum products increased 45.0% in 2011, to USD 10,817 million, compared to USD 7,459 million in 2010 due to growth in crude oil and petroleum products prices and volumes. The cost of purchased crude oil, gas and petroleum products increased 39.8% in 2010, compared to USD 5,335 million in 2009 due to growth in crude oil and petroleum products prices and volumes. Approximately half of the Group's purchased oil, gas and petroleum products costs were made from the Equity Affiliates in arms-length transactions: the Group purchased USD 2,371 million, USD 1,750 million and USD 1,729 million of crude oil, gas and oil products in 2011, 2010 and 2009, respectively, from Slavneft; USD 1,574 million, USD 1,148 million and USD 997 million of crude oil, gas and oil products in 2011, 2010 and 2009, respectively, from Tomskneft; and USD 1,107 million, USD 871 million and USD 554 million of crude oil in 2011, 2010 and 2009, respectively, from SPD. The remaining purchases of oil, gas and petroleum products were from several third-party sellers.

Operating expenses

The following table shows a breakdown of the Group's operating expenses for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Hydrocarbon extraction expenses.....	1,521	1,297	1,230	17.3%	5.4%
USD per boe of production ¹	5.39	5.17	5.13	4.3%	0.8%
Refining expenses.....	943	829	666	13.8%	24.4%
USD per tonne.....	23.29	21.86	19.92	6.5%	9.7%
USD per boe.....	3.18	2.98	2.72	6.6%	9.7%
Total operating expenses.....	2,464	2,126	1,896	15.9%	12.1%

1) Hydrocarbon extraction expenses per boe of production include Gazprom Neft-Orenburg from date of acquisition.

Hydrocarbon extraction expenses include expenditures for raw materials and supplies, maintenance and repairs of extraction equipment, labour costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at extraction subsidiaries. Extraction costs increased by 17.3% in 2011, primarily due to an increase in PPI and hydrocarbon production by consolidated subsidiaries. Refining expenses include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs. Refining expenses increased by 13.8% in 2011, primarily due to an increase in PPI and refining volumes across all refineries.

Hydrocarbon extraction expenses increased slightly in 2010 compared to 2009 levels due to Rouble appreciation relative to the U.S. dollar and higher hydrocarbon production volumes. Refining expenses increased 24.4% due to planned major repairs and maintenance at the Omsk and Moscow Refineries in mid 2010 and growth in refining volumes across all refineries.

Selling, general and administrative expenses

Selling, general and administrative expenses include general business expenses, wages, salaries (except for wages and salaries at production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charitable giving, allowances for doubtful accounts, and other expenses. Selling, general and administrative expenses increased by 7.2% in 2011, to USD 1,779 million, due to business expansion, including an increase in premium sales, and inflation. In particular, sales in the premium channels, such as petrol, jet fuel and bunkering require significant marketing and operational costs. Selling, general and administrative expenses in 2010 increased 29.0%, to USD 1,660 million due to the appreciation of the Rouble relative to the U.S. dollar, higher sales volumes, in particular premium sales, and inflation.

Transportation expenses

Transportation expenses include costs to transport crude oil to refineries and crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling and other transportation costs. In 2011, transportation expenses increased 17.5%, to USD 3,391 million, due to higher average transportation tariffs by operators, chiefly Transneft and Russian Railways, and increased sales volumes, as well as appreciation of the Rouble relative to the U.S. dollar. In 2010, transportation expenses increased 27.6%, to USD 2,886 million primarily due to higher transportation tariffs operators, chiefly Transneft and Russian Railways and appreciation of the Rouble relative to the U.S. dollar, as well as production growth due to the Group's acquisitions. See " – Key Factors Affecting Operating Results – Transportation Costs of Crude Oil and Petroleum Products".

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses include depletion of oil and gas producing assets and depreciation of other fixed assets. Depreciation, depletion and amortisation expenses increased in 2011 by 19.0%, to USD 1,963 million, due to an increase in depreciable assets due to acquisitions and capital expenditures. In 2010, depreciation, depletion and amortisation expenses were 9.7% higher, at USD 1,649 million, compared to USD 1,503 million in 2009. The increase was a result of growth in depreciable assets put into operation as part of the Group's capital expenditures. See "Liquidity and Capital Resources – Cash Flows for the Years Ended 31 December 2011, 2010 and 2009 – Net cash used in investing activities".

Export duties

The following table shows a breakdown of the Group's export duties for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Export customs duties for crude oil	5,160	4,631	2,790	11.4%	66.0%
Export customs duties for petroleum products	2,932	2,000	1,158	46.6%	72.7%
Total export customs duties	8,092	6,631	3,948	22.0%	68.0%

Export customs duties for crude oil increased in 2011 by 11.4% due to higher export customs duty rates resulting from an increase in Urals prices, partially offset by lower sales volumes. Export customs duties for petroleum products increased in 2011 by 46.6% due to higher export customs duty rates, partially offset by the termination of petroleum products export duties for Belarus and Kyrgyzstan. Export customs duties increased by 68.0% in 2010 due to increase in export volumes of crude oil and petroleum products and higher crude oil prices. See " – Key Factors Affecting Operating Results – Taxation".

Taxes other than income tax

The following table shows a breakdown of the Group's taxes other than income tax for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
MET	4,614	3,107	2,256	48.5%	37.7%
Excise	2,845	1,743	1,412	63.2%	23.4%
Property tax	213	182	127	17.0%	43.3%
Other taxes.....	366	269	232	36.1%	15.9%
Total taxes other than income tax	8,038	5,301	4,027	51.6%	31.6%

Taxes other than income tax increased by 51.6% in 2011 to USD 8,038 million, compared to USD 5,301 million in 2010. This increase was due to a 48.5% increase in MET, which in turn were caused by higher crude oil prices used to calculate the tax rate, as well as increases in production volumes. In addition, excise taxes increased in 2011 by 63.2% due to higher production volumes of refined products at the Group's refineries and higher excise tax rates beginning January 2011, the period from which excise tax rates on petroleum products were increased under Russian law.

Taxes other than income tax increased by 31.6% in 2010 to USD 5,301 million, compared to USD 4,027 million in 2009. MET increased in 2010 due to higher crude prices used to calculate the tax rate, as well as an increase in crude production volumes. Excise taxes increased in 2010 due to higher production volumes of refined products at the Group's refineries and a 10.0% increase in the excise tax rate under Russian law. See " – Key Factors Affecting Operating Results – Taxation".

Exploration expenses

Exploration expenses decreased 18.7%, to USD 74 million in 2011, as a result of fewer dry-holes produced in 2011. Exploration expenses decreased 38.1%, to USD 91 million in 2010, compared to USD 147 million in 2009, primarily due to write-downs in 2009 of dry-hole exploratory wells that were previously capitalised.

Cost of other sales

Costs of other sales include costs relating to non-core sales of the Group, consisting primarily of services such as transportation, construction and utilities. In 2011, costs of other sales grew 31.9%, to USD 575 million. In 2010, costs of other sales rose 46.8%, to USD 436 million, compared to USD 297 million in 2009. In both periods, the increases were caused by growth of non-core activities of the Group's subsidiaries commensurate with expanded operations and overall growth in revenues from other sales.

Loss on sales of assets, net

In 2009, the Group recorded a net loss on sale of assets of USD 142 million, as a result of the disposal of certain non-profitable assets of the Group, chiefly CJSC Sibneft-Chukotka.

Operating income

As a result of the factors above, the Group's operating income rose 49.3%, to USD 6,979 million in 2011 and by 35.0%, to USD 4,673 million in 2010, compared to USD 3,461 million in 2009.

Share in net income of Equity Affiliates

The following table shows the Group's share in the income of the Equity Affiliates, including share in non-controlling interest for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Slavneft.....	10	92	113	(89.1%)	(18.6%)
Tomskneft.....	101	55	138	83.6%	(60.1%)
SPD	108	82	(44)	31.7%	-
Sever Energia	(10)	(5)	-	(100%)	-
Others	39	5	5	680.0%	0.0%
Total share of income in Equity Affiliates	248	229	212	8.3%	8.0%

The Group's share of income in the Equity Affiliates grew 8.3%, to USD 248 million in 2011, as a result of an increase in income from Tomskneft, SPD and other affiliates, due to increases in hydrocarbon production volumes and prices, offset by a decrease in income derived from Slavneft. The decrease in net income of Slavneft was caused by Slavneft's revaluation of its depreciation rate in 2011, as well as negative effects caused by increased MET rates in 2011. In 2010, the Group's share of income in the Equity Affiliates grew 8.0%, to USD 229 million, primarily due to an increase in income from SPD that resulted from an expansion of SPD's operations following the Group's acquisition of a 50% stake in the company in 2009, offset by decreases in income of Slavneft and Tomskneft.

Gain on sales of investments

Gain on sales of investments rose to USD 104 million in 2011, compared to USD 9 million in 2010, as a result of the sale of certain non-core oil service activities. In 2009, gain on sales of investments was USD 470 million in 2009, the result of a bargain purchase gain relating to the Group's acquisition of an increased stake in the Moscow Refinery.

Interest income

In 2011, the Group's interest income rose 37.5%, to USD 66 million, primarily due to higher interest rates received on the Group's cash and deposits in banks. Interest income fell 55.6%, to USD 48 million in 2010, compared to USD 108 million in 2009, as a result of lower interest rates and amounts of the Group's cash and deposits in banks.

Interest expense

Interest expenses of the Group fell 5.2%, to USD 329 million in 2011, as a result of the Group's successful efforts to reduce the effective interest rates on its liabilities. In 2010, the Group's interest expense fell 8.7%, to USD 347 million, compared to USD 380 million in 2009, as a result of lower interest rates obtained on certain liabilities.

Other expense, net

Other expense, net, represents the results of the disposal of financial assets, inventory, investments, penalties and fines. In 2011, other expense, net, decreased 79.0%, to USD 65 million, and in 2010, other expense, net, rose to USD 309 million, compared to USD 1 million in 2009. The increase in 2010 was primarily due to a USD 198 million accrual of penalties assessed by FAS. See "*Business – Litigation – FAS Administrative Fines*".

Foreign exchange (loss)/gain, net

The Group recorded a foreign exchange loss of USD 172 million in 2011, compared to a foreign exchange loss of USD 24 million in 2010. In 2009, the Group recorded a foreign exchange gain of USD 45 million. In all three periods, the losses primarily resulted from changes in the volatility of exchange rates underlying assets and liabilities held by the Group in foreign currencies. The Group from time to time uses derivative instruments to manage its exposure to changes in foreign currency exchange rates. A substantial portion of the Group's revenues are received in U.S. dollars, as is a significant portion of the Group's financing activities. However, the Group's operating expenditures and capital spending are largely denominated in Roubles. To mitigate currency risk, the Group uses cash flow hedges. In the Audited U.S. GAAP Financial Statements, these derivative instruments are recognised at fair value in either assets or liabilities on the Group's consolidated balance sheet. Realised and unrealised gains and losses are presented in the consolidated statement of income on a net basis.

Income before income taxes

For the reasons stated above, the Group's income before income taxes grew 59.6%, to USD 6,831 million in 2011, compared to USD 4,279 million in 2010, which in turn represented a 9.3% increase from the USD 3,915 million income before income taxes recorded in 2009.

Provision for income taxes

The following table shows the Group's provision for income taxes for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Current income taxes expense	1,173	884	801	32.7%	10.4%
Deferred income tax (benefit)/expense	71	(43)	13	—	—
Total provision for income taxes	1,244	841	814	47.9%	3.3%

The effective tax rate of the Group was 18.2%, 19.7% and 20.8% in 2011, 2010 and 2009, respectively. The Group's provision for income taxes rose 47.9%, to USD 1,244 million in 2011 and 3.3%, to USD 841 million in 2010, as a result of increases in income before income taxes. See “ – Key Factors Affecting Operating Results – Taxation”.

Net income

As a result of the factors described above, the Group's net income rose 62.5%, to USD 5,587 million in 2011 and 10.9%, to USD 3,438 million in 2010, as compared to USD 3,101 million in 2009.

Liquidity and Capital Resources

In addition to net cash provided by operating activities, the Group uses short- and long-term borrowings and strategic investments to fund capital expenditures. The Group plans to finance its budgeted capital expenditures, interest expense and dividend payments chiefly from operating cash flows supplemented by additional borrowings. The Group seeks to maintain a debt to EBITDA ratio of less than 1.5:1 and, to this end, aims to improve its debt profile by extending maturities and lowering the cost of capital.

Cash Flows for the Three Months Ended 31 March 2012 and 2011

The following table shows the Group's cash flows for the three months ended 31 March 2012 and 2011, as reported under IFRS.

	Three months ended 31 March		
	2012	2011	% Change
	RUB million	RUB million	
Cash flows from operating activities			
Profit before income tax	59,953	52,792	13.6%
Adjustments for:			
Share of profit of equity accounted investments	(12,087)	(1,700)	611.0%
Gain on foreign exchange differences	(10,018)	(8,433)	18.8%
Finance income	(543)	(376)	44.4%
Finance expense	2,338	3,019	(22.6%)
Depreciation, depletion and amortisation	14,070	12,097	16.3%
Allowance for doubtful accounts	(657)	124	—
Other non-cash items	2,422	3,718	(34.9%)
Changes in working capital:			
Accounts receivable	(2,261)	(21,731)	(89.6%)
Inventories	(4,822)	(10,088)	(52.2%)
Other current assets	(982)	(2,472)	(60.3%)
Accounts payable	8,079	4,621	74.8%
Taxes payable	11,473	8,792	30.5%
Other liabilities	3,200	(9,192)	—
Income taxes paid	(6,160)	(11,675)	(47.2%)
Interest paid	(1,996)	(1,994)	0.1%
Dividends paid	228	2,851	(92.0%)
Net cash provided by operating activities	62,237	20,353	205.8%
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash disposed	—	292	—
Acquisition of equity-accounted investments	—	(815)	—
Bank deposits placement	(16,671)	—	—
Repayment of bank deposits	5,066	700	623.7%
Acquisition of other investments	(2,724)	(2,357)	15.6%
Short-term loans issued	(1,003)	(1,181)	(15.1%)
Repayment of short-term loans issued	9,284	652	1323.9%
Long-term loans issued	—	(1,231)	—
Repayment of long-term loans issued	—	353	—
Capital expenditures	(30,313)	(23,256)	30.3%
Proceeds from sale of property, plant and equipment	148	313	(52.7%)
Interest received	472	635	(25.7%)
Net cash used in investing activities	(35,741)	(25,895)	38.0%
Cash flows from financing activities			
Proceeds from short-term borrowings	1,514	8,451	(82.1%)
Repayment of short-term borrowings	(14)	(7,027)	(99.8%)

	Three months ended 31 March		
	2012	2011	% Change
	RUB million	RUB million	
Proceeds from long-term borrowings	10,096	30,000	(66.3%)
Repayment of long-term borrowings	(6,911)	(5,058)	36.6%
Transaction costs directly attributable to the borrowings received	—	(206)	—
Dividends paid to the Company's shareholders	—	(4,380)	—
Dividends paid to non-controlling interest	—	(8)	—
Acquisition of non-controlling interest in subsidiaries	(272)	(23,316)	(98.8%)
Net cash provided by/ (used in) financing activities	4,413	(1,544)	—

Net cash provided by operating activities

Net cash provided by operating activities increased 205.8% in the three months ended 31 March 2012, to RUB 62,237 million, from RUB 20,353 million in the three months ended 31 March 2011. The increase in net cash provided by operating activities was due to the Group's higher net profit and a decrease in working capital items, primarily accounts receivable, inventories and other liabilities.

Net cash used in investing activities

Net cash used in investing activities increased 38.0% in the three months ended 31 March 2012, to RUB 35,741 million, from RUB 25,895 million in the three months ended 31 March 2011 due to the increased placement of deposits and a 30.3% increase in capital expenditures.

The following table shows the Group's capital expenditures for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		
	2012	2011	% Change
	RUB million	RUB million	
Exploration and production	17,581	14,842	18.5%
Refining	7,275	2,139	240.1%
Marketing and distribution	2,223	1,077	106.4%
Others ¹	1,941	1,350	43.8%
Subtotal capital expenditures	29,020	19,408	49.5%
Change in advances issued and material used in capital expenditures	1,293	3,848	(66.4)%
Total capital expenditures	30,313	23,256	30.3%

(1) Includes capitalised borrowing costs.

The Group's capital expenditures increased 30.3%, to RUB 30,313 million in the three months ended 31 March 2012, compared to RUB 23,256 million in the three months ended 31 March 2011. This increase was due to a 240.1% increase in refining capital expenditures related to construction of the isomerisation plant, catalytic cracking plant and hydrotreatment plant at the Moscow Refinery as well as a 106.4% increase in marketing and distribution capital expenditures due to the retail expansion campaign in Serbia and the Chelyabinsk and St. Petersburg regions in Russia. In addition, exploration and production capital expenditures increased 18.5%, to RUB 17,581 million in three months ended 31 March 2012, compared to RUB 14,842 million in the three months ended 31 March 2011, due to an increase in horizontal wells drilled, which require additional expenses to complete, but offer the potential for higher yields.

Net cash provided by/ (used in) financing activities

Net cash provided by financing activities was RUB 4,413 million in the three months ended 31 March 2012 compared to RUB 1,544 million used in financing activities in the three months ended 31 March 2011. This change was mainly due to one-time items related to the acquisition of non-controlling interests in NIS and Sibir Energy in the three months ended 31 March 2011, as well as a decrease in proceeds from long-term borrowings.

Cash Flows for the Years Ended 31 December 2011, 2010 and 2009

The following table shows the Group's cash flows for the years ended 31 December 2011, 2010 and 2009, as reported under U.S. GAAP.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Operating activities					
Net income	5,587	3,438	3,101	62.5%	10.9%
Reconciliation of net income to net cash provided by operating activities:					
Share in income of equity affiliates, net of dividends received	314	49	11	540.8%	345.5%
Effect of foreign exchange	337	(50)	(143)	—	(65.0%)
Deferred income tax expense/(benefit)	71	(43)	13	—	—
Depreciation, depletion and amortisation	1,963	1,649	1,503	19.0%	9.7%
Asset retirement obligation accretion expense, net of spending on existing obligations	17	(17)	28	—	—
Allowance for doubtful accounts	61	36	(26)	69.4%	—
Allowance for inventory obsolescence	65	19	11	242.1%	72.7%
Loss on disposal of property, plant and equipment	49	37	(6)	32.4%	—
Gain on disposal of investments	(104)	14	(328)	—	—
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable	(1,135)	285	(443)	—	—
Inventories	(607)	(323)	(249)	87.9%	29.7%
Other current assets	(717)	(205)	(277)	249.8%	(26.0%)
Other non-current assets	38	109	(64)	(65.1%)	—
Accounts payable, accrued and other long-term liabilities ...	(89)	219	187	—	17.1%
Income and other taxes payable	151	174	181	(13.2%)	(3.9%)
Net cash provided by operating activities	6,001	5,391	3,499	11.3%	54.1%
Investing activities					
Purchase of investments, net of cash acquired	(1,457)	(1,624)	(2,282)	(10.3%)	(28.8%)
Acquisition of investments held-to-maturity	(322)	(209)	(361)	54.1%	42.1%
Proceeds from sales of investments held-to-maturity	383	91	458	320.9%	(80.1%)
Loans issued	(393)	(233)	(345)	68.7%	(32.5%)
Loan proceeds received	43	209	247	(79.4%)	(15.4%)
Proceeds from sales of investments	301	215	10	40.0%	2150.0%
Capital expenditures	(4,029)	(3,301)	(2,635)	22.1%	25.3%
Net cash used in investing activities	(5,474)	(4,852)	(4,908)	12.8%	(1.1%)
Financing activities					
Short and long-term loan proceeds received	2,774	4,003	5,702	(30.7%)	(29.8%)
Short and long-term loans repaid	(2,501)	(3,584)	(4,580)	(30.2%)	(21.7%)
Dividends paid	(1,025)	(728)	(937)	40.8%	(22.3%)
Net cash (used in)/provided by financing activities	(752)	(309)	185	143.4%	267.0%

Net cash provided by operating activities

Net cash provided by operating activities increased 11.3% in 2011, to USD 6,001 million from USD 5,391 million in 2010. The increase in net cash provided by operating activities was due to the Group's higher net income, partially offset by increased working capital, due to higher crude oil and petroleum products prices, which led to increases in inventories and accounts receivable. In 2010, net cash provided by operating activities increased 54.1% to USD 5,391 million from USD 3,499 million in 2009. The increase was due to an increase in operating income as well as improved working capital management, including a reduction in accounts receivables.

Net cash used in investing activities

In 2011, net cash used in investing activities increased by 12.8% to USD 5,474 million from USD 4,852 million in 2010 primarily due a 22.1% increase in capital expenditures. In 2010, net cash used in investing activities decreased 1.1% to USD 4,852 million from USD 4,908 million in 2009 mainly due to lower levels of merger and acquisitions activities (USD 658 million less than in 2009), offset by a 25.3% increase in capital expenditures.

The following table shows the Group's capital expenditures for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Exploration and production	2,365	2,430	2,053	(2.7)%	18.4%
Refining	1,043	473	334	120.5%	41.6%
Marketing and distribution	562	327	194	71.9%	68.6%
Others	59	71	54	(16.9)%	31.5%
Total capital expenditures.....	4,029	3,301	2,635	22.1%	25.3%

The Group's capital expenditures in 2011 were USD 4,029 million, an increase of 22.1% compared to 2010, mainly due to a 120.5% increase in capital expenditures in refining due to the ongoing modernisation programme at the Group's refineries. This included primarily work undertaken at the Omsk Refinery to construct a catalytic cracking hydrotreatment plant with a capacity of 1.2 mmt tonnes per year and a new diesel fuel hydrotreatment unit with a capacity of 3 mmt tonnes per year, as well as additional projects to increase the production of Euro 4 and Euro 5 fuels at the Group's refineries and expenditures to improve the Group's lubricants business. In addition, capital expenditures relating to marketing and distribution were USD 562 million, an increase of 71.9% compared to 2010 levels, due to the retail rebranding campaign and acquisition of 113 new retail stations. Partially offsetting these increases was a 2.7% reduction in capital expenditures for exploration and production (which includes drilling and construction of wells and support infrastructure, as well as related capitalised interest) due to the optimisation of geological and engineering operations.

In 2010, the Group's capital expenditures grew to USD 3,301 million, or 25.3%, from USD 2,635 million in 2009. This increase in 2010 was primarily due to by an 18.4% growth in capital expenditures in exploration and production, relating primarily to appreciation of the Rouble against the U.S. dollar as well as inflation. Also, the Group increased its capital expenditures in refining by 41.6% due to modernisation programmes, including programmes to improve production of Euro 4 and 5 fuels, accelerate the automation of refining processes and increase overall production efficiency at the Group's refineries. Finally, the Group's marketing and distribution capital expenditures increased 68.6% in 2010, mainly due to the petrol station rebranding programme, development projects relating to the Group's jet fuel operations at airports in Russia and abroad and the acquisition of bunkering barges.

Net cash (used in)/provided by financing activities

Net cash used in financing activities in 2011 was USD 752 million compared to USD 309 million in 2010. The increase was mainly due to a decrease in net loan proceeds and an increase in dividend payments. In 2010, net cash used in financing activities was USD 309 million, compared to net cash provided by financing activities of USD 185 million in 2009. The change was mainly due to a decrease in net loan proceeds minus repayments, partly offset by reduced dividend payments.

Indebtedness

The average maturity of the Group's debt decreased to 2.54 years as of 31 March 2012, having increased to 2.68 years as of 31 December 2011, compared to 2.10 years as of 31 December 2010. The average interest rate of the Group's indebtedness decreased to 3.34% as of 31 March 2012, having decreased to 3.37% as of 31 December 2011, compared to the average interest rate of 3.96% as of 31 December 2010.

Long-Term Debt

The table below presents the Group's long-term outstanding loans as of the three months ended 31 March 2012, as reported under IFRS.

	As of 31 March 2012
	RUB million
Bank loans	118,021
Other borrowings.....	1,022
Bonds.....	82,866
Finance lease liabilities.....	3,234
Less current portion of debt.....	(40,183)
Total long-term debt.....	164,960

The table below presents the Group's long-term outstanding loans as of the years ended 31 December 2011, 2010 and 2009, as reported under U.S. GAAP.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	USD million	USD million	USD million		
Russian Rouble bonds	2,112	1,247	595	69.4%	109.6%
Pre-Export Finance.....	1,500	1,500	0	0.0%	—
Other bank loans outstanding	2,754	3,455	4,900	(20.3%)	(29.5%)
Other borrowings.....	84	155	133	(45.8%)	16.5%
Less current portion of long-term debt	(1,030)	(1,415)	(1,466)	(27.2%)	(3.5%)
Total Bonds and Bank Loans.....	5,420	4,942	4,162	9.7%	18.7%

Russian Rouble bonds

On 21 April 2009, the Group placed ten-year Rouble bonds (04 series) with a total par value of RUB 10 billion. In April 2011, an option to redeem the bonds was exercised and in August 2011 the Group completed a secondary placement with a total par value of RUB 6.1 billion. The bonds bear an interest rate of 8.2% per year and have semi-annual coupon payments.

On 21 July 2009, the Group placed seven-year Rouble bonds (03 series) with a total par value of RUB 8 billion. The bonds bear an interest rate of 14.75% per year with a three-year put option and have semi-annual coupon payments.

On 13 April 2010, the Group placed three-year Rouble bonds (05 and 06 series) with a total par value of RUB 20 billion. The bonds bear an interest rate of 7.15% per year and have semi-annual coupon payments.

On 8 February 2011, the Group placed five-year Rouble bonds (08 series) with the total par value of RUB 10 billion. The bonds bear an interest rate of 8.5% per year and have semi-annual coupon payments.

On 8 February 2011, the Group placed ten-year Rouble bonds (09 series) with the total par value of RUB 10 billion. The bonds bear an interest rate of 8.5% per year with a five-year put option and have semi-annual coupon payments.

On 8 February 2011, the Group placed ten-year Rouble bonds (10 series) with the total par value of RUB 10 billion. The bonds bear an interest rate of 8.9% per year with a seven-year put option and have semi-annual coupon payments.

On 7 February 2012, the Group placed ten-year Rouble bonds (11 series) for total amount of RUB 10 billion. The bonds bear an interest rate of 8.25% per year with a three-year put option.

Pre-Export Finance

In July 2010, the Group signed a secured, syndicated five-year pre-export term loan facility agreement for the amount of USD 1.5 billion. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015 (LIBOR plus 2.1% as of 31 December 2010). As of 31 March 2012, the Group has USD 1.5 billion outstanding under the loan.

Other Long-Term Bank Loans

As of 31 March 2012, the Group had RUB 74,024 million in long-term loans from a number of banks, primarily denominated in USD (including current portion of RUB 15,872 million). Interest rates under the loans varied from LIBOR plus 0.5% to fixed interest rate of 6.75%.

Short-Term Debt

The table below presents the Group's short-term outstanding loans as of the three months ended 31 March 2012, as reported under IFRS.

	As of 31 March 2012
	RUB million
Bank loans	1,542
Other borrowings.....	8,648
Finance lease liabilities.....	1,000
Current portion of long-term debt.....	40,183
Total short-term debt	51,373

The table below presents the Group's short-term outstanding loans as of the years ended 31 December 2011, 2010 and 2009, as reported under U.S. GAAP.

	Year ended 31 December			% Change	
	2011	2010	2009	2011/10	2010/09
	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>		
Banks.....	—	71	251	—	(71.7%)
Related parties.....	223	244	428	(8.6%)	(43.0%)
Other.....	24	10	3	140.0%	233.3%
Current portion of long-term debt.....	1,030	1,415	1,466	(27.2%)	(3.5%)
Total Bonds and Bank Loans.....	1,277	1,740	2,148	(26.6%)	(19.0%)

As of 31 March 2012, short-term loans were provided by international banks for funding of working capital and consisted of unsecured facilities.

Contingencies and Commitments

Taxes

During 2011, the Russian tax authorities completed reviews of the operations of certain Russian subsidiaries of the Company for the year ended 31 December 2009. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations and changes that can occur frequently. The Group's interpretation of such legislation as applied to the transactions and activity of the Group (including the allocation between Russian federal and regional budgets), may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their interpretation of legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2009, 2010 and 2011 are currently open for review. The Group believes it has adequately provided for any probable losses that might arise from these reviews. See "*Risk Factors – Risks Relating to the Russian Legal System and Russian Legislation – The Russian taxation system is relatively underdeveloped*".

Russian transfer pricing legislation was amended effective from 1 January 2012 to introduce significant new reporting and documentation requirements. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation allows Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction's pricing was not at arm's length. The Group's transactions with related parties are subject to internal review for compliance with the new transfer pricing rules. The Group believes that the transfer pricing documentation that the Group has prepared to comply with the new legislation provides sufficient evidence to support the Group's tax positions and related tax returns. Additionally, to mitigate potential risks, the Group negotiates pricing approaches in major controllable transactions with the tax authorities to obtain advance conclusions on pricing agreements. However, given that the practice of implementation of the new transfer pricing rules has not yet developed, and it is unclear how the new legislation will be interpreted, the impact of any challenge to the Group's transfer prices cannot be reliably estimated. See "*Risk Factors – Risks Relating to the Russian Legal System and Russian Legislation – New Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities*".

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also allows Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if the transaction price differs from the market price by more than 20%. The Group believes it has adequately provided for any probable losses that might arise in this regard, and that the likelihood the Group will face a material challenge from the tax authorities is minimal.

Operating Environment

While there have been improvements in the economic situation in Russia in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the

existence of a currency that is not freely convertible in any countries outside of Russia, restrictive currency controls and a high level of inflation. The prospects for future economic stability in Russia are largely dependent upon the effectiveness of economic measures undertaken by the Russian Government, together with legal, regulatory, and political developments.

Environmental Matters

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

Capital Commitments

As of 31 March 2012, the Group had entered into contracts to purchase property, plant and equipment for RUB 26,136 million (RUB 16,794 million as of 31 December 2011).

Market Risks

The Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short- and the long-term. The Group's goal in risk management is to create additional guarantees of achievement of strategic goals by identifying and guarding against risks and by instituting effective mechanisms to deal with them. The Group's Integrated Risk Management System ("IRMS") is designed to identify, assess and manage risks. Its key principle is that responsibility for the management of different risks is assigned to varying management levels depending on the expected financial impact of those risks. The Group is working to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Currency Risk

The Group is exposed to currency risk primarily on sales and borrowings that are denominated in currencies other than the respective functional currencies of Group entities. These are primarily the local currencies of the Group companies, for instance, the Rouble in respect of companies operating in Russia. The currency in which these transactions are denominated is mainly U.S. dollars. The Group's currency exchange risk is considerably mitigated by its foreign currency liabilities as a large share of the Group's borrowings and related loans and loan servicing costs is U.S. dollars. The currency structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. A balanced structure of currency assets and liabilities minimises the impact of currency risk factors on the Group's financial and business performance. Furthermore, the Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

Interest Rate Risk

The major part of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment, depending on whether the Group decides it is more secure to obtain financing on a fixed-rate or variable-rate basis. When changes in the fixed or variable market interest rates are considered significant, the Group may consider refinancing certain debt instruments on more favourable terms. Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debt incurrence, the Group uses its judgment and information about prevailing and expected interest rates on the debt markets to decide whether it believes fixed or variable rates would be more favourable over the expected period until maturity.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend, *inter alia*, on the balance of supply and demand on global and domestic markets, and on the actions of regulatory agencies for crude oil and petroleum products. The Group uses a range of actions to reduce mineral extraction costs. The Group's business planning system models a variety of scenarios for key performance factors depending on global oil prices. This approach enables the Group to adjust cost by reducing or rescheduling investment programmes and other mechanisms.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in

connection with investment securities. The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual limits depending on each counterparty's financial situation; controlling advance payments; and controlling accounts receivable by lines of business.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and uses alternative sources of loan financing in addition to bank loans, such as short-term financing through committed and uncommitted revolving credit lines.

Critical Accounting Policies

U.S. GAAP

See "Note 2 to the Audited U.S. GAAP Financial Statements" for a summary of significant accounting policies made in relation to the Group's results as reported under U.S. GAAP.

IFRS

See "Note 2 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements" for a summary of significant accounting policies made in relation to the Group's results as reported under IFRS. In addition, preparing financial statements in accordance with IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. See "Note 3 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements" for a summary of the critical accounting estimates, assumptions and judgments used.

CLASSIFICATION OF RESERVES

The estimation of reserves of natural gas, gas condensate and crude oil can be determined based on the estimate of two components: (i) geological quantities, or those quantities of natural gas, gas condensate and crude oil contained in the subsoil and (ii) recoverable quantities, or the portion of geological quantities whose extraction from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection.

The Russian reserves system differs significantly from the SEC and PRMS reserve methodologies, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Reserves that are calculated using different methods cannot be accurately reconciled. The following is a description of principal differences (although the description does not include all of the differences and some differences not described may be material).

Russian Reserves System

The Russian reserves system is based solely on the analysis of geological attributes. Explored reserves are represented by categories A, B, and C₁; preliminary estimated reserves are represented by category C₂; potential resources are represented by category C₃; and forecasted resources are represented by categories D₁ (forecasted localised) and D₂. Natural gas reserves in categories A, B and C₁ are considered to be fully extractable. For reserves of oil and gas condensate, a predicated coefficient of extraction is calculated based on geological and technical factors. The Group has included in this Base Prospectus only information on the basis of its explored reserves, or reserves in categories A, B, C₁ and C₂.

Category A reserves are calculated for the portion of a deposit that has been drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to define comprehensively the type, shape and size of the deposit; the level of hydrocarbon saturation; the reservoir type; the nature of changes in the reservoir characteristics; the hydrocarbon saturation of the productive strata of the deposit; the content and characteristics of the hydrocarbons; and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and crude oil balance, hydro and piezo-conductivity and other features).

Category B represents the reserves of a deposit (or portion thereof), the oil or natural gas content of which has been determined on the basis of commercial flows of oil or natural gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit, the effective oil and natural gas saturation depth and type of the reservoir; the nature of changes in the reservoir characteristics, the oil and natural gas saturation of the productive strata of the deposit, the composition and characteristics of crude oil, natural gas and gas condensate under in-situ and standard conditions and other parameters, and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit.

Category B reserves are calculated for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a natural gas field or an approved technological development scheme in the case of an oil field.

Category C₁ represents the reserves of a deposit (or of a portion thereof) for which the oil or natural gas content has been determined on the basis of commercial flows of oil or natural gas obtained in wells with some of the wells having been probed by a formation tester and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil- and gas-bearing reservoirs are determined from the results of drilling exploration and production wells and by the geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, oil and natural gas saturation, oil displacement ratio and effective oil and natural gas saturation depth of the productive strata have been studied based on drill cores and geophysical well exploration materials. The composition and characteristics of crude oil, natural gas and gas condensate under in-situ and standard conditions have been studied on the basis of well testing data. For an oil and natural gas deposit, the commercial potential of its oil-bearing fringe is determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and crude oil, natural gas and gas condensate temperatures and yields are studied on the basis of well testing and well exploration results. The hydro-geological and geocryological conditions are determined on the basis of well drilling results and comparisons with neighbouring explored fields.

Category C_1 reserves are calculated on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

Category C_2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C_2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

The evaluation of natural gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit; (ii) the effective depth of hydrocarbon saturation; and (iii) the porosity of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

In accordance with the Russian Federal Law on Subsoil, mineral reserves in Russia are subject to mandatory state examination, and subsoil users cannot be granted a production licence with respect to a field that was not examined. The state examination of reserves is conducted by subsidiary organisations of the Russian Federal Agency On Subsoil Use, including the Russian State Reserve Commission, the Central Reserve Commission and its regional departments. If the commercial feasibility of certain reserves is approved by any such organisation, the reserves are included into the State Balance of Mineral Products. Once a subsoil user is granted an exploration, development or production licence, it is required to file annual statistical reports reflecting changes in reserves. In addition, subsoil users' reserve reports are submitted annually for examination and approval by the Central Reserve Commission or its regional departments or, if there has been a substantial change in reserves, by the State Reserve Commission.

In addition to annual reports, the Group's licences may require it to estimate its reserves in certain years or upon completion of certain phases of field development. Such estimations are submitted for examination and approval by the State Reserve Commission.

Estimations of reserves, as examined by the state expert organisations and reflected in subsoil users' annual statistical reports, are accumulated in the State Balance of Mineral Products.

PRMS Standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, PRMS standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under PRMS standards, reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. The Group has included in this Base Prospectus information about its proved, probable and possible reserves under PRMS standards based on the evaluations of its fields by D&M.

Proved Reserves are those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence

that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (“2P”). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible Reserves (“3P”), which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

An evaluation of proved, probable and possible reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the appraisal date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect the proved, probable and possible reserves estimates, as well as estimates of its future net revenues and net present worth, because the reserves are evaluated, and the future net revenues and net present worth are estimated, based on prices and costs as of the appraisal date.

SEC Standards

SEC standards differ in certain material respects from PRMS and Russian standards. The principal differences include the following:

Duration of Licence. Under PRMS standards, proved reserves are projected to the economic production life of the evaluated fields. Under the SEC standards in effect as of the date of the 2011 Reserve Reports and guidance issued by the SEC staff in respect thereof, quantities of oil and gas deposits may be required to be limited to quantities expected to be produced during the term of the licences with respect thereto (“SEC-LE basis”). In this regard, the guidance is that renewals of licences should not be assumed unless the licence holder has the right to renew the licence and a demonstrated track record exists in respect of obtaining renewals. The Group believes it is currently in material compliance with its licences, and intends to request to extend them to the full economic lives of the associated fields upon the expiration of their primary terms.

For purposes of the 2011 Reserve Reports, D&M accepted the Group’s representations that, upon completion of the primary term of its current licences, the Group intends to extend the licences to the end of the economic life of the associated fields and that the Group intends to proceed accordingly with the development and operations of those fields. Based upon the Group’s representations, D&M included as proved reserves, using SEC standards, those volumes that are estimated to be economically producible from the fields after the expiration of the primary term of the licences (the “SEC-LOF basis”).

The Group has excluded quantities producible beyond the licence period expiration dates when calculating the estimated reserves under the SEC-LE basis, which is one of the reasons why its estimated reserves under the SEC-LE basis are lower than under the SEC-LOF basis.

Accordingly, information relating to the Group’s estimated proved natural gas, gas condensate and crude oil reserves is not necessarily indicative of information that would be reported under SEC standards in an offering document registered with the SEC.

SEC Regulation S-X Rule 4-10 paragraph (a) defines proved reserves as follows:

Proved oil and gas reserves. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

- (i) The area of the reservoir considered as proved includes:
 - (A) the area identified by drilling and limited by fluid contacts, if any; and

- (B) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establish a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
- (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
 - (A) successful testing by a pilot project in an area of the reservoir with properties no more favourable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and
 - (B) the project has been approved for development by all necessary parties and entities, including governmental entities.
- (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12- month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

- (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.
- (iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in section 210.4-10 (a) Definitions of Rule 4-10 of Regulation S-X promulgated under the Securities Act, or by other evidence using reliable technology establishing reasonable certainty.

BUSINESS

Overview

The Group is one of the leading Russian vertically integrated oil companies, and by sales volume in 2011 was Russia's fifth largest producer of crude oil, third largest refiner of oil and oil products, second largest seller of fuel oil and diesel and largest seller of automobile and jet fuel, according to Interfax. The Group's three key areas of operations are exploring, developing, producing and selling crude oil and gas; refining oil and selling refined petroleum products; and distributing petroleum products through its retail outlets. Headquartered in St. Petersburg, the Group comprises over 70 production, refining and marketing companies in Russia, the CIS and abroad. Except where expressly stated otherwise, all Group operational information herein includes the share of any minority interest owners and also the Group's proportionate share of the respective results of operations of the Equity Affiliates.

The Group's principal upstream production operations are located among the largest oil and gas regions in Russia: Yamalo-Nenets, Khanty-Mansiysk, Omsk, Tomsk, Orenburg, Tyumen and Krasnoyarsk. As of 31 December 2011, the Group's proved reserves under PRMS classification were 8,320 mmboe, including 6,790 mmbbl of crude oil and 9.2 tcf of gas. The Group is currently developing 42 fields (excluding those of the Equity Affiliates, as defined below) in Russia and Europe and taking part in joint exploration and development projects of oil fields in Iraq, Venezuela, Equatorial Guinea, Angola and Cuba. The Group's total hydrocarbon production was 108.5 mmboe and 421.6 mmboe for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively.

The Group's major downstream refining facilities are located in Omsk, Moscow and (through an Equity Affiliate) Yaroslavl in Russia and Pančevo and Novi Sad in Serbia. The Group refines more than 80% of the oil it produces, among the highest such industry ratios in Russia. As of 31 December 2011, the Group's refining capacity was 46.0 mmt tonnes per year, and its refining throughput was 10.2 mmt tonnes and 40.5 for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Omsk Refinery is one of the largest refineries in Russia by processing volumes, producing high-quality refined products such as automotive petrol, fuel for diesel and jet engines, fuel oil, bitumen and aromatic hydrocarbons. The Moscow Refinery is the largest provider of oil products in Moscow and the Moscow region by volume with a 40% market share, according to Petromarket.

The Group sells its products in Russia through its extensive sales network and also exports to over 50 countries. As of 31 March 2012, the Group's network of petrol stations consisted of approximately 1,670 stations in Russia, the CIS and Eastern Europe. To market petroleum products, the Group has established dedicated business units for the sales of jet fuel, bunkering and the production and sale of lubricants, including Gazprom Neft-Aero, Gazprom Neft-Marine Bunker and Gazprom Neft-Lubricants, respectively.

The Equity Affiliates contributed 35.0 mmboe, or 32.2%, and 142.6 mmboe, or 33.8%, of the Group's total hydrocarbon production for the three months ended 31 March 2012 and year ended 31 December 2011, respectively. In addition, as of 31 December 2011, the Group's share in the Equity Affiliates' proved hydrocarbon reserves under PRMS standards was 2,648 mmboe, or 31.8% of the Group's total reserves, including 1,887 mmbbl of crude oil and 4.6 tcf of gas.

For the three months ended 31 March 2012, total consolidated revenues of the Group, as reported under IFRS, were RUB 277,976 million. Revenues from crude oil sales for the three months ended 31 March 2012 were RUB 53,265 million, or 19.2% of total revenues, while revenues from petroleum product sales for the three months ended 31 March 2012 were RUB 211,850 million, or 76.2% of total revenues. Revenues from export and sales on international markets (excluding export sales to the CIS) for the three months ended 31 March 2012 were RUB 115,585 million (RUB 40,480 million from crude oil, RUB 73,683 million from petroleum products and RUB 1,422 million from gas), or 41.6% of total revenues, while revenues from domestic sales for the three months ended 31 March 2012 were RUB 133,944 million (RUB 2,914 million from crude oil, RUB 126,066 million from petroleum products and RUB 4,964 million from gas), or 48.2% of total revenues. Export sales to the CIS for the three months ended 31 March 2012 were RUB 21,972 million (RUB 9,871 million from crude oil and RUB 12,101 million from petroleum products), or 7.9% of total revenues.

In 2011, total consolidated revenues of the Group, as reported under U.S. GAAP, were USD 44,172 million. Revenues from crude oil sales in 2011 were USD 11,756 million, or 27% of total revenues, while revenues from petroleum product sales in 2011 were USD 30,877 million, or 70% of total revenues. In 2011, revenues from export and sales on international markets (excluding export sales to the CIS) were USD 23,458 million (USD 10,347 million from crude oil, USD 12,929 million from petroleum products and USD 182 million from gas), or 53.1% of total revenues, while revenues from domestic sales in 2011 were USD 16,970 million (USD 168 million from crude oil, USD 453 million from gas and USD 16,349 million from petroleum products), or 38.4%

of total revenues. Export sales to the CIS in 2011 were USD 2,840 million (USD 1,241 million from crude oil and USD 1,599 million from petroleum products), or 6.4% of total revenues.

Competitive Strengths

The Group believes that it benefits from the following competitive strengths:

- **Leading Russian vertically integrated oil company.** The Group is a leading vertically integrated enterprise that seeks to optimise the management of the main activities of its subsidiaries. Due to its high degree of vertical integration, the Group is active across the entire hydrocarbon value chain, including the exploration, development and production of crude oil, refining, wholesale sales and marketing of retail products. The Group's total hydrocarbon production was 108.5 mmboe and 421.6 mmboe for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Group's vertical integration also allows it to process and refine a high level of its captive production. The Group's refining throughput was 10.2 mmtonnes and 40.5 mmtonnes for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively, and its refining/production ratio was 82% in 2011. In addition, the Group's extensive retail network also affords the Group the opportunity to sell a significant portion of its processed production directly to end-consumers. Total sales of the Group's petroleum products were 9.3 mmtonnes in the three months ended 31 March 2012 and 38.3 mmtonnes in the year ended 31 December 2011.
- **Extensive resource base and high reserves-to-production ratio.** As of 31 December 2011, the Group's proved reserves under the PRMS classification were 8,320 mmboe, including 6,790 mmbbl of crude oil and 9.2 tcf of gas. At current production levels, under the PRMS standards, the Group has a reserves-to-production ratio for proved hydrocarbon reserves of approximately 20 years and a reserves-to-production ratio for proved plus probable hydrocarbon reserves of approximately 30 years. In 2011, the Group's replacement ratio was 286%. The Group's resource base also includes a large portion of ABC Russian classification reserves based on exploration results in its current fields. In 2011, the Group held a leading position among Russian vertically integrated oil companies in the effectiveness of its exploratory drilling, securing average growth in recoverable reserves of 343 toe under the ABC Russian classification for each metre drilled. In addition, since 2009, the Group's resource base has experienced expansion through acquisitions and joint ventures in Russia and abroad.
- **Productive and increasingly modern refinery fleet.** As of 31 December 2011, the Group's refining capacity was 46.0 mmtonnes per year, and its refining throughput was 10.2 mmtonnes and 40.5 mmtonnes for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively. The Group's main refining asset, the Omsk Refinery, had a processing depth of 84.1% and Nelson complexity index of 7.64 in 2011 and is one of the largest refineries in Russia by processing volumes, producing high-quality refined products such as automotive petrol, fuel for diesel and jet engines, fuel oil, bitumen and aromatic hydrocarbons. The Moscow Refinery is the largest provider of oil products in Moscow and the Moscow region as measured by volume with a 40% market share, according to Petromarket. The NIS Refineries in Serbia and the Group's stake in the YANOS Refinery in Yaroslavl also represent significant refining assets of the Group. In addition, the Group has commenced substantial modernisation programmes at its refineries. In 2008, a ten-year, RUB 100 billion modernisation programme commenced at the Omsk Refinery to expand the volume and range of its products, including high-octane petrol, diesel fuels, aromatics, coke, modern bitumen materials and petrochemicals, while also improving the refinery's environmental performance. In 2010, the Group began a large-scale modernisation programme at the Moscow Refinery, which is planned to continue through 2020 and entails reconstructing existing assets, constructing new refining capacities, improving safety for operating procedures and implementing environmental projects at the refinery.
- **Efficient marketing segment in Russia and abroad.** The Group sells its products in Russia through an extensive sales network and also exports to over 50 countries. A proprietary marketing network enables the Group to monitor and increase its fuel sales. In the three months ended 31 March 2012, total sales of the Group's petroleum products were 9.3 mmtonnes, compared to 8.9 mmtonnes in the three months ended 31 March 2011. Group petroleum product sales amounted to 38.3 mmtonnes, 35.6 mmtonnes and 31.5 mmtonnes in 2011, 2010 and 2009, respectively. The Group sells most of its petroleum products in Russia and neighbouring countries through 20 subsidiaries. Sixteen of the subsidiaries are retail distribution companies, selling petroleum products both wholesale and retail through petrol stations. As of 31 March 2012, the Group's retail network comprised approximately 1,670 filling stations in Russia, CIS and Eastern Europe. In addition, the Group is also actively developing its aviation fuel and lubrication sales segments and in 2011 was a leader in plane fuelling and one of the largest bunkering fuel suppliers in Russia.

- **Growth potential in all segments.** The Group is well-positioned for growth in all key aspects of its business. In addition to seeking opportunities to expand its resource potential both organically and through acquisitions, the Group has the ability to leverage its already substantial resource base, and thus the capacity to substantially increase its oil production. Further, the modernisation programmes at its refineries provide an opportunity for the Group to increase throughput as well as the quality and quantity of its refined product production. Finally, the Group's investment in its retail network holds the promise of enabling it to expand the sales of its petroleum products, with particular emphasis placed on growing premium segment sales, such as petrol, jet fuel, bunkering and motor oil sales.
- **Strong relationship with the Russian Federation and Gazprom.** Since 2005, the Company's controlling shareholder has been Gazprom, which in turn is controlled by the Russian Federation. State-owned oil and gas companies enjoy certain benefits in Russia, including strong support in funding from state-owned banks and exclusive access to exploration and production licences for offshore blocks. The Group also has acquired oil assets from Gazprom and plans to continue to do so in the future. Also, the Group believes that its relationship with Gazprom, which owns and operates the Russian natural gas transmission system, and which provides the Group with operational support on many of its gas-related activities, will help improve and optimise its gas business.
- **Extensive experience of successful participation in joint ventures and integration of acquisitions in Russia and abroad.** The Group aims to increase its resource potential and refining capacity through the development of operations in various countries around the world. The Group has a proven record of successful organic growth and participation in joint ventures as well as acquisitions of Russian and foreign oil, gas, refining and marketing assets. Since 2009, the Group has obtained several significant assets, including stakes in NIS and the Moscow Refinery. In addition, the Group's existing joint ventures include partnerships with TNK-BP, Rosneft, Royal Dutch Shell, Petronas and Novatek.

Strategy

The Group seeks to continue to be a major international player in the oil and gas business with a regionally diversified pool of assets operated on a vertically integrated basis, while exercising a high level of social and environmental responsibility. In 2009, the Company's Board of Directors approved development strategies for exploration and production, oil refining and petroleum products sales to 2020 under which the Group has set the following goals. There can be no assurance, however, that the Group will be able to achieve these targets. The targets are necessarily based upon a number of assumptions and estimates that, while considered reasonable by the Group, are inherently subject to significant market, business, actuarial, operational, political, economic, tax and competitive uncertainties and contingencies, many of which are beyond the Group's control, and upon assumptions with respect to future business decisions that are subject to change. These targets also assume the success of the Group's business strategy. The success of this strategy is subject to significant uncertainties and contingencies beyond the Group's control, and no assurance can be given that the strategy will be effective or that the anticipated benefits from the strategy will be realized in the periods for which targets have been prepared, or at all. Accordingly, the Group cannot provide any assurance that these targets will be realized. The targets may vary materially from the Group's actual results. Prospective investors in the Notes are cautioned not to place undue reliance on this information. See "*Forward-Looking Statements*" and "*Risk Factors*".

- **Increase crude oil production.** The Group aims to increase crude oil production to 100 mmt tonnes per year. In addition, the Group seeks to achieve a reserves-to-production ratio of no less than 20 years with projects in initial development providing for at least 50% of total production and foreign production projects providing 10 mmt tonnes per year. To achieve these objectives, the Group will consider acquiring new assets, both in Russia and abroad, accelerate field development when appropriate, improve exploration technology used at its sites and continue to improve well efficiency. The Group will also leverage the crude production at its international operations, which has the additional benefit of mitigating the risks of geographic concentration.
- **Increase refining throughput.** The Group will seek to increase its refining capacity to 65 to 70 mmt tonnes per year (with approximately 40 mmt tonnes in Russia and 25 to 30 mmt tonnes abroad), with a target production crude allocation of 40% refined in Russia, 25% to 30% refined abroad and 20% to 25% sold directly as crude oil (with the remainder represented by gas production). The Group's refining capacity may be increased by a variety of methods, such as processing or tolling agreements or asset acquisitions. In addition, the Group is undertaking several on-going modernisation programmes to improve the quality of its refining and ensure higher production rates of Euro 4 and 5 fuels; approximately USD 10 billion is expected to be spent on refining capability upgrades by 2020. Retrofitting of catalytic cracking units is planned at all of the Group's refineries as well. The Group also aims to improve oil-refining depth at its facilities to between 90% and 93% by 2020, increase the

production of light distillates, and expand its hydrocracking capabilities, available as the date hereof only at the YANOS Refinery. The Group expects to spend over USD 2 billion to bring hydrocracking capabilities to the Omsk and Moscow Refineries, producing capacities of 2.0 and 1.5 mmt tonnes, respectively, at the facilities.

- **Expand the sale of petroleum products.** The Group has set a target to expand its sales of petroleum products to 40 mmt tonnes in Russia and abroad, in part by entering new markets and increasing its total presence to 36 regions in Russia and the CIS countries. High-quality products and a developed distribution network will continue to be the driving forces behind the Group's leading position in the domestic petroleum products market. The Group is expanding its distribution network and increasing its share in the domestic and international petroleum products markets through ongoing investment in the modernisation of its refining facilities and the extension of its network of petrol stations. The Group also seeks to increase its motor fuel sales to 11.5 mmt tonnes per year by promoting its high-quality "G-Family" product line. In addition, the Group plans to maximise its use of a newly acquired facility in Fryazino, Moscow region, produces 40,000 tonnes of packaged motor, transmission and industrial oils annually.
- **Develop retail network and sales.** By leveraging its strong retail brand, the Group will work to increase the average sales at its petrol stations by more than 50% and double the revenue generated by the sale of related goods and services at these stations. In addition to continuing to promote its corporate and loyalty programmes at its petrol stations, the Group also targets an expansion in Russia and the CIS to 2,100 petrol stations, including entry into Kazakhstan and the southern regions of Russia. The Group also intends to further develop its petrol station presence in Ukraine, in which the Group opened its first stations in June 2012. The Group will seek to acquire existing retail chains in other markets as well. In total, the Group expects to spend approximately RUB 8.6 billion on the rebranding, renovation and construction of petrol stations in 2012, compared to RUB 4.8 billion in 2011, with a large portion of these expenditures to be used to integrate newly acquired petrol stations into the Group's network.
- **Grow business in premium segments.** The Group is committed to expanding its premium retail segments, including the production and sale of jet fuel, lubricants, bitumen, petrochemicals, and bunkering, with the goal of raising total premium segment sales to more than 16.5 mmt tonnes per year. Already the leader in jet fuel retail sales and the second largest provider of jet fuel supplies in the Russian market in 2011, Gazprom Neft-Aero has a long-term strategy focusing on the development and expansion of its corporate network of modern fuel service complexes. By 2020, Gazprom Neft-Aero seeks to own a network of over 50 fuel services complexes at domestic and international airports and conduct operations at 70 additional airports. Gazprom Neft Marine Bunker's development strategy is aimed at extending its activities to Europe, the Middle East and Asia, and the subsidiary plans to increase its fleet from seven to 15 ships by 2020 to expand its operations. The Group aims to further increase bitumen sales both in Russia and abroad and has begun production at the Omsk Refinery of premium bitumen products that meet European standards. This new production is expected to include polymer-bitumen binders and bitumen emulsions with a capacity of up to 10,000 and 3,000 tonnes per year, respectively. For its petrochemical operations, the Group aims to create a vertically integrated petrochemical business by 2020 that will focus on the production of aromatics and other high-margin petrochemical products.

History and Structure

History and Development

While the Group's assets and refineries have their origins in Soviet times, the Group traces its immediate corporate history to 1995, when OJSC Siberian Oil Company ("Sibneft") was established by a presidential decree. The Russian Government, as Sibneft's founder, transferred its stakes in Noyabrskneftegaz, OJSC Noyabrskneftegazgeophysica, the Omsk Refinery and OJSC Omsknefteproduct to the authorised capital of Sibneft, creating a vertically-integrated oil company.

The Group's privatisation occurred from 1996 to 1997, when private investors acquired a controlling stake in Sibneft as part of the Russian state programme "Loans for Shares". Subsequent efforts toward modernisation and increased assets resulted in significant geographic and operational expansion into several Russian regions (principally Tomsk and Omsk), and an expanded sales network. During this period, the Group also acquired a 49.9% stake in Slavneft with TNK-BP as its joint venture partner. In 2005, Gazprom acquired a 75.68% controlling interest in Sibneft, and in 2006, the Company's name was changed to JSC Gazprom neft. In April 2009, Gazprom acquired an additional 20.00% interest in the Company and increased its stake to 95.68%.

By 2007, the Group had begun to establish separate business units for its various operations, such as Gazprom Neft-Nefteservice, Gazprom Neft-Marine Bunker, Gazprom Neft-Lubricants and Gazprom Neft-Aero. To further expand its resource base, the Group acquired a 50% stake in Toms kneft in December 2007. Since 2008, the Group has expanded its international operations. In that year, the Company, Rosneft, LUKOIL, TNK-BP, and Surgutneftegas signed a memorandum of understanding for cooperation and joint participation in projects in Venezuela. In 2009, the Group acquired NIS in Serbia and a controlling stake in Sibir Energy, increasing its stake in the Moscow Refinery and gaining access to additional production assets in western Siberia. In April 2009, the Group purchased the Chevron Italia S.p.A. oils and lubricants production plant in the city of Bari (Italy) from Chevron Global Energy and launched a large-scale rebranding programme for the Gazprom Neft network of petrol stations. In recent years, while solidifying its position in Russia, the Group has continued to develop its international presence, expanding operations in Central Asia and embarking on various projects around the world.

Organisational Structure

The diagram below sets out the organisational structure of the Group's principal operating subsidiaries as well as the percentage of voting shares owned or controlled by the Group as at the date of this Base Prospectus.

Operations

Exploration, Development and Production

The Group is one of the largest oil and gas producers in Russia as measured by sales volumes. The Group's total hydrocarbon production was 108.5 mmbbl and 421.6 mmbbl for the three months ended 31 March 2012 and the year ended 31 December 2011, respectively, compared to 102.6 mmbbl and 389.6 mmbbl for the three months ended 31 March 2011 and the year ended 31 December 2010, respectively. As of 31 December 2011, the Group was estimated under PRMS standards to have an aggregate of 6,790 mmbbl of proved and 4,790 mmbbl of probable oil and condensate reserves and 9,181 bcf of proved and 6,539 bcf of probable sales gas reserves. As of 31 December 2011, under SEC standards, the Group's estimated proved oil and condensate reserves were 5,756 mmbbl of oil and condensate and 8,085 bcf of sales gas (all figures under both PRMS and SEC standards include the share of any minority interest owners and the Group's share in the reserves of the Equity Affiliates, but exclude the reserves of NIS, as the Serbian government prohibits the disclosure of this information). The Group's key production fields are located in Russia in the regions of Yamalo-Nenets, Khanty-Mansiysk, Omsk, Tomsk, Orenburg, Tyumen and Krasnoyarsk. As part of its strategy, the Group is also expanding its portfolio of international exploration and production projects. The Group's subsidiary NIS is engaged in oil and gas exploration and production in Serbia and Bosnia and Herzegovina. The Group also is currently pursuing production projects in Iraq and Venezuela and exploration projects in Equatorial Guinea and Cuba.

Licences

The Group is required to obtain licences from governmental authorities to explore for and produce oil and natural gas from its fields. As of 31 March 2012, the Group (excluding the Equity Affiliates) held 74 licences for fields located in 11 regions in Russia, of which 60 licences were either production or combined exploration and production licences and 14 were exploration licences. Outside Russia, NIS has 65 resolutions (the equivalent of licences) for the exploration of oil in Serbia and participates in joint ventures which hold one exploration and production permit in Bosnia and Herzegovina. The Group also has interests in entities holding licences for the exploration and development of fields in Iraq, Venezuela, Equatorial Guinea and Cuba. In addition, the Equity Affiliates hold licences for the exploration and production of oil and gas. As for the Equity Affiliates, as of 31 March 2012, Slavneft held 31 exploration and production licences in western Siberia and the Tomsk region, Tomskneft held 33 production licences in Khanty-Mansiysk and the Tomsk region, Messoyakhaneftegaz held a total of two licences for exploration and production in Yamalo-Nenets, Sever Energia held four licences in Yamalo-Nenets and SPD held three licences in Khanty-Mansiysk.

Exploration licences in Russia are typically granted for five years and do not provide for any extraction rights. However, under existing Russian regulations, if exploration efforts result in the discovery of oil or natural gas, the Group may, in accordance with relevant Russian regulations, apply to Rosnedra for permission to obtain a production licence without auction or tender. The Group's domestic production licences are generally valid for a period of 20 to 50 years from issuance and provide the exclusive right to extract oil and natural gas from fields in a defined area.

Twenty-nine of the Group's licences expire in the next five years. In 2011, the Licensing Commission of the Federal Agency for Subsoil Use in Russia reviewed and approved amendments to 13 licences. For ten sites, the licence period was extended, and for three sites, licence agreement terms were amended due to material change in circumstances. In the past five years, there have been no unsuccessful licence renewal applications. The Group monitors the expiration of its licences on an ongoing basis and undertakes the necessary measures to ensure their extension, although there can be no assurance that the Group will be able to extend or renew its licences in the future. See *"Risk Factors — Risks Relating to the Group and the Oil and Gas Industry — The Group's subsoil licences may be suspended or revoked prior to their expiration and the Group may be unable to obtain or maintain various permits or authorisations"*.

The Group's licences generally impose obligations to pay certain local and federal taxes and meet certain environmental requirements. Licences generally require various commitments (determined on the basis of documents submitted during the licence application process), including bringing the field into production by a certain date, extracting a target amount of reserves annually, conducting minimum drilling levels and other exploratory and development activities, monitoring environmental conditions at the site, providing progress reports and geological data to the relevant authorities and making an initial one-time payment and regular payments for subsoil use. Licences may be suspended or revoked upon failure to comply with their terms or with instructions from regulatory authorities. The Group has had no licences suspended or revoked in the past five years. See *"Regulation of the Russian Oil Industry in the Russian Federation — Licensing"*. The Group monitors compliance with licence terms and seeks to timely obtain any necessary amendments or renewals.

The Group plans to continue to participate in auctions conducted by Rosnedra to acquire new licences to sites from the state unallocated subsoil reserve fund (i.e., sites for which the Russian Government has not yet allocated licences) which the Group expects to add value to existing operations and which fit with its strategy and business

focus. Also, the Group has acquired licences for the Novoportovsk field and the eastern section of the Orenburg oil and gas condensate field and plans to acquire additional licences in the future from Gazprom.

Reserves

The audit of the Group's reserves historically has been conducted according to both PRMS standards (formerly called SPE standards) and the standards of reserves measurement applied by the SEC. PRMS standards are the primary basis for reserves management within the Group.

D&M carried out the 2011 Reserves Reports, a summary of which is included as Annex A to this Base Prospectus. See *"Annex A: Summary of Reserves Report of DeGolyer and MacNaughton"*. The 2011 Reserves Reports set forth estimates of the Group's reserves as of 31 December 2011 based on data derived from studies relating to the Group's interest in reserves of crude oil and gas at its properties and the Group's pro rata shares of such reserves of the Equity Affiliates. The Company's ownership in its relevant subsidiaries ranges from 61.8% to 100%; because the Group exercises control over these subsidiaries, their estimated reserves are reported at 100% in the summary report. Unless otherwise specified, information in this Base Prospectus relating to the estimated crude oil and gas reserves of the Group is extracted or derived from the relevant reserves reports prepared by D&M as at 31 December 2011, 2010 and 2009 under PRMS standards.

The process of estimating oil reserves is complex and inherently uncertain. Production rates and timing of development must be projected and available geological, geophysical, production, engineering and economic data analysed for each reservoir. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See *"Classification of Reserves"* and *"Presentation of Certain Information – Oil and Gas Information"*. See also *"Risk Factors—Risks Relating to the Group and the Oil and Gas Industry—Oil, natural gas and gas condensate reserves data in the Base Prospectus are only estimates, and the Group's actual production, revenues and expenditures with respect to its reserves may differ materially from those estimates"*.

As of 31 December 2011, the Group's total proved plus probable reserves of hydrocarbons totalled 14,200 mmbœ according to PRMS standards, including 11,580 mmbbl of crude oil and 15.7 tcf of gas. The Group's proved reserves as of 31 December 2011 were 8,320 mmbœ, including 6,790 mmbbl of crude oil and 9.2 tcf of gas.

The following table sets forth the Group's reserves as of 31 December 2011, 2010 and 2009. The PRMS reserves figures provided in the table below differ from those reported in the supplementary information on oil and gas activities included with the Group's consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the SEC, which, in addition to other differences, require the use of a 12-month average of the price as of the first day of the month for each month within the reporting period. The PRMS reserves in the table below use the Group's best estimate of future crude oil and natural gas prices based on an average of Brent oil prices projected by a selection of leading international market analysts in the second half of 2011. Also, the proved reserves reflected in the table below do not include reserves of NIS, as disclosure of such information is prohibited by the government of Serbia. The reserves as of 31 December 2011 in the following table are as reported in the 2011 Reserves Reports prepared by D&M, however, the volumes given in reconciliation categories and the reserves information as of 31 December 2010 and 2009 are not included in the 2011 Reserves Report and were estimated by the Group (based on past reports from D&M not included in this Base Prospectus).

	Oil and Gas Reserves (mmbœ)						
	Consolidated subsidiaries of the Group	Share in Equity Affiliates					Total
		Slavneft	Tomskneft	SPD	Sever-Energy	Messoyakha neftegaz	
Proved Reserves							
(as of 31 December 2009).....	4,989	1,489	701	283	-	-	7,462
Proved Developed Reserves	2,279	877	415	220	-	-	3,792
Proved Undeveloped Reserves	2,710	614	286	62	-	-	3,672
Production	(249)	(69)	(42)	(30)	-	-	(390)
Revision of previous estimates	539	(494)	(43)	(3)	-	-	(1)
Purchases of minerals in place	-	-	-	-	455	-	455
Proved Reserves							
(as of 31 December 2010).....	5,279	926	616	250	455	-	7,526
Proved Developed Reserves	2,323	469	356	197	-	-	3,345
Proved Undeveloped Reserves	2,957	457	261	52	455	-	4,181

Production	(279)	(69)	(43)	(31)	-	-	(422)
Revision of previous estimates	355	83	90	15	355	-	898
Purchases of minerals in place	317	-	-	-	-	-	317
Proved Reserves (as of 31 December 2011)	5,672	941	663	234	810	-	8,320
Proved Developed Reserves	2,707	465	372	183	-	-	3,727
Proved Undeveloped Reserves	2,965	476	291	51	810	-	4,593
<i>Total probable reserves</i>	<i>2,944</i>	<i>1,508</i>	<i>389</i>	<i>101</i>	<i>666</i>	<i>273</i>	<i>5,881</i>
<i>Total possible reserves</i>	<i>2,456</i>	<i>1,373</i>	<i>276</i>	<i>58</i>	<i>822</i>	<i>299</i>	<i>5,284</i>

The following table sets forth the Group's Russian crude oil and condensate reserves by its main production areas as of 31 December 2011, 2010 and 2009, as estimated by the Group:

Region	Oil and Condensate Reserves (mmbbl) ⁽¹⁾								
	31 December 2011			31 December 2010			31 December 2009		
	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable
Yamalo-Nenets	1,976	1,781	3,757	2,031	1,479	3,510	1,864	1,365	3,229
Khanty-Mansiysk	3,827	1,434	5,261	3,717	1,492	5,209	4,377	1,338	5,715
Omsk/Tomsk	669	508	1,176	677	489	1,166	647	479	1,126
Orenburg	317	256	573	-	-	-	-	-	-
Krasnoyarsk	2	812	813	15	786	801	36	520	555
Total	6,790	4,791	11,580	6,441	4,245	10,686	6,924	3,702	10,626

Region	Gas Reserves (bcf) ⁽¹⁾								
	31 December 2011			31 December 2010			31 December 2009		
	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable	Proved	Probable	Proved plus Probable
Yamalo-Nenets	7,537	5,921	13,458	4,943	7,027	11,969	1,409	524	1,933
Khanty-Mansiysk	987	401	1,388	987	312	1,299	1,074	1,344	2,418
Omsk/Tomsk ...	657	216	873	581	344	925	747	331	1,078
Total	9,181	6,538	15,720	6,511	7,682	14,193	3,230	2,199	5,429

(1) Indicates the Group's share in reserves of its Equity Affiliates.

The Group's strategic objective is to replace at least 100% of production every year with new proved reserves. The Group aims to expand its resource base each year through intensifying geological exploration, efficiently developing its mature fields, and acquiring new assets in Russia and abroad. See "— Strategy". In 2011, the Group achieved a reserves replacement ratio of 286%. In 2011, according to Group estimates, exploration activities resulted in an increase of 879.6 mmboe (120 mmtoe) in proved hydrocarbon reserves while the acquisition of the Orenburg assets alone increased proved reserves by 317 mmboe under PRMS. The growth in proved reserves in 2010 was primarily driven by the acquisition of a 25.5% interest in Sever Energia, which provided the Group (on an Equity Affiliate basis) with proved reserves of 455 mmboe as of 31 December 2010.

At current production levels, under the PRMS standards, the Group has a reserves-to-production ratio for proved hydrocarbon reserves of approximately 20 years and proved plus probable hydrocarbon reserves of approximately 30 years.

Exploration and Development

The Group is continually engaged in the exploration for new deposits of crude oil and natural gas. Its activities include exploratory drilling and geophysical exploration in its existing production fields as well as new areas for which it holds licences. The Group performs exploration and development activities in its main producing regions, namely Siberia and southern Russia, and is pursuing projects abroad, including Iraq, Venezuela, Cuba and Equatorial Guinea. The Group's exploration efforts rely primarily on drilling and two- and three-dimensional seismic surveys. The Group employs modern geological and hydrodynamic modelling as well as new well drilling and completion techniques in an attempt to discover new deposits.

One of the Group's strategic goals is to intensify exploration and improve its efficiency to expand its resource base and maintain its reserves-to-production ratio at the current level while increasing production. See "*—Strategy*". As oil prices rose in 2010 and 2011, the Group's level of exploration activity increased significantly. During that period, the Group's exploration and development activities were focused on promising exploratory projects in eastern Siberia, Equatorial Guinea and Cuba. In addition, exploration and development activities were conducted at the Group's existing sites in Yamalo-Nenets, Khanty-Mansiysk and the Tomsk and Tyumen regions with the aim of maintaining and improving existing production assets.

The investment in exploration by the Group grew 43% year-to-year to RUB 6.7 billion in 2011. In 2010, the investment in exploration by the Group grew 53% year-to-year to RUB 4.7 billion.

In 2011, 25 prospecting and appraisal wells were completed at the Group's fields, including 18 wells where commercial inflows of hydrocarbons were obtained. Exploration metres drilled in 2011 totalled 59,136, a decrease from 2010 of 7.2%, or about 4,584 metres. The exploration drilling success rate (the ratio of successful wells to total wells drilled) was 72%, with an efficiency of 343 tonnes of hydrocarbons per metre drilled (defined as the ratio of additional C₁ recoverable reserves to the total meterage drilled) at a cost of 140 RUB/toe (defined as the ratio of RUB costs for exploratory drilling to additional C₁ recoverable reserves obtained).

In 2010, 19 prospecting and appraisal wells were completed at the Group's fields, including 11 wells where commercial inflows of hydrocarbons were obtained. Exploration metres drilled in 2010 totalled 63,720, which represented an increase of 68% over 2009, partly due to more accessible financing for such projects following an ease to the financial crisis that began in 2008. The exploration drilling success rate was 69%, with an efficiency of 385 tonnes of hydrocarbons per metre drilled at a cost of 167 RUB/toe.

As a result of prospecting and exploration drilling and supplementary exploration performed by the Group at its existing assets in eastern Siberia in 2011, two new fields were discovered, including the Ignyalinskoe field in eastern Siberia with C₁ + C₂ oil reserves of 40 mmt tonnes and 20 bcf of gas. In addition, a total of 25 new deposits were discovered in 2011 at the Ety-Purovskoye, Vyngapurovskoye, Priobskoye, Urmanskoye and Vakunayskoye and Tympuchikanskoye fields, with 13.8 million toe of C₁ recoverable reserves of hydrocarbons and 47.9 million toe of C₂ reserves.

In 2010, the Severo-Vakunaiskoye field and 17 new deposits at the Vyngayakhskoye, Vyngapurovskoye, Ety-Purovskoye, Novogodny, and Tympuchikanskoye fields with C₁ recoverable reserves of hydrocarbons of 4.5 million toe and 10.5 million toe category C₂ reserves were discovered as a result of prospecting and exploration drilling.

In addition to exploration drilling, the Group actively utilises seismic surveys of its licence sites. The table below sets forth the volume of the Group's seismic testing for the years ended 31 December 2011, 2010 and 2009:

	Year ended 31 December		
	2011	2010	2009
2D method, km.....	1,273	3,817	1,234
3D method, sq. km	3,303	1,680	2,200

The Equity Affiliates have also increased their level of exploration activity, completing a total of 26 prospecting wells in 2011 with 63,455 exploration metres drilled. Nine new deposits were discovered, resulting in an increase in their C₁ reserves of 25.2 million toe; the Group's share in this increase was 50%.

Production Drilling

As of 31 December 2011, the Group had a total of 7,099 producer wells (not including Equity Affiliates) and 3,607 injection wells. Producer wells are used to extract oil and associated gas, while injector wells are used to pump water or other agents into subsurface reservoirs in order to maintain pressure and enhance oil recovery. The Group expanded its production drilling in conditions of recovering oil prices in 2010 and 2011. In 2011, the Group put into operation 736 new producer wells and 36 new injection wells, a net increase in the total stock of oil wells of 379 compared with 2010 levels.

In 2011, the number of new wells drilled at the Equity Affiliates' fields increased by 19.7% as compared to 2010 to a total of 487, largely due to the active development of the Krapivinskoye field by Tomskneft.

The table below sets forth the key information about the Group's new production drilling in 2011, 2010, and 2009:

	2011	2010	2009	Change, % 2011-2010	Change, % 2010-2009
Consolidated subsidiaries					
Production drilling (thousand metres).....	2,254	2,610	2,259	(13.6%)	15.5%
Wells drilled.....	736	746	667	(1.3%)	11.8%
Average well flow (tonnes per day)	15.3	15.9	16.3	(3.8%)	(2.5%)
Watercut, %	83.6	82.3	82.1	1.7%	0.1%
Equity Affiliates					
Production drilling (thousand metres).....	1,611	1,622	1,296	(0.7%)	25.2%
Wells drilled.....	487	407	383	19.7%	6.3%

Over the course of 2010 and 2011, the Group achieved greater production results with respect to drilling wells by reducing well downtime, allowing for repair time to bring the wells to a stable production level and increasing commercial drilling speed as well as the average penetration rate per drilling crew. The Group also managed to reduce capital expenditures on a per-well basis by decreasing the size of drilling pads, reducing drilling time, implementing new tender procedures and introducing more effective decision-making. On average, drilling time was reduced by 9.3% in 2011 as compared to 2010, while per-well construction costs decreased 6%.

Oil Production in Russia

In 2011, the Group was the fifth largest producer of crude oil in Russia in terms of barrels produced, with total crude oil production accounting for 9% of Russia's total crude oil production, according to Interfax. The Group's total crude oil production in Russia was 368.3 mmbbl in 2011, which represented an increase of 0.6% over 2010 production levels. In 2010, total oil production the Group was 366.1 mmboe, growing 4.8% year-on-year. The growth was achieved largely due to integrating assets acquired over the last two years and enhancing productivity of existing oil fields.

The Group's strategic plan calls for a significant increase in production volume by 2020. See "— *Strategy*". The Group plans to reach the target volume of production by utilising existing assets and by participating in joint ventures developing new projects, as well as by acquiring additional oil fields from Gazprom. The Group plans to further expand its asset portfolio by acquiring licences to discovered but still unallocated oil deposits, acquiring assets on the Russian market and developing projects abroad.

The Group's production operations in Russia are concentrated in the largest oil and gas regions: Yamalo-Nenets, Khanty-Mansiysk, Omsk, Tomsk, Orenburg, Tyumen and Krasnoyarsk. In 2011, the Group produced oil at 36 fields in Russia. Oil production is mainly performed by three subsidiary operators: Noyabrskneftegaz, Gazprom Neft-Khantos and Gazprom Neft-Vostok.

The table below shows the Group's main production subsidiaries, and represents the basis of subsidiaries from which the 2011 Reserves Reports derived their estimates of the Group's reserves:

Holding	Group Ownership (%)
Archinskoye LLC	100%
Gazprom Neft-Khantos.....	100%
Noyabrskneftegaz	100%
CSJC Gazpromneft-Orenburg.....	61.8%
CSJC Tsentr Naukoemikikh Tekhnologiy	100%
OJSC Yuzhuralneftegaz.....	87.5%
Gazprom Neft-Vostok.....	100%
OJSC Magma Oil Company	95.0%
OJSC Meretoyakhaneftegaz.....	67.0%
Sibneft-Yugra LLC	100%
Zapolyarneft	100%

The table below shows a breakdown of oil production by major region, subsidiary and field for the three months ended 31 March 2012 and 2011:

	31 March 2012		31 March 2011		Change in production, % 2012-2011
	Production (mmbbl)	Share in total production, %*	Production (mmbbl)	Share in total production, %*	
Crude oil					
Yamalo-Nenets	25.5	27.6%	26.1	29.0%	(2.3%)
Noyabrskneftegaz	28.6	30.9%	30.2	33.6%	(5.3%)
Sugmutskiye	4.4	4.8%	5.3	5.9%	(17.0%)
Sutorminskoye.....	3.7	4.0%	3.6	4.0%	2.3%
Vyngapurovskoye.....	6.4	6.9%	6.9	7.7%	(7.3%)
Sporyshevskoye.....	1.9	2.1%	2.2	2.4%	(13.6%)
Khanty-Mansiysk	25.1	27.1%	23.6	26.2%	6.4%
Gazprom Neft-Khantos	20.1	21.7%	18	20.0%	11.7%
Priobskoye.....	19.8	21.4%	17.8	19.8%	11.2%
Magma.....	0.8	0.9%	0.8	0.9%	0.0%
Omsk/Tomsk Region	3.1	3.4%	3.4	3.8%	(8.8%)
Gazprom Neft-Vostok	3.1	3.4%	3.4	3.8%	(8.8%)
Krapivinskoye.....	1.0	1.1%	1.4	1.6%	(28.6%)
Tyumen Region.....	0.8	0.9%	0.9	1.0%	(11.1%)
Orenburg Region	1.8	1.9%	-	-	-
NIS	2.2	2.4%	2.0	2.2%	10.0%
Total crude oil production by consolidated subsidiaries	59.5	64.3%	56.7	63.0%	4.9%
Share in Slavneft	16.4	17.7%	16.3	18.1%	0.6%
Tailakovskoye.....	4.1	4.4%	3.3	3.7%	24.2%
Aganskoye.....	2.0	2.2%	2.1	2.3%	(4.8%)
Share in Tomskneft	9.5	10.3%	9.5	10.6%	0.0%
Krapivinskoye.....	2.1	2.3%	1.6	1.8%	31.3%
Sovetskoye.....	1.8	1.9%	1.6	1.8%	12.5%
Igolsko-Talovoye.....	0.9	1.0%	1.2	1.3%	(25.0%)
Share in SPD	7.1	7.7%	7.5	8.3%	(5.3%)
Zapadno-Salymskoye.....	6.2	6.7%	6.8	7.6%	(8.8%)
Verkhne-Salymskoye.....	0.4	0.4%	0.4	0.4%	0.0%
Total share in production of Equity Affiliates	33.0	35.7%	33.3	37.0%	(0.9%)
Total crude oil production¹	92.5	100.0%	90.0	100.0%	2.7%

(1) Includes Gazprom Neft-Orenburg from the date of acquisition.

The table below shows oil production by major region, subsidiary and field for the years ended 31 December 2011, 2010 and 2009.

	2011		2010		2009		Change in production, %	Change in production, %
	Production	Share in total production, %*	Production	Share in total production, %*	Production	Share in total production, %*	2011-2010	2010-2009
Crude oil	(mmbbl)		(mmbbl)		(mmbbl)			
Yamalo-Nenets	105.5	28.6%	113.1	30.9%	125.3	35.9%	(6.7%)	(9.7%)
Noyabrskneftegaz	120.3	32.7%	129.1	35.3%	138.1	39.5%	(6.8%)	(6.5%)
Sugmutskiye	20.7	5.6%	22.1	6.0%	25.3	7.2%	(6.3%)	(12.6%)
Sutorminskoye	14.9	4.0%	16.3	4.5%	17.2	4.9%	(8.6%)	(5.2%)
Vyngapurovskoye	10.8	2.9%	10.9	3.0%	12.0	3.4%	(0.9%)	(9.2%)
Sporyshevskoye	8.2	2.2%	10.1	2.8%	12.0	3.4%	(18.8%)	(15.8%)
Muravlenkovskoye	3.4	0.9%	4.0	1.1%	4.8	1.4%	(15.0%)	(16.7%)
Khanty-Mansiysk	100.3	27.2%	93.6	25.6%	80.3	23.0%	7.2%	16.6%
Gazprom Neft-Khantos ..	75.1	20.4%	69.3	18.9%	60.8	17.4%	8.4%	14.0%
Priobskoye	74.2	20.1%	68.3	18.7%	81.5	23.3%	8.6%	(16.2%)
Vyngapurovskoye	15.2	4.1%	16.8	4.6%	14.0	4.0%	(9.5%)	20.0%
Magma	3.3	0.9%	2.5	0.7%	1.2	0.3%	32.0%	108.3%
Omsk/Tomsk Region	13.7	3.7%	13.1	3.6%	11.4	3.3%	4.6%	14.9%
Gazprom Neft-Vostok	10.4	2.8%	11.1	3.0%	13.0	3.7%	(6.3%)	(14.6%)
Krapivinskoye	4.9	1.3%	5.5	1.5%	6.5	1.9%	(10.9%)	(15.4%)
Tyumen Region	3.2	0.9%	3.2	0.9%	1.6	0.5%	0.0%	100.0%
Orenburg Region	1.4	0.4%	-	-	-	-	-	-
NIS	8.4	2.3%	7.2	2.0%	5.1	1.5%	16.7%	41.2%
Total crude oil production by consolidated subsidiaries	232.7	63.2%	230.2	62.9	224.9	64.4%	1.1%	2.4%
Share in Slavneft	66.3	18.0%	67.3	18.4%	69.3	19.8%	(1.5%)	(2.9%)
Tailakovskoye	14.8	4.0%	11.8	3.2%	8.0	2.3%	25.4%	47.5%
Aganskoye	8.3	2.3%	8.6	2.3%	9.3	2.7%	(3.5%)	(7.5%)
Share in Tomskneft	38.7	10.5%	38.7	10.6%	40.7	11.6%	0.0%	(4.9%)
Krapivinskoye	7.8	2.1%	4.6	1.3%	3.7	1.1%	69.6%	24.3%
Sovetskoye	7.2	2.0%	7.5	2.0%	7.7	2.2%	(4.0%)	(2.6%)
Igolsko-Talovoye	4.4	1.2%	5.4	1.5%	6.1	1.7%	(18.5%)	(11.5%)
Share in SPD	30.6	8.3%	29.9	8.2%	14.3	4.1%	2.3%	109.1%
Zapadno-Salymskoye	25.8	7.0%	26.9	7.3%	27.6	7.9%	(4.1%)	(2.5%)
Verkhne-Salymskoye	1.1	0.3%	1.5	0.4%	1.5	0.4%	(26.7%)	0.0%
Total share in production of Equity Affiliates	135.6	36.8%	135.9	37.1	124.4	35.6%	(0.2%)	9.2%
Total crude oil production ..	368.3	100.0%	366.1	100.0	349.4	100.0%	0.6%	4.8%

Core Domestic Producing Assets by Region

Yamalo-Nenets

The production operations of the Group in Yamalo-Nenets are conducted largely through the wholly-owned subsidiaries Noyabrskneftegaz, which develops the Sugmutskiye, Sutorminskoye, Vyngapurovskoye, Sporyshevskoye and Muravlenkovskoye fields, and Zapolyarneft. The fields in Yamalo-Nenets produced 105.5 mmbbl and accounted for 28.6% of the Group's oil production volume in 2011, and 25.5 mmbbl, representing 27.6% of the Group's oil production volume, in the three months ended 31 March 2012.

Obtaining a leading position in the development of the northern areas of Yamalo-Nenets is a strategic objective of the Group. A number of the Group's greenfield projects with significant reserves (the Messoyakha deposit as well as the Samburskoye, Yevo-Yakhinskoye, Yaro-Yakhinskoye and North Chaselskoye fields being developed by Sever Energia) are located in Yamalo-Nenets. The probable reserves of the Messoyakha field, the largest of the Group's greenfield projects, were estimated at 545.4 mmbbl (79.6 mmt tonnes) of oil and condensate as of 31 December 2011.

In 2011, the Group launched Cenomanian gas production at the Novogodneye and Muravlenkovskoye fields. One benefit of creating a new production centre in the north of Yamalo-Nenets will be gaining valuable experience in field development under environmental conditions characteristic of those in the far north regions of Russia, as well as in oil marine transportation and will additionally help create an effective infrastructure for oil and gas transportation.

As of 31 December 2011, the fields of Noyabrskneftegaz had a total of 15,696 wells (of which 4,336 were active production wells and 2,654 were active injection wells). In the three months ended 31 March 2012, Noyabrskneftegaz's crude oil production volume was 28.6 mmbbl, accounting for 30.9% of the Group's total production volume, a 5.3% decrease from levels in the three months ended 31 March 2011. In 2011, Noyabrskneftegaz's crude oil production volume was 120.3 mmbbl, accounting for 32.7% of the Group's total production volume, which represents a 6.8% decrease over the previous year. In 2010, Noyabrskneftegaz produced a total of 129.1 mmbbl of crude oil, a 6.5% decrease in production volume compared with 2009 levels. An update of field models and drilling process optimisation enabled the Group to slow the decline in production in Noyabrskneftegaz's fields, which are in an advanced stage of production.

Khanty-Mansiysk

The production operations of the Group in the Khanty-Mansiysk are conducted largely through the wholly-owned subsidiary Gazprom Neft-Khantos. Fields in Khanty-Mansiysk produced 100.3 mmbbl, or 27.2% of the Group's total oil production in 2011 and 25.1 mmbbl, or 27.1% of the Group's total oil production volumes in the three months ended 31 March 2012. The Priobskoye field in Khanty-Mansiysk, operated by Gazprom Neft-Khantos, is one of the Group's largest oil fields, with 2,222.5 mmbbl (308.6 mmtonnes) of proved oil reserves under the PRMS standards as of 31 December 2011. Full-scale development of the field started in 2004, and in 2011 it produced 74.2 mmbbl, 20.1% of the Group's total production volume; in the three months ended 31 March 2012, production at the field totalled 19.8 mmbbl, or 21.4% of the Group's total production volume.

Other fields in Khanty-Mansiysk include the north-eastern part of the Palyanovskaya area of Krasnoleninskoye field and a group of licenced sites acquired by the Group in early 2005 as well as the Yuzhnoe field and the Salym group of fields (developed by SPD) acquired as part of the acquisition of Sibir Energy.

As of 31 December 2011, the fields of Gazprom Neft-Khantos had a total of 2,519 wells (of which 1,376 are active production wells and 751 are active injection wells). In the three months ended 31 March 2012, Gazprom Neft-Khantos' crude oil production volume was 20.1 mmbbl, accounting for 21.7% of the Group's total production volume, an 11.7% increase from levels in the three months ended 31 March 2011. In 2011, Gazprom Neft-Khantos' crude oil production volume was 75.1 mmbbl, accounting for 20.4% of the Group's total production volume, which represents an 8.4% increase over the previous year. In 2010, Gazprom Neft-Khantos produced a total of 69.3 mmbbl and achieved a 14.0% increase in production volume compared with 2009 levels. The main drivers of increased production were an improvement in well efficiency, bringing a larger-than-planned number of wells into production and achieving improved reservoir pressure maintenance by implementing new techniques. Also, an industrial complex for diagnostics and repair of pump and compressor pipes, and an oil delivery and acceptance point were put into service.

Tomsk/Omsk

A group of fields in the Tomsk and Omsk regions forms another important centre of production, which produced 13.7 mmbbl and accounted for approximately 3.7% of the Group's domestic production in 2011. Gazprom Neft-Vostok is the oil production operator of the Krapivinskoye field located in Omsk region and of Archinskoye, Shinginskoye, Zapadno-Luginetskoye and Urmanskoye fields in the Tomsk region.

Following the acquisition of STS-Service from Malka Oil in early 2010, the Luginets group of fields (including Nizhne-Luginetskoye, Zapadno-Luginetskoye and part of the Shinginskoye field), with C₁ + C₂ category reserves totalling 11.5 mmtonnes, was added to the Group's assets in this production area. As of 31 December 2011, the C₁ + C₂ reserves of these fields were 13.4 mmtonnes. These fields are located in the immediate vicinity of the Group's Shinginskoye field. Under PRMS, as of 31 December 2011, the total proved reserves of the Nizhne-Luginetskoye and Zapadno-Luginetskoye fields were 20 mmbbl.

Many of the fields in this production cluster are in the early development stages, providing the potential for future production growth.

As of 31 December 2011, the fields of Gazprom Neft-Vostok had a total of 437 wells (of which 292 were active production wells and 101 were active injection wells). In the three months ended 31 March 2012, Gazprom Neft-Vostok's crude oil production volume was 3.1 mmbbl, accounting for 3.4% of the Group's total production volume, an 8.8% decrease from levels in the three months ended 31 March 2011. In 2011, Gazprom Neft-Vostok's crude oil production volume was 10.4 mmbbl, accounting for 2.8% of the Group's total production volume, representing a 6.3% decrease over the previous year. In 2010, Gazprom Neft-Vostok produced a total of 11.1 mmbbl and experienced a 14.6% decrease in production volume compared with 2009 levels.

Orenburg

In August 2011, the Group acquired a 100% interest in CJSC Centre of Science-Intensive Technologies, which holds exploration and production licences for hydrocarbons in the Tsarichanskoye field, the largest field in terms of reserves discovered in the Orenburg region in recent years. The Tsarichanskoye field is located approximately 110 kilometres northwest of the city of Orenburg. Test production is underway, and currently the Tsarichanskoye

field is being prepared for commercial production which is planned to begin in 2014. Proved and possible hydrocarbon reserves in the field are estimated to be more than 17 mmt tonnes under PRMS.

In October 2011, the Group purchased from a subsidiary of Gazprom a 61.8% stake in Gazprom Neft-Orenburg, which holds the licence for the eastern part of the Orenburg field. The Group also intends to purchase the remaining interest in Gazprom Neft-Orenburg and part of the Orenburg's field infrastructure. The eastern part of the Orenburg oil and gas condensate field is located close to the Tsarichanskoye field, in an area with a developed infrastructure.

In December 2011, the Group acquired an 87.5% interest in JSC Yuzhuralneftegaz, a company which holds a licence for the Kapitonovskoye hydrocarbon deposit in the Orenburg region. The field's $C_1 + C_2$ recoverable reserves are estimated at 5.4 mmt tonnes of crude oil and 2.5 bcm of gas.

The total consideration paid for the CJSC Centre of Science-Intensive Technologies and JSC Yuzhuralneftegaz was USD 455 million; the total consideration paid for the stake in Gazprom Neft-Orenburg was approximately USD 116 million. The Group plans to expand its presence in the Orenburg region and develop it into a new production centre. The Group's strategy includes the acquisition and exploration of nearby licences, with the Group's peak production in the region planned to reach more than 58.6 mmbbl (8 mmt tonnes) of crude oil and 194.2 bcf (5.5 bcm) of associated and natural gas by 2018.

The Group believes that investments in the fields in the Orenburg region are attractive for several reasons. Situated approximately 2,000 kilometres from the Novorossiysk port on the Black Sea, the Orenburg region fields enjoy a lower pipeline tariff for delivering crude oil to sea ports as compared to western Siberian fields, which results in a higher average netback. See "*Downstream Business — Netbacks*". In addition, oil companies operating in the region have been able to preserve the quality of their crude oil by using ways of transporting oil other than through Transneft pipelines (primarily by rail and river), thus avoiding the blending of their crude oil with other producers' oil. As the bulk of Orenburg crude oil is of substantially higher quality than the Russian average, this is expected to provide an incremental increase in average netback. Finally, the Orenburg deposits are rich in associated and natural gas and gas utilisation is significantly easier than in western Siberia due to a less severe climate and more developed infrastructure.

As of 31 December 2011, the Group's Orenburg fields had a total of 221 wells (of which 198 were active production wells and 2 were active injection wells). In the three months ended 31 March 2012, fields in the Orenburg region produced 1.8 mmbbl of oil, or 1.9% of the Group's total production.

Development of new fields

The Group is currently pursuing a number of large-scale development projects in Russia, which it expects will increase its production levels when realised. The Group believes that the development of these fields may possibly result in peak annual production of up to 20 mmt tonnes of crude oil by 2020. However, some of these projects are at an early stage of development, are located in remote regions with severe climate conditions and little or no infrastructure and require substantial capital investments. Therefore, they may not be realised as planned, and there can be no guarantee that these or any future development projects will ultimately improve the Group's crude oil reserves or production rates. See "*Risk Factors — Risks Relating to the Group and the Oil and Gas Industry — The Group's development, exploration and production projects involve many uncertainties and operating risks that can prevent the Group from finding or developing additional reserves or from meeting its production targets*".

Novoportovsk

In March 2012, the production licence for the Novoportovskoe field on the Yamal peninsula was re-registered from a subsidiary of Gazprom to Gazpromneft Novyi Port LLC, in line with Gazprom's 2009 decision to transfer the rights to the Novoportovskoe field to the Group. The Group received FAS approval for the acquisition of a 90% stake in Gazpromneft Novyi Port LLC in May 2012 and expects to complete the acquisition in the second half of 2012. The field's $C_1 + C_2$ recoverable oil and condensate reserves are estimated at 250 mmt tonnes, while gas $C_1 + C_2$ reserves are estimated at 265.8 bcm. The maximum annual output at the field is projected by the Group at 10 to 12 mmt oe. Test production start-up at the Novoportovskoe field is scheduled in late 2012, with commercial production planned to begin in 2016.

In 2011, the Group confirmed the feasibility of organising year-round oil export by sea from the Novoportovskoe field via the Gulf of Ob. An atomic ice-breaker undertook a test passage from the port of Sabetta (in the north-east of the Yamal peninsula) to the likely location of a shipping terminal that could be constructed for the Novoportovskoe field oil. The availability of sea export is expected to result in lower capital expenditures in transportation infrastructure for the project. The Novoportovskoe field is exempt from Russian MET through 2015.

Chonskiy and Kuyumbinskiy exploratory projects

The Chonskiy exploratory project is currently underway at the Tympuchikanskiy (Sakha-Yakutiya) and Vakunaitskiy and Ignyalinskiy sites (Irkutsk region). Three-dimensional seismic surveys covering approximately 162 square kilometres have been conducted at the Ignyalinskiy site. In June 2012, the Group signed an agreement with the Japan Oil, Gas and Metals National Corporation to conduct joint exploratory works at the Ignyalinskiy site, including up to 450 square kilometres of three-dimensional seismic surveying and well drilling and testing. In total, the Chonskiy project sites' C_1+C_2 reserves are estimated at 130.5 mmt tonnes of crude oil and 230.9 bcf of gas.

The Kuyumbinskiy exploratory project is currently ongoing at the Kuyumbinskiy, Tersko-Kamovskiy, Kordinskiy Abrakupchinskiy and Podporozhniy sites in the Krasnoyarsk region. The Group's share in the C_1+C_2 reserves of these sites are estimated to be 236.7 mmt tonnes, giving rise to the possibility that the Krasnoyarsk region could become a significant new production centre in eastern Siberia. Currently, the Group is seeking to extend its licence for these fields, allowing it to continue its exploratory activities through 2015, including commencing three-dimensional seismic studies and exploratory drilling.

International Operations and Projects

The Group is actively developing a portfolio of international production assets. The Group's first major foreign acquisition was a majority stake in the Serbian state oil company NIS during its 2009 privatisation. The Group is also pursuing joint ventures in Iraq, Cuba, Equatorial Guinea and Venezuela. The Group's strategic plan calls for foreign projects to contribute 10% of total consolidated hydrocarbon production by 2020.

Serbia

In February 2009, the Group completed the acquisition of a 51% interest in NIS from the government of Serbia. As part of the acquisition, the Group undertook to the government of Serbia to invest a total of EUR 547 million by 2012 in the reconstruction and modernisation of processing capacities of NIS, improving the quality of refining to European emission standards and the environmental safety of the refining processes. The Group satisfied its investment obligations in April 2012. In January 2011, in accordance with the terms of the purchase agreement, the Group extended an offer to buy back shares of NIS' minority holders (a maximum of 19.12% of NIS equity was available for purchase). Approximately 8.4 million NIS shares were tendered for purchase, for which the Group paid USD 58 million, increasing its stake in NIS to 56.15%. The Serbian government continues to hold a 29.87% stake, with a public share of 13.97%.

NIS is Serbia's only vertically integrated oil company and its leading supplier of oil products. It owns two oil refineries and a liquefied gas production plant. NIS has the largest network of filling stations in Serbia, having a 31.4% share of the country's retail market, as of 31 December 2011. As of 31 December 2011, NIS owned a total of 399 filling stations, nine active oil bases and six liquefied gas storage facilities in Serbia, Bosnia and Herzegovina and Bulgaria.

The majority of NIS' oil fields are located in the Serbian province of Vojvodina. NIS also participates in joint ventures involved in exploration and production projects in Angola, Bosnia and Herzegovina, Hungary and Romania. Since the Group became NIS' controlling shareholder, NIS has achieved significant production growth. In 2011, the crude oil output increased by 16.7% to 8.4 mmbbl. In 2010, NIS crude oil production increased by 41.2% to 7.2 mmbbl. In the three months ended 31 March 2012 crude oil production at NIS was 2.2 mmbbl, compared to 2.0 mmbbl in the three months ended 31 March 2011.

Iraq

In early 2010, the Group and the government of Iraq signed a contract for the development of the Badra field, located in Wasit Province in the eastern part of Iraq bordering the Azar field in Iran. The field is being developed by a consortium of oil companies including the Group, Kogas (Korea), Petronas (Malaysia), and TRAO (Turkey). The Group was selected as an operator and its share in the consortium is 30%.

The Badra project is the first large-scale foreign project the Group in which has entered. The project's duration is 20 years, with a possible extension for an additional five years, upon agreement of both parties. According to preliminary assessments made in late 2010 by the Iraqi Ministry of Oil, the Badra field has estimated recoverable quantities of 747.6 mmbbl (102.0 mmt tonnes) of oil under the current contract life.

Under the terms of the agreement, a fee of USD 5.5 per barrel of oil produced will be paid to the Group after achieving the production level of 15,000 bbl per day. In 2011, three-dimensional seismic surveying and demining work were carried out; Schlumberger was selected as a drilling operator and the drilling of exploration wells commenced. By the end of 2012, the Group aims to drill additional exploration wells, begin testing certain wells and start work on an on-site central production facility. In furtherance of this goal, Halliburton was selected as a contractor in 2012 to test and complete eleven wells, and it is expected that the work carried out by Halliburton will facilitate a better understanding of the field's geological structure.

Cuba

In 2010, the Group signed a transfer share agreement and principal provisions on cooperation with Petronas, a Malaysian oil company, for the development of four offshore blocks located off the coast of Cuba. The agreement provides for a transfer to the Group of a 30% share in the project. The Group will compensate Petronas for a portion of the incurred expenses and participate in financing current activity on a pro rata basis. The rights under the product sharing agreement signed in 2011 with the government of Cuba run until 2037 for oil production and until 2042 for gas production. The recoverable quantities of crude oil have been estimated by the Group and Petronas at 3,298.5 mmbbl (450.0 mmt tonnes), and the Group expects to invest approximately USD 800 million in total over the course of its Cuba project. An initial exploration well has been completed, and following its analysis by the project partners, a decision on further action at the site is expected to be taken by the end of 2012.

Equatorial Guinea

In 2010, the Group signed two production sharing agreements with National Oil Company Guinea Equatorial de Petroleos ("GEPetrol") for the exploration of two offshore blocks ('T' and 'U') located off the coast of Equatorial Guinea. The Group's share in the project is 80% and GEPetrol's share is 20%. The Group is the operator of the project.

At the beginning of 2011, the Group performed a three-dimensional seismic survey at block 'T' and began analysing geological information for both blocks. Based on the results of the seismic survey, the estimated recoverable quantities of crude for the two blocks may total 110.0 mmt tonnes. The production period for the blocks specified in the production sharing agreement is 30 years for oil and 35 years for gas. In 2011 and 2012, the Group commissioned independent reviews by Largeo and Saer of blocks 'T' and 'U' that suggested block 'T' may have recoverable quantities of crude of 65.0 mmt tonnes, though primarily in the form of small deposits of 1.0 to 2.0 mmt tonnes each, while block 'U' may have recoverable reserves of more than 200.0 mmt tonnes, though with some large deposits at depths exceeding one kilometre. Currently, additional work is being undertaken to evaluate the results of these third-party findings to assess the feasibility of developing the identified assets.

Venezuela

The Group currently acts as the project leader and operations manager on behalf of the National Oil Consortium ("NOC") for the Junin-6 project in the Orinoco basin in Venezuela. NOC was formed in 2008 by Rosneft, with several other Russian oil companies (the Group, LUKOIL, TNK-BP and Surgutneftegas) joining in 2009 for the purposes of implementing oil production projects in Latin America. The Group holds a 20% interest in NOC.

In 2010, NOC and Corporacion Venezolana del Petroleo ("CVP"), a subsidiary of the Venezuelan state-owned oil company Petróleos de Venezuela, S.A. ("PDVSA"), established a joint venture, PetroMiranda ("PetroMiranda"), in which CVP holds 60% and NOC holds 40%. PetroMiranda was established to explore and develop the Junin-6 field, a field located in the heavy oil basin of the Orinoco river in Venezuela over an area of 447 km². As of 1 January 2009, the date of the last forecast conducted by PDVSA and Ryder Scott, estimated quantities of crude oil at the Junin-6 field were 11.0 billion bbl (1.5 billion tonnes). Previously, 14 wells were drilled on the Junin-6 block.

The Group's status as the project leader allows it to coordinate on behalf of NOC the PetroMiranda joint venture. The project leader's responsibilities include preparing a final investment decision on the development of the Junin-6 field based on the results of supplementary exploration. This decision is expected to be made in 2013 or 2014.

Equity Affiliates

The Group participates in several joint ventures with major Russian and international oil companies where ownership and management rights are divided between the Group and its respective partners. The Group accounts for these investments using the equity method. The following table provides a summary of the Equity Affiliates.

Joint venture name	Investment partner	Group stake	Main Activities
Slavneft	TNK-BP	49.9%	Oil and gas production in Khanty-Mansiysk and the Krasnoyarsk region; oil refining at the YANOS Refinery
Tomskneft	Rosneft	50.0%	Oil and gas production in Khanty-Mansiysk and the Tomsk region
SPD	Royal Dutch Shell	50.0%	Oil production in Khanty-Mansiysk
Sever Energia	Novatek, Eni S.p.A., Enel S.p.A.	25.5%	Exploration and development of fields in Yamalo-Nenets
Messoyakhaneftegas	TNK-BP	50.0%	Exploration work in Yamalo-Nenets

Slavneft

In 2003, the Group's predecessor Sibneft, together with TNK Industrial Holdings (a predecessor of TNK-BP), completed the acquisition of Slavneft in privatisation auctions held by the Russian and Belarusian governments.

This ownership was divided equally between TNK Industrial Holdings and Sibneft. The Group and TNK-BP each have an effective ownership in Slavneft of 49.9%. As of 1 January 2012, the remaining stake was held by a group of more than 3,600 additional shareholders.

The financial and economic activity of Slavneft is conducted on the basis of a business plan subject to the approval of the two main shareholders. The Group and TNK-BP have equal representation on the Slavneft board of directors, as well as on the boards of directors of the principal Slavneft subsidiaries: JSC Slavneft Megionneftegas, which is primarily engaged in oil and gas exploration and production, and JSC Slavneft-Yaroslavnefteorgsintez which owns and operates the YANOS Refinery. In addition, Slavneft holds a 42.58% interest in the Mozyr Refinery in Belarus. See “*Downstream Business — Refining — YANOS Refinery*”.

Slavneft is engaged in oil and gas production in Khanty-Mansiysk and the Krasnoyarsk region. In the three months ended 31 March 2012, Slavneft’s crude oil production increased 0.6% compared to the three months ended 31 March 2011, to 32.8 mmbbl; the Group’s share of 16.4 mmbbl represented 17.7% of the Group’s total crude production. In 2011, Slavneft produced 132.6 mmbbl of oil, which represented a 1.5% decrease from 2010 levels. In 2011, the Group’s share in Slavneft’s production was 66.3 mmbbl of crude oil, which represented approximately 18.0% of the Group’s total crude oil output, and 14.9 bcf (0.4 bcm) of gas.

The Group conducts a number of transactions with Slavneft and its subsidiaries. The Group purchased USD 2,371 million, USD 1,750 million and USD 1,729 million of crude oil, gas and oil products in 2011, 2010 and 2009, respectively, from Slavneft. Sales of crude oil and oil products to Slavneft were USD 1,427 million, USD 1,160 million and USD 720 million in 2011, 2010 and 2009, respectively. See “*Related Party Transactions*”.

As of 31 December 2011, Slavneft held a total of 31 production and exploration licences, most of which are licences for fields in the Megion area located in Khanty-Mansiysk. The Group’s share in Slavneft’s proved reserves was estimated to be 941 mmboe (approximately 11.3% of the total proved reserves of the Group) under the PRMS standards as of 31 December 2011. Slavneft’s production areas in western Siberia consist largely of mature fields and the Tailakovskoye-Achimovskoe and Chastizhnoe group of relatively new fields. The mature fields have declining production, but Slavneft has been able to slow the decline by significantly increasing drilling volumes and implementing new techniques intended to improve reservoir recovery.

The Group and TNK-BP purchase nearly 100% of crude oil produced by Slavneft on a 50:50 basis, at domestic market prices. The Group processes approximately 1% of the crude oil purchased from Slavneft at the YANOS Refinery, with the remainder delivered to other refineries and exported.

Tomskneft

Since December 2007, the Group has held a 50% interest in Tomskneft; JSC Neft-Aktiv, an affiliate of Rosneft, holds the remaining 50%. According to the shareholders agreement, every three years the general director of Tomskneft alternately is elected from a list of candidates proposed by Rosneft/JSC Neft-Aktiv or the Group. In December 2010, the general director was selected from the Group’s proposed list of candidates.

Tomskneft is engaged in oil and gas production in the Tomsk region and Khanty-Mansiysk. In the three months ended 31 March 2012, Tomskneft’s crude oil production remained largely unchanged compared to the three months ended 31 March 2011, at 19.0 mmbbl; the Group’s share of 9.5 mmbbl represented 10.3% of its total crude oil production. In 2011, Tomskneft produced 77.4 mmbbl of crude oil, largely unchanged from 2010 levels, of which the Group’s share was 38.7 mmbbl, or approximately 10.5% of the Group’s total crude oil output. In 2011, the volume of gas produced was 51.4 bcf (1.5 bcm) and the Group’s share was 25.7 bcf (0.7 bcm).

The Group conducts a number of transactions with Tomskneft and its subsidiaries. The Group purchased USD 1,574 million, USD 1,148 million and USD 997 million of crude oil, gas and oil products in 2011, 2010 and 2009, respectively, from Tomskneft. See “*Related Party Transactions*”.

As of 31 December 2011, Tomskneft held a total of 33 production and exploration licences in the Tomsk region and Khanty-Mansiysk. The Group’s share in Tomskneft’s proved reserves was estimated to be 663 mmboe (approximately 8.0% of the total proved reserves of the Group) under PRMS standards as of 31 December 2011.

Salym Petroleum Development (SPD)

In June 2009, the Group acquired a 50% share in SPD, with Royal Dutch Shell holding the remaining 50% interest. SPD is engaged in oil production in Khanty-Mansiysk. In the three months ended 31 March 2012, SPD’s crude oil production decreased 5.3% compared to the same period in 2011, to 14.2 mmbbl; the Group’s corresponding share of 7.1 mmbbl represented 7.7% of its total crude production. In 2011, the total volume of oil production in the Salym group of oil fields totalled 61.2 mmbbl, of which the Group’s share was 30.6 mmbbl, which represented approximately 8.3% of its total crude oil output. The Group’s share in SPD proved reserves was estimated to be 233 mmboe (approximately 2.8% of the total proved reserves of the Group) under PRMS standards as of 31 December 2011.

Since 23 June 2009 (the date of acquisition from Sibir Energy), the Group has conducted a number of transactions with SPD. The Group purchased USD 1,107 million, USD 871 million and USD 554 million of crude oil in 2011, 2010 and 2009, respectively, from SPD. See “*Related Party Transactions*”.

Sever Energia

In December 2010, Yamal Razvitie LLC, a joint venture of the Group and NOVATEK, acquired a 51% interest in Sever Energia from Gazprom for USD 1.9 billion. Yamal Razvitie LLC was set up on a 50/50 basis, and consequently the Group’s beneficial interest in Sever Energia is 25.5%. The remaining 49% stake in Sever Energia is held by the Italian companies Eni S.p.A. and Enel S.p.A., through a joint venture.

Sever Energia holds licences for and is engaged in developing the Samburskoye, Yevo-Yakhinskoye, Yaro-Yakhinskoye and Severo-Chaselskoye oil and gas fields located in Yamalo-Nenets. As of 31 December 2011, the Group’s share of these fields’ estimated combined proved reserves under PRMS standards was 810 mmbbl, or 9.7% of the Group’s total reserves, including 2.9 tcf of gas, 25.4 mmbbl of crude oil, and 140.6 mmbbl of condensate. Sever Energia began industrial production of gas and liquids at the Samburskoye field in April 2012 at a rate of 43.0 thousand bbl (5.9 thousand tonnes) of oil equivalent a day. The produced gas is sold to Gazprom at rates determined by the FTS. Unstabilised condensate is obtained by OJSC Novatek-Yurkharovneftegaz through a long-term contract for further conversion at the Purovskiy gas condensate processing plant. The delivery of unstabilised condensate to the processing plant is made through a condensate pipeline belonging to OJSC Novatek-Yurkharovneftegaz that runs through fields owned by Sever Energia. The price of unstabilised condensate is calculated as a netback from the condensate processed at the Purovskiy plant minus transportation expenses to Novatek-Yurkharovneftegaz’s condensate pipeline.

Sever Energia has obtained an exemption from MET, which applies either to the first 25 mmt tonnes of oil produced by Sever Energia or for a period of 10 years, if during such 10-year period its cumulative production does not reach 25.0 mmt tonnes.

Messoyakhaneftegaz

In January 2011, the Group and TNK-BP formed a 50/50 joint venture by each acquiring a 50% interest in Messoyakhaneftegaz, previously a subsidiary of Slavneft. Following an assessment of the prospects of developing the Messoyakha fields, the Slavneft shareholders decided to create a joint venture to directly hold Messoyakhaneftegaz on a 50/50 basis to expand borrowing opportunities and streamline the decision-making process. According to the shareholders agreement, every three years a general director of Messoyakhaneftegaz alternately is elected from a list of candidates proposed by TNK-BP or the Group. In January 2010, the general director was selected from the TNK-BP’s proposed list of candidates. The Group is the operator of Messoyakhaneftegaz.

Messoyakhaneftegaz holds licences for developing the Messoyakha group of fields in the north of Yamalo-Nenets. As of 31 December 2011, the fields’ recoverable oil and condensate reserves are estimated at 3,665.0 mmbbl (662.3 mmt tonnes) under C₁+C₂ categories, while gas reserves are estimated at 8,121.3 bcf (218.8 bcm) (under PRMS, the crude oil reserves were classified as probable and possible, and totalled approximately 1,142.2 mmbbl (156.0 mmt tonnes)). The Group believes that comprehensive prospecting in the area may expand the resource base of the Messoyakha fields. The development of the Messoyakha fields is in line with the Group’s strategy of creating an oil production hub in the north of Yamalo-Nenets and is expected to create synergies with other projects in the region.

The Group is currently conducting exploration work at Messoyakha with 320 square kilometres of three-dimensional seismic surveys and nine exploration wells completed in 2011. Three wells yielded hydrocarbon inflows with an estimated production rate of between 20 and 120 tonnes per day. Trial industrial production work at Messoyakha is scheduled to begin in 2013, and full-scale production is expected in late 2015 or early 2016. It is expected that peak annual extraction will be achieved no earlier than 2020 and could possibly reach up to 20 mmt tonnes of oil and condensate and up to 10 bcm of gas.

The development of the fields will require the Group and TNK-BP to address a wide range of engineering, technical and logistical challenges associated with severe climate conditions and the absence of infrastructure in the north of Yamalo-Nenets. The investment required for the development of the Messoyakha fields is preliminarily estimated at no less than USD 17 billion. Among the infrastructural facilities that need to be built are a pipeline to the oil-pumping station in the town of Purpe and a 200-km gas pipeline to the Yamburgskaya compressor station. The pipeline to the Purpe oil-pumping station will be constructed in two segments. The first segment, from the central production facility at Messoyakha to the long-distance oil pipeline Zapolyarye-Purpe, a distance of approximately 105 km, will be constructed by Messoyakhaneftegaz. The second segment, from the long-distance oil pipeline Zapolyarye-Purpe to the pipeline in Purpe, a distance of approximately 500 km, will be constructed by Transneft. The Group and other oil companies that plan to transport oil through the new pipeline have entered into transportation agreements with Transneft that provide for payment for pipeline capacity on a take-or-pay basis. It is planned that during the initial development phase, while the production volume is still

insignificant, oil will be taken by over-ice automotive transport to a railway station. The gas-transportation scheme, being developed with Gazprom, is aimed at 100% utilisation of associated oil gas from the start of the fields' full-scale development.

In addition, the Group has obtained an exemption from MET for both Messoyakha fields. For each Messoyakha field, the exemption applies either to the first 25 mmt tonnes of oil produced or for a period of ten years, if during such ten-year period production does not reach 25 mmt tonnes.

Gas Production

The Group is actively developing its gas business by focusing on the commercialisation of natural and associated gas reserves present in its fields. In 2011, sales of gas generated USD 635 million of total revenues. Under the Group's strategic plans, by 2020, the share of gas would reach approximately 30% of the Group's production volume from its current volume of 13%. See "— *Strategy*". The Group plans to achieve this target through developing combined oil and gas fields and the increased utilisation of associated gas. The Group also intends to focus on developing small gas deposits at its fields, which should help achieve a more efficient use of its reserves and boost production volumes. The Group believes that its relationship with Gazprom, which owns and operates the Russian natural gas transmission system, and which provides the Group with operational support on many of its gas-related activities, will help improve and optimise its gas business.

The Group produced 320.2 bcf of gas in 2011, achieving a 127.9% year-to-year growth in production. The significant production growth was achieved mainly due to the launch of natural gas production at Cenomanian deposits of the Muravlenkovskoye and Novogodny fields in Yamalo-Nenets in the fourth quarter of 2010 and an increased utilisation of associated gas.

The table below shows gas production (including unutilised associated gas) by the Group in 2011, 2010 and 2009:

	2011	2010	2009	Change, % 2011-2010	Change, % 2010-2009
Gas ¹					
Group ²	277.7	107.9	73.2	157.4%	47.4%
Share in Slavneft	14.9	11.9	13.3	25.2%	(10.5%)
Share in Tomskneft	25.7	20.7	25.0	24.2%	(17.2%)
Share in SPD	1.9	-	-	-	-
Total Gas Production	320.2	140.5	111.42	127.9%	26.1%

1) Production volume includes marketable gas plus utilised gas.

2) Includes Gazprom Neft-Orenburg from the date of acquisition.

The Group is currently developing a number of fields with significant gas reserves in Yamalo-Nenets and recently acquired several fields in the Orenburg region which are rich in gas. These new fields are expected to contribute to an increased level of gas production in the future.

Associated Gas

The Group produces associated gas as a by-product of oil production in its key producing areas. In 2011, the Group produced 229.9 bcf of associated gas, of which it was able to utilise 148.4 bcf. The total utilisation rate was 64.7% in 2011 as compared to 60.4% in 2010.

The Russian Government has recently been focusing on achieving a higher utilisation of associated gas and reducing the environmental damage caused by gas flaring in the course of oil extraction. A regulation introducing significantly higher emission charges for flaring more than 5% of the associated gas produced in the relevant field went into effect on 1 January 2012. The Group considers the enhancement of utilisation rate of associated gas as a business priority and has adopted a programme aimed at achieving a 95% level of utilisation at all major assets of the Group, except for remotely located fields with no relevant infrastructure, by 2014. The programme contemplates an investment of approximately USD 700 to 900 million from 2012 through 2014. The implementation of the programme is expected to improve environmental performance, increase revenues from selling associated gas and processed products while being tax-efficient. A number of projects aimed at increased associated gas utilisation are currently being implemented as part of the programme.

In 2010, the Group and SIBUR created a joint venture to utilise associated gas produced at the Priobskoye field at Yuzno-Balykski gas processing plant. More than 80% of the pipelines to be used for collection of associated gas have been completed; vacuum compressors are being installed. Construction of the Yuzhno-Priobskoye gas-compressor station is underway. It is expected that the complex will be launched before the end of 2012 and will assist in achieving a 95% level of associated gas utilisation at the Priobskoye field.

In 2011, Noyabrskneftegaz began work on an integrated project aimed at increasing the level of utilisation of associated gas at its fields in Yamalo-Nenets. The project contemplates an expansion of the existing gas transportation facilities of the Group and increasing the capacity of nearby gas processing plants of SIBUR. It is expected that this project will result in utilisation of an additional 1 to 1.2 bcm of associated gas per year.

Several other smaller projects aimed at increasing the associated gas utilisation rate are being pursued by the operating subsidiaries of the Group. The Group is also cooperating with Mitsubishi Corporation and Nippon Oil Corporation in developing on-site facilities for utilisation of associated gas at the Yety-Purovskoye field in Yamalo-Nenets designed to qualify for the emissions trading mechanism under the Kyoto Protocol.

Downstream Business

The strategic goal of the Group's downstream operations is to maximise returns from the Group's upstream production, shifting its emphasis from being a primary producer of crude oil to a client-oriented marketing company producing high margin commercial oils. The Group's downstream business has three principal areas of activity: (i) refining crude oil, (ii) exporting crude oil and, (iii) selling petroleum products. The 60-66 Amendments, which came into effect in October 2011, and which reduce the export duty rate on crude oil from 65% to 60% and unify export duties for light and dark oil products at 66% of the export duty on crude oil (while keeping the export duty on automobile petrol at 90% of the export duty on crude oil), have affected the strategic importance of the Group's downstream operations, as well as their profitability. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations— Key Factors Affecting Operating Results — Taxation*". The Group is undertaking several programmes to improve the quality of its refining and to ensure higher production rates of Euro 4 and 5 fuels. In addition, the Group aims to increase the oil refining depth at its facilities to between 90% and 93% by 2020 as well as increase its hydrocracking capabilities. As of the date of this Base Prospectus, hydrocracking is undertaken only at the YANOS Refinery. However, the Group intends to spend over USD 2 billion through 2020 to expand its hydrocracking capabilities to the Omsk and Moscow Refineries, producing capacities of 2.0 and 1.5 mmt tonnes, respectively, at the facilities.

Netbacks

The Group's downstream operations are principally geared toward generating the highest netbacks for its crude oil production. Netbacks are defined as the sales price of crude oil or refined products less all costs such as transportation to customers, taxes and duties. As such, netbacks represent the aggregate economic return to the Group of sales of its different products via different sales channels. Various sale alternatives are available to the Group, including domestic and export crude oil sales, as well as sales to its own refineries for production of petroleum products for export and the Russian domestic market. The Group, through Gazprom Neft Trading, a subsidiary headquartered in Vienna, Austria, as well as through other entities, constantly monitors and measures netbacks to help determine the most favourable distribution or sale option for its crude oil and refined products. In addition, it utilises a supply chain management methodology that allows the Group to maximise profit from its crude oil and refined product sales by providing optimisation models as well as detailed production, transport and sales plans.

The tables below show the distribution of the Group's crude oil, including crude oil purchased from third parties, between crude exports to CIS countries and elsewhere and to the Group's refineries and domestic sales in the three years ended 31 December 2011, 2010 and 2009 and in the three months ended 31 March 2012 and 2011.

	For the three months ended 31 March				For the year ended 31 December					
	2012		2011		2011		2010		2009	
	Thousand tonnes	% of total	Thousand tonnes	% of total	Thousand tonnes	% of total	Thousand tonnes	% of total	Thousand tonnes	% of total
Group refineries										
Omsk Refinery.....	4,873	30.4%	4,678	32.2%	20,004	31.4%	18,993	32.6%	18,271	32.3%
Moscow Refinery.....	2,664	16.6%	1,724	11.9%	9,963	15.7%	3,833	6.6%	3,333	5.9%
YANOS Refinery.....	1,843	11.5%	1,735	11.9%	7,385	11.6%	7,158	12.3%	6,775	12.0%
NIS	487	3.0%	540	3.7%	2,396	3.8%	2,813	4.8%	2,621	4.6%
Exports										
CIS.....	1,205	7.5%	670	4.6%	2,991	4.7%	3,019	5.2%	3,553	6.3%
Non-CIS.....	3,235	20.1%	3,474	23.9%	13,084	20.6%	15,944	27.4%	15,628	27.6%
Domestic sales	1,717	10.7%	1,723	11.8%	7,812	12.3%	6,518	11.2%	6,426	11.4%
Total crude distribution	16,026	100%	14,544	100%	63,635	100%	58,278	100%	56,607	100%

The table below sets forth, for each listed destination of the Group's crude oil sales and refined products, the netbacks generated in the three years ended 31 December 2011, 2010 and 2009 and in the three months ended 31 March 2012 and 2011.

	For the three months ended 31 March		For the year ended 31 December		
	2012	2011	2011	2010	2009
	RUB/tonne excluding VAT				
CIS crude oil exports.....	12,088	11,008	10,539	7,791	7,446
Non-CIS crude oil exports.....	11,478	9,764	9,573	7,322	6,925
Domestic crude oil sales.....	11,281	9,524	9,537	7,312	5,159
Group Refineries					

	<i>For the three months ended 31</i>		<i>For the year ended 31 December</i>		
	<i>March</i>				
	<i>2012</i>	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>
Omsk Refinery.....	13,051	11,110	12,095	9,464	8,082
YANOS Refinery	11,727	10,962	11,718	9,119	7,369
Moscow Refinery	11,932	10,133	11,277	8,810	7,613

While domestic crude oil prices trade significantly below international market prices, the netbacks generated from export sales of crude oil are generally consistent with the netbacks generated from the Group's refineries. This primarily reflects the Russian tax regime of export duties and additional transportation costs associated with crude oil export. Substantially all crude oil produced in the Russian Federation is produced by vertically integrated oil companies, such as the Group. As a result, most transactions are conducted between affiliated entities within vertically integrated groups. Thus, there is no benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between different regions in Russia for similar quality crude oil as a result of prevailing competitive and economic conditions in those regions.

The Group sells most of its exported crude oil on a one-year term basis, utilising open market best price basis, to major international companies such as Neste Oil, British Petroleum, Shell, Eni, Orlen, Gunvor and Totsa Total Oil. Crude oil is generally exported on a free on board ("FOB") Russian port basis (in case of shipment by oil carrier) or on delivery at the frontier ("DAF") basis (in the case of transport by cross-border pipeline). In most cases, title over the crude oil is transferred at the date the carrier delivers a bill of lading with respect to the crude oil being transported or at the point of border crossing for DAF sales.

Sales of refined products, both in the domestic and in the export markets, tend to generate the highest netbacks for the Group. Refined products are delivered to sales outlets inside Russia and Ukraine or exported through a trunk pipeline network owned by Transneftprodukt, as well as by rail and sea.

Refining

In 2011, according to Interfax, the Group was the third largest Russian oil company in oil refinery volumes, increasing its refining volume by 6.8%, from 37.9 to 40.5 mmt tonnes of crude oil. The Group owns four refineries, two of which are located in Russia and two in Serbia. Together, these refineries account for a total capacity of 46.0 mmt tonnes per year. Through its participation in Slavneft, the Group also indirectly holds a 50% share in the YANOS Refinery, which has an installed capacity of 15 mmt tonnes per year, as well as a 21.29% interest in the Mozyr Refinery in Belarus. See "*—YANOS Refinery*" and "*—Mozyr Refinery*".

Omsk Refinery

The Omsk Refinery is the Group's largest refining asset. Commissioned in 1955, the Omsk Refinery has little oil product production competition geographically and has an installed capacity of 21.07 mmt tonnes of crude oil per year. The Omsk Refinery is one of the most advanced refineries in Russia by processing depth and Nelson complexity index, which was 7.64 in 2011. In the three months ended 31 March 2012, the refinery processed 4.9 mmt tonnes, compared to 4.6 mmt tonnes in the three months ended 31 March 2011. In 2011, the refinery processed 20.0 mmt tonnes of crude oil, 94.7% of its installed capacity, an increase of 5.1% compared to 2010 levels. This volume represented 49.3% of the Group's total crude oil processing and 8.3% of the total crude oil processed at all Russian refineries in 2011, according to CDU TEK. The refinery holds a leading position in Russia in terms of volume of light petroleum products and aromatic hydrocarbons manufactured, and its key types of products include automobile petrol, diesel fuel, fuel oil, bunkering fuels and jet fuel, alongside a range of aromatics, liquefied petroleum gases, various types of lubricants, additives and catalysts. In addition, the Omsk Refinery is connected by pipelines to the Group's major oil fields, making it possible to supply high quality crude oil to the refinery at low cost.

The table below summarises key operating data for the Omsk Refinery for the years ended 31 December 2011, 2010 and 2009 and for the three months ended 31 March 2012 and 2011.

	For the three months		Year ended 31 December		
	ended 31 March				
	2012	2011	2011	2010	2009
			(mmtonnes)		
Refined material					
Oil and unstabilised gas condensate	4.9	4.6	20.0	19.0	18.4
Petroleum products					
Automobile petrol.....	1.1	1.0	4.1	3.6	3.6
Other petrol.....	0.1	0.1	0.4	1.0	1.6
Jet fuel	0.3	0.3	1.4	1.4	1.3
Diesel fuel.....	1.4	1.6	6.1	6.0	5.7
Other light products.....	0.3	0.0	0.4	0.2	0.2

	For the three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
Aromatic hydrocarbons	0.1	0.1	0.4	0.3	0.4
Fuel oil.....	0.6	0.7	2.8	2.8	2.1
Bitumen	0.0	0.1	0.5	0.4	0.3
Oils	0.1	0.1	0.3	0.3	0.3
Other products, including:	0.6	0.5	2.5	1.8	1.8
Bunkering fuels.....	0.4	0.2	1.6	1.0	1.0
Coke.....	0.0	0.0	0.2	0.2	0.1
Heavy gas oil	0.0	0.1	0.2	0.1	0.1
Liquefied hydrocarbon gases	0.1	0.1	0.4	0.4	0.4
Sulphur	0.0	0.0	0.0	0.0	0.0
Other.....	0.0	0.0	0.1	0.1	0.1
Total Petroleum Product Production	4.6	4.3	18.8	17.9	17.4
Conversion rate.....	85.6%	82.8%	84.1%	83.2%	86.7%
Light products output	67.4%	66.7%	64.4%	66.5%	67.8%

In 2008, a ten-year, RUB 100 billion (of which approximately RUB 25 billion is expected to have been spent on by the end of 2012) modernisation programme was begun at the Omsk Refinery to expand the volume and range of its products, including high-octane petrol, diesel fuels, aromatics, coke, modern bitumen materials and petrochemicals, while at the same time improving the refinery's environmental performance. In December 2010, as part of the modernisation programme, a light naphtha isomerisation plant, Izomalk-2, was commissioned at the refinery. With a capacity of 800,000 tonnes per year, it is the largest plant of its type in Europe and one of the three largest such plants in the world. Izomalk-2 produces the high-octane component of commercial petrol with no sulphur, aromatics and unsaturated hydrocarbons.

The Omsk Refinery's modernisation programme envisions a transition to production of Euro 4 petrol and diesel fuel starting in 2012, and Euro 5 products starting from 2014. For this purpose, the refinery reconstructed its L24/9 diesel fuel plant and began the construction of a complex of diesel fuel and catalytically cracked petrol hydrotreaters – the first of its kind in Russia.

Moscow Refinery

In 2009, the Group invested £1,057 million (USD 1,662 million) to acquire 54.71% of Sibir Energy, the entity which owns the Moscow Refinery. This acquisition provided the Group with effective control over Sibir and indirect control over the Moscow Refinery, having increased its effective interest in the Moscow Refinery from 38.63% to 59.75%. The Group previously accounted for its 38.63% interest in the Moscow Refinery as an equity method investment. In 2011, the Group's interest in Sibir Energy increased to 99.96%, increasing the Group's interest in the Moscow Refinery to 77.72%. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Changes in Group Structure from 1 January 2009 to 31 March 2012 – Acquisition of Sibir Energy and the Moscow Refinery"*.

The Moscow Refinery is a fuel-producing plant with a deep oil refining scheme. The refinery benefits from its location as the only refinery in Moscow; it mainly serves Moscow and the Moscow region and provides approximately 40% of all oil product demand in the area, according to Petromarket. Commissioned in 1938, the Moscow Refinery's installed capacity is 12.2 mmt tonnes per year. In 2011, the Moscow Refinery's Nelson complexity index was 6.27. In the three months ended 31 March 2012, the Moscow Refinery processed 2.7 mmt tonnes of crude oil, compared with 2.6 mmt tonnes in the three months ended 31 March 2011. In 2011, the refinery processed 10.8 mmt tonnes of crude oil, representing 26.7% of the Group's total crude oil processing and an increase of 21.3% compared to 2010 levels. Key products of the refinery include petrol, diesel fuel, jet fuel bitumen and fuel oil.

The table below summarises key operating data for the Moscow Refinery for the years ended 31 December 2011, 2010 and 2009 and for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
			(mmtonnes)		
Refined material					
Oil and unstabilised gas condensate	2.7	2.6	10.8	8.9	5.8
Petroleum products					
Automobile petrol	5.8	0.6	2.4	2.0	1.3
Other petrol	0.1	0.1	0.3	0.2	0.1
Jet fuel	0.2	0.1	0.6	0.5	0.4
Diesel fuel	0.6	0.7	2.7	2.4	1.6
Other light products.....	0.1	0.0	0.1	0.0	0.0
Fuel oil	0.8	0.7	2.8	2.2	1.4
Bitumen	0.1	0.1	1.0	0.7	0.5

	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
Other products, including:	0.1	0.1	0.4	0.5	0.3
Liquefied hydrocarbon gases	0.0	0.0	0.2	0.2	0.2
Sulphur	0.0	0.0	0.1	0.1	0.0
Other	0.0	0.1	0.1	0.2	0.1
Total Petroleum Product Production....	2,544	2,492	10,322	8,511	5,515
Conversion rate	67.1%	69.7%	72.3%	72.4%	73.1%
Light products output	57.3%	57.8%	56.6%	57.1%	58.5%

In 2010, the Group began a large-scale modernisation programme at the Moscow Refinery. The programme, which is planned to continue through 2020, entails reconstructing existing assets, constructing new refining capacities, improving safety for operating procedures and implementing environmental projects at the refinery. In total, more than RUB 100 billion is expected to be invested in the refinery's modernisation programme. A new light naphtha isomerisation plant expected to be commissioned in March 2013 will allow production of automobile petrol with an octane rating up to 90.5; the installed capacity of this new plant is expected to be 650,000 tonnes per year.

In 2011, the Moscow Refinery began production of Euro 4 automobile and diesel fuels following the modernisation of existing equipment. Beginning April 2012, all high-octane fuels produced by the Moscow Refinery are made in compliance with Euro 4 standards. From 2013, the Group expects to begin production of fuels compliant with Euro 5 standards.

NIS Refineries

The NIS Refineries are comprised of two refineries in Pančevo and Novi Sad, Serbia. The facilities produce a wide range of petroleum products, from automobile petrol and diesel fuel to machine oil and raw materials for the petrochemical industry. In the three months ended 31 March 2012, the NIS Refineries processed 0.4 mmt tonnes of oil, compared with 0.5 mmt tonnes in the three months ended 31 March 2011. In 2011, the NIS Refineries processed 2.4 mmt tonnes of oil, representing 5.8% of the Group's total crude oil processing, a decrease of 17% from 2010, as the Group instituted improvement works taking place at the refineries designed to improve the refining margin of the facilities. In addition to sales in Serbia, the NIS Refineries export automotive fuels, benzene, toluene and bitumen to Europe, Ukraine, Croatia, Montenegro and Bosnia-Herzegovina.

The table below summarises key operating data for the NIS Refineries for the years ended 31 December 2011, 2010 and 2009 and for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
			(mmtonnes)		
Refined material					
Crude oil	0.4	0.5	2.4	2.9	2.3
Other	0.0	0.0	0.1	0.0	0.0
Total throughput	0.4	0.5	2.4	2.9	2.4
Petroleum products					
Automobile petrol	0.1	0.1	0.5	0.6	0.5
Diesel fuel	0.1	0.1	0.7	0.8	0.7
Jet fuel	0.0	0.0	0.1	0.1	0.1
Fuel oil	0.1	0.1	0.4	0.5	0.5
Bitumen	0.0	0.0	0.2	0.2	0.1
Other	0.1	0.0	0.4	0.3	0.4
Total Petroleum Products Production	0.1	0.5	2.2	2.5	2.2
Conversion ratio	66.8%	66.3%	75.3%	72.6%	70.2%
Light products output	65.3%	64.9%	67.6%	66.5%	61.1%

In 2010, a modernisation programme began at the NIS Refineries. The programme contemplates the construction of a hydrogen plant, modernising and constructing facilities for the refineries' industrial infrastructure and implementing various environmental projects. The scheduled completion of Mild Hydrocracking and Hydrotreating Plants ("MHC/DHT") by the end of 2012, the most significant component of the modernisation programme, will upgrade the NIS Refineries' production, allowing them to begin Euro 5 fuel production and by 2013 meet market demand for Euro 5 products in Serbia. From 2009 through 2012, the Group's investments in the modernisation programme at the NIS Refineries are expected to total EUR 540 million (EUR 500 million invested as of 31 March 2012). Approximately EUR 396 million will be devoted to constructing the MHC/DHT alone. The Group's financing arrangements for the modernisation programme were formalised in an agreement with the Serbian government as part of the Group's purchase of NIS.

YANOS Refinery

The YANOS Refinery, located in Yaroslavl, Russia, is a fuel and oil-producing plant with a deep oil refining scheme. Commissioned in 1961, the YANOS Refinery has an installed capacity of 15 mmt tonnes a year. Owned by a subsidiary of Slavneft, the refinery is not consolidated in the Financial Statements, but accounted for on an equity share basis. The shareholders of Slavneft, including TNK-BP, have agreed to divide Slavneft's production and refining. Pursuant to these arrangements, the Group and TNK-BP purchase the crude oil produced by Slavneft on a 50:50 basis, at domestic market prices and on equal terms between them. Each party also receives an equal share of Slavneft's rights to transport oil via Transneft's pipelines. The Group and TNK-BP also directly refine crude oil purchased from Slavneft at the YANOS Refinery on an equal basis.

In the three months ended 31 March 2012, the YANOS Refinery processed 3.6 mmt tonnes of crude oil (of which the Group's proportionate share was 1.8 mmt tonnes), compared with 3.4 mmt tonnes in the three months ended 31 March 2011. In 2011, the YANOS Refinery processed 14.8 mmt tonnes of crude oil, of which the Group's proportionate share totalled 7.4 mmt tonnes. Crude oil is obtained for refining from Slavneft's resources, the Group's subsidiaries and third parties. Rights to crude and refined products at the YANOS Refinery remain with the Group, which compensates the YANOS Refinery for refining costs. In 2011, the YANOS Refinery ranked fifth among Russian refineries by volume of crude oil processed, according to Interfax, and had a Nelson complexity index of 7.50. The YANOS Refinery produces a wide range of oil products, from high-octane petrol to high-quality bitumen, and its customers include large industrial and energy enterprises in central and northwest Russia as well as airports and Russian Railways. An additional benefit of the YANOS Refinery is its connection to a diesel export pipeline, allowing for more efficient diesel deliveries to customers abroad.

The table below summarises the Group's share of the key operating data for the YANOS Refinery for the years ended 31 December 2011, 2010 and 2009 and for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
	(mmt tonnes)				
Refined material					
Crude oil and unstabilised gas condensate.....	1.8	1.7	7.4	7.2	6.8
Petroleum products					
Automobile petrol	0.3	0.3	1.2	1.2	1.2
Diesel fuel	0.5	0.5	2.0	2.2	1.9
Jet fuel	0.3	0.2	0.4	0.4	0.4
Fuel oil	0.6	0.6	2.3	2.3	2.1
Bitumen	0.0	0.0	0.2	0.2	0.1
Oils	0.0	0.0	0.1	0.1	0.1
Total Petroleum Product Production	1.7	1.6	7.0	6.8	6.5
Conversion ratio	62.6%	63.4%	65.6%	65.5%	65.6%
Light products output	55.4%	56.6%	56.4%	56.8%	57.3%

In 2010, a modernisation programme was commenced at the YANOS Refinery with the goal of increasing refining capacities and improving oil product quality to meet Euro 4 and 5 standards. In 2011, the isomerisation of a light petrol plant and the hydrotreatment of cat-cracked petrol plants began. These and other improvements have increased the refinery's capability to produce high-octane fuels. Beginning in 2012, all automotive petrol produced at the YANOS Refinery is compliant with Euro 4 standards, and as of July 2012 this production is compliant with Euro 5 standards.

Mozyr Refinery

Commissioned in 1975 and located in the Gomel region of Belarus near the Ukrainian and Russian border, the Mozyr Refinery produces automobile petrol, diesel fuel with sulphur content below 0.001%, lighting kerosene, utility gas and bitumen. The traditional sales markets of the refinery are the northern regions of Ukraine, the western regions of Russia, the southern regions of Belarus, Poland and the Czech Republic. In addition, the Group has announced its intention to use production from the Mozyr Refinery to expand its petrol station network into Ukraine. See "*Sales of Petroleum Products — Petrol Station Network*". Slavneft holds a 42.58% interest in the Mozyr Refinery, with the Belorussian government holding an effective interest of 55.01%. In 2011, the Mozyr Refinery processed 11 mmt tonnes of crude oil, of which the Group's share was 1.3 mmt tonnes. In the three months ended 31 March 2012, the Mozyr Refinery processed 2.9 mmt tonnes of crude oil, of which the Group's share was 0.4 mmt tonnes.

Sales of Petroleum Products

The Group sells refined products such as diesel fuel, petrol, jet fuel, fuel oil, motor oils, bitumen, and other petroleum products manufactured by its subsidiaries to wholesale and retail markets. The Group sells most of its petroleum products in Russia and neighbouring countries through 20 subsidiaries. Sixteen of the subsidiaries are retail distribution companies, selling petroleum products both wholesale and retail through petrol stations. Three

subsidiaries sell specific types of petroleum products: Gazprom Neft-Aero sells jet fuel, Gazprom Neft-Lubricants produces and sells oils and lubricants and Gazprom Neft Marine Bunker sells bunker fuels used in shipping. Each of these companies operates in various regions of Russia, the CIS and non-CIS countries. In addition, diesel fuel constitutes a significant portion of the Group's petroleum product sales. Approximately half of all diesel produced is exported by Gazprom Neft Trading. Domestic sales are made to customers such as Roszhedorsnab (a subsidiary of Russian Railways), the Russian Ministry of Defence, and Rosreserve, while substantial volumes of diesel are also sold on petroleum exchanges.

The relative high quality of products and a developed distribution network are the driving forces behind the Group's leading position in the domestic petroleum products market. The Group is expanding its distribution network and increasing its share of the domestic and international petroleum products markets through ongoing investment in the modernisation of its refining facilities and the extension of its network of petrol stations.

In the three months ended 31 March 2012, total sales of the Group's petroleum products were 9.3 mmt tonnes, compared to 8.9 mmt tonnes in the three months ended 31 March 2011. Group petroleum product sales were 38.3 mmt tonnes, 35.6 mmt tonnes and 31.5 mmt tonnes in 2011, 2010 and 2009, respectively. In 2011, the total sales of the Group's petroleum products in the Russian domestic market grew by 18.3%, to 24.3 mmt tonnes, compared to 20.4 mmt tonnes in 2010, making the Group one of the largest sellers in Russia by sales volume according to data from the Russian Ministry of Energy. Revenues from the sales of petroleum products represented 69.9% of total sales in 2011.

The following table shows the Group's production of petroleum products for the years ended 31 December 2011, 2010 and 2009, and the three months ended 31 March 2012 and 2011.

	Three months ended 31 March		Year ended 31 December		
	2012	2011	2011	2010	2009
	(mmtonnes)				
Refined material					
Oil and unstabilised gas condensate	9.8	9.4	40.5	37.9	33.4
Petroleum products					
Petrol	2.1	2.0	8.1	7.3	6.6
Below Euro 2	0.1	0.3	0.4	0.4	0.4
Euro 2	0.0	0.0	0.2	4.0	4.3
Euro 3	1.5	1.5	6.6	2.8	1.9
Euro 4	0.4	0.2	0.8	0.0	0.0
Euro 5	0.0	0.0	0.1	0.0	0.0
Other petrol	0.3	0.3	1.2	1.6	2.1
Jet fuel	0.5	0.5	2.6	2.4	2.1
Diesel	2.6	2.9	11.5	11.5	9.9
Below Euro 2	0.2	1.6	4.5	5.8	6.5
Euro 2	1.1	0.6	2.5	3.5	1.8
Euro 3	0.3	0.0	0.9	0.8	0.5
Euro 4	0.5	0.3	2.1	0.0	0.0
Euro 5	0.4	0.3	1.5	1.4	1.1
Other light products	0.5	0.0	0.8	0.3	0.4
Aromatic hydrocarbons	0.1	0.1	0.4	0.4	0.4
Fuel oil	2.2	2.1	8.3	7.8	6.0
Bitumen	0.2	0.2	1.8	1.5	1.1
Oils	0.1	0.1	0.4	0.4	0.4
Other products	0.7	0.7	3.3	2.6	2.4
Heavy gas oil	0.0	0.1	0.2	0.2	0.2
Liquefied hydrocarbon gases	0.2	0.2	0.8	0.8	0.8
Sulphur	0.0	0.0	0.1	0.1	0.1
Other	0.1	0.1	0.3	0.3	0.2
Total Petroleum Product Production	9.3	8.9	38.3	35.6	31.5

Petrol Station Network

The Group owns an extensive network of approximately 1,670 petrol stations located in Russia, the CIS and Europe, as of 31 March 2012. The Group's petrol station network significantly expanded in 2009 and 2010 due to both the acquisition of Sibir Energy and NIS and the purchase of petrol station networks in Kazakhstan and Tajikistan. The broad geographic coverage of the Group's petrol station network and advantageous locations of the Omsk, Moscow and the YANOS Refineries facilitate the Group's leading position in the wholesale and retail markets of western Siberia and central Russia, while providing a strong base for operations in Central Asia. In addition, the Group's first petrol stations in Ukraine were opened in June 2012, and the Group intends to further expand its petrol station network in Ukraine, utilising production from the Mozyr Refinery in Belarus. In total, the Group expects to spend approximately RUB 8.6 billion on the rebranding, renovation and construction of petrol stations in 2012, compared to RUB 4.8 billion in 2011, with a large portion of these expenditures spent on integrating newly acquired petrol stations into the Group's network.

In 2011, the sales of petroleum products through the Group's petrol stations in Russia grew by 40.0% compared to 2010 sales, to 4.9 mmt tonnes. The average sales of petroleum products per petrol station in Russia increased by 40.0% compared to 2010 and amounted to 14.2 tonnes per day. In the three months ended 31 March 2012, sales of petroleum products through the Group's petrol stations were 1.7 mmt tonnes.

To bolster its position in the retail petrol market, the Group commenced a petrol station network rebranding project in 2009, and by the end of 2011, all 1,245 Group petrol stations in Russia and the CIS had been modernised and renovated to create a single petrol station network under the Gazprom Neft brand. Along with a new design, the rebranded petrol stations offer a wider range of services and customer loyalty programmes, and rebranded petrol stations have typically increased sales by 15% to 20% in the year following their rebranding. In addition, a uniform design has reduced the average construction time for new stations from twelve to eight months.

To further develop brand strength, the Group launched the "Going One Way" loyalty card programme for retail consumers in March 2010. The "Going One Way" programme awards customers bonus points for buying goods or services at the Group's petrol stations. Cardholders accumulate points awarded for their purchases to pay for further goods and services. Currently, the programme operates in all of the Group's petrol stations in Russia and more than two million customers received loyalty cards by the end of 2011.

The Group also has introduced a system that allows business clients to use fuel cards at all of the Group's petrol stations. The fuel card system allows corporate clients to calculate the money spent and amount of petroleum products bought, set fuel consumption limits and record the time and place where a vehicle is refuelled. By the end of 2011, more than 40,000 corporate clients had registered for this programme, and total purchases by corporate clients amounted to 1.8 mmt tonnes of fuel in 2011.

Lubricants

Gazprom Neft-Lubricants is a vertically integrated lubricants manufacturer. With production facilities in Bari (Italy) and Omsk, Yaroslavl and Fryazino, Moscow Region, its product range includes over 300 types of lubricants sold under the Gazprom Neft, SibiMotor, and G-Energy brands. In 2011, Gazprom Neft-Lubricants sold 0.4 mmt tonnes of products in Russia, increasing its share of the Russian lubricant market to 13.8%, according to the Group's data. The sale of packaged oils increased by 41%. In 2011, according to the Group's data, the Group's market share in Russia of packaged oil sales grew to 10.5%, from 8.2% in 2010, while volumes increased to 114,000 tonnes, from 81,000 tonnes in 2010. Currently, the Group's motor oils are sold in 35 countries, with sales in Greece, Serbia, Spain and Germany having begun in 2011. To facilitate the logistics of the distribution of lubricants, a plant at the Omsk Refinery is under construction for low-tonnage blending, packing and offloading of oils. Begun in 2010 and with an expected capacity of 180,000 tonnes per year, the plant is scheduled to be completed in 2013, at a total cost of approximately RUB 3.4 billion. In 2011, the Group also acquired a facility in Fryazino, Moscow Region with a capacity to produce 40,000 tonnes of packaged motor, transmission and industrial oils annually.

In 2010, the new G-Family brand of engine oils began to be marketed in Russia and abroad. The G-Family of engine oils, produced in Bari, includes more than 40 types of international-level modern engine oil for the consumer and commercial markets. The advanced Bari facility can produce 30,000 tonnes of high-quality oils and 6,000 tonnes of lubricants per year, and its operating procedures are currently gradually being introduced into production at the Russian plants. The Bari facility receives crude oil from the Omsk and YANOS Refineries, as well as from European providers.

Since 2011, the Group has launched a number of new modern products under the G-Family brand, as well as upgraded their quality using imported technology and components.

Aircraft Fuel

Gazprom Neft-Aero, a subsidiary of the Group, was established in 2008 and provides aircraft fuelling services. The sale of jet fuel produced by the Group's refineries and the operation of fuel service complexes represent the core areas of Gazprom Neft-Aeros activities. According to the Group's data, in 2011 Gazprom Neft-Aero was the second largest provider of jet fuel supplies in the Russian market, increasing its retail volumes of jet fuel sale by 54.0% to 1.6 mmt tonnes, compared to 1.0 mmt tonnes in 2010.

In 2009, the Group established a fuelling complex in Tomsk, Russia, and started jet fuelling operations in Egypt, Thailand and Tunisia. In 2010, the Group significantly expanded its fuelling operations, creating jet fuelling businesses in Bryansk, Murmansk, Surgut, Tomsk and Ulyanovsk, and outside Russia in China, Cyprus, France, India, Italy, Jordan, Mongolia, Spain and Turkey while also signing supply agreements with several airline carriers, including S7, Transaero, Globus and UTair to supply Russian planes. In 2011, Gazprom Neft-Aero concluded an agreement with the Russian Defence Ministry to provide jet fuelling operations at 12 Russian military airbases. Currently, the Group owns seven and leases 11 jet fuel facilities in Russia and also operates in 58 airports worldwide, operating on fuel-resale or storage agreements. In July 2012, Gazprom Neft-Aero signed an agreement with the Greek fueling company EKO to fuel Russian planes in several regional Greek airports.

The long-term development strategy of Gazprom Neft-Aero focuses on developing and expanding its corporate network of modern fuel service complexes. By 2020, Gazprom Neft-Aero seeks to own a network of over 50 fuel services complexes at domestic and international airports and conduct operations at 70 additional airports. See “—*Strategy*”.

Bunkering

The Group founded its bunkering subsidiary, Gazprom Neft Marine Bunker, in October 2007. Gazprom Neft Marine Bunker provides high-quality petroleum products such as fuel oil, oils, and marine fuel to a wide variety of water-borne vehicles, from small motor boats to ocean cruise liners. Marine fuel is primarily supplied by the Omsk Refinery, although supplies also originate from the Moscow and Yaroslavl Refineries.

In 2011, the Group supplied 2.2 mmt tonnes of marine fuel, compared with 1.5 mmt tonnes in 2010. According to the Group’s data, the Group holds a leading position in bunkering in Russia, with a market share of approximately 18.2%.

Gazprom Neft Marine Bunker is present in 15 sea and nine river ports in Russia. In 2011, the Group started bunkering operations in ports in Klaipeda, Lithuania, Tallinn, Estonia and Liepaja, Latvia, and Nizhniy Novgorod and Sakhalin in Russia. Gazprom Neft Marine Bunker’s development strategy is aimed at extending its activities to Europe, the Middle East and Asia. In addition, Gazprom Neft Marine Bunker plans to increase its fleet from seven to 15 ships by 2020 to expand its operations.

Bitumen

In 2011, the Group’s sales in bitumen totalled 1.8 mmt tonnes, which represented 33% of sales in the Russian market, according to the Group’s data. The Group aims to further increase bitumen sales both in Russia and abroad, by, *inter alia*, increasing production at the NIS refineries. To this end, production began in 2011 at the Omsk Refinery of premium bitumen products that meet European standards. This new production is expected to include polymer-bitumen binders and bitumen emulsions with a capacity up to 10,000 and 3,000 tonnes per year, respectively.

Petrochemicals

The Group is a major producer of petrochemicals. In 2011, the Group sold 393,000 tonnes of aromatics, generating revenues of USD 451 million, representing 16% of all such sales in Russia, and 64% of all Russian petrochemical exports, according to the Group’s data. The Group aims by 2020 to create a vertically integrated petrochemical business that will focus on the production of aromatics and other high-margin petrochemical products.

Transportation of Crude Oil

The Group exports crude oil to CIS and non-CIS countries. Nearly all crude oil exports to non-CIS countries are transacted through the Vienna-based subsidiary Gazprom Neft Trading. In 2011, the Group exported 13.1 mmt tonnes of crude oil to non-CIS countries and 3.0 mmt tonnes to the CIS (to Belarus and Kazakhstan), compared to 15.9 mmt tonnes and 3.0 mmt tonnes in 2010, respectively; the decrease in international exports was in keeping with the Group’s strategy to give greater emphasis to domestic sales of petroleum products.

The main crude export routes to non-CIS countries are the Baltic Sea port of Primorsk and via the Druzhba pipeline (mainly to the Czech Republic and Germany). In addition, the Company transports significant volumes through the Black Sea ports of Novorossiysk and Tuapse. From January 2010 to September 2011, the Group supplied crude oil from the Eastern Siberia-Pacific Ocean oil pipeline Kozmino terminal to the Asian-Pacific market as well. However, due to capacity issues in the pipeline, the Group currently is not utilising it for deliveries, but hopes to resume transport through this route in 2013.

The following table shows the Group’s allocations of exports sales (excluding NIS) transported through various export hubs to non-CIS countries for the years ended 31 December 2011, 2010 and 2009.

	As of 31 March 2012	As of 31 December,		
		2011	2010	2009
Druzhba pipeline.....	19.1%	21.7%	25.0%	23.1%
Eastern Siberia-Pacific Ocean oil pipeline.....	—	14.2%	14.0%	—
China (through Kazakhstan)	—	—	—	5.1%
Primorsk port.....	66.9%	49.4%	47.9%	45.2%
Novorossiysk port.....	7.3%	6.4%	3.7%	18.8%
Tuapse port.....	6.7%	8.3%	9.7%	7.8%
Total.....	100%	100%	100%	100%

In 2011, the Group exported 12.8 mmt tonnes of crude oil, a 19% decrease from 2010 levels, caused primarily by an increase in crude oil supplied to the Group's refineries.

Within Russia, the Group transports a substantial amount of its crude oil and refined products by the pipeline network owned and operated by Transneft and Transnefteprodukt. The Group delivers its crude oil to the Transneft network mainly through its own field gathering pipelines and then through Transneft gathering systems. The FTS sets pipeline tariffs for the Transneft and Transnefteprodukt pipeline system, while the Russia Ministry of Energy regulates access to the systems and is required by law to provide access to this pipeline network on a non-discriminatory basis. Tariffs are typically set on a "cost-plus" basis so that Transneft is able to recover its operating, pipeline construction and other costs. Tariffs are set at least annually, but can be adjusted more frequently to react to changes in Transneft's costs. See *"Risk Factors – Risks Relating to the Group and the Oil and Gas Industry – Transneft and other third-party operators control the transport of crude oil and crude oil products in Russia and the Group must rely on these entities to maintain transport infrastructure and is subject to price increases for their services"*.

Crude oil is also shipped by rail and river transport within Russia. However, because of the higher costs associated with river and rail transport, the Group typically limits their use to rare instances where sites are not connected or easily accessible to the Transneft system or to avoid mixing for higher quality crude oil deliveries.

Research & Development

The Group's research and development are vital to its successful long-term growth. In addition to commissioning research projects from third parties, the Group benefits from its own research and development resources. The Group's main research and development objectives are to accelerate implementing and introducing new technologies and equipment to ensure dynamic development of production. More specifically, the priority science and technology areas for the Group are:

- using new methods to discover potential gas and oil deposits;
- conducting production log tests in pioneer, exploration and development wells to dissect the geological cross-section, find productive horizons, assess the technical conditions of the well and monitor field development;
- conducting research, experimental and methodological, pilot-plan work, to increase the geological and economic efficiency of geophysical research, improving its methods and techniques;
- developing, testing and implementing new technical equipment and technologies for studying the subsurface and natural completion, lowering expenses per tonne of produced oil;
- creating science and technology products: design and technological documents, plans for developing fields and producing oil, technical economic proposals and justifications, including geological and hydrodynamic models and other documents needed for developing new fields of hydrocarbons; and
- further improving design methods and control over field development at later stages while creating permanent geological and mathematical models.

In 2011, the Group spent the following amounts on research and development:

- Geology and exploration — RUB 418.4 million (a 169% increase compared to 2010, primarily related to investments in the development of modelling and analysis methods required for operations in new geographic areas); and
- Design and control over development — RUB 333.5 million (a 28% increase compared to 2010, primarily related to a growth in overall projects).

Technologies in geological survey and extraction

Innovations in geological surveying are aimed at increasing efficiency through improved geological and geophysical studies and stock evaluation methods and improving surveying accuracy.

In 2007, the Group's Scientific and Analytical Department was reorganised as a dedicated scientific and production centre with more than 100 employees – Gazpromneft SPC – to provide scientific and technical support to geological survey, design and monitoring and extraction of oil and gas. In 2009, a new subdivision called the space visualisation centre was opened to design paths of new wells, create three-dimensional seismo-geological modelling and optimise deposit development. In addition, the Group engages leading western research centres, including those at universities such as Stanford, the University of Texas at Austin and the University of North Dakota to commission upstream research projects. Under the auspices of its cooperation projects, the Group also works with Shell and its research division on a variety of upstream-related research.

Technologies in oil refining

In addition to the large-scale modernisation programmes occurring at the Group's refineries, the Group approved a strategy for the development of innovative technologies in refining in 2011. The strategy envisions an investment in this area of RUB 450 million between 2012 and 2015. In addition, the Group has established partnerships with leading Russian universities as well as the Russian Academy of Sciences to assist in research. Already a leader in refinery innovation in Russia, the Group believes it is currently the only domestic oil company to produce catalysts for catalytic cracking and has several patents pending for similar technology. The Group also benefits from a scientific-technical centre at NIS and Slavneft's research centre in Tver, Russia.

Health, Safety & Environment

Since 2008, all Group entities have implemented the Integrated Management System for Health and Safety and the Environment, in accordance with OHSAS 1800, ISO 14001 and ISO 9001. The Group's operations are based on the concept of sustainable development, aimed at achieving a balanced response to social and economic challenges and maintaining healthy employees, a clean environment and resource conservation.

To ensure a uniform approach to industrial safety issues across the Group's entities, the Group utilises its Health, Safety and Environment Policy ("HSE Policy"), created in 2008. The implementation of the HSE Policy has led to a reduction in the number of industrial injuries, from 75 in 2008 to 59 in 2011. In addition, the Group's lost time injury frequency rate has decreased from 0.8 to 0.6, and its fatal accident rate has been lowered from 12.6 to 2.2 since the implementation of the HSE Policy. The Group believes that the HSE Policy is an important element of efficient production control and aids the successful management of occupational risks that may impact employees' life and health, equipment, property and the environment. The Group has budgeted approximately RUB 15 billion in 2012 to ensure compliance with the HSE Policy, more than double the amount spent in 2011. Nearly RUB 10 billion is planned to be spent on environmental matters such as land recultivation, environmental monitoring and testing and emissions control. Approximately RUB 5 billion additionally will be spent on worker safety measures, such as protective clothing, employee health programmes, fire prevention, and the replacement of outdated workplace equipment.

Occupational Safety

The Group seeks to provide its employees with safe working conditions in compliance with applicable regulations for industrial safety. The Group monitors working conditions, assesses workplaces, and implements risk insurance programmes on an ongoing basis. Safety compliance is monitored in real time with the help of the Azimut computer system. This system ensures online monitoring across the Group's entities and provides for quick alerts in the event of accidents.

Under the auspices of the HSE Policy, the Group provides employees with personal protective equipment that complies with Russian and European safety requirements. In 2011, the Group spent an average of approximately RUB 13,000 per person on such protective equipment.

Since 2009, the Group also has implemented a number of measures to ensure transport safety. These include developing normative documents, conducting safety awareness months and organising personnel training under various programmes. This approach has proved successful, and the number of traffic-related injuries decreased 24% in 2010 and 34% in 2011.

Environmental Protection

Oil companies have an inevitable anthropogenic impact on the environment, including atmospheric emissions, discharges into water and industrial waste generation and disposal. As one of the major oil and gas producers in Russia, the Group is aware of its responsibility for conservation to present and future generations. The Group aims to comply with all requirements of environmental legislation and meet its licence obligations. The Group's environmental strategy is focused on the sustainable use of natural resources while minimising negative environmental impact.

The Group expends significant resources on implementing environmental programmes and measures, including the development and implementation of innovative technologies, modernising equipment, developing new environmental policies, environmental monitoring, waste management and employee trainings. The Group's expenditures on environmental measures significantly exceed payments for environmental contamination.

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

Reducing Environmental Impact

Atmospheric emissions

When acquiring new assets and developing the Group's existing enterprises, the scope of environmental impact also increases. Minimising atmospheric emissions is especially critical for producing facilities, which contribute the major part of such emissions. In 2011, the Group's total atmospheric emissions increased, compared to 2010, due to the acquisition of new assets, the expansion of filling stations and increased refining activities.

The Group undertakes sustained efforts to reduce air pollution. These include the implementation of associated gas disposal programs and the overhaul of fixed assets including pumping equipment, gas pipelines, tanks, flare units and furnaces. In 2011, as part of the works aimed at reducing air pollution by the Group's refineries, the tanks of raw material storage facilities were fitted with modern pontoon equipment, coke drum vapour recovery units were upgraded and the design of an automated station for air monitoring was developed. The Group is also conducting a comprehensive analysis of the environmental and economic efficiency of using light oil vapour recovery systems at its filling stations. This included an assessment of existing recovery systems designed to help minimise power costs as well as ensure a high level of capturing and processing safety, objective recording and recovery of captured hydrocarbons, measures that are intended to reduce atmospheric emissions at the Group's filling stations.

In addition, the Group has developed and is in the process of implementing a programme to bring the level of associated petroleum gas utilisation at the Group's facilities to 95%. See “ – Operations – Exploration, Development and Production – Gas Production – Associated Gas”.

In 2010, the Group, together with Mitsubishi Corporation and Nippon Oil Corporation, started a joint implementation project. This is the first project implemented by the Group in accordance with Kyoto Protocol standards. The project aims to recover associated petroleum gas previously flared at the Ety-Purovskoye oil field, with the subsequent sale of the emission reduction units (“ERU”). In April 2011, the Group converted 295,000 ERU, with each unit corresponding to 1 tonne of CO₂.

Energy

The Group carries out energy efficiency audits on a regular basis and is introducing energy management and conservation procedures. Since 2009, energy consumption by oil-production companies increased from 4.8 billion kW to 5.3 billion kW in 2011. Concurrently, the electricity rate increased from 1.13 RUB/kW in 2009 to 2.28 RUB/kW in 2011.

The Group is actively developing its own power generation. In 2011, 14% of the Group's power demand was satisfied by power generation produced by its own generators. Currently, the Group operates six power producing facilities. The largest plant is located on the Yuzhno-Priobskoye, generating enough power to meet the demand of the field.

Water

The Group's water consumption increased 40% in 2011, compared with usage in 2010, as a result of increased production. The Group carefully monitors the impact of production on the condition of water bodies and has put in place a series of measures to ensure efficient usage of water at its facilities. Modernising facilities and reconstructing treatment plants enables consistent quality improvement of industrial effluents.

The Group takes steps to utilise water resources in the best possible way: produced water is injected back into wells to maintain reservoir pressure during oil production operations. Water recirculation systems are used for cooling in the downstream sector.

Conservation of Natural Resources and Environmental Restoration

Many of the Group's fields currently under development in Khanty-Mansiysk, Yamalo-Nenets and the Tomsk, Omsk and Orenburg regions are situated in and around delicate ecosystems. The Group manages its operations in these regions in such a way as to avoid adverse impact on regional biodiversity. The Group also performs environmental impact assessments regarding its oil and gas production. Environmental management takes into account vegetation periods and spawning seasons, as well as bird and animal migration. In addition, the Group's development strategy contemplates a significant increase in exploration and production activities, including developing oil fields in the Russian Arctic shelf. To effectively minimise the negative impact from offshore arctic operations and to include additional environmental protections in field development projects, the Group assesses the potential impact of operations related to exploration, production and transporting hydrocarbons on marine ecosystems.

The Group is consistently working to reduce the area of land affected by its operations by employing pitless drilling and recultivating damaged and polluted lands. Each year the Group develops a plan for land recultivation. In 2011, 134.9 hectares of contaminated lands were recultivated. Lands are recultivated using chemical bioagents designed for oil destruction. They are based on mineral components that facilitate land rehabilitation. Biological remediation also involves seeding large batches of area-specific grasses and perennials.

Employees

The Group views its employees as its main asset. The Group pays its employees competitive salaries and offers attractive career opportunities and a safe working environment. In addition, the Company introduced a corporate code of ethics in 2010.

The number of Group employees grew significantly, from 47,686 to 64,889 between 2007 and 2010, primarily as a result of the Group's retail expansion and the acquisition of NIS. As at 31 December 2011, the Group employed approximately 58,000 workers, a 10% decrease from 2010, due to certain corporate reorganisations aimed at focusing on core operations. The Group's staff operates in 24 regions across Russia, as well as in Kyrgyzstan, Kazakhstan, Tajikistan, Belarus, Serbia, Italy and Austria. Approximately 24% of the Group's employees are located in Yamalo-Nenets while 14% are in Omsk and the Omsk Region.

A large-scale move of the Group's corporate headquarters was undertaken in 2011, which entailed the relocation of the Group's central office from Moscow to St. Petersburg. The Group devoted appropriate resources and attention to ensure a smooth transition of operations as well as the retention of key employees.

The average monthly salary of the Group's employees was RUB 59,989, RUB 50,095 and RUB 44,227 in 2011, 2010 and 2009, respectively. Personnel costs were RUB 45.3 billion, RUB 40.6 billion and RUB 28.2 billion in 2011, 2010 and 2009, respectively. In 2011, the Group continued a large-scale project to improve its incentives, bonus and wages system and to further develop its performance management system. The Group also has instituted a Black-Scholes-Merton model-based bonus system for management and certain executives that provides payments every three years based on the Group's capitalisation. In 2011, total payments under this bonus programme were RUB 1,488 million made to approximately 135 employees.

The following table sets forth the approximate number of the Group's employees by employment area as of 31 December 2011, 2010 and 2009.

	As of 31 December		
	2011	2010	2009
Extraction	7,019	7,955	7,635
Research and Development	871	829	596
Refining	4,889	6,566	3,642
Petroleum products	19,317	16,391	15,591
Oil field service	4,349	11,097	11,519
NIS	9,076	9,991	-
Service enterprises for extraction	2,604	2,621	2,704
Jet fuel	1,252	531	549
Oils	1,085	849	105
Information technologies	1,077	1,077	3,686
Other	6,019	7,567	4,744
Total	57,558	65,474	50,771

The following table sets forth the approximate number of the Group's employees based on location as of 31 December 2011, 2010, 2009.

	As of 31 December		
	2011	2010	2009
Yamalo-Nenets	13,479	21,414	21,935
Omsk and Omsk region	8,664	8,432	7,801
Moscow and Moscow region	6,606	9,032	6,064
St. Petersburg	3,466	2,168	1,465
Sverdlovsk region	2,096	1,971	1,934
Kemerevo region	2,030	1,886	1,983
Tyumen region	1,829	1,831	1,758
Novosibirsk region	1,952	1,692	1,683
Kyrgyzstan	1,676	1,518	1,472
Yaroslavl region	800	1,244	1,209
Khanty-Mansiysk	1,428	1,231	1,064
Serbia	9,076	9,991	-
Other	4,456	3,064	2,403
Total	57,558	65,474	50,771

Employee benefits include voluntary medical insurance, free meals, anniversary bonuses, material aid, leave allowance, payment of travel tickets, childcare allowance, occasion gifts to employees and their families, and accident insurance. In 2011, benefits payments amounted to an average of RUB 67,300 per employee, compared to approximately RUB 44,000 per employee in 2010.

As of 31 December 2011, approximately 23% of the Group's workforce was between 18 and 30 years of age and 30% of the Group's workforce was between 41 and 50 years of age. As of the same date, approximately 39% of the Group's workforce held higher-education degrees.

The Group holds regular open dialogue with worker trade unions to address social issues. Trade unions operate at the largest Group divisions, as well as at all service and sales subsidiaries. More than 50% of the Group's employees are members of trade unions.

The Group signs a collective bargaining agreement with its employees annually. The Group has not experienced any work stoppages in the past five years and considers relations with its employees to be stable.

In addition, the Group spent RUB 113.6 million and RUB 91.0 million on assistance for retired employees in 2011 and 2010, respectively.

Intellectual Property

As of 30 July 2012, the Group held seven patents and 87 trademarks. In addition, as of 31 December 2011, the Group held 206 industrial property rights and 14 copyrights related to its exploration, extraction and refinery activities. Also, the Group currently uses four trademarks (variations of its logotype) on the basis of an exclusive licensing agreement with Gazprom, which is planning to transfer ownership rights of the logotype to the Group by the end of 2012.

Insurance

The Group's operations are subject to risks inherent to oil exploration, refining, transportation and storage of crude oil and petroleum products and the disposal of waste. The Group maintains insurance policies, typically subject to annual renewal, to protect against these risks, including insurance policies covering its production assets, refining facilities, interruption of business loss, export transport risks, repair and construction risks, fuel transport risks and other mandatory insurances under Russian law. In 2011, the Group spent approximately USD 40 million on its insurance policies. The Group purchases its insurance policies from leading Russian insurers, such as Rosgosstrakh and Sogaz, who in turn, re-insure their risks from leading international re-insurers, such as the Ace Group and Chartis. See *"Risk Factors – Risks Relating to the Group and the Oil and Gas Industry – The Group faces numerous operational risks in its crude oil exploration, production, transportation and other core activities, which may result in losses and additional expenditures and which may not be covered by insurance"*.

Litigation

From time to time, the Group is involved in litigation arising in the ordinary course of its business activities, such as disputes with tax, anti-monopoly, customs and other regulatory bodies as well as disputes with transportation companies.

Except for the FAS administrative fines discussed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the 12 months preceding the date of this Base Prospectus which may have, or have had in the recent past, material effects on the Group's financial position or profitability.

FAS Administrative Fines

In March 2011, the Company paid an administrative fine of RUB 1.3 billion in connection with charges by FAS in 2008 that the Company had abused its dominant position in the Russian wholesale petroleum product market from the fourth quarter of 2007 to the first half of 2008. Also in March 2011, the Company paid an administrative fine of RUB 4.6 billion following FAS' determination in 2009 (upheld by the Russian Supreme Arbitrazh Court) that the Company had abused its dominant position in the Russian wholesale motor fuel, diesel and jet fuel markets from January to June 2009. In February 2012, the Company paid an administrative fine of RUB 979.3 million following FAS' finding that the Company had abused its dominant position on the wholesale Russian petroleum product market from January 2010 to January 2011. See *"Risk Factors – Risks Relating to the Russian Legal System and Russian Legislation – If the Russian Federal Antimonopoly Service ("FAS") were to conclude that the Group has conducted its business in contravention of antimonopoly legislation, it could impose administrative sanctions on the Group"*.

MANAGEMENT

Members of the Company's Board of Directors are elected annually at the Company's General Meeting of Shareholders. The current members of the Company's Board of Directors were elected in June 2012 and are as follows:

Name	Position	Year of Birth
A. Miller	Chairman of the Company's Board of Directors, Deputy Chairman of the Board of Directors of Gazprom and Chairman of Gazprom's Management Committee	1962
V. Golubev	Member of the Company's Board of Directors, Deputy Chairman of Gazprom's Management Committee	1952
A. Kruglov	Member of the Company's Board of Directors, Deputy Chairman of Gazprom's Management Committee and head of the Finance and Economics Department of Gazprom	1969
K. Seleznev	Member of the Company's Board of Directors, head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of Gazprom	1974
V. Cherepanov	Member of the Company's Board of Directors, head of the Gas, Gas Condensate and Oil Production Department of Gazprom	1966
N. Dubik	Member of the Company's Board of Directors, head of the Legal Department of Gazprom	1971
E. Mikhaylova	Member of the Company's Board of Directors, head of the Property Management and Corporate Relations Department of Gazprom	1977
A. Dyukov	Member of the Company's Board of Directors, Chairman of the Company's Management Committee, General Director	1967
A. Mikheev	Member of the Company's Board of Directors, first deputy head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of Gazprom	1944
V. Alisov	Member of the Company's Board of Directors, first deputy head of the Legal Department of Gazprom, member of the Federal Service for Financial Markets' Expert Committee on Corporate Governance, member of Association of Lawyers of Russia	1960

The current members of the Company's Management Committee are as follows:

Name	Position	Year of Birth	Term expires
A. Dyukov	Chairman of the Company's Management Committee, General Director	1967	2016
V. Yakovlev	Deputy Chairman of the Company's Management Committee, First Deputy General Director – Finance Director, First Deputy General Director for Exploration, Production, Strategic Planning and M&A	1970	2012
A. Cherner	Deputy Chairman of the Company's Management Committee, Deputy General Director for Logistics, Refinery and Distribution, Vice-President for Refinery and Distribution	1954	2012
V. Baranov	Deputy General Director for Organisational Matters	1966	2014
V. Baryshnikov	Deputy General Director for International Business Development	1965	2014
A. Dybal	Deputy General Director for Corporate Communications	1966	2012
E. Ilyukhina	Deputy General Director for Legal and Corporate Matters	1969	2012
K. Kravchenko	Deputy General Director for Foreign Assets	1976	2012

	Management		
I. Antonov	Deputy General Director for Security	1951	2012
A. Yankevich	Deputy General Director for Economy and Finance	1971	2017

The business address for the Company's Board of Directors and the Management Committee is 3-5 Pochtampetskaya Street, 190000, Saint Petersburg, Russian Federation.

Director Biographies

Alexei Borisovich Miller has been Chairman of the Company's Board of Directors since 2005. He has also been Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee since 2003. In addition, Mr. Miller has been a member of the supervisory and administrative bodies of Gazprom Neft International S.A since 2010, Shtokman Development AG since 2008, OJSC Gazprom Media Holding and Gazfund, a non-governmental pension fund, since 2007, and OJSC Gazprombank and OJSC Sogaz since 2003. From 2008 to 2009, Mr. Miller was a member of the Board of Directors of Gazprom EP International (formerly Gazprom Netherlands B.V.). From 2000 to 2001, he served as Deputy Minister of Energy of the Russian Federation. In 2000, Mr. Miller was General Director of OJSC Baltic Pipeline System. He graduated from the Leningrad Financial-Economic Institute named after N.A. Voznesenskiy in 1984. Mr. Miller holds a Ph.D. degree in economics.

Valeriy Alexandrovich Golubev has been a member of the Company's Board of Directors since 2007. He has also been Deputy Chairman of Gazprom's Management Committee since 2006. In addition, Mr. Golubev has been a member of the supervisory and administrative bodies of Gazprom Neft Finance B.V. since 2012, OJSC Gazprom-Yuzhnaya Osetiya since 2010; LLC Gazprom Investproekt (formerly LLC Russkiye Energeticheskiye Proekty) and Sakhalin Energy Investment Company Ltd. since 2009; OJSC Mosenergo, LLC Gazpromtrans, OJSC Lietuvos Dujos, CJSC ArmRosGazprom, SIBUR; JSC Moldovagaz, LLC International Gas Transportation Consortium and OJSC Beltrasprom since 2007, CJSC Gazprom Zarubezhneftegaz, non-commercial partnership Russian Gas Community, LLP KazRosGaz and CJSC Kaunas Heating and Electrical Station since 2006; and OJSC Volgogradneftemash and OJSC Tsentrtrans since 2005. From 2006 to 2009, Valeriy Golubev was Chairman of the Board of Directors of OJSC YuzhNIIGazprom. From 2006 to 2007, he also served as Chairman of the Board of Directors of OJSC VNIIGazdobycha and OJSC Giprospekgaz. From 2005 to 2009, Mr. Golubev was a member of the Board of Directors of OJSC Severneftegazprom. From 2005 to 2007, he was a member of the supervisory and administrative bodies of CJSC Yamalgazinvest, OJSC Gazpromtrubinvest, CJSC Gazpromstroyengenering, LLC Temryukmortrans, Subsidiary OJSC Spetsavtogaztrans and OJSC Krasnodargazstroy. During that time, Mr. Golubev also was head of Gazprom's Investment and Construction Department, General Director of LLC Gazkomplektimpek and a member of the Board of Directors of Gazpromtrans. From 2003 to 2007, he served as Chairman of the Board of Directors of LLC Gaztekhling. From 2003 to 2006, Mr. Golubev was a member of Gazprom's Management Committee. From 2002 to 2003, he was a member of the Federation Council, the upper chamber of the Russian legislature. He graduated from the Leningrad Electrotechnical Institute named after V.I. Ulyanov (Lenin) in 1975 and the Academy of National Economy affiliated with the Russian Government in 1996. Mr. Golubev holds a Ph.D. degree in economics.

Andrei Vyacheslavovich Kruglov has been a member of the Company's Board of Directors since 2005. He has also been Deputy Chairman of Gazprom's Management Committee and head of the Finance and Economics Department since 2004. In addition, Mr. Kruglov has been a member of the supervisory and administrative bodies of JSC Overgaz Inc. and Gazprom Neft Finance B.V. since 2010; Gazprom EP International B.V., Gazprom Marketing and Trading Ltd., LLC Gazprom Investproekt (formerly LLC Russkiye Energeticheskiye Proekty) and Gazprom Germania GmbH since 2009; OJSC Gazpromsentrremont since 2008; OJSC Sogaz since 2006; OJSC Tomskgazprom, OJSC Vostokgazprom since 2004; and OJSC Gazprombank and OJSC Belgazprombank since 2003. In 2009, he served as a member of the board of directors of OJSC Gerosgaz. Mr. Kruglov was a member of the board of directors of OJSC Severneftegazprom from 2005 to 2008 and OJSC Zapsibgazprom from 2005 to 2007. From 2004 to 2010, he was Chairman of the Board of Directors of Subsidiary OJSC Tsentrenergogaz. Mr. Kruglov also was a member of the Board of Directors of CJSC Gazenergopromabnk from 2003 to 2010 and LLC TsentrKaspneftegaz from 2003 to 2006. From 2001 to 2002, he served as Deputy General Director of LLC Invest-In. From 2000 to 2001, Mr. Kruglov was head of the Foreign Trade and Investment Department of the Foreign Economic Cooperation Board of the Foreign Relations Committee of the Administration of Saint Petersburg. He graduated from the Saint Petersburg Institute of Refrigeration Industry in 1994.

Kirill Gennadievich Seleznev has been a member of the Company's Board of Directors since 2005. He has also been a member of Gazprom's Management Committee since 2003 and head of Gazprom's Gas and Liquid Hydrocarbons Processing and Marketing Department since 2002. In addition, Mr. Seleznev has been a member of the supervisory and administrative bodies of Gazprom Neft Finance B.V. and OJSC AB Rossiya since 2011; OJSC Gazprombank since 2010; OJSC TKG-1 and OJSC Inter Rao UES since 2008, SIBUR and OJSC Mosenergo since 2007; non-commercial partnership Russian Gas Community, CJSC Zenit Football Club, CJSC Kaunas Heating and Electrical Station and OJSC Novatek since 2006; CJSC Nortgaz since 2005; OJSC

Gazpromgazoraspredelenie (formerly OJSC Gazpromregiongaz), OJSC Tomskgazprom and OJSC Lietuvos Dujos since 2004; and OJSC Gazprom Neftekhim Salavat, OJSC Vostokgazprom, LLP KazRosGaz, JSC Latvijas Gaze and LLC Gazprom Mezhhregiongaz (formerly LLC Mezhhregiongaz) since 2003. From 2009 to 2010, Mr. Seleznev was a member of the Board of Directors of OJSC RAO East Energy Systems. In 2007, he served as a member of the Board of Directors of CJSC SKA Saint Petersburg. From 2006 to 2009, Mr. Seleznev was Chairman of the Board of Directors of OJSC Sibur Mineral Fertilizers. He was a member of the Board of Directors of OJSC RAO UES of Russia from 2004 to 2008 and OJSC TsentrGaz from 2004 to 2006. In addition, Mr. Seleznev served as a member of the Board of Directors of CJSC Gazpromenergobank from 2003 to 2010, LLC International Gas Transportation Consortium from 2003 to 2008, LLC Sevmorneftegaz from 2003 to 2007 and CJSC Rosshelf, CJSC ArmRosgazprom and CJSC Gaz-Oil from 2003 to 2006. From 2001 to 2002, Mr. Seleznev was deputy head of Gazprom's Management Committee Apparatus and Assistant of Chairman of Gazprom's Management Committee. From 2000 to 2001, he served as head of the Tax Group of OJSC Baltic Pipeline System and the BTS Branch of OJSC Verkhnevolzhskie Trunking Oil Pipelines. Mr. Seleznev graduated from the Baltic State Technical University named after D.F. Ustinov in 1997 and the Saint Petersburg State University in 2002. He holds a Ph.D. degree in economics.

Vsevolod Vladimirovich Cherepanov has been a member of the Company's Board of Directors since 2010. He has also been a member of Gazprom's Management Committee and Head of Gazprom's Gas, Gas Condensate and Oil Production Department, a member of the supervisory and administrative bodies of CJSC Achimgaz, CJSC Gazprom Zarubezhneftegaz, LLC TsentrCaspNeftegaz, Gazprom Neft-Orenburg, Shtokman Development AG, OJSC Severneftegazprom and Gazprom EP International B.V. and LLC Gazpromviet since 2010. From 2010 to 2012, Mr. Cherepanov served as a member of the Board of Directors of Gazprom Neft Finance B.V. From 2008 to 2010, he sequentially served as senior geologist and Deputy General Director of LLC Gazprom Dobycha Nadym (formerly, LLC Nadymgazprom). From 1999 to 2008, Mr. Cherepanov was a senior geologist of LLC Nadymgazprom. From 1993 to 1998, he sequentially served as an operator, borehole exploration master, leading geologist in the sphere of oilfield geophysics and leading geologist of the Geological Department of Nadymgazprom. Mr. Cherepanov graduated from the Moscow State University named after M.V. Lomonosov in 1991. He holds a Ph.D. degree in geology and mineralogy.

Nikolai Nikolaevich Dubik has been a member of the Company's Board of Directors since 2008. He has also been a member of Gazprom's Management Committee and head of Gazprom's Legal Department since 2008. In addition, he has been a member of the supervisory and administrative bodies of Gazprom Neft International S.A. since 2010, OJSC Beltransgaz since 2009, OJSC Sogaz, RosUkrEnergo AG, JSC EvRoPol Gaz, LLC Gazprommedservice, OJSC Lazurnaya, OJSC Gazprom Media Holding and Shtokman Development AG since 2008, JSC Moldovagaz since 2006 and Gazprom Neft-Orenburg since 2004. In 2008, Mr. Dubik served as first deputy head of Gazprom's Legal Department. From 2006 to 2008, he also was a member of the Board of Directors of LLC Irkutskgazprom (formerly OJSC Irkutskgazprom). Mr. Dubik also was an executive director of Gazprom Finance B.V. from 2005 to 2009 and a member of the Company's Board of Directors from 2005 to 2006. From 2003 to 2008, he was deputy head of Gazprom's Legal Department. From 2002 to 2003, Mr. Dubik occupied the position of head of the Department of Legal Support of Foreign Economic Activities of Gazprom. From 1997 to 2002, he served with Gazprom as deputy head of the division for legal support of contractual work of the Department of Legal Affairs. From 1992 to 1997, Mr. Dubik was a clerk for a judge on the Constitutional Court of the Russian Federation. He graduated from the law faculty of the Moscow State University named after M.V. Lomonosov in 1993. Mr. Dubik was awarded the title of Honoured Lawyer of the Russian Federation.

Elena Vladimirovna Mikhaylova has been a member of the Company's Board of Directors since 2012. She also has been a member of Gazprom's Management Board since 2012 and head of the Property Management and Corporate Relations Department of Gazprom since 2011. In addition, Ms. Mikhaylova has been a member of the supervisory and administrative bodies of OJSC Gazprom Neftekhim Salavat, Gazprom gazoraspredeleniye (formerly Gazpromregiongaz), OJSC Joint-Stock Bank Support of Public Initiatives, CJSC Gazprom Mezhhregiongaz Kazan, OJSC Neftyanoy Dom and OJSC Regiongazholding since 2012. She also has been Deputy General Director for Corporate and Property Relations of LLC Gazprom Mezhhregiongaz (formerly LLC Mezhhregiongaz) since 2003. From 1999 to 2003, she was the head of the legal department of a commercial organisation. From 1997 to 1999, Ms. Mikhaylova was an in-house lawyer of the legal group of the Trade Department of the Ministry of Internal Affairs of the Russian Federation. She graduated from the Moscow State Industrial University with a degree in jurisprudence in 1999 and the Academy of National Economy associated with the Russian Government with an MBA in 2010.

Alexandr Valerievich Dyukov has been a member of the Company's Board of Directors since 2006. He also has been Chairman of the Company's Management Committee and General Director since 2008. In addition, Mr. Dyukov has been a member of the supervisory and administrative bodies of SIBUR since 2011, CJSC SKA Hockey Club since 2010, LLC National Oil Consortium since 2009, Slavneft and CJSC Business Centre Okhta since 2007 and CJSC Zenit Football Club since 2006. From 2010 to 2011, he was a member of the Board of Directors of OJSC MNGK. From 2005 to 2011, Mr. Dyukov served as Chairman of the Board of Directors of SIBUR. From 2006 to 2008, he served as President of the Company. In 2006, Mr. Dyukov also was General

Director of LLC Sibur. From 2005 to 2009, Mr. Dyukov was Chairman of the Board of Directors of OJSC Sibur – Russian Tyres. From 2003 to 2006, he served as President of SIBUR. In 2000, Mr. Dyukov was Chairman of the Board of Directors of CJSC Petersburg Oil Terminal. From 1998 to 2000, he was Economics Director of OJSC Sea Port Saint Petersburg. From 1996 to 1998, Mr. Dyukov sequentially occupied the positions of Financial Director and General Director of CJSC Petersburg Oil Terminal. In 2001, Mr. Dyukov obtained an MBA degree from the IMSIP. He graduated from the Leningrad Shipbuilding Institute in 1990.

Alexandr Leonidovich Mikheev has been a member of the Company's Board of Directors since 2009. He also has been first deputy head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of Gazprom since 2003. From 1998 to 2003, Mr. Mikheev served as deputy head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of Gazprom. From 1996 to 1998, he was deputy head of Gazprom's Gas Supply and Distribution Department. From 1968 to 1996, he occupied positions in various gas industry organisations. He graduated from the oil field faculty of the Moscow Institute of Petrochemical and Gas Industry in 1968.

Vladimir Ivanovich Alisov has been a member of the Company's Board of Directors since 2009. He also has been first deputy head of the Legal Department of Gazprom since 2008. From 2007 to 2008, Mr. Alisov was deputy head of the Legal Department of Gazprom. From 2004 to 2007, he served as head of the Legal Department of OJSC Gazpromgazaspredelenie (formerly OJSC Gazpromregiongaz). Mr. Alisov graduated from the law faculty of the Leningrad State University named after A. A. Zhdanov in 1987. Mr. Alisov is a member of the Federal Service for Financial Markets' Expert Committee on Corporate Governance and a member of Association of Lawyers of Russia. In 2010, the president of the Russian Federation awarded him the title of the Honoured Lawyer of the Russian Federation.

Management Committee Biographies

Vadim Valdislavovich Yakovlev has been Deputy Chairman of the Company's Management Committee and Deputy General Director for Economy and Finance since 2008, First Deputy General Director – Finance Director since 2010 and First Deputy General Director for Exploration, Production, Strategic Planning and M&A since 2011. In addition, Mr. Yakovlev has been a member of the supervisory and administrative bodies of LLC Gazpromneft-NTTs, Gazprom Neft-Khantos and Gazprom Neft-Vostok since 2011, NIS since 2009, and Noyabrskneftegaz, LLC NK Sibneft-Yugra and Slavneft since 2007. From 2010 to 2011, he was a member of the Board of Directors of OJSC MNGK. From 2009 to 2011, Mr. Yakovlev served as Chairman of the Board of Directors of Sibir Energy Plc. From 2008 to 2009, Vadim Yakovlev was a member of the Board of Directors of LLC Gazpromneft-NTTs. From 2006 to 2008, he was head of the Company's Planning and Budget Department. From 2005 to 2006, Mr. Yakovlev served as Deputy General Director for Economy and Finance of LLC Sibur – Russkiye Shiny. From 2003 to 2004, he was Financial Director of OJSC Yuganskneftegaz. From 2001 to 2002, Mr. Yakovlev served as deputy head of the Financial and Economic Department of CJSC Yukos EP. From 1995 to 2000, Vadim Yakovlev occupied various positions with PricewaterhouseCoopers. In 2009, he obtained a diploma from the British Institute of Directors. In 1999, Mr. Yakovlev was qualified by the Chartered Association of Certified Accountants. He graduated from the Moscow Physics and Engineering Institute with a degree in applied nuclear physics in 1993 and the Higher Finance School of International University in Moscow in 1995.

Anatoliy Moiseevich Cherner has been Deputy Chairman of the Company's Management Committee, Deputy General Director for Logistics, Refinery and Distribution since 2008. He also has been Vice-President of the Company for Refinery and Distribution since 2006. In addition, Mr. Cherner has been a member of the supervisory and administrative bodies of LLC Gazpromneft-Logistics since 2010; CJSC SPbMTSB, NIS, LLC Gazpromneft-Belnefteprodukt and OJSC Mozyr Refinery since 2009; LLC Gazpromneft Marine Bunker and Gazpromneft Smazochkiye Materialy since 2008; the Moscow Refinery, the YANOS Refinery, and CJSC Gazpromneft Aero since 2007; Slavneft and the Omsk Refinery since 2006. From 2010 to 2011, he was a member of the Board of Directors of OJSC MNGK. From 2007 to 2011, he also was Chairman of Management Committee of LLC Gazpromneft Asia and LLP Gazpromneft-Kazakhstan. From 1996 to 2006, Mr. Cherner was head of the Department of Trade in Oil and Oil Products and, further, vice-president of Slavneft. Mr. Cherner graduated from the Grozny Oil Institute with a degree in chemical technology of oil and gas refinery in 1976.

Vitaliy Vitalievich Baranov has been a member of the Company's Management Committee since 2009. He also has been Deputy General Director for Organisational Matters since 2003. In addition, Mr. Baranov has served as a member of the Board of Directors of Slavneft since 2011, LLC Sibur since 2010, LLC ITSK and CJSC Business Centre Okhta since 2009 and OJSC Sibur Tyumen Gaz, OJSC Sibur Mineral Fertilizers and OJSC Sibur Holding since 2006. From 2010 to 2011, he was a member of the Board of Directors of OJSC MNGK. From 2009 to 2011, Mr. Baranov served as a member of the Board of Directors of NIS. From 2007 to 2010, he was a member of the Board of Directors of OJSC AK Sibur. From 2007 to 2008, Mr. Baranov also served as a member of the Board of Directors of LLC Sibirskaya Metanolnaya Kompaniya. In addition, Mr. Baranov occupied the position of Vice-President for Organisational Matters of LLC Sibur and was a member of the Board of Directors of OJSC Plastik from 2006 to 2010 and served as a member of the Board of Directors OJSC Azot from 2006 to 2009. From 2006 to 2008, Mr. Baranov was a member of the Board of Directors OJSC Sibur - Russian Tyres. From 2000 to 2003,

he was head of the Representative Office of Torsion Investment Limited. In 1999, Mr. Baranov was head of the Profit Centre Corporate Debt of a branch of North-Western KB Gута-Bank of Saint Petersburg. From 1997 to 1999, Mr. Baranov was General Director of CJSC GSK Invest. From 1993 to 1997, Vitaliy Baranov occupied the position of Deputy Director of CJSC DSK-RAS. In 2008, he studied in the MBA Senior Executive Programme at the London Business School. Mr. Baranov graduated from the Saint Petersburg University of Economics and Finance with a degree in economics and production management in 1993.

Vladislav Valerievich Baryshnikov has been a member of the Company's Management Committee and Deputy General Director for International Business Development since 2009. Mr. Baryshnikov also has been a member of the Board of Directors of NIS since 2010. From 2002 to 2009, he served as head of Gazprom's representative office in the People's Republic of China. From 2000 to 2002, Mr. Baryshnikov was an advisor of the Apparatus of the Authorised Representative of the President of the Russian Federation in the North-Western Federal District. From 1999 to 2000, he was an advisor of the Vice-Governor of Saint Petersburg and Director of the non-commercial partnership Centre of Cooperation with Asian-Pacific States. From 1991 to 1997, Mr. Baryshnikov occupied various positions with Lengorispolkom and the Foreign Relations Committee of Administration of Saint Petersburg. Mr. Baryshnikov graduated from the Military Red Banner Institute in 1987 and the North-Western State Service Academy with a degree in state and municipal management in 2001.

Alexandr Mikahylovich Dybal has been a member of the Company's Management Committee and Deputy General Director for Corporate Communications since 2007. In addition, he has been a member of the supervisory and administrative bodies of CJSC Business Centre Okhta since 2011, and non-commercial partnership SK Avangard and Football Club Tsrvena Zvesda since 2010. In 2010, Mr. Dybal served as a member of the Board of Directors of NIS. In 2007, Mr. Dybal served as Vice-President of the Company. From 2004 to 2007, he was Chairman of the Board of Directors of OJSC Gazprom Media. Mr. Dybal graduated from the Leningrad Electrotechnical Institute with a degree in automatic steering systems in 1991.

Elena Anatolievna Ilyukhina has been a member of the Company's Management Committee and Deputy General Director for Legal and Corporate Matters since 2007. In addition, she has been a member of the supervisory and administrative bodies of Gazprom Neft Finance B.V., Gazprom Neft International S.A., Gazprom Neft Equatorial B.V. and Gazprom Neft Cuba B.V. since 2010 and Noyabrskneftegaz and CJSC Business Centre Okhta since 2009. From 2010 to 2011, Ms. Ilyukhina was a member of the Board of Directors of OJSC MNGK. From 2009 to 2010, Ms. Ilyukhina was a member of the Board of Directors of NIS. From 2007 to 2008, she served as Executive Director of LLC North-Western Investment Company. From 2001 to 2007, Ms. Ilyukhina was Deputy General Director of Federal State Unitary Enterprise Rublevo-Uspenskiy LOK of the Administration of the President of the Russian Federation. From 1999 to 2001, she occupied various legal positions in OJSC AKB SBS Agro and OJSC AKB Severo-Zapadnoye O.V.K. From 1993 to 1996, Ms. Ilyukhina served as General Director with CJSC OSTO. Ms. Ilyukhina graduated from the Saint Petersburg State Electrotechnical University named after V.I. Ulyanov (Lenin) with a degree in electronic equipment in 1993 and the Saint Petersburg State University with a degree in jurisprudence in 1999. She holds a Ph. D. degree in economics.

Kirill Albertovich Kravchenko has been a member of the Company's Management Committee since 2008. He also has been Deputy General Director of the Company for Foreign Assets Management and General Director of NIS since 2009. In 2009, Mr. Kravchenko was member of the Board of Directors of LLC Gazpromneft-Invest. From 2008 to 2009, he was a member of the Board of Directors of LLC Information and Technology Service Company. From 2008 to 2009, Mr. Kravchenko also was Deputy Chairman of the Company's Management Committee and Deputy General Director for Organisational Matters. In addition, during that time he was a member of the Board of Directors of Slavneft. From 2007 to 2008, he served as Vice-President of the Company. From 2004 to 2007, Mr. Kravchenko occupied the position of Administrative Director with OJSC MHK Evrokhim. From 2001 to 2002, he served with Schlumberger Limited under a partnership programme with OJSC NK Yukos. He graduated from the Moscow State University named after M. V. Lomonosov with a degree in sociology in 1998, the Open British University with a degree in financial management in 2003 and the IMD Business School in 2004. Mr. Kravchenko holds a Ph. D. degree in economics and is a professor.

Igor Konstantinovich Antonov has been a member of the Company's Management Committee and Deputy General Director for Security since 2007. In addition, Mr. Antonov has been a member of the Board of Directors of NIS since 2009. From 2005 to 2007, he served as Vice President for Security with Sibneft. From 2000 to 2005, Mr. Antonov was General Director of Saint Petersburg State Unitary Enterprise Informatics. He graduated from the Leningrad Aviation Instrument-Making Institute in 1974.

Alexey Viktorovich Yankevich has been a member of the Company's Management Committee and Deputy General Director for Economy and Finance since 2012. Mr. Yankevich also has been a member of the Board of Directors of CJSC Gazpromneft-Aero, LLC Gazpomneft Business Service, LLC NK Sibneft-Yugra, LLC NGK Razvitie Regionov, LLC Gazpromneft Marine Bunker, LLC Gazpromneft-SM and Gazprom Neft-Orenburg since 2011. From 2011 to 2012, he served as Acting Deputy General Director for Economy and Finance of the Company. From 2007 to 2011, Mr. Yankevich was head of the Company's Planning and Budget Department and head of the Company's Directorate of Economics and Corporate Planning. From 2005 to 2007, he was Deputy

Financial Director with LLK International. From 2001 to 2005, Mr. Yankevich served as deputy head of Planning, Budgeting and Control Department of CJSC Yukos Rm. From 1998 to 2001, he occupied various positions with Karana, a consulting company. Mr. Yankevich graduated from the Saint Petersburg State Electrotechnical University in 1997 with a degree in optic and electronic equipment and systems and the International Management School LETI-Lovanium in Saint Petersburg in 1998. In 2004, he was qualified as a Certified Management Accountant.

Description of the Company's Management

In accordance with Russian Federal Law No. 208-FZ "On Joint Stock Companies", dated 26 December 1995, as amended, (the "Joint Stock Companies Law") and the Company's Charter, the Company's operations are governed by its General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of the Management Committee (General Director). The General Meeting of Shareholders is the Company's highest governing body and, among other things, elects the Company's Board of Directors. The Company's Board of Directors is responsible for formulating the strategy whereas the executive bodies (the Management Committee and the Chairman of the Management Committee) are responsible for implementing the strategy and managing the Company on a day-to-day basis. All governing bodies act in accordance with the laws of the Russian Federation, the Company's Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of the Company on 19 November 2007.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, the Company's reorganisation or liquidation, the election of the members of the Company's Board of Directors and Audit Committee, the determination of the quantity, category and nominal price of authorised shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders by the Charter in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report and annual accounts, approval of major transactions and transactions that involve interested parties (where such decision is within the authority of the General Meeting of Shareholders in accordance with the Joint Stock Companies Law), as well as other decisions in accordance with the terms of the JSC and the Charter.

Board of Directors

The Company's Board of Directors is responsible for the general management of the Company's activities. Members of the Company's Board of Directors are elected by a majority vote of shareholders at the General Meeting of Shareholders by cumulative voting. Members of the Board of Directors serve until the next General Meeting of Shareholders and may be re-elected an unlimited number of times. The current term of office of each of the Company's members of the Board of Directors expires at the next General Meeting of Shareholders, which will take place in 2013. The General Meeting of Shareholders may also terminate the authority of all members of the Board of Directors before the expiration of their terms. Members of the Management Committee may not comprise more than one-quarter of the Company's Board of Directors. The Chairman of the Board of Directors is elected from and by the members of the Company's Board of Directors by a majority vote and may be re-elected at any time by the same number of votes. The Chairman of the Management Committee cannot simultaneously serve as the Chairman of the Company's Board of Directors.

According to the Company's Charter, the powers of the Company's Board of Directors include, *inter alia*, determining the priorities of the Company's operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for the Company's General Meetings of Shareholders, increasing the Company's charter capital (except where such increase is within the authority of the General Meeting of Shareholders), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing the Company's executive bodies (such as the Management Committee and the Chairman of the Management Committee), deciding on early termination of the powers of these bodies, approving participation of the members of the Management Committee and the Chairman of the Management Committee in management bodies of other organisations, determining the remuneration of the Chairman and members of the Management Committee, recommending the size of dividends (which, according to the Company's dividend policy, should be no less than 15% of net profit as calculated under U.S. GAAP for a given period, with the Company expecting to amend the policy to provide for no less than 15% of net profit as calculated under IFRS) for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, approving transactions involving shares (participatory interest) in other organisations and contribution by the Company to charter capital/assets of other organisations if the amount of such transaction exceeds RUB 450 million, adopting decisions on major transactions and certain "interested party" transactions (except for those major or "interested party" transactions for which approval is within the competence of the General Meeting of Shareholders) and other matters.

On 23 April 2010, the Company's Board of Directors adopted an internal regulation whereby all Company transactions involving (i) acquisition, disposal or imposition of an encumbrance over the Company's assets with balance sheet value exceeding RUB 450 million; (ii) loans, guarantees, pledges, mortgages and suretyships in the amount exceeding RUB 450 million; (iii) acquisition, disposal or imposition of an encumbrance by the Company over shares (securities convertible into shares and/or securities derivative from shares) and participatory interests in other organisations in the amount exceeding RUB 450 million; (iv) acquisition, disposal or imposition of an encumbrance by the Company's subsidiaries over shares (securities convertible into shares and/or securities derivative from shares) and participatory interests in other organisations; and (v) contribution by the Company to charter capital/assets of other organisations require approval by the Company's Board of Directors. According to the regulation, the Board of Directors also may waive its right to approve certain kinds of transactions.

The Company's Board of Directors has two committees: the Audit Committee and the Human Resources and Remuneration Committee. The authority of the committees expires simultaneously with the expiry of the authority of the Board of Directors that formed the relevant committees. The Audit Committee under the Company's Board of Directors is primarily focused on assessing the effectiveness of the Company's internal control procedures, including control mechanisms relating to preparation and provision of financial statements, their accuracy and completeness as well as the monitoring or risk management system. Currently, Andrey Kruglov is the Chairman of the Audit Committee, and Elena Mikhaylova and Nikolai Dubik are the other members of the Audit Committee. The main focus of the Human Resources and Remuneration Committee under the Board of Directors is the development of recommendations to the Company's Board of Directors regarding the Company's human resources policy and remuneration of the members of the Company's management and supervisory bodies. Currently, Elena Mikhaylova is the Chairwoman of the Human Resources and Remuneration Committee, and Andrey Kruglov and Nikolai Dubik are the other members of the Human Resources and Remuneration Committee.

Management Committee

The Management Committee and the Chairman of the Management Committee (General Director) are the Company's executive bodies. The Chairman and other members of the Management Committee are each appointed by the Company's Board of Directors. The Company's Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The authority of the Management Committee includes, among other things, developing forward-looking plans and principal programmes for approval by the Company's Board of Directors, including the Company's annual budget and investment programmes, and preparing reports on the implementation of those programmes, organising control over effecting the decisions of the General Meeting of Shareholders and the Company's Board of Directors, approving the rules governing the organisation and reliability of the Company's bookkeeping accounts and the timely preparation of the annual report and other financial reports, adopting internal documents relating to the issues within the competence of the Management Committee and other things related to the Company's day-to-day affairs.

The Management Committee meets regularly, in accordance with meeting schedule that is approved by the Chairman of the Management Committee twice a year.

Chairman of the Management Committee (General Director)

The Chairman of the Management Committee (General Director) has authority to act in the Company's name without power of attorney, represents the Company's interests, approves staff, issues orders and decrees, gives instructions to be carried out by all of the Company's employees and issues internal documents with respect to the current activities, with the exception of internal documents which are within the authority of the Company's other corporate bodies.

Additional Information about the Company's Directors and Management Committee Members

Directors' and officers' compensation

Compensation to members of the Board of Directors and the Management Committee, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RUB 829 million, RUB 565 million and RUB 406 million for the years ended 31 December 2011, 2010 and 2009, respectively. Such amounts include personal income tax and compulsory insurance contributions into extra-budgetary funds (prior to 1 January 2010, this was known as unified social tax). Compensation of key management personnel (other than remuneration for serving as directors of a company of the Group) is determined by the terms of their employment contracts.

Share ownership by directors and Management Committee members

As of 1 June 2012, the aggregate direct ownership of the Company's shares by the members of the Company's Management Committee and Board of Directors was approximately 0.0109%.

Conflicts of Interest

The Company is not aware of any potential conflicts of interest between any duties of the members of its Board of Directors or Management Committee owed to it and their own private interests and/or other duties.

SHAREHOLDING STRUCTURE

As of 30 June 2012, the Company's charter capital was RUB 7,586,079.4224, consisting of 4,741,299,639 common shares with a nominal value of RUB 0.0016 each.

As of 30 June 2012, Gazprom controlled over 95% of the Company's shares. As a controlling shareholder of the Company, Gazprom has a strong influence over the major decisions made at its shareholder meetings and, as the nominating party for a majority of the members of the Company's Board of Directors, is able to determine the Company's strategy, make policy decisions in relation to the main areas of its business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. Minority shareholders of the Company enjoy protections provided under the applicable corporate laws of the Russian Federation to which the Company and Gazprom, as its controlling shareholder, strictly adhere.

As of 30 June 2012, there were 9,205 registered shareholders of the Company. The Company's common shares are traded on the Moscow Exchange MICEX-RTS (the "Moscow Exchange").

In 1999, the Company established a Level 1 American Depositary Receipt ("ADR") programme. The Bank of New York Mellon acts as the Depositary of the ADR programme, and one ADR currently represents five common shares of the Company. At present, the Company's ADRs are freely tradeable on the over-the-counter stock market in the United States, London Stock Exchange and Frankfurt Stock Exchange. The maximum volume of the Company's shares in the ADR programme may not exceed 8.4%. Due to changes in Russian law following the establishment of the Company's ADR programme, the Company may not place new ADRs until its shares are included by the Moscow Exchange or another Russian stock exchange in the quotation list of a category specified by Russian legislation.

The following table sets forth information regarding the beneficial ownership of the Company's shares as of 30 June 2012:

Shareholders	(%)
Interest controlled by Gazprom ⁽¹⁾	95.68%
ADR holders (through The Bank of New York Mellon)	2.15%
Other entities	2.17%
Total	100%

(1) The interest controlled by Gazprom consists of 90.0% owned by Gazprom itself and approximately 5.68% owned by Gazprom Finance B.V., a wholly-owned subsidiary of Gazprom.

RELATED PARTY TRANSACTIONS

Interested Party Transactions under Russian Law

The Joint Stock Companies Law sets forth certain requirements with respect to transactions involving interested parties. An interested party is any of the following: (i) a member of the board of directors, (ii) a person performing functions of the sole executive body (e.g., the Chairman of the Management Committee), (iii) a member of the collective executive body (e.g., the Management Committee), (iv) a shareholder who owns, together with any of its affiliates, at least 20% of the company's voting shares, or (v) any person who has the rights to issue mandatory instructions to the company, so long as any of the abovementioned persons and/or their spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or holds offices in any of the company's management bodies (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; and
- in other cases, as provided by Russian law.

The Joint Stock Companies Law requires that an interested party transaction must be approved by a majority vote of the directors (sufficient in number to constitute a quorum) who are not interested in the transaction or by a shareholders meeting.

For companies with more than 1,000 shareholders, an interested party transaction must be approved by a majority vote of the independent directors of the company. For purposes of this rule, an "independent director" is a member of the board of directors who is not, and within the year preceding the decision to approve the transaction was not:

- a member of any executive body; or
- a member of any management body of the company's management organisation; or
- a person whose relatives held positions on management bodies of the company or the managing company or were sole manager of such company; or
- an affiliate of the company, except for being its director.

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares, if:

- the value of such a transaction, or series of related transactions, is two percent or more of the balance sheet value of the company's assets as of the last reporting date;
- the transaction, or series of interrelated transactions, involves the issuance by subscription or disposal of, ordinary shares in an amount exceeding two percent of the earlier issued existing ordinary shares or securities convertible into such shares;
- the transaction, or series of related transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in an amount exceeding two percent of the earlier issued existing ordinary shares or ordinary shares into which the above-mentioned convertible securities may be converted;
- all members of the board of directors are interested parties, and/or none of them is an independent director; or
- the number of the disinterested directors is not sufficient to constitute a quorum.

The approval of interested party transactions of an open joint stock company is not required if:

- the company has only one shareholder that simultaneously performs the functions of the executive body of a company;
- all shareholders are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares;
- the company is purchasing or buying out its issued shares;

- the company is undergoing reorganisation in the form of a merger or accession; or
- the company is required by federal legislation to enter into the transactions, and settlements under such transactions are made pursuant to fixed tariffs and prices established by competent state authorities.

Any interested party transaction must be approved prior to its execution. An interested party transaction entered into in breach of the above-mentioned rules may be invalidated by a court pursuant to an action of a company or any of its shareholders only if the other party to the transaction knew or should have known of its interested party nature and if the transaction resulted in losses to the company or a shareholder. The interested party is liable to a company for any loss incurred by the company.

Related Party Transactions for the Years Ended 31 December 2011, 2010 and 2009, as Reported under U.S. GAAP

For additional information on related party transactions for the years ended 31 December 2011, 2010 and 2009, see “*Note 21 to the Audited U.S. GAAP Financial Statements*”.

The Moscow Refinery

For the year ended 31 December 2009, until the date control over the Moscow Refinery was obtained, the Group processed crude oil based on processing agreements in the Moscow Refinery. These transactions were in the ordinary course of business and on terms available to other suppliers.

	For the year ended 31 December 2009
	<i>USD million</i>
Processing fees.....	34
Crude, gas and oil products purchased.....	1

Slavneft

The table below presents information on the Group’s transactions with Slavneft for the years ended December 31, 2011, 2010 and 2009.

	For the years ended 31 December		
	2011	2010	2009
	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>
Processing fees.....	276	258	218
Crude, gas and oil products purchased.....	2,371	1,750	1,729
Crude and oil products sales.....	1,427	1,160	720

As of 31 December 2011 the Group had USD 377 million in payables to Slavneft and USD 111 million in receivables from Slavneft. As of 31 December 2010 the Group had USD 46 million in payables to Slavneft and USD 41 million in receivables from Slavneft.

Gazprom

The table below presents information on the Group’s transactions with Gazprom for the years ended December 31, 2011, 2010 and 2009. As a result of the acquisition its 61.8% share in Gazprom Neft Orenburg, the Group has included the transactions of Gazprom Neft Orenburg with Gazprom in its related party disclosure. See “*Note 3 to the Audited U.S. GAAP Financial Statements*”.

	For the years ended 31 December		
	2011	2010	2009
	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>
Crude, gas and oil products sales.....	194	154	157

As of 31 December 2011, the Group had USD 33 million in payables to Gazprom and USD 49 million in receivables from Gazprom. As of 31 December 2010, the Group had USD 9 million in payables to Gazprom and USD 27 million in receivables from Gazprom. The Group also had cash and short-term deposits in Gazprombank of USD 127 million and USD176 million as of 31 December 2011 and 31 December 2010, respectively.

Tomskneft

The table below presents information on the Group's transactions with Tomskneft for the years ended December 31, 2011, 2010 and 2009.

	For the years ended 31 December		
	2011	2010	2009
	USD million	USD million	USD million
Crude, gas and oil products purchased	1,574	1,148	997

As of 31 December 2011, the Group had USD 20 million in payables to Tomskneft and USD 9 million in receivables from Tomskneft. As of 31 December 2010, the Group had USD 15 million in payables to Tomskneft and USD 11 million in receivables from Tomskneft.

SPD

The table below presents information on the Group's transactions with SPD for the years ended December 31, 2011, 2010 and 2009.

	For the years ended 31 December		
	2011	2010	2009
	USD million	USD million	USD million
Crude purchased.....	1,107	871	554

As of 31 December 2011, the Group had USD 98 million in payables to SPD and USD 5 million in receivables from SPD. As of 31 December 2010, the Group had USD 86 million in payables to SPD and USD 4 million in receivables from SPD.

Related Party Transactions for the Three Months Ended 31 March 2012 and 2011, as Reported under IFRS

For the purpose of the Unaudited IFRS Interim Condensed Consolidated Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively controlled by the Russian Government. The tables below summarise transactions in the ordinary course of business with either the parent company or associates and joint ventures.

For additional information on related party transactions for the three months ended 31 March 2012 and 2011, see "Note 22 to the Unaudited IFRS Interim Condensed Consolidated Financial Statements".

Transactions with Key Management Personnel

Key management received remuneration, salaries, bonuses and contributions to pension funds in the amount of RUB 81 million for the three months ended 31 March 2012 and RUB 57 million for the three months ended 31 March 2011.

Other Related Party Transactions

The Group enters into transactions with related parties based on market or regulated prices.

At 31 March 2012, 31 December 2011 and 1 January 2011 the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Associates and joint ventures
1 January 2011		(RUB million)	
Short-term financial assets	-	-	2,127
Gross amount of trade receivables	-	394	644
Other assets	-	414	1,201
Long-term financial assets	-	-	7,940
Total assets.....	-	808	11,912
Borrowings	-	-	7,434
Trade and other payables	-	208	1,867
Other current liabilities	-	35	2,648
Long-term debt	-	-	1,102

Total liabilities	-	243	13,051
31 December 2011	Parent company	Entities under common control (RUB million)	Associates and joint ventures
Short-term financial assets	-	-	13,461
Gross amount of trade receivables.....	921	309	4,440
Gross amount of other receivables	-	-	21
Other assets	-	361	1,109
Long-term financial assets.....	-	-	2,095
Total assets	921	670	21,126
Borrowings	1,222	-	7,174
Trade and other payables	439	319	5,828
Other current liabilities.....	260	41	1,416
Long-term debt.....	3,207	-	573
Total liabilities	5,128	360	14,991
31 March 2012	Parent company	Entities under common control (RUB million)	Associates and joint ventures
Short-term financial assets.....	-	-	4,294
Gross amount of trade receivables.....	740	296	4,104
Other assets.....	-	451	1,134
Long-term financial assets	-	-	2,544
Total assets	740	747	12,076
Borrowings	971	-	8,365
Trade and other payables	206	277	7,601
Other current liabilities.....	119	80	1,216
Long-term debt	3,234	-	543
Total liabilities	4,530	357	17,725

For the three months ended 31 March 2012 and 2011 the following transaction occurred with related parties:

Three months ended 31 March 2011	Parent company	Entities under common control (RUB million)	Associates and joint ventures
Crude oil, gas and oil products sales	13	392	9,447
Other revenue	-	17	554
Purchases of crude oil, gas and oil products.....	-	-	36,610
Production related services.....	-	-	1,951
Transportation costs	663	1,135	3,481
Other services.....	3	208	2
Interest income	-	-	76
Three months ended 31 March 2012	Parent company	Entities under common control (RUB million)	Associates and joint ventures
Crude oil, gas and oil products sales	1,504	844	13,700
Other revenue	-	53	1,257
Purchases of crude oil, gas and oil products.....	-	4,128	49,122
Production related services.....	-	-	2,486
Transportation costs	1,139	906	4,344
Other services.....	262	2,163	1
Interest income	-	-	236

FACILITY AGREEMENT

This Facility Agreement is made on 2 August **between:**

- (1) **JOINT STOCK COMPANY GAZPROM NEFT**, a company established under the laws of the Russian Federation whose registered office is at 5A, Galernaya Str., Saint Petersburg, 190000 Russian Federation ("**Gazprom neft**"); and
- (2) **GPN Capital S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under registered number B-168434 (the "**Lender**").

Whereas:

- (A) The Lender has at the request of Gazprom neft, agreed to make available to Gazprom neft a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date (as defined below) substantially in the form set out in Schedule 1 thereto (each, a "**Loan Supplement**").
- (B) It is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated:

"Account" means a non-interest bearing account in the name of the Lender with the Principal Paying Agent (as defined in the Trust Deed) as specified in the relevant Loan Supplement.

"Accounting Standards" means, with respect to a Person, as applicable, IFRS, or, to the extent that such Person has elected to prepare its consolidated financial statements on a U.S. GAAP basis and has commenced generating financial data on such a U.S. GAAP basis, U.S. GAAP;

"Administrative Services and Domiciliation Agreement" means the administrative services and domiciliation agreement between the Lender and Deutsche Bank Luxembourg S.A. dated 8 June 2012.

"Agency" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

"Agency Agreement" means the paying agency agreement relating to the Programme dated 2 August 2012 between the Lender, Gazprom neft, the Trustee and the agents named therein as may be amended or supplemented from time to time.

"Arrangers" mean Crédit Agricole Corporate and Investment Bank and J.P. Morgan Securities plc or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

"Business Centre" has the meaning specified in the relevant Loan Supplement.

"Business Day" means (save in relation to clause 4) a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in the relevant place of payment, and (a) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where

payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (b) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (c) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

“Calculation Agent” means, in relation to a Loan, Deutsche Bank AG, London Branch or any Person named as such in the relevant Loan Supplement or any successor thereto.

“Call Option”, if applicable, means the call option granted to Gazprom neft pursuant to the relevant Loan Supplement and the Conditions of the relevant Series of Notes.

“Call Option Commencement Date”, if applicable, has the meaning given to it in the relevant Loan Supplement.

“Call Redemption Date”, if applicable, has the meaning given to it in the relevant Loan Supplement.

“Certification Date” has the meaning assigned to such term in sub-clause 10.4.3 hereof.

“Change of Control” means Gazprom Open Joint-Stock Company ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of Gazprom neft.

“Change of Control Put Option” means the put option granted to Noteholders pursuant to the Conditions of a Series of Notes upon a Change of Control.

“Change of Control Put Period” has the meaning given to it in the Conditions.

“Change of Control Put Settlement Date” means the fourteenth Business Day (for such purpose only, defined so as to further include days on which banks are open for business in Moscow, Russia) after the expiration of the Change of Control Put Period.

“Closing Date” means the date specified as such in the relevant Loan Supplement.

“Consolidated Assets” means the total amount of assets appearing on the consolidated balance sheet of Gazprom neft, prepared in accordance with Accounting Standards, as of the date of the most recently prepared consolidated financial statements.

“Conditions” means the terms and conditions of a Series of Notes, to be set out in the Trust Deed.

“Day Count Fraction” has the meaning specified in the relevant Loan Supplement.

“Dealer Agreement” means the dealer agreement relating to the Programme dated 2 August 2012 between the Lender, Gazprom neft, the Arrangers and the other dealers appointed pursuant to it.

“Dollars”, “\$” “U.S. Dollars” and “U.S.\$” means the lawful currency of the United States of America.

“Domestic Relevant Indebtedness” means any Relevant Indebtedness which is denominated and payable in Russian Roubles, is not quoted, listed or ordinarily dealt in or traded on any stock exchange or other recognised securities market outside the Russian Federation and which on issue was placed only with investors within the Russian Federation;

“Early Redemption Amount” has the meaning specified in the relevant Loan Supplement.

“euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“Event of Default” has the meaning assigned to such term in sub-clause 11.1 hereof.

“Fees and Expenses Side Agreement” means, in relation to each Series, the agreement defined as such in the Dealer Agreement.

“Final Terms” means, in relation to a Loan, final terms issued specifying the relevant issue details of such Loan, substantially in the form of Schedule C of the Dealer Agreement.

“Fixed Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Floating Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Gazprom neft Account” means an account in the name of Gazprom neft as specified in the relevant Loan Supplement for receipt of Loan funds.

“Group” means Gazprom neft and its Subsidiaries taken as a whole.

“IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“Indebtedness” means, in respect of any Person, any indebtedness for, or in respect of,

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount of money raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (e) the amount of any liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet in accordance with Accounting Standards; and
- (f) the amount of any liability (without double counting) in respect of any guarantee or indemnity (whether on or off balance sheet) for any of the items referred to above; provided that, for the avoidance of doubt, Indebtedness shall not include, without limitation:
 - (i) moneys raised by way of the issue of share capital (whether or not for cash consideration and excluding shares which are expressed to be redeemable) and any premium on such share capital;
 - (ii) indebtedness among such Person and its Subsidiaries;
 - (iii) any trade credit extended to such Person in connection with the acquisition of goods and/or services on arm’s length terms and in the ordinary course of trading of that Person; and
 - (iv) any Project Financing.

“Interest Payment Date” means the dates specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole in accordance with sub-clauses 5.2, 5.3 and 5.4, the date set for such prepayment.

“Lender Agreements” means the Dealer Agreement, this Agreement, the Agency Agreement, the Principal Trust Deed, the Administrative Services and Domiciliation Agreement, the Trustee and Agents Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement, Loan Supplement and Supplemental Trust Deed and Fees and Expenses Side Agreement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

“Loan Supplement” has the meaning assigned to such term in the recitals.

“Make Whole Premium” has the meaning specified in the relevant Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of Gazprom neft and the Group taken as a whole or (b) Gazprom neft’s ability to perform its obligations under a Loan Agreement or (c) the rights or remedies of the Lender under a Loan Agreement.

“Noteholder” means, in relation to a Note, the Person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and as defined in the relevant Loan Supplement.

“Officer’s Certificate” means a certificate signed by one officer of Gazprom neft who shall be the General Director, Chief Accountant, chief or deputy chief financial officer or chief legal officer of Gazprom neft in the form of Schedule 2.

“Permitted Security Interest” means:

- (a) any Security Interest which is existing as at the date of the relevant Loan Agreement;
- (b) any Security Interest existing on any property, income or assets of any company at the time such company becomes a Subsidiary of Gazprom neft or such property, income or assets are acquired by Gazprom neft or any Subsidiary provided that such Security Interest was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group;
- (c) any renewal or extensions of a Security Interest in accordance with paragraphs (a) and (b) hereof provided that the principal amount of the Relevant Indebtedness secured by any such Security Interest is not increased;
- (d) any Security Interest created or existing in respect of Domestic Relevant Indebtedness;
- (e) any Security Interest created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest or Security Interests) does not exceed 20 per cent. of the Consolidated Assets of the Group, as determined by reference to the most recently available consolidated financial statements prepared in accordance with Accounting Standards of Gazprom neft; or
- (f) any Security Interest created or existing in respect of any Indebtedness that is not Relevant Indebtedness.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

“Potential Event of Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“Principal Subsidiary” means at any relevant time a Subsidiary of Gazprom neft whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Group, all as calculated by reference to the then latest accounts (or consolidated accounts as the case may be) of such Subsidiary and the then latest consolidated accounts of Gazprom neft and its consolidated Subsidiaries.

The determination of a Principal Subsidiary shall be made by reference to the last audited or reviewed financial statements prepared in accordance with Accounting Standards.

“Principal Trust Deed” means the principal trust deed dated 2 August 2012 between the Lender and the Trustee as amended, varied or supplemented from time to time in accordance with its terms.

“Programme” means the programme of the Lender for the issuance of loan participation notes.

“Programme Limit” means U.S.\$ 10,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

“Project Financing” means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing expressly agrees to limit its recourse solely to the asset or project financed (together with any credit support from third parties) and the revenues derived from such asset or project as the principal source of repayment for the moneys advanced.

“Put Option”, if applicable, means the put option granted to the Lender pursuant to the relevant Loan Supplement.

“Put Settlement Date” has the meaning specified in the relevant Loan Supplement.

“Rate of Interest” has the meaning assigned to such term in the relevant Loan Supplement.

“Relevant Indebtedness” means any present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans (whether syndicated or not), credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or credit agreements) which either are by their terms payable, or confer a right to receive payment, in any currency and are for the time being, or ordinarily are quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market;

“Relevant Time” means, the time in New York, the United States of America in relation to a payment in Dollars, or Brussels, in relation to a payment in euro, or London, in relation to a payment in Sterling or the time in the principal financial centre of any other Specified Currency in relation to a payment in such other Specified Currency.

“Repayment Date” means the date specified as such in the relevant Loan Supplement.

“Roubles” means the lawful currency of the Russian Federation.

“Same-Day Funds” means same day, freely transferable funds for payment, in the Specified Currency customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Security Interest” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

“Series” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“Side Letter” means the letter specified as such in the relevant Loan Supplement.

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

“Sterling” means the lawful currency of the United Kingdom.

“Stock Exchange” means the Irish Stock Exchange Limited, and/or such other stock exchange or market on which any Notes may be listed or admitted to trading.

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

“Subsidiary” means, in relation to a Person, any company or corporation: (a) which is controlled, directly or indirectly, by that Person; (b) more than 50% of the issued share capital of which is beneficially owned, directly or indirectly, by that Person; or (c) which is a Subsidiary of another Subsidiary of that Person.

“Supplemental Trust Deed” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 of the Principal Trust Deed).

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereof.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Issuer Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled or resident for tax purposes; and the term **“Taxation”** shall be construed accordingly.

“Trust Deed” means the trust deed specified as such in the relevant Loan Supplement.

“Trustee” means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

“Trustee and Agents Side Letter” means a side letter between Gazprom neft, the Trustee and the Agents (as named therein) dated on or around 2 August 2012.

“U.S. Dollar Equivalent” means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under “FX Options Fixing Prices (9 a.m.)” in the FX section of the Chicago Mercantile Exchange (<http://www.cmegroup.com/trading/fx/daily-currency-fixing-price.html>).

“U.S. GAAP” means generally accepted accounting principles in the United States of America.

1.2 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.2.1 All references to “clause” or “sub-clause” are references to a clause or sub-clause of this Agreement.
- 1.2.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.2.3 Words importing the singular number include the plural and vice versa.
- 1.2.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.2.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- 1.2.6 Any reference to an agreement, instrument or provision of law is a reference to that agreement, instrument or provision of law as amended, novated or re-enacted.
- 1.2.7 Unless otherwise stated, whenever an amount in one currency needs to be converted into an amount in another currency for the purposes of determining compliance with any provision under this Agreement, such calculation shall be determined in good faith on the basis of reasonable exchange rates by a responsible financial or accounting officer of Gazprom neft and, for the

avoidance of doubt, whenever it is necessary thereafter to determine whether Gazprom neft complied with any such provision, such determination shall be made on the basis of the conversion rate applied in compliance with the foregoing provisions hereof.

- 1.2.8 All references to “**this Agreement**” are references to this Facility Agreement.
- 1.2.9 The terms "include" and "including" shall be deemed to be followed by the words "without limitation", if not already so followed.
- 1.2.10 A reference to any party to any document includes that party's successors and permitted assigns.
- 1.2.11 Any reference to a "day" shall be deemed to be a reference to a calendar day.
- 1.2.12 Any reference to a "month" shall be deemed to be a reference to the period from any day to the day in the next succeeding calendar month (or, if reference is made to more than one month, the last calendar month of the subsequent consecutive number of months required) having the same identifying number or, if there is no such day, the last day of such calendar month.
- 1.2.13 An Event of Default is continuing if it has not been remedied or waived.
- 1.2.14 Any list or enumeration contained in this Agreement is conclusive, unless expressly stated otherwise.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Gazprom neft Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Supplement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**”, “**Closing Date**”, “**Day Count Fraction**”, “**Interest Payment Date**”, “**Loan Agreement**”, “**Notes**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, “**Subscription Agreement**” and “**Trust Deed**”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Gazprom neft and Gazprom neft shall make a single drawing in the full amount of such Loan.

3.2 Commissions, Fees and Expenses

In consideration of the Lender's undertaking to make a Loan available to Gazprom neft, Gazprom neft hereby agrees that it shall:

- 3.2.1 not later than 11:00 a. m. (London time) one Business Day before each Closing Date pay to the Lender by wire transfer to its specified account, in Same-Day Funds an amount equal to a one-time commission of the Lender in respect of such Loan in an amount specified in the relevant Loan Supplement; and
- 3.2.2 not later than 11:00 a. m. (London time) 10 Business Days following the relevant Closing Date in Same-Day Funds an amount equal to all the pre-agreed costs incurred by the Lender in connection with such Loan. The total amount of such costs is to be as specified in the relevant Loan Supplement. Such costs are payable against an invoice (to be provided by the Lender no later than five Business Days prior to the date on which such costs are payable) accompanied by appropriate supporting documentation (in the case of any cost or expense of the Lender arising from the services of third parties being the invoice in respect thereof from such third party to the Lender and, in the case of a tax demand on the Lender, being such demand or relevant correspondence from the Luxembourg tax authorities).

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Gazprom neft Account specified in the relevant Loan Supplement.

3.4 Ongoing Expenses

In consideration of the Lender agreeing to make Loans to Gazprom neft and making available the facility hereunder, Gazprom neft hereby agrees to pay to the Lender on demand (i) all reasonable and documented costs, fees (including out-of-pocket legal fees) and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements, (ii) all reasonable and documented costs of the Lender incurred in connection with its winding-up (provided that (save as mandatorily imposed by applicable law) the Lender may not commence any voluntary winding-up without the consent of Gazprom neft), and (iii) Luxembourg Taxes (to the extent such payment is expressly contemplated in the Lender Agreements). Gazprom neft shall also reimburse the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Lender Agreements (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of any Series of Notes). Payments to the Lender referred to in this sub-clause 3.4 shall be made by Gazprom neft on the basis of an invoice issued by the Lender and submitted to Gazprom neft by the Lender at least fifteen (15) Business Days before the relevant payment is to be made or expense incurred and accompanied by appropriate supporting documentation (in the case of any cost or expense of the Lender arising from the services of third parties being the invoice in respect thereof from such third party to the Lender and, in the case of a tax demand on the Lender, being such demand or relevant correspondence from the Luxembourg tax authorities).

3.5 Acts of Acceptance and Invoices

- 3.5.1 In connection with all payments to be made under sub-clause 3.2, sub-clause 3.4 and clause 12 hereof, Gazprom neft and the Lender shall, prior to such payment being paid, enter into and sign an act of acceptance letter (an "**Act of Acceptance**") (which Gazprom neft shall prepare) with respect to the amounts to be paid by Gazprom neft. Invoices and Acts of Acceptance shall separately specify: (i) the net amount due, (ii) any applicable Russian VAT and (iii) the resulting total tax-inclusive amount due.
- 3.5.2 Without prejudice to the obligation of Gazprom neft to make payment under a Loan Agreement, the Lender shall deliver an invoice to Gazprom neft setting forth the amount of interest and

principal to be paid by Gazprom neft under each Loan at least 5 Business Days before the date of such payment is due.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with sub-clause 4.6.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest being payable in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with sub-clause 4.6. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan

Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**” (in the second instance only), “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

- (a) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (I) the offered quotation; or
- (II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the applicable Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the applicable Loan Supplement.

- (b) if the Relevant Screen Page is not available or if, sub-paragraph (a)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (a)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the

Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Gazprom neft and the Lender (with consent of the Trustee) suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

- 4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of

(y), calculated in accordance with sub-clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to Gazprom neft, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Gazprom neft and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, each of the Lender and

Gazprom neft agree that such determination or calculation may be made by or at the direction of the Trustee as set out in the Conditions of the corresponding Series of Notes and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this clause 4, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.9 Definitions

In this clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “Actual/Actual” or “Actual/Actual - ISDA” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (v) if “30E/360” or “Eurobond Basis” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vi) if “30E/360 (ISDA)” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Repayment Date or (ii) such number would be 31, in which case D2 will be 30; and

- (vii) if “Actual/Actual-ICMA” is specified in the relevant Loan Supplement:

- (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x)

the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Date” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date; and

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Loans, means the **“Fixed Amount”** or **“Broken Amount”**, as the case may be.

“Interest Commencement Date” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and the Business Centre for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent in consultation with Gazprom neft or as specified in the relevant Loan Supplement.

“Reference Rate” means the rate specified as such in the relevant Loan Supplement.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

4.10 Calculation Agent

The Lender shall procure that there shall at all times be specified one or more Calculation Agents if provision is made for them in the relevant Loan Supplement and for so long as any amount remains outstanding under the relevant Loan Agreement, provided that any Calculation Agent shall be appointed only with the prior approval of Gazprom neft. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of Gazprom neft) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Gazprom neft and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Gazprom neft shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 Special Prepayment for Tax Reasons or Change in Circumstances

If, as a result of the application of, any determination under, or any amendment or clarification to, or change (including a change in interpretation or application) in the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, Gazprom neft would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-clause 6.2 or 6.3 (other than, in each case, where the increase in payments is in respect of any amounts due or paid pursuant to sub-clauses 3.2, 3.4 and 12.1), or if (for whatever reason) Gazprom neft would have to or has been required to pay additional amounts pursuant to clause 8 and in any such case such obligations cannot be avoided by Gazprom neft taking reasonable measures available to it, then Gazprom neft may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) at any time.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in any applicable law or regulation or regulatory requirement or directive of any agency of any state it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an **“Illegality Event”**), then upon notice by the Lender to Gazprom neft (or by Gazprom neft to the Lender) in writing (setting out in reasonable detail the nature and extent of the relevant

circumstances), Gazprom neft and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances. If such a basis has not been determined within the 30 calendar days, then, if Gazprom neft agrees an Illegality Event has occurred, Gazprom neft shall prepay such Loan in whole (but not in part) on such date as is necessary to comply with such requirements.

5.4 Prepayment in the Event of Change of Control

- 5.4.1 If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, Gazprom neft shall, one Business Day prior to the Change of Control Put Settlement Date, prepay the principal amount of the relevant Loan in an amount which is equal to the aggregate principal amount of the Notes in relation to which the Change of Control Put Option has been duly exercised by the Noteholders in accordance with the Conditions of such Series of Notes.
- 5.4.2 Promptly, and in any event within 15 Business Days after the date of any Change of Control, Gazprom neft shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.
- 5.4.3 The Lender shall notify Gazprom neft on the next Business Day after receipt of notice thereof from the Paying Agent (which notice shall be given on the first Business Day following the end of the Change of Control Put Period) of the amount of each relevant Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholders.
- 5.4.4 For the avoidance of doubt, this sub-clause 5.4 may be disappplied under the terms of the relevant Loan Supplement.

5.5 Reduction of a Loan Upon Redemption and Cancellation of Notes

Gazprom neft or any Subsidiary of Gazprom neft may from time to time, in accordance with the Conditions of the Notes, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender (as issuer of such Notes) for cancellation by Gazprom neft or any of Gazprom neft's Subsidiaries and is subsequently cancelled, the relevant Loan shall be deemed to have been prepaid by Gazprom neft in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by Gazprom neft in respect of such amounts.

5.6 Payment of Other Amounts

If a Loan is to be prepaid by Gazprom neft pursuant to any of the provisions of sub-clause 5.2, 5.3 or 5.4, Gazprom neft shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by Gazprom neft pursuant to the relevant Loan Agreement.

5.7 Optional Prepayment under Call Option

If a Call Option is specified in the relevant Loan Supplement, Gazprom neft may, at its option at any time from the Call Option Commencement Date (if applicable) but prior to the Repayment Date on giving not less than 30 nor more than 60 calendar days' irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the relevant Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the relevant Loan. Immediately on receipt of such notice, the Lender shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

5.8 Optional Prepayment under Put Option

If a Put Option is specified in the relevant Loan Supplement, following notification from the Lender, Gazprom neft shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6 of the Conditions of the Notes, one Business Day prior to the Put Settlement Date.

5.9 Provisions Exclusive

Gazprom neft may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under the relevant Loan Agreement.

5.10 Notices Irrevocable

Any notice of cancellation or prepayment given under this clause 5 shall be irrevocable and, unless a contrary indication appears in the relevant Loan Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by Gazprom neft under each Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account. The Lender agrees with Gazprom neft that it will not deposit any other moneys into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Gazprom neft under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes imposed or levied by or on behalf of any governmental or other taxing authority. If Gazprom neft shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence reasonably satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Gazprom neft shall reimburse the Lender in the Specified Currency for such properly documented payment on demand. For the avoidance of doubt, this sub-clause 6.2 shall not apply to any taxes payable on income, profits or gains by the Lender and is without prejudice to the obligations of the Lender contained in sub-clause 6.6.

6.3 Withholding on Notes

If the Lender notifies Gazprom neft (setting out in reasonable detail the nature and extent of the obligation with such evidence as Gazprom neft may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of a Series of Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 of such Series of Notes, Gazprom neft agrees to pay to the Lender, not later than 11:00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are

equal to the said additional amounts which the Lender must pay pursuant to Condition 8 of such Series of Notes and the Lender will provide Gazprom neft with such information as the Lender has access to as issuer of the Notes that may help in determining whether the Noteholders of such Series are entitled to additional amounts pursuant to the Conditions insofar as permitted by applicable laws; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, repay such additional amounts to Gazprom neft (it being understood that neither the Lender, other than as stated above, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to any such additional amounts).

Any notification by the Lender to Gazprom neft in connection with this sub-clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Gazprom neft has made a payment pursuant to this clause 6 or obtains any reimbursement from the Trustee pursuant to the terms of any Trust Deed, it shall promptly pay to Gazprom neft so much of the benefit it received as will leave the Lender in the same position as it would have been had no additional amount been required to be paid by Gazprom neft pursuant to this clause 6 or had no reimbursement been paid to the Lender pursuant to such Trust Deed; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Gazprom neft, the amount of any such payment and the timing of any such payment, shall be determined by the Lender (acting reasonably and in consultation with Gazprom neft). The Lender shall use its best endeavours to obtain any credits or refunds available to it, and the Lender shall disclose to Gazprom neft any information regarding its tax affairs or computations requested by Gazprom neft and shall promptly notify Gazprom neft of any tax credit or allowance or other reimbursement it receives from the Trustee pursuant to such Trust Deed.

If as a result of a failure to obtain relief from deduction or withholding of any Tax (i) such Tax is deducted or withheld by Gazprom neft and pursuant to this clause 6 an increased amount is paid by Gazprom neft to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of such Tax as referred to above the Lender (as represented by Gazprom neft,) applies to the competent taxing authority for a tax refund (it being agreed that the Lender hereby authorises Gazprom neft to make such application) and such Tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably possible notify Gazprom neft of the receipt of such tax refund and (upon instructions by Gazprom neft) promptly transfer the entire amount of the tax refund to a bank account of Gazprom neft specified for that purpose by Gazprom neft.

The Lender agrees promptly, upon becoming aware of such, to notify Gazprom neft if it ceases to be resident in Luxembourg or if any of its representations set forth in clause 9 are no longer true and correct.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Gazprom neft to make any deduction, withholding or payment as described in sub-clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Gazprom neft's obligations, under such clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid

such obligation or mitigate the effect of such circumstances. Gazprom neft agrees to reimburse the Lender for all reasonable and documented out-of-pocket costs and expenses (including but not limited to legal fees) properly incurred by the Lender in connection with this sub-clause 6.5.

6.6 Withholding Tax Exemption

- 6.6.1 The Lender shall provide Gazprom neft no later than 10 Business Days before the first Interest Payment Date with respect to the first Loan made pursuant to this Agreement (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities (within the meaning of the double tax treaty between the Russian Federation and Luxembourg), confirming that the Lender is resident in Luxembourg (within the meaning of the double tax treaty between the Russian Federation and Luxembourg) in a particular calendar year, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate solely as a result of any action or inaction of the competent Luxembourg authorities, but shall notify Gazprom neft without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall be appropriately apostilled and a certified translation into Russian shall be supplied.
- 6.6.2 Gazprom neft and the Lender (using its best endeavours and in accordance with applicable law) agree that, should Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation of such Russian legislation or application thereof by the relevant competent authority change then the procedure referred to in sub-clause 6.6.1 will be deemed changed accordingly and the Lender shall use its best efforts (in accordance with applicable law) to assist Gazprom neft in obtaining relief from Russian income tax withholding pursuant to the double taxation treaty between the Russian Federation and Luxembourg and/or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein (taking into account any change in Russian legislation, the interpretation of such Russian legislation or its application by the relevant competent authority).
- 6.6.3 The Lender shall within 60 calendar days of a request by Gazprom neft (to the extent it is able to do so under applicable law) deliver to Gazprom neft such other information or forms to be duly completed and delivered as may be needed to obtain a tax refund if an exemption from deduction or withholding of Russian Taxes has not been obtained. If required, such forms shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to Gazprom neft shall be duly signed and apostilled or otherwise legalised. The Lender shall provide Gazprom neft with all assistance it may reasonably require to ensure that Gazprom neft can deliver to the tax authorities the information or forms specified in this sub-clause 6.6.3. If a relief from deduction or withholding of Russian tax under this sub-clause 6.6.3 has not been obtained and further to an application of Gazprom neft to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of Gazprom neft (x) use reasonable efforts to procure that such rouble bank account of the Lender is duly opened and maintained, and (y) thereafter furnish Gazprom neft with the details of such rouble bank account. Gazprom neft shall indemnify the Lender for all reasonable and documented out-of-pocket costs and expenses properly incurred by the Lender as a result of steps undertaken pursuant to this sub-clause 6.6.3. The Lender shall not be obligated to take any step under this sub-clause 6.6.3 if, in the reasonable opinion of the Lender, to so take would be materially prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence of appointment of the Lender's Agent and the Gazprom neft's Agent.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (b) the Lender shall have received in full the amount referred to in sub-clause 3.2.1 above, if due and payable, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or any change in the interpretation or application thereof by any person charged with the administration thereof, which:

- 8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender by reference to net income or any Taxes referred to in sub-clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender by reference to its own income or as a result of any Taxes referred to in sub-clauses 6.2 or 6.3); or
- 8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Gazprom neft hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan,

then subject to the following, and in each such case:

- (a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Gazprom neft, together with a certificate signed by two directors of the Lender or by any person empowered by the board of directors of the Lender to sign on behalf of the Lender describing in reasonable detail the introduction or change or

request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such written notice; and

Gazprom neft, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to the relevant Loan Agreement, and provided, further, that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the negligence or wilful default of the Lender, provided that this sub-clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-clauses 3.4, 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-clause 8.1:

- 8.2.1 the Lender shall consult in good faith with Gazprom neft and shall use all reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Gazprom neft's obligations to pay any additional amount pursuant to sub-clause 8.1;
- 8.2.2 Gazprom neft may, only in accordance with clause 17 of the Principal Trust Deed (including with the consent of the Trustee thereunder), require the substitution of the Lender as lender under the relevant Loan Agreement(s) and as issuer of the corresponding Series of Notes;

except that nothing in this sub-clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless Gazprom neft agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

The Lender represents and warrants to Gazprom neft as follows:

- 9.1.1 The Lender represents that it is a company, which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg. The Lender, at the date hereof, does not have a permanent establishment in Russia within the meaning of Article 5 of the double tax treaty between the Russian Federation and Luxembourg and the interest payable by Gazprom neft under the Loan Agreement will not relate to any such permanent establishment.
- 9.1.2 The Lender is duly incorporated under the laws of Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.
- 9.1.3 The execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and

regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

- 9.1.4 The Lender Agreements constitute legal, valid and binding obligations of the Lender.
- 9.1.5 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

Gazprom нефт will not, and will procure that no Principal Subsidiary will, create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness:

- (i) payment of any sum due in respect of any such Relevant Indebtedness;
- (ii) any payment under any guarantee of any such Relevant Indebtedness; or
- (iii) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness;

without in any such case at the same time or prior thereto procuring that Gazprom нефт's obligations under each Loan Agreement (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Lender in its reasonable opinion shall deem to be not materially less beneficial or (z) as shall be approved by an Extraordinary Resolution (as defined in the Principal Trust Deed) of the Noteholders.

10.2 Mergers

- 10.2.1 Gazprom нефт shall not, without the prior written consent of the Lender, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction and Gazprom нефт shall ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable legislation), or participate in any other type of corporate reconstruction, in each case, if such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect.
- 10.2.2 Sub-clause 10.2.1 shall not apply to any intra-Group solvent reorganisation, restructuring, merger, accession, division, separation or transformation provided that the beneficial interest of the Group in the assets of the entity or entities involved in any such reorganisation, restructuring, merger, accession, division, separation or transformation immediately following the completion of such reorganisation, restructuring, merger, accession, division, separation or transformation is no less than it was immediately prior to such reorganization, restructuring merger, accession, division, separation or transformation.

10.3 Payment of Taxes

Gazprom нефт shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes levied or imposed upon, or upon the income, profits or assets of Gazprom нефт, provided, however, that Gazprom нефт shall not be required to pay or discharge or cause to be paid or

discharged any such tax (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings, provided further that upon any final judgment on any such contested claim Gazprom neft shall have 60 calendar days to pay in full the amount specified in such final judgment or (y) whose amount, together with all such other overdue taxes, does not in the aggregate exceed U.S.\$200,000,000.

10.4 Reports

- 10.4.1 Gazprom neft shall (i) make available on its website or (ii) so long as any Notes are listed on any Stock Exchange, make available on the official website of such Stock Exchange, to the extent and in the manner permitted by the rules of such Stock Exchange and (iii) deliver to the Trustee:
- (i) as soon as they become available, but in any event within 180 calendar days after the end of each of its financial years, copies of Gazprom neft's consolidated financial statements for such financial year, in each case audited and prepared in accordance with Accounting Standards; and
 - (ii) as soon as the same become available, but in any event within 90 calendar days after the end of the first half of each of its financial years, Gazprom neft's consolidated financial statements for such period, in each case reviewed and prepared in accordance with Accounting Standards.
- 10.4.2 Gazprom neft will ensure that each set of consolidated financial statements delivered by it pursuant to sub-clause 10.4.1(i) is accompanied by a report thereon of its auditors (including accompanying notes).
- 10.4.3 Gazprom neft will deliver to the Lender and the Trustee on each Interest Payment Date an Officer's Certificate in the form of Schedule 2 stating that, to the best of the knowledge of the signatory to such Officer's Certificate, having made all reasonable enquiries, Gazprom neft has kept, observed, performed and fulfilled its obligations under, and complied with, this Agreement and that there has not been, as at a date (the "**Certification Date**") not more than 5 Business Days before the date of such certificate, an Event of Default or Potential Event of Default since the Certification Date of the last certificate or, if none, the date of this Agreement (or if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Events of Default).
- 10.4.4 Subject to any restrictions under applicable law (including regarding insider dealing or market abuse), Gazprom neft hereby undertakes that it will deliver to the Lender and the Trustee, without undue delay, such additional information, other than information which Gazprom neft determines in good faith to be confidential, as the Lender or the Trustee reasonably requires for the purposes of the discharge of the duties and discretions vested in it under this Loan Agreement or Trust Deed, including providing, without limitation (a) an Officer's Certificate certifying (i) those Subsidiaries which would be treated as Principal Subsidiaries pursuant to this Agreement and (ii) as to the Notes held by or on behalf of Gazprom neft or any member of the Group as at the date of such certificate, such Officer's Certificates to be provided within 20 calendar days of Gazprom neft's audited consolidated accounts being made available and within 20 calendar days of a request by the Lender or the Trustee, and (b) a notification whenever Gazprom neft or any member of the Group has purchased and retained Notes for its own account.
- 10.4.5 Gazprom neft undertakes to furnish to the Lender such information as the Irish Stock Exchange Limited (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require to be provided in writing in connection with the listing or admission to trading on such stock exchange or relevant authority of the Notes.

- 10.4.6 Gazprom neft consents that any information provided to the Lender pursuant to this sub-clause 10.4 may also be provided to the Trustee, if so requested by the Trustee, without violating any duty of confidentiality or secrecy that the Lender may owe to Gazprom neft under the laws of Ireland.

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur and be continuing, the Lender shall be entitled to the remedies set forth in sub-clause 11.3:

- 11.1.1 Gazprom neft fails to pay any amount of principal, interest or other amounts payable hereunder within seven Business Days (in the case of principal) or 14 Business Days (in the case of interest or other amounts) after the due date for payment thereof;
- 11.1.2 a default is made by Gazprom neft in the performance or observance of (i) any of the obligations expressed to be assumed by it under sub-clause 5.4.2 or clause 10 or (ii) any of the other material obligations (other than for the avoidance of doubt, those referred to in sub-clause 11.1.1) expressed to be assumed by it and such default remains unremedied for the period of 60 calendar days (other than in respect of sub-clause 10.3(x) in respect of which no such grace period shall apply) after written notice thereof, addressed to Gazprom neft by the Lender, has been delivered to Gazprom neft;
- 11.1.3 Gazprom neft or any Principal Subsidiary (i) fails to pay any of its Indebtedness as and when such Indebtedness becomes payable, taking into account any applicable grace period or (ii) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Indebtedness if, as a result of such failure, such Indebtedness is accelerated; provided that, either, (i) the individual amount of the Indebtedness, in respect of which the event mentioned above in this sub-clause 11.1.3 has occurred and is continuing exceeds U.S.\$100,000,000 or its U.S. Dollar Equivalent or (ii) the aggregate amount of the Indebtedness, in respect of which one or more of the events mentioned above in this sub-clause 11.1.3 have occurred and is continuing equals or exceeds U.S.\$150,000,000 or its U.S. Dollar Equivalent;
- 11.1.4 Either:
- (i) an effective resolution is passed by Gazprom neft or any Principal Subsidiary that Gazprom neft or any Principal Subsidiary be wound-up or dissolved, provided that, in the case of any Principal Subsidiary, the same would result in a Material Adverse Effect; or
- (ii) an order of a court of competent jurisdiction takes effect that Gazprom neft or any Principal Subsidiary be wound-up or dissolved, provided that, in the case of any Principal Subsidiary, the same would result in a Material Adverse Effect;
- in each case otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by the Trustee;
- 11.1.5 Gazprom neft or any Principal Subsidiary (i) through an official action of the board of directors of Gazprom neft or such Principal Subsidiary (as the case may be) announces its intention not, or (ii) is unable to, pay all or a substantial part of its debts as and when they fall due; provided that, in the case of any Principal Subsidiary, the same would result in a Material Adverse Effect;
- 11.1.6 proceedings shall have been initiated against Gazprom neft or any Principal Subsidiary for its liquidation, insolvency, bankruptcy or dissolution under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed

within a period of 120 calendar days unless, and for so long as such proceedings are being contested in good faith provided that, in the case of any Principal Subsidiary, such proceedings would result in a Material Adverse Effect;

- 11.1.7 Gazprom neft or any Principal Subsidiary shall initiate or consent to proceedings for its liquidation, insolvency, bankruptcy or dissolution relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into any general composition with, its creditors, provided that, in the case of any Principal Subsidiary, the same would result in a Material Adverse Effect;
- 11.1.8 any governmental or Agency authorisation necessary for the performance of any obligation of Gazprom neft under a Loan Agreement fails to be in full force and effect and such failure (i) would result in a Material Adverse Effect and (ii) such failure remains unremedied for the period of 60 calendar days after written notice requiring such failure to be remedied, addressed to Gazprom neft by the Lender, has been delivered to Gazprom neft;
- 11.1.9 a distress, execution or seizure before judgment is levied or enforced upon or against the whole or any part of the assets of the Group and the same would result in a Material Adverse Effect, unless such distress, execution or seizure is not stayed or discharged within 120 calendar days thereof;
- 11.1.10 an encumbrancer takes possession or a receiver is appointed of the whole or any part of the assets or undertaking of the Group and the same could have a Material Adverse Effect and such possession or appointment is not discharged or rescinded within 120 calendar days thereof;
- 11.1.11 any governmental authority or Agency condemns, seizes, compulsorily purchases, or expropriates all or more than 15 per cent. of the Consolidated Assets of the Group held by Gazprom neft or any Principal Subsidiary, as determined by reference to the most recently available consolidated financial statements of Gazprom neft prepared in accordance with Accounting Standards, and the same would have a Material Adverse Effect; or
- 11.1.12 any event (as described under relevant applicable local law) occurs which under the laws of any relevant jurisdiction (but only where Gazprom neft or the relevant Principal Subsidiary is incorporated or has assets or operations) has an analogous effect to any of the events referred to in sub-clause 11.1.4(ii), 11.1.6 or 11.1.7 above, subject in each case to the same thresholds and cure periods as set out in the applicable clauses.

11.2 Notice of Default

Gazprom neft shall deliver to the Lender and the Trustee, (i) promptly upon becoming aware thereof, or (ii) within 10 calendar days of any written request by the Lender, written notice in the form of an Officer's Certificate substantially in the form of Schedule 2, stating whether any event which is a Potential Event of Default or an Event of Default has occurred, its status and what action Gazprom neft is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to Gazprom neft, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare the Loan and all other amounts accrued and/or payable under such Loan Agreement by Gazprom neft to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by Gazprom neft; provided, however, that if any event of any kind referred to in sub-clause 11.1.7 occurs with respect to Gazprom neft, the obligations of the Lender under such Loan Agreement shall immediately terminate, and the Loan and all other amounts accrued and/or payable under such Loan Agreement by Gazprom neft shall become immediately due and payable, all without diligence,

presentment, demand of payment, protest or notice of any kind, which are especially waived by Gazprom neft.

11.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Gazprom neft undertakes to the Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (each an “**Indemnified Party**”) incurs any loss, liability, claim, charge, demand or damage or any reasonable, documented and out-of-pocket cost or expense (including legal fees properly incurred) (a “**Loss**”) which may be properly incurred in respect of a Loan Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or exercise of any powers, rights or remedies in respect of any Series of the Notes (excluding a Loss that is the subject of the undertakings contained in sub-clauses 3.2, 3.4, 8 and 13.6 of this Agreement (it being understood that the Lender may not recover twice in respect of the same Loss)) Gazprom neft shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Gazprom neft by the Lender) unless, in any such case, such Loss was either caused by such Indemnified Parties’ negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement; provided that this sub-clause 12.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under such Loan Agreement. It is understood that the amount of Loss that is to be paid pursuant to the preceding provisions of this paragraph will be paid by Gazprom neft on the basis of an invoice issued by the Lender and submitted to Gazprom neft and accompanied by appropriate supporting documentation (in the case of any cost or expense of the Lender arising from the services of third parties being the invoice in respect thereof from such third party to the Lender) and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify Gazprom neft in writing and Gazprom neft shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) Gazprom neft and the Indemnified Party shall have mutually agreed to the retention of such lawyers or (ii) the named parties to any such proceeding (including any joined parties) include Gazprom neft and the Indemnified Party and representation of both parties by such lawyers would present them with a conflict of interest or (iii) pursuant to the previous sentence Gazprom neft has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above or (iv) pursuant to the previous sentence Gazprom neft has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that Gazprom neft shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above in accordance with sub-clause 12.1 (so long as the Indemnified Party undertakes to Gazprom neft to repay such amount if it shall ultimately be determined that the Indemnified Party is not entitled to be indemnified in accordance with this clause 12). Gazprom neft shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent, but shall continue to indemnify the Indemnified Party until such consent is given. If any such proceeding is settled with Gazprom neft’s consent or if there be a final judgment for the

Indemnified Party, Gazprom neft agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment in accordance with sub-clause 12.1. Gazprom neft will not settle any proceeding in respect of which indemnity may be sought pursuant to sub-clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand. For the avoidance of doubt, this provision shall not apply to the Trustee to the extent that it is able to enforce any of the obligations pursuant to this Agreement.

12.3 Independent Obligation

Sub-clause 12.1 constitutes a separate and independent obligation of Gazprom neft from its other obligations under or in connection with each Loan Agreement or any other obligations of Gazprom neft in connection with the issuance of Notes by the Lender and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of losses, expenses and liabilities described in sub-clause 12.1 and specifying in full detail the basis therefor shall be prima facie evidence of the amount of such losses, expenses and liabilities.

12.5 Survival

The obligations of Gazprom neft pursuant to sub-clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by Gazprom neft.

13 General

13.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of Gazprom neft's obligations recorded therein.

13.2 Stamp Duties

13.2.1 Gazprom neft shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Gazprom neft by any competent tax authority in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all reasonable and documented out-of-pocket costs and expenses or penalties which may be properly incurred or suffered by the Lender with respect to, or resulting from, the delay or failure by Gazprom neft to pay such taxes or similar charges.

13.2.2 Gazprom neft agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any competent tax authority in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, Gazprom neft shall repay the Lender on demand, upon the Lender providing Gazprom neft with an itemised invoice accompanied by supporting documentation, an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all reasonable and documented out-of-pocket costs and expenses properly incurred in connection with the payment of such amounts.

13.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Gazprom neft, any right, power to privilege under any Loan Agreement and no course of dealing between Gazprom neft and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

13.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by fax, or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier, or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement:

addressed as follows:

13.4.1 if to Gazprom neft:

Joint Stock Company Gazprom neft (JSC Gazprom neft)
3-5 Pochtamtskaya Street
St. Petersburg, 190000
Russian Federation
Fax: +7 812 648 3206
Attention: Olga V. Kirichenko/ Stanislav G. Popkov/ Alexandra Zakharova

13.4.2 if to the Lender:

GPN Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg
Fax: +352 421 22 718
Attention: The Directors

or to such other address or fax number as any party may hereafter specify in writing to the other.

Any notice sent by post as provided in this sub-clause 13.4 shall be deemed to have been given, made or served when delivered (as evidenced by the confirmation of delivery) and any notice sent by facsimile transmission as provided in this sub-clause 13.4 shall be deemed to have been given, made or served when the relevant delivery receipt is received by the sender provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed received at the opening of business on the next following business day in such place. Any communication delivered to any party under this Agreement which is to be sent by facsimile transmission will be written legal evidence.

13.5 Assignment

13.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the giving of an opinion by the Lender, following the enforcement of the security and/or assignment referred to in sub-clause 13.5.3 below, shall be references to the exercise of

such rights or discretions or the giving of an opinion by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and Gazprom neft or any agreements of the Lender or Gazprom neft pursuant to sub-clause 6.4 or 6.5 or clause 8.

13.5.2 Gazprom neft shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

13.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except (i) with the prior written consent of Gazprom neft, to a company located in Luxembourg and/or (ii) in connection with the funding of each Loan, by way of first fixed charge granted by the Lender and the absolute assignment by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under each Loan Agreement and, in each case under (ii) hereof, Gazprom neft agrees that it will, on or prior to the relevant Closing Date, acknowledge in writing any such charge and assignment and that the Trustee may assign or transfer the benefit of the Loan Agreement. Any reference in this Agreement to any such assignee or transferee shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer, shall be references to such rights, benefits or obligations by the assignee or transferee.

13.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Gazprom neft in respect of any amount due in the Specified Currency under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), Gazprom neft hereby agrees to indemnify the Lender against any deficiency in the Specified Currency. Subject to the above, any obligation of Gazprom neft shall be permitted to be paid in any currency and, to the extent not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency that may be purchased exceeds that Due Amount the Lender shall as soon as practicable repay the amount of the excess to Gazprom neft.

13.7 Prescription

In the event that any Notes become void pursuant to Condition 11 of such Notes, the Lender shall forthwith repay to Gazprom neft the principal amount of or interest on such Notes subject to the Lender having previously received from Gazprom neft a corresponding amount in respect of principal or interest on the corresponding Loan pursuant to the relevant Loan Agreement. The Lender and Gazprom neft shall, at such time, enter into an amendment to the relevant Loan Agreement providing for such repayment and the corresponding reduction of the relevant Loan in form satisfactory to Gazprom neft.

13.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement unless and to the extent expressly provided for.

13.9 Choice of Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with English law.

13.10 Jurisdiction

- 13.10.1 The parties irrevocably agree that any dispute arising out of or connected with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this sub-clause 13.10 (a “**Dispute**”), shall be resolved:
- (i) subject to sub-clause 13.10.1(ii) below by arbitration with the seat or legal place in London, England, conducted in the English language by three arbitrators, in accordance with the rules set down by the LCIA (formerly the London Court of International Arbitration) (“**LCIA Rules**”), which rules are deemed to be incorporated by reference into this clause, save that, Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 calendar days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA. The arbitrators shall have no authority to award punitive or other punitive type damages; or
 - (ii) at the option of any party to this Agreement, by proceedings brought in the courts of England and Wales, which courts are to have non-exclusive jurisdiction. Where the party exercising this option to litigate is in the position of Respondent, it must do so by notice in writing to the other parties to the Dispute within 30 calendar days of service on it of the Request for Arbitration and before service of its Response to any Request for Arbitration, whichever is the earlier. Where the party exercising this option to litigate is in the position of Claimant, it must do so by notice in writing to the other parties to the Dispute before service of the Request for Arbitration. Terms used in this paragraph and not defined in this Agreement have the meanings given to them in the LCIA Rules.
- 13.10.2 For the purposes of sub-clause 13.10.1, defined terms other than those defined in this Agreement shall have their meaning as stated within the LCIA Rules.
- 13.10.3 Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.
- 13.10.4 The Lender irrevocably appoints Law Debenture Corporate Services Limited (the “**Lender’s Agent**”), now of Fifth Floor, 100 Wood Street, London EC2V 7EX , as its agent to accept service of process in England in any Dispute to be resolved by litigation, provided that:
- (i) service upon the Lender’s Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;
 - (ii) the Lender shall inform all other parties to this Agreement, in writing, of any change in this address of the Lender’s Agent within 28 days of such change;
 - (iii) if the Lender’s Agent ceases to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and to deliver to the other parties to this Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and
 - (iv) nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.
- 13.10.5 Gazprom neft irrevocably appoints Law Debenture Corporate Services Limited (“**Gazprom neft’s Agent**”), now of Fifth Floor, 100 Wood Street, London EC2V 7EX, as its agent to accept service of process in England in any Dispute to be resolved by litigation, provided that:

- (i) service upon Gazprom neft's Agent shall be deemed valid service upon Gazprom neft whether or not the process is forwarded to or received by Gazprom neft;
- (ii) Gazprom neft shall inform all other parties to this Agreement, in writing, of any change in the address of Gazprom neft's Agent within 28 days of such change;
- (iii) if Gazprom neft's Agent ceases to act as a process agent or to have an address in England, Gazprom neft irrevocably agrees to appoint a new process agent in England acceptable to the other parties to this Agreement and to deliver to the other parties to this Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and
- (iv) nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

13.10.6 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right any party to take any suit, action or proceeding (collectively, the "**Proceedings**") in any other court of competent jurisdiction to the extent permitted by law, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

13.10.7 Gazprom neft irrevocably and unconditionally:

- (i) waives all rights of immunity in respect of it or its assets;
- (ii) agrees not to claim immunity from proceedings brought by the Lender against it in relation to any Loan Agreement and to ensure that no such claim is made on its behalf; and
- (iii) consents generally to the giving of any relief or the issue of any process in connection with these proceedings.

13.11 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

13.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

13.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

13.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

For and on behalf of JOINT STOCK COMPANY GAZPROM NEFT:

By:
Title:

By:
Title:

For and on behalf of GPN CAPITAL S.A.:

By:
Title:

By:
Title:

Schedule 1
Form of Loan Supplement

- [DATE]
-
-

JOINT STOCK COMPANY GAZPROM NEFT

and

GPN CAPITAL S.A.

LOAN SUPPLEMENT

to be read in conjunction with a Facility Agreement dated 2 August 2012

in respect of
a Loan of [•]

Series [•]

This Loan Supplement is made on [●] **between:**

- (1) **GPN CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-168434 (the “**Lender**”); and
- (2) **JOINT STOCK COMPANY GAZPROM NEFT**, a company established under the laws of the Russian Federation whose registered office is at 5A, Galernaya Str., Saint Petersburg, 190000, Russian Federation (“**Gazprom neft**”).

Whereas:

- (A) Gazprom neft has entered into a facility agreement dated 2 August 2012 (the “**Facility Agreement**”) with the Lender in respect of Gazprom neft’s U.S.\$ 10,000,000,000 Programme for the issuance of loan participation notes (the “**Programme**”).
- (B) Gazprom neft proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender with the Principal Paying Agent (account number [●], [●]);

“**Business Centre**” means [●];

[“**Calculation Agent**” means [●];]

“**Closing Date**” means [●];

[“**Call Redemption Date**” means [●];] *[Note: include if Call Option applicable, otherwise delete]*

[“**Early Redemption Amount**” means [●] per [●] amount of the Loan, plus accrued interest, if any, to the Call Redemption Date;] *[Note: include if Call Option applicable, otherwise delete]*

“**Gazprom neft Account**” means the account in the name of Gazprom neft (account number [●]);

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

[“**Make Whole Premium**” means the excess, if any (as reported in writing to the Lender and the Trustee by a reputable financial institution operating in [●] market in [●] selected by the Lender and approved in writing by the Trustee (the “**Financial Adviser**”) (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to [●] basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan;]

“Notes” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Lender as Series [●] under the Programme;

[“Put Settlement Date” means [●];][*Note: Include if Put Option applicable, otherwise delete*]

“Rate of Interest” has the meaning given to it in clause 4.2 below;

“Repayment Date” means [●]; [*Note amend as required for Floating Rate Notes*];

“Side Letter” means [●];

“Specified Currency” means [●];

“Subscription Agreement” means an agreement between the Lender, Gazprom neft and [●] dated [●] relating to the Notes;

[“Treasury Rate” means a rate equal to the yield, as published by the [●], on actively traded [●] with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser.] [determined by reference to the relevant Bloomberg screen] If there is no such publication of this yield during the week preceding the Calculation Date, the Treasury Rate will be calculated by reference to quotations from selected primary [●] dealers in [●] selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in [●] preceding the Call Redemption Date; and] [*Note: include if Call Option applicable, otherwise delete*]

“Trust Deed” means the Principal Trust Deed between the Lender and the Trustee dated 2 August 2012 as amended and supplemented by a Supplemental Trust Deed to be dated on or about [●] constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Gazprom neft and Gazprom neft shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1 Fixed Rate Loan Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(i) Interest Commencement Date: [●]

(ii) Rate[(s)] of Interest: [●] per cent. per annum payable [annually/semi-annually] in arrear

(iii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i> /not adjusted]
(iv)	Fixed Amount[(s)]:	[●] per [●] in principal amount
(v)	Broken Amount:	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)]] and the Interest Payment Date(s) to which they relate]</i>
(vi)	Day Count Fraction (sub-clause 4.9):	[/●] <i>[Day Count Fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in U.S. Dollars, unless specified]</i>
(vii)	Determination Date(s) (sub-clause 4.9):	[●] in each year. <i>[Insert regular Interest Payment Dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last Interest Period]¹</i>
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give details]
4.2.2	Floating Rate Loan Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Interest Commencement Date:	[●]
(ii)	Interest Period(s):	[●]
(iii)	Specified Interest Payment Dates:	[●]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(v)	Business Centre(s) (sub-clause 4.9):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(vii)	Interest Period Date(s):	[Not Applicable/specify dates] <i>(will be not applicable unless different from Interest Payment Date)</i>
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]

¹ Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ICMA.

- (ix) Screen Rate Determination (sub-clause 4.3.3):
- Reference Rate: [●]
 - Interest Determination Date(s): *[[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*
 - Relevant Screen Page/Primary Source for Floating Rate: *[Specify relevant screen page or “Reference Banks”]*
 - Reference Banks (if Primary Source is “Reference Banks”): *[Specify four]*
 - Relevant Financial Centre: *[The financial centre most closely connected to the Reference Rate- specify if not London]*
 - Reference Rate: *[LIBOR, EURIBOR or other reference rate]*
 - Representative Amount: *Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]*
 - Effective Date: *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*
 - Specified Duration: *[Specify period for quotation if not duration of Interest Accrual Period]*
- (x) ISDA Determination (sub-clause 4.3):
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - ISDA Definitions: (if different from those set out in the Conditions) [●]
- (xi) Margin(s): [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction (sub-clause 4.9): [●]
- (xv) Rate Multiplier: [●]

(xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: [●]

4.2.3 Put Option [Applicable]/[Not Applicable]

4.2.4 Call Option [Applicable]/[Not Applicable]

Call Option Commencement Date: [●]/[Not Applicable]

5 Commissions, Fees and Expenses

Pursuant to sub-clause 3.2.1 of the Facility Agreement and in consideration of the Lender making the Loan to Gazprom neft, Gazprom neft hereby agrees that it shall, not later than 11:00 a.m. (London time) one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, a commission in respect of the Loan in the total amount of [●] supported by an invoice.

Pursuant to sub-clause 3.2.2 of the Facility Agreement and in consideration of the Lender making the Loan to Gazprom neft, Gazprom neft hereby agrees that it shall, not later than 11:00 a.m. (London time) 10 Business Days after the Closing Date, pay to the Lender, in Same-Day Funds an amount equal to all the pre-agreed costs incurred by the Lender in connection with the Loan, in the total amount of [●] payable against an invoice (to be provided by the Lender no later than five Business Days prior to the date on which such costs are payable) accompanied by appropriate supporting documentation (in the case of any cost or expense of the Lender arising from the services of third parties being the invoice in respect thereof from such third party to the Lender and, in the case of a tax demand on the Lender, being such demand or relevant correspondence from the Luxembourg tax authorities).

6 Governing Law

This Loan Supplement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law. The provisions of sub-clause 13.10 of the Facility Agreement shall be effective as if set out in full herein.

This Loan Supplement has been entered into on the date stated at the beginning.

JOINT STOCK COMPANY GAZPROM NEFT

By:

By:

GPN CAPITAL S.A.

By:

By:

Schedule 2
Form of Officers' Certificate

To: GPN Capital S.A.
2, Boulevard Konrad Adenauer,
L-1115 Luxembourg, Grand Duchy of Luxembourg
From: Joint Stock Company Gazprom neft

Dated:

Dear Sirs

Joint Stock Company Gazprom neft - U.S.\$[●] Facility Agreement dated [●] (the “Loan Agreement”)

- 1** I refer to the Loan Agreement. This is an Officer's Certificate for the purposes of clauses [●] of the Loan Agreement.
- 2** [I confirm that the following Subsidiaries are Principal Subsidiaries][*details*]
- 3** I confirm that [as of *[insert date]* no Potential Event of Default or Event of Default has occurred since the date of our last certification, or if none, the Closing Date².
- 4** I confirm that the following number of Notes are held by Gazprom neft and/or [a] member[s] of the Group:
[specify aggregate principal amount of Notes]

Terms used but not defined herein shall have the meanings given to them in the Loan Agreement.

For and on behalf of Joint Stock Company Gazprom neft

Signed:

.....
[principal executive officer/ principal
accounting officer/ principal financial
officer] of
Joint Stock Company
Gazprom neft

² If this statement cannot be made, the certificate should identify any Potential Event of Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on the Notes in definitive form and the Global Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed or Part A of the relevant Final Terms. Those definitions will be endorsed on the Notes in definitive form or Global Notes, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to a principal trust deed (as amended or supplemented as at the Issue Date, the “**Principal Trust Deed**”) dated 2 August 2012, each made between GPN Capital S.A. (the “**Issuer**”) and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the “**Loan**”) as specified hereon to Joint Stock Company Gazprom neft (JSC Gazprom neft) (“**Gazprom neft**”). The Issuer and Gazprom neft have recorded the terms of the Loan in a facility agreement (the “**Facility Agreement**”) dated 2 August 2012, as supplemented on the Issue Date specified hereon by a loan supplement (the “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**”) each between the Issuer and Gazprom neft. In each case where amounts of principal, interest and additional amounts (if any) are stated hereon or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Issuer Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of Gazprom neft. Noteholders shall otherwise have no recourse (direct or indirect) to the Issuer or any other assets of the Issuer.

None of the Noteholders or the Trustee (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer. No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

Pursuant to the Trust Deed, the Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Gazprom neft to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Gazprom neft under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Deutsche Bank AG, London Branch in the name of the Issuer (the “**Account**”) and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Issuer Reserved Rights and amounts relating to the Issuer Reserved

Rights (as defined below)) (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assignment**” and together with the Charge, the “**Security Interests**”).

“**Issuer Reserved Rights**” are the rights excluded from the Security Interests, being all and any rights, interests and benefits of the Issuer in respect of the obligations of Gazprom neft in respect of a Series, under Clauses 3.2 (*Commissions, Fees and Expenses*), 3.4 (*Ongoing Expenses*) (only to the extent that Gazprom neft shall reimburse the Issuer for any amount payable by the Issuer), 5.3 (*Illegality*) (other than the right to receive any amount payable under such Clause), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*)(to the extent that the Issuer has received from Gazprom neft the corresponding amount in respect of Russian Federation taxes, penalties or interest), 6.3 (*Withholding on Notes*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 6.4 (*Reimbursement*), 6.5 (*Mitigation*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 8 (*Change in Law or Increase in Cost*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 12.1 (*Indemnification*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 12.2 (*Notice and Payment of Loss, Defence of Action and Settlement*), 12.3 (*Independent Obligation*), and 13.2 (*Stamp Duties*) (to the extent that Gazprom neft shall reimburse the Issuer for any amount payable by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by an Extraordinary Resolution (as defined in the Trust Deed) or a direction of the Noteholders whose Notes constitute at least 25 per cent. in aggregate of the principal amount of the Notes outstanding to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Security Interests are granted to the Trustee as continuing security for the payment of all sums due under the Trust Deed and the Notes as trustee for itself and/or the Noteholders on a *pari passu* basis.

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Gazprom neft) pursuant to a paying agency agreement (the “**Agency Agreement**”) dated 2 August 2012 and made between the Issuer, Gazprom neft, the Trustee, Deutsche Bank AG, London Branch, as principal paying agent (the “**Principal Paying Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”) and calculation agent (the “**Calculation Agent**”), Deutsche Bank Trust Company Americas as a transfer agent (a “**Transfer Agent**”), United States paying agent (the “**U.S. Paying Agent**” and a “**Paying Agent**”) and as United States registrar in respect of the Rule 144A Notes (the “**U.S. Registrar**” and a “**Registrar**”), Deutsche International Corporate Services (Ireland) Limited as Irish paying agent (the “**Irish Paying Agent**”) and Deutsche Bank Luxembourg S.A. as a registrar (a “**Registrar**”), Luxembourg paying agent (a “**Luxembourg Paying Agent**”) and transfer agent (a “**Transfer Agent**”).

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection and collection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, at the specified office of the Principal Paying Agent and at the specified office of the Irish Paying Agent. Certain provisions of these terms and conditions (the “**Conditions**”) include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Loan Agreement applicable to them.

All capitalised terms used but not otherwise defined in these Conditions have the meanings given to them in the Trust Deed or the Loan Agreement.

1 Status

The Notes are limited recourse secured obligations of the Issuer. The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an

amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Issuer Reserved Rights.

The Trust Deed provides that, subject to its terms, payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Issuer Reserved Rights, will be made *pro rata* among all Noteholders, on the Business Day after, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided hereon and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off, counterclaim or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer or the Trustee and Gazprom neft.

Noteholders have notice of, and have accepted, these Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided, and the Noteholders are deemed to have accepted, that:

- 1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by Gazprom neft of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from Gazprom neft under the Loan Agreement;
- 1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of Gazprom neft;
- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of Gazprom neft under or in respect of the Loan Agreement;
- 1.4 the Trustee shall not, save as set out in the Trust Deed, at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;
- 1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by Gazprom neft of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing;
- 1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by a duly authorised officer of Gazprom neft or an Officer's Certificate as a means of monitoring whether Gazprom neft is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of Gazprom neft's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer as lender under any Loan Agreement nor the Trustee will be liable for any failure to make the usual, or any, investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of or for insuring such security; and
- 1.7 the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of tax required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement, which will or may affect payments made or to be made by Gazprom neft under the Loan Agreement, save to the extent that it has received additional

amounts from Gazprom neft under the Loan Agreement in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by Gazprom neft to, or to the order of, the Trustee or the Principal Paying Agent, they will, subject to Clauses 2.4 and 2.8 of the Trust Deed, *pro tanto* satisfy the obligations of the Issuer in respect of the Notes (unless, upon due presentation of a Note, payment is improperly withheld or refused).

Save as otherwise expressly provided hereon and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to Gazprom neft except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

2 Form and Denomination

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which, in the case of any Notes shall not be less than €100,000 or its equivalent in any other currency as at the date of issue of the Notes) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in any other currency as at the date of issue of the Notes and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

3.1 Registers

The relevant Registrar will each maintain a register in respect of the Notes (each, a “**Register**” and together the “**Register(s)**”), all in accordance with the provisions of the Agency Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of the Notes. In these Conditions the “holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

The Issuer will also maintain a register (the “**Issuer's Register**”) at its registered office. Under the terms of the Agency Agreement, the relevant Registrar will provide to the Issuer such information about changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.

3.2 Title

Title to the Notes will pass by transfer and registration in the relevant Register and the Issuer's Register. The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or

any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to the terms of the Agency Agreement and to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the relevant Registrar or at the specified office of a Transfer Agent, together with such evidence as the relevant Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided, however*, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are not less than the minimum Specified Denomination (if any). Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the relevant Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**Business Day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the relevant Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the Issuer or the relevant Registrar, as the case may be, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the relevant Registrar and the other parties to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations from the relevant Registrar.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any

such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not:

- (i) engage in any business whatsoever, other than entering into the Programme, issuing Notes thereunder from time to time for the sole purpose of financing Loans to Gazprom neft in accordance with each Loan Agreement, entering into related agreements and transactions and performing any act incidental to or necessary in connection with any of the foregoing;
- (ii) enter into a single, or series of, transactions (whether related or not and whether voluntary or involuntary) to sell, factor, lease, pledge, charge, assign, transfer or otherwise deal with any Charged Property or any right or benefit either present or future arising under or in respect of a Loan Agreement (other than the Issuer Reserved Rights) or an Account or any part thereof or any interest therein, or create any mortgage, charge or other security or right of recourse in respect thereof in favour of any person other than the Security referred to in Clause 4 of the Trust Deed;
- (iii) cause or permit any Loan Agreement or the priority of the Security created by the Supplemental Trust Deed to be amended, terminated or discharged (other than as contemplated by the Trust Deed and these Conditions);
- (iv) release any party to any Loan Agreement, the Principal Trust Deed or any Supplemental Trust Deed from any existing obligations thereunder (other than as contemplated by the Trust Deed and these Conditions);
- (v) have any subsidiaries;
- (vi) consent to any variation of, or exercise any powers or consents or waiver pursuant to, the terms of the Dealer Agreement, the Agency Agreement, the Conditions, any Loan Agreement, the Principal Trust Deed, any Supplemental Trust Deed or any other agreement relating to the issue of Notes or the advancing of Loans or any other related transactions;
- (vii) (to the extent the same is within the control of the Issuer) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person (other than as contemplated by the Trust Deed and these Conditions);
- (viii) have any employees;
- (ix) (to the extent the same is within the control of the Issuer) issue or allot any shares (other than such shares as are in issue at the date hereof) or make any distribution to its shareholders;
- (x) open or have any interest in any account with a bank or financial institution other than an Account or unless such account relates to any Notes or any Charged Property or any party thereto or any account held by the Issuer into which the subscription proceeds of any Series of Notes are to be paid, save where either such account or the Issuer's interest in it is simultaneously charged in favour of the Trustee so as to form part of such Charged Property or such account is opened in connection with the administration and management of the Issuer and only moneys necessary for that purpose are credited to it;
- (xi) declare any dividends;
- (xii) subject as provided in paragraph (i) above, incur any other indebtedness for borrowed moneys, other than issuing of further Notes (which may be consolidated and form a single series with the Notes of any Series) and/or creating or incurring further obligations relating to such Notes;
- (xiii) purchase, own, lease or otherwise acquire any real property including office premises or like facilities;
- (xiv) give any guarantee or assume any similar liability;

- (xv) use the proceeds of any Series of Notes for purposes other than making Loans; or
- (xvi) subject to the laws of Luxembourg, petition for winding-up or bankruptcy.

5 Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the Final Terms which shall be equal to the rate per annum at which interest under the Loan accrues. Interest at the Rate of Interest shall accrue on each Fixed Rate Note from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Gazprom neft pursuant to the relevant Loan Agreement to the Account not later than 11:00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Accordingly, on each Interest Payment Date or as soon as possible thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

5.2.1 Interest Payment Dates: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. The amount of interest payable shall be determined in accordance with Condition 5.4 and the Loan Agreement. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

5.2.2 Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

5.2.3 Rate of Interest for Floating Rate Notes: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8.5) to but excluding the date on which payment in full of the principal thereof is made.

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Gazprom neft, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan become due and payable under Clause 11 of the Facility Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the Noteholders, the Trustee, Gazprom neft and the Issuer.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6 Redemption

6.1 Scheduled Redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5 of the Facility Agreement, Gazprom neft will be required to repay the Loan one Business Day prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).

6.2 Early Redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any (other than amounts in respect of the Issuer Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Facility Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Compulsory Sales

The Issuer may compel any beneficial owner of an interest in Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, (i) if the Issuer has reason to believe that such holder is a Benefit Plan Investor (as defined in the Trust Deed) or (ii) if such holder, after being required to do so, fails to deliver the certification referred to in Clause 3.8 of the Trust Deed.

6.4 Rule 144A Notes

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, (i) if the Issuer has reason to believe that such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940), or (ii) if such holder, after being required to do so, fails to deliver the certification referred to in Clause 3.8 of the Trust Deed.

6.5 Call Option

If Call Option is specified in the Final Terms, then pursuant to Clause 5.7 of the Facility Agreement and the relevant Loan Supplement, Gazprom neft may, at its option at any time from the Call Option Commencement Date (if applicable) but prior to the Repayment Date each as specified in the Final Terms on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part,

repay the Loan at the Early Redemption Amount specified in the Final Terms plus the Make Whole Premium specified in the Final Terms (the **“Call Option”**). The notice to be given (the **“Call Option Notice”**) shall specify the date for repayment of the Loan and the date(s) for the redemption of the Notes (the **“Optional Redemption Date(s)”**), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by Gazprom neft (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from Gazprom neft under the Loan, redeem the Notes on the Optional Redemption Date(s). In the case of a partial redemption, the Notes shall be redeemed pro rata, by drawing lots (in accordance with the Luxembourg law on commercial companies of 10 August 1915, as amended) or otherwise in such manner as the Trustee may approve, subject to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. The Issuer’s obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Optional Redemption Date(s) for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

6.6 Put Option

If Put Option is specified in the Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified in the Final Terms (the **“Put Option”**) at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed Put Redemption Notice (as defined in the Agency Agreement) in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, an Issuer Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Redemption Notice. The Issuer shall notify Gazprom neft, not more than one Business Day after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6.6. Subject to timely receipt of the relevant amounts from Gazprom neft under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6.6 on the Put Settlement Date, subject as provided in Condition 7.

6.7 Redemption on a Change of Control at the Option of Noteholders

If a Change of Control Put Event (as defined below) shall occur while a Note of any Series is outstanding, the holder of each such Note will have the option (the **“Change of Control Put Option”**) (unless, prior to the delivery of the Change of Control Put Option Notice referred to below, the Issuer gives notice under Condition 6.2) to require the Issuer to redeem that Note on the Change of Control Put Settlement Date (as defined below) at its principal amount together with accrued interest and additional amounts (if any) to the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **“Change of Control Put Event Notice”**) to the Noteholders in accordance with Condition 14, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the **“Change of Control Put Period”**), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to such Paying Agent of such holder’s entitlement to such Note and a duly completed put option notice (a **“Change of Control Put Option Notice”**) specifying the principal amount of the Notes in respect of which such

option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a receipt. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from Gazprom neft and (ii) as provided in Condition 7) redeem all such Notes on the date falling fourteen Business Days (for such purpose only, defined so as to further include days on which banks are open for business in Moscow, Russia) after the expiration of the Change of Control Put Period (the “**Change of Control Put Settlement Date**”). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.7, may be withdrawn.

For the purposes of these Conditions, a “**Change of Control**” means Gazprom Open Joint Stock Company ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of Gazprom neft.

“**Change of Control Put Event**” means a Change of Control has occurred.

6.8 Cancellation

Gazprom neft or any Subsidiary or affiliate of Gazprom neft or any other company acting for the benefit of Gazprom neft (acting either directly or through an agent) may, among other things, from time to time deliver Notes to the Issuer, or request the Issuer to purchase such Notes on behalf or at the request of Gazprom neft, and deliver to the Issuer a request to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Notes with instructions to cancel a specified aggregate principal amount of Notes represented thereby whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation together with all accrued interest and other amounts (if any) shall be deemed to have been prepaid by Gazprom neft and extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7 Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in Condition 7.2 below.

7.2 Interest

Interest shall be paid to the person shown on the Issuer’s Register at the opening of business (in the place of the Issuer’s specified office) on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof (a “**Bank**”) and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a

euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, on the instructions of Gazprom neft and with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days’ and not less than 30 days’ notice thereof shall have been given to the Noteholders in accordance with Condition 14.

7.6 Accrued Interest

If the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.7 Payments by Gazprom neft

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require Gazprom neft to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to the Account. Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any governmental or other taxing authority, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

In the event any taxes, duties or assessments or governmental charges are imposed by or on behalf of Luxembourg or the Russian Federation or any political subdivision or any authority thereof or therein having the power to tax are required by law to be deducted or withheld, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from Gazprom neft under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from Gazprom neft, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

- 8.1 to a Noteholder or beneficial owner who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;
- 8.2 where such withholding or deduction would not have been imposed but for a failure by the Noteholder or beneficial owner (or any financial institution through which the Noteholder or beneficial owner holds any Note or through which payment on the Note is made) to (i) enter into an agreement described in Section 1471(b)(1) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or otherwise comply with Sections 1471 through 1474 of the Code or any regulations promulgated thereunder (or under any implementing legislation adopted by Luxembourg) or (ii) provide information sufficient for the Issuer to determine whether the Noteholder or beneficial owner (or financial institution through which the Noteholder or beneficial owner holds any Note or through which payment on the Note is made) is a U.S. person or should otherwise be treated as holding a “United States account” of the Issuer (or comply with similar requirements under any implementing legislation adopted by Luxembourg);
- 8.3 presented for payment of principal or interest more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.4 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
- 8.5 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used hereon, “**Relevant Date**” (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by Gazprom neft has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference hereon or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to Luxembourg, references in these Conditions to Luxembourg shall be construed as references to Luxembourg and/or such other jurisdiction.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time an Event of Default (as defined in the Facility Agreement) or of an Issuer Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if directed to do so by (i) an Extraordinary Resolution or (ii) so requested by the Noteholders whose Notes constitute at least 25 per cent. in aggregate of the principal amount of the Notes outstanding and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by Gazprom neft to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of an Issuer Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided hereon, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification and Waiver; Substitution; Exercise of Powers: Appointment and Removal of Trustee

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Written Resolutions

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of two-thirds in nominal amount of the Notes outstanding at the time shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.3 Modification and Waiver

As provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the

waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by Gazprom neft of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class), all subject as further provided in the Trust Deed and provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any request given by the holders of 25 per cent. in aggregate principal amount of the Notes or any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee otherwise determines, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.4 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of Gazprom neft shall, having obtained the consent of Gazprom neft (if such substitution is not to be made at the request of Gazprom neft) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such requirements as set out in the Trust Deed, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14.

10.5 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, Gazprom neft or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.6 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee (being a Trust Corporation) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee (being a Trust Corporation) in office after such resignation.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its

costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or Gazprom neft and any entity related to the Issuer and/or Gazprom neft without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Gazprom neft in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified and/or secured and/or prefunded to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against and/or security for and/or prefunding, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the relevant Registrar on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the rules of that exchange so require, published on the Regulatory News Service via the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15 Further Issues

The Issuer may from time to time, with the consent of Gazprom neft, but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single Series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other Series in certain

circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single Series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with Gazprom neft on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, these Conditions, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.

GPN CAPITAL S.A.

The Issuer was incorporated as a *société anonyme* on 10 April 2012 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have been published in the Mémorial, Recueil des Sociétés et Associations on 6 June 2012. It is registered with the Register of Commerce and Companies, Luxembourg under number B 168.434.

The Issuer's registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, and its telephone number is +352 421 22 462.

The Issuer is a special purpose vehicle whose subscribed share capital amounts to € 31,000 divided into 310 registered shares with a par value of € 100 each. All of the shares are fully paid up. All of the shares are owned by Stichting GPN Capital.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon giving not less than 45 days prior notice in writing, provided that any such termination shall not be effective until a replacement reasonably acceptable to the Issuer has been suggested by Deutsche Bank Luxembourg S.A.

Principal Activities

The corporate objects of the Issuer, as described in Article 3 of its Articles of Incorporation, are:

- the issue of Notes and other debt securities under the Programme for the purpose of financing Loans to the Company;
- the granting of Loans to the Company;
- the granting of Security Interests over its assets to the Trustee in relation to the issuance of Notes; and
- the making of deposits at banks or with other depositaries.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate objectives except for any banking activities.

In general the Issuer may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

Board of Directors

The Issuer has a board of directors, currently consisting of 3 directors. The directors at present are:

- Heike Kubica, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Anja Lakoudi, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Daniel Bley, employee, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Financial Statements

Between 10 April 2012 (the date of the Issuer's incorporation) and the date of this Base Prospectus, the Issuer has not prepared any financial statements. The Issuer's fiscal year will end on 31 December of each year. There has been no material adverse change in the capitalisation of the Issuer since its incorporation.

PricewaterhouseCoopers, Société coopérative, having its registered office at 400, Route d'Esch, B.P. 1443, L-1014, Luxembourg has been appointed to act as approved independent auditor ("*réviseur d'entreprises agréé*") of the Issuer. PricewaterhouseCoopers, Société coopérative, is a member of the Luxembourg body of registered auditors ("*Institut des Réviseurs d'Entreprises*").

The Issuer will be fully consolidated into the Group's consolidated financial statements prepared in accordance with IFRS.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes that is within the United States or that is a U.S. person (or purchasers for the account or benefit of a U.S. person), by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “QIB”) that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a “QP”), (b) not a broker-dealer that owns and invests on a discretionary basis less than USD 25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than USD 200,000 (or its equivalent in any other currency) and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
- (4) It understands that the Issuer has the power under the Trust Deed and Condition 6.4 to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “QIB”) THAT IS ALSO A QUALIFIED PURCHASER (A “QP”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) PRINCIPAL AMOUNT OF NOTES (D) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (E) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (F) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES; (G) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS, WILL HOLD

AND TRANSFER AT LEAST U.S.\$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) IN PRINCIPAL AMOUNT OF NOTES AND (H) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S. \$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WHO IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S UNDER THE SECURITIES ACT OR (B) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE, OR WILL NOT BE ACTING ON BEHALF OF, AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, ("ERISA") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF

ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE (EACH, A “BENEFIT PLAN INVESTOR”), (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTY AND COVENANTS FROM THAT PERSON. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS RULE 144A DEFINITIVE NOTE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS RULE 144A DEFINITIVE NOTE, OR ANY INTEREST HEREIN, IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED HEREIN.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT, OR ANY ACCOUNT FOR WHICH IT PURCHASED SUCH NOTES, IS A BENEFIT PLAN INVESTOR, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A NON-BENEFIT PLAN INVESTOR OR (B) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHO IS A BENEFIT PLAN INVESTOR.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND A QP.

- (6) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and the purchase and holding of the Notes or any interest therein will not result in the assets of the Issuer being considered plan assets of such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.
- (7) It understands that the Issuer has the power under the Trust Deed and Condition 6.3 to compel any beneficial owner of Rule 144A Notes that is a Benefit Plan Investor (or purchased such Rule 144A Notes for the account of a Benefit Plan Investor) to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a Benefit Plan Investor.
- (8) It acknowledges that the Issuer, the Company, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Company and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it

represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

- (9) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Trust Deed) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States (other than U.S. persons) and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period (as defined below), by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Company or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or jurisdiction of the United States.
- (3) It acknowledges that the Issuer, the Company, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Company and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (4) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note. Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Trust Deed) as to compliance with applicable securities laws.
- (5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and the purchase and holding of the Notes or any interest therein will not result in the assets of the Issuer being considered plan assets of such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.
- (6) It understands that the Issuer has the power under the Trust Deed and Condition 6.3 to compel any beneficial owner of Regulation S Notes that is a Benefit Plan Investor (or purchased such Regulation S Notes for the account of a Benefit Plan Investor) to sell its interest in the Regulation S Notes, or may sell such interest on behalf of such owner. The Issuer has the right

to refuse to honor the transfer of an interest in the Regulation S Notes to a Benefit Plan Investor.

- (7) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

THIS NOTE AND THE LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE ISSUER HAS NOT AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THIS NOTE AND THE LOAN IN RESPECT HEREOF MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND IN CIRCUMSTANCES THAT WOULD NOT CAUSE THE ISSUER TO BE REQUIRED TO REGISTER UNDER THE INVESTMENT COMPANY ACT.

CLEARING AND SETTLEMENT

The Global Notes

Each Series of Notes will be evidenced on issue by (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part (the “distribution compliance period”), it will not offer, sell, pledge or otherwise transfer such interest except to a person (a) who is a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) who is a person who takes delivery in the form of an interest in a Rule 144A Global Note (as applicable). See “*Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—*Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions”. Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

So long as the Notes are represented by a Global Note and the relevant clearing systems(s) so permit, the Notes shall be tradable only in principal amounts of at least the minimum denomination specified in the relevant Final Terms or Series Prospectus (or if more than one, the lowest minimum denomination).

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7.4 of the Terms and Conditions of the Notes.

All payments in respect of Notes represented by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.

Notices. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed and admitted to trading on the Irish

Stock Exchange and the Guidelines for Asset Backed Securities (the “Guidelines”) so require, notices will also be filed at the Companies Announcements Office of the Irish Stock Exchange.

Meetings. The holder of each Global Note will, at a meeting of Noteholders, be treated as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

Trustee’s Powers. In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Redemption at the Option of the Issuer. Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions.

Redemption at the Option of Noteholders. Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (a) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (b) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (failing which the Company) (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other

information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions”.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the applicable exemption from registration under the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book-Entry Ownership—Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants” and together with Direct Participants, “Participants”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the law of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Notes*”, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard due Roi Albert II, B-12201 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian (the “Custodian”) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system’s records. The ownership interest of each actual purchaser of each such Note (the “Beneficial Owner”) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Notes.

Trading Between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Trust Deed), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear and Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Trust Deed), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices,

and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the Dealer Agreement, the Notes will be offered from time to time by the Issuer to such Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Company and the Issuer has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Securities and the corresponding Loans have not been and will not be registered under the Securities Act and the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons, except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence and the paragraph immediately below and not otherwise defined therein have the meanings given to them by Regulation S under the Securities Act.

Each Relevant Dealer (as defined the Dealer Agreement) severally and not jointly nor jointly and severally represents that it has offered and sold the Securities, and agrees that it will offer and sell any Securities (i) as part of their distribution at any time and (ii) otherwise until 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of a such Series of Notes sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Relevant Dealer when all such Relevant Dealers have so certified), only in accordance with Rule 903 of Regulation S or Rule 144A as set forth below. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Relevant Dealer severally and not jointly nor jointly and severally agrees that, at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the “**Securities Act**”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of a such Series of Notes sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Relevant Dealer when all such Relevant Dealers have so certified), except in either case in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act to a person that the seller reasonably believes is a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act) that is also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940). Terms used above which are not otherwise defined have the meanings given to them by Regulation S under the Securities Act.”

Each Relevant Dealer severally and not jointly nor jointly and severally represents and agrees that neither it nor any of its affiliates (as defined in Rule 501 (b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any form of “general solicitation” or “general advertising” (within the meaning of Regulation D) in connection with any offer and sale of the Securities in the United States.

Each Relevant Dealer may, through its respective U.S. registered broker-dealer affiliates, arrange for the offer and resale of the Securities in the United States only to QIBs that are QPs and in accordance with Rule 144A.

Each Relevant Dealer severally and not jointly nor jointly and severally represents and agrees that it is a QIB that is a QP and that it has offered and sold and will offer and sell the Securities in the United States only to persons whom it reasonably believes are QIBs and QPs who can represent that (A) they are QPs who are QIBs within the meaning of Rule 144A; (B) they are not broker-dealers who own and invest on a discretionary basis less than USD 25 million in securities of unaffiliated issuers; (C) they are not a participant-directed employee plan, such as a plan under subsection 401(k) of the U.S Internal Revenue Code; (D) they are acting for their own account, or the account of another QIB who is a QP; (E) they are not formed for the purpose of investing in the Issuer; (F) each account for which they are purchasing will hold and transfer at least USD 200,000 in principal amount of Notes at any time; (G) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (H) they will provide notice of the transfer restrictions set forth in the Prospectus to any subsequent transferees.

Each Relevant Dealer severally and not jointly nor jointly and severally represents that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of Securities, except with its affiliates or with the prior written consent of the Issuer and Company.

United Kingdom

Each Relevant Dealer represents to and agrees with the Issuer, Company and each other Relevant Dealer that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Relevant Dealers agrees that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been or will be taken in any jurisdiction by the Issuer or any Relevant Dealer that would permit a public offering of the Notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Relevant Dealer undertakes to the Issuer and the Company that it will, to the best of its knowledge and belief (having made such inquiries as is reasonable in each such country and jurisdiction), comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

Each Relevant Dealer will also ensure that no obligations are imposed on the Company or the Issuer in any such jurisdiction as a result of any of the foregoing actions. Neither the Company nor the Issuer will have any responsibility for, and each Relevant Dealer will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Notes under the laws and directives in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

No Relevant Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in any prospectus or any amendment or supplement to it

and/or replacement thereof and all other documents and information supplied to it pursuant to Clause 4.2 of the Dealer Agreement.

REGULATION OF THE RUSSIAN OIL INDUSTRY

Industry Overview

The Russian oil industry is a key source of growth for the Russian economy. According to BP's Statistical Review of World Energy, Russia was the largest crude oil producing country in 2010 and, as of 31 December 2011, accounted for approximately 5.6% of the total proved world oil reserves.

After the dissolution of the Soviet Union, the oil industry was restructured into several regional enterprises. The privatisation of the Russian oil industry was launched by the Decree of the President of the Russian Federation No. 1403 of 17 November 1992 "On the Specifics of Privatisation and Reorganisation into Joint Stock Companies of the State Enterprises, of Industrial and Scientific Units in the Oil and Oil Refining Industries" (as amended), which established the federal framework for privatising Russian oil companies and was the basis for the transformation of numerous state-owned exploration, production, refining and distribution enterprises into several major vertically-integrated companies. At the first stage of this privatisation, state oil enterprises were reorganised into joint-stock companies. The privatisation of the Russian oil industry continued from 1993-1997. During these years, Russia's first major private oil companies (LUKOIL, Surgutneftegas, YUKOS, Sibneft, TNK and Sidanco) emerged.

Applicable Laws, Rules and Regulations

The Russian oil industry regulation is still evolving, with federal, regional and local authorities each developing applicable rules and regulations.

The regulation of legal and economic relations in the Russian oil industry is generally based on the Constitution of the Russian Federation, the Civil Code of the Russian Federation, the Subsoil Law, the Federal Law No. 147-FZ of 17 August 1995 "On Natural Monopolies" (as amended), the Federal Law No. 187-FZ of 30 November 1995 "On the Continental Shelf of the Russian Federation" (as amended) (the "Continental Shelf Law"), the Federal Law No. 191-FZ of 17 December 1998 "On the Exclusive Economic Zone of the Russian Federation" (as amended) (the "EEZ Law") and the Federal Law No. 57-FZ of 29 April 2008 "On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defence and Security of the Russian Federation" (as amended) that regulates the access of foreign investors to certain sectors of the Russian economy, including the development of major oil and gas fields and other mineral deposits that fall under the category of "strategic reserves" (the "Strategic Investments Law"). There are also numerous regulations issued by the Russian Government through its ministries and agencies as well as by regional and local authorities that regulate certain aspects of oil industry in Russia.

Regulatory Authorities

At the federal level, regulatory supervision over the oil industry is divided primarily between the Russian Government, the Ministry of Finance, the Ministry of Economic Development, the Ministry of Industry and Trade, the Ministry of Energy and the MNR. The Russian Government and these federal ministries are generally responsible for the development of governmental policy in the oil industry (including tax and tariff policy) and regulation in the area of exploration, use and protection of natural resources and environment.

The federal ministries in Russia are not, however, responsible for the compliance control or management of the state property and provision of state services, which are generally directed by the federal services and the federal agencies, respectively. The federal services and agencies that regulate the oil industry include, *inter alia*: Rosnedra, Rosprirodnadzor, the Federal Service for Environmental, Technological and Nuclear Supervision ("Rostekhnadzor"), the Federal Anti-monopoly Service (the "FAS") and the FTS.

Rosnedra is responsible for subsoil licensing, including the issuance, suspension and termination of licences, disposing of state geological information and taking part in the approval of design documentation for subsoil use.

Rosprirodnadzor oversees compliance with the terms and conditions of subsoil licences and certain aspects of environmental legislation, controls geological exploration and the rational use and protection of the subsoil and reviews certain environmental documentation.

Rostekhnadzor oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures in connection with the installation, deployment and operation of technical devices and machinery which the Company uses in its activities and the procedure for maintaining production and technological processes (including by means of issuing licences for certain industrial activities and activities relating to safety and environmental protection).

The FAS is authorised to pursue state policy aimed at promoting the development of the commodity markets and competition, at exercising state control over the observance of anti-monopoly legislation and at preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. The FAS, *inter*

alia, oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies.

The FTS is a regulatory body in the sphere of state regulation of prices (tariffs) on goods (services). The FTS, *inter alia*, addresses issues related to the tariffs for crude oil and petroleum products transportation by pipelines.

Regional and local authorities exercise certain taxation powers, administer land-use regulations and oversee compliance with environmental and worker safety rules. Local and regional authorities also exercise some control over the use of the national and local pipeline grid through their jurisdictions to regulate land use and environmental matters.

Strategic Investments

Strategic Companies

The Strategic Investments Law establishes certain restrictions and special procedures for foreign investments in sectors of strategic importance to Russian national defence and security by imposing restrictions on the acquisition of control over Russian registered commercial entities that operate in such sectors (“Strategic Companies”) and by establishing an approval procedure for the acquisition of such control. In particular, it sets forth a general prohibition on transactions resulting in the acquisition of control over Strategic Companies by foreign states and international organisations or an organisation controlled by any of these (“Foreign Sovereign Acquirers”) and requires other foreign investors to obtain consent of the Governmental Commission for Control over Foreign Investments in the Russian Federation (the “Commission”) for the acquisition of control over Strategic Companies.

Recent amendments to the Strategic Investments Law introduced a number of exemptions from the clearance requirements. In particular, they provide that the Strategic Investments Law shall not apply to transactions concerning Strategic Companies made between entities under control of the Russian Federation or citizens of the Russian Federation who are its tax residents, except for individuals with dual citizenship, i.e., if both the seller and the buyer are ultimately controlled by the Russian Federation or such Russian citizens. Furthermore, these amendments exempt from the clearance requirement transactions by international financial organisations established in accordance with international treaties to which the Russian Federation is a party and international financial organisations with which the Russian Federation entered into a treaty. The Russian Government publishes the list of such organisations, which currently includes, *inter alia*, the International Bank for Reconstruction and Development (“IBRD”), the European Bank for Reconstruction and Development (“EBRD”) and the International Finance Corporation (“IFC”). The exemption does not affect, however, the aforementioned general prohibition under the Strategic Investments Law for Foreign Sovereign Acquirers to acquire control over the Strategic Companies.

Strategic Deposits

The Strategic Investments Law defines a number of activities that are considered to be strategically important for Russia, including geological survey and/or exploration and production of mineral resources within subsoil plots of “federal significance” (or “Strategic Deposits”). The criteria for determining whether a subsoil mineral deposit is a Strategic Deposit are set in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that contain 70 million tons or more of recoverable oil reserves and/or 50 billion cubic metres or more of gas reserves; and/or (ii) that are located in internal waters, territorial waters or on the continental shelf of the Russian Federation; and/or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits has been published in an official publication of the Russian Federation. Once a subsoil deposit has been included in such list, it will retain its status as a deposit of federal significance, notwithstanding any changes resulting from amendments of the Subsoil Law.

Strategic Deposits may be developed only by legal entities established in the Russian Federation. Strategic Deposits located on or extending into the continental shelf of the Russian Federation may be developed only by Russian legal entities (i) which have no less than five years’ experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval Requirements

The Strategic Investments Law generally requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Companies by a company that is under foreign control. The Strategic Investments Law imposes a much stricter definition of control (and therefore threshold for approval) in relation to Strategic Companies conducting geological study and/or exploration and production of hydrocarbons/minerals in Strategic Deposits (“Strategic Subsoil Users”) than is required for other types of Strategic Companies. A person is deemed to control a Strategic Subsoil User if such person: (i) has (direct or indirect) control over 25% or more of the votes represented by the shares in the capital of the Strategic Subsoil User; (ii) has the right (pursuant to an agreement or otherwise) to determine decisions of the Strategic Subsoil User, including the terms

of its business operations; (iii) has the right to appoint the Strategic Subsoil User's general director or 25% or more of the members of its management board; (iv) has an unconditional ability to procure the election of 25% or more of the members of the Strategic Subsoil User's board of directors or other management body; or (v) acts as a management company for the Strategic Subsoil User.

Moreover, the Strategic Investments Law requires prior approval of acquisitions by a Foreign Sovereign Acquirer of direct or indirect control over more than 5% of the votes represented by the shares/participatory interests of the Strategic Subsoil User or the ability to block decisions of the management bodies of such entity.

At the same time, the Strategic Investments Law exempts from the regime foreign investments in the Strategic Subsoil Users, 50% or more votes in which are directly or indirectly controlled by the Russian Federation. The exemption does not cover rules regarding foreign investment in the Strategic Subsoil Users by Foreign Sovereign Acquirers.

For restrictions regarding licensing of the Strategic Deposits, see “—*Licensing—Restrictions Related to Strategic Deposits*”.

Licensing

Federal Law No. 99-FZ of 4 May 2011 “On Licensing of Certain Types of Activities” (as amended) and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of the subsoil, see “—*Subsoil Licensing*”;
- discharge of pollutants into the environment;
- collection, use, detoxification, transportation and placement of hazardous waste;
- storage, use, realisation and utilisation of explosive materials of industrial use;
- use (operation) of explosive/inflammable or chemically hazardous facilities; and
- fire extinguishing.

Licensing regulations and the terms of its licences and permits require the Company to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil Licensing

In Russia, geological survey, exploration and production of subsoil resources requires a subsoil licence, as well as the right (through ownership, lease or other right) to use the land plot to which such licenced field relates.

A subsoil licence holder has the right to develop and sell crude oil and natural gas extracted from the licence area. The Russian Federation, however, retains ownership of all subsoil resources; the licence holder only has rights with respect to the crude oil and natural gas once it is extracted.

The primary law regulating subsoil licensing is the Subsoil Law, and the regulations adopted thereunder, which set out the regime for granting licences for geological survey, exploration and production of subsoil resources and subsoil use.

There are several types of licences applicable to the geological survey, exploration and production of subsoil resources, including:

- licences for geological survey, including prospecting and evaluation of deposits within a licence area (which is defined in terms of latitude, longitude and depth);
- licences for exploration and production of subsoil resources within a licence area; and
- combined licences for geological survey, exploration and production of subsoil resources within a licence area.

Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding geological survey and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Production licences and combined geological survey, exploration and production licences are currently awarded by tender or auction conducted by special commissions of Rosnedra. While such auction or tender commission may include a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. At an auction, the success

of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover subsoil deposits through exploration works conducted at their own expense.

Currently, geological survey licences are generally awarded without a tender or auction by the special commission formed by Rosnedra (or its regional department), which includes the participation of representatives of the relevant regional authority, unless there is more than one application with respect to the same deposit, in which case Rosnedra sets up an auction for a combined licence (geological survey, exploration and production) for the deposit. The MNR maintains an official list of deposits in respect of which exploration licences can be issued. If the deposit is listed, an application can be made to Rosnedra for an exploration licence with respect to such deposit. If only one application is received with respect to an exploration licence, the special commission considers the application and takes a decision as to whether to award the licence.

Restrictions Related to Strategic Deposits

The Russian Government may restrict participation in any auction or tender for the right of subsoil use in a Strategic Deposit with respect to Russian entities in which foreign investors directly or indirectly hold shares. Such restrictions are not limited to the criteria for control established by the Strategic Investment Law, i.e., any amount of equity interest owned by foreign investors in such entities may be the ground for such restrictions.

In respect of a Strategic Deposit, exploration and production or combined (geological survey, exploration and production) licences may only be issued. Such licences are issued pursuant to a decision of the Russian Government based either on the results of a tender or auction, or upon the discovery of a deposit that becomes a Strategic Deposit. Under a combined licence, exploration and production operations in a Strategic Deposit may only commence after the geological survey operations are fully completed, and commencement of exploration and production in the Strategic Deposit is authorised by a Russian Government decision. This is different from the general rule (applicable to other deposits) that exploration and production under a combined licence may be conducted simultaneously with geological survey.

Geological survey licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological survey a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the advanced exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor directly or indirectly has an interest, and a threat to the national defence and security of Russia is deemed to have arisen. If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence.

If issuance of the exploration and production licence is denied, or a combined licence is terminated, the affected subsoil user is entitled to reimbursement of certain costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

The provisions relating to discoveries of Strategic Deposits under a combined licence only apply to subsoil deposits discovered after 7 May 2008; they do not apply to subsoil deposits if the geological survey was completed and advanced exploration and extraction of minerals from such deposits began before 7 May 2008. Further, the rules regarding the categories of persons that may be eligible to operate in the Strategic Deposits do not apply to the licences for deposits that were issued prior to 7 May 2008.

Term of Licence

The term of a licence is set forth in the licence. Prior to January 2000, geological survey licences had a maximum term of five years, exploration and production licences a maximum term of 20 years and combined geological survey, exploration and production licences a maximum term of 25 years. Currently the maximum geological survey term is five years or ten years (if geological survey works are carried out on subsoil plots located within internal sea waters, territorial sea and the continental shelf of the Russian Federation), while the exploration and production term may be as long as is required (as shown in the feasibility study) for rational full exploitation of the deposit. In practice, exploration and production licences are still generally issued for 20 years. In addition, the Subsoil Law no longer expressly provides for a combined geological survey/exploration and production term; however, in practice, the subsoil use licensing authorities still issue combined licences for 25 years. These amendments did not affect the terms of licences issued prior to January 2000, but permitted licence holders to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided the licence holder complies with the licence terms.

The Subsoil Law permits a subsoil licence holder to request an extension of an exploration and production licence in order to complete the production in the field covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the

relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

Licence Agreement

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licence holder. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, which may, *inter alia*, include:

- bringing the field into production by a certain date;
- extracting annually an agreed target amount of reserves;
- conducting agreed drilling and other exploratory and development activities;
- protecting the environment in the licence area from damage;
- providing geological information and data to the relevant authorities;
- submitting formal progress reports to regional authorities on a regular basis.

Transfer

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or, in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. Under the amendments of the Subsoil Law of October 2006, the circumstances under which licences may be transferred were extended to cover (i) transfer from a parent company to its subsidiary, (ii) transfer from a subsidiary to its parent company and (iii) transfer between two subsidiaries of a common parent company where such transfer is effected at the direction of such parent company. The new transferee must be a company incorporated under the laws of the Russian Federation, comply with the statutory requirements of a subsoil user and other requirements imposed by the conditions of the tender, auction or licence under which the right of usage was granted and must have received all assets necessary for conducting activities, specified in the licence, including the objects of infrastructure.

Penalties and Termination

If the subsoil licence holder fails to fulfil the licence conditions (i.e., terms of the licence agreement), the licence holder may be fined or the licence may be terminated upon notice by governmental authorities. However, if a subsoil licence holder cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, though such amendments may be denied.

Governmental authorities, such as Rosprirodnadzor and Rostekhnadzor, or their regional divisions, oversee compliance of subsoil licence users with the licence terms and applicable legislation.

The Subsoil Law and other Russian legislation contain extensive provisions for licence limitation, suspension or termination. A licence holder can be fined for failing to comply with a subsoil licence and a subsoil licence can be revoked, suspended or limited in certain circumstances, including, but not limited, to the following:

- the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- breach or violation by the licence holder of material terms and conditions of the licence;
- repeated violation by the licence holder of the subsoil regulations;
- failure by the licence holder to commence operations within a required period of time or to produce required volumes, both as specified in the licence;
- the occurrence of an emergency situation;
- liquidation of the licence holder; and
- non-submission of reporting data in accordance with the legislation.

Rostekhnadzor and Rosprirodnadzor undertake periodic reviews for ensuring compliance by subsoil licence holders for ensuring compliance with the terms of their licences and applicable legislation. Although the Subsoil Law, as well as administrative law regulations, does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction, underproduction or failure

to meet obligations to finance a project (as compared to the levels established in the licence agreement) would also be likely to constitute violations of material licence terms.

In addition, under the Subsoil Law, a licence automatically terminates upon such events as may be stipulated in the licence or in the event of a transfer of the licence in breach of the procedure set out in the Subsoil Law.

If events or circumstances that have caused suspension or limitation of the right to use subsoil are eliminated, this right may be fully restored and the term of suspension shall not be included in the general term of the licence, provided there is no fault on the part of the licence holder.

In the case of expiration of the term of a licence or early termination of subsoil use, all crude oil facilities in the relevant licensing area, including underground facilities, must be removed or properly abandoned. In accordance with removal and abandonment regulations, all exploration, production and storage facilities must be maintained at a level that is safe for the population, the environment, buildings and other facilities. Abandonment procedures must also secure the conservation of the relevant oil field, extraction, production and storage facilities.

Payments for Subsoil Use

The Subsoil Law provides for certain payments related to the use of subsoil. The amounts for such payments are generally set forth in the relevant licence by the federal and regional authorities within a range of minimum and maximum amounts established by the Subsoil Law.

In addition to the payments provided for by the Subsoil Law, oil production companies pay MET and other obligatory payments set forth by Russian legislation, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation*”.

Continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in areas on the continental shelf and within the exclusive economic zone (generally within a 200 nautical mile limit from the baseline from which the width of territorial sea is measured) are primarily governed by the Subsoil Law, the Continental Shelf Law and the EEZ Law. Activities that take place on the continental shelf and within the exclusive economic zone including the drilling and laying of pipelines and the operation of oil extraction facilities, fall under the jurisdiction of not only Rosnedra, Rostekhnadzor and Rosprirodnadzor, but also several other governing entities, including the Federal Security Service and the Federal Fishery Agency.

The Subsoil Law and the Continental Shelf Law provide for a set of specific rules relating to the governance of operations on the continental shelf. The most important is the restriction on the continental shelf operations participants, according to which only companies incorporated in Russia, having no less than five years of experience of work on the continental shelf and in which the Russian Federation directly or indirectly controls more than 50% of shares, may be admitted to subsoil activities on the continental shelf. Private or foreign companies may be engaged in operations on the continental shelf only through a partnership with an admitted legal entity. The continental shelf subsoil licences are issued without a tender or auction and may not be further transferred to other legal entities.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, molluscs, and crustaceans, as well as minerals and tides. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, protection and conservation of ice-bound and other specifically designated areas. Users of the exclusive economic zone make certain payments in accordance with Russian legislation.

Land Use Permits and Ground Allotments

Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Subsoil licences do not grant any surface rights; therefore, such rights must be obtained separately. Land use rights are generally obtained for land plots on which real property is located and for those parts of the licence area that are actually in use.

Under the Land Code of the Russian Federation, companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities that can sell, lease or grant other use rights to the land to third parties through public auctions or tenders or through private negotiations. Under the Land Code of the Russian Federation, the land that is in state and municipal ownership and required for the subsoil use is leased to subsoil users without holding an auction or a tender.

Land rights are typically granted for specified areas, upon the submission of standardised reports, technical studies, pre-feasibility studies, budgets and impact statements. Documents which grant land rights generally

require that the holder make lease payments and return the land plot to a condition sufficient for future use, at the licence holder's expense, upon the expiry of the permit.

Companies having a right of perpetual use of land, which was obtained prior to the enactment of the Land Code of the Russian Federation, are required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land.

Oil and Petroleum Products Pipeline Transportation Regime

Transneft and its subsidiary Transnefteprodukt control, respectively, the trunk pipelines for the transportation of crude oil and petroleum products in Russia. Both companies are state controlled monopolies.

Transportation of crude oil is based on contracts with Transneft, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's crude oil with the crude oil of other producers. Transneft establishes and collects on prepayment terms a rouble tariff on domestic shipments and an additional tariff on exports that is payable in roubles but is linked to hard currency exchange rates. The FTS is authorised to periodically review and set the tariff rates applicable for each segment of the pipeline and for the entire pipeline. The Druzhba crude oil pipeline, which is operated by Transneft in Russia and extends from central Russia to markets in the Czech Republic, Germany, Hungary, Poland and Slovakia, has a throughput capacity of approximately 1.2 to 1.4 million barrels of crude oil per day and currently accommodates approximately one-fourth of total Russian exports.

Currently, the allocation of pipeline and terminal access rights is overseen by the Ministry of Energy, which approves quarterly schedules that, *inter alia*, detail the precise volumes of crude oil that each crude oil producer can pump through the Transneft system. These quarterly schedules provide certain stability in the export regime for Russian oil companies. Once the access rights are allocated, crude oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have limited flexibility in altering delivery routes. Crude oil producers are generally allowed to assign their access rights to third parties.

In 2001, the Russian Government began reforming the system of pipeline allocation and terminal access rights. Since September 2001, pipeline and terminal access rights have been distributed among crude oil producers and their parent companies in proportion to the volumes of crude oil produced and delivered to the Transneft pipeline system in prior periods (not only in proportion to the crude oil production volumes).

Generally, Transneft is not able to transport individual batches of crude oil, which results in the blending of crude oil of differing qualities. Transneft does not currently operate a system whereby companies, shipping heavy and sour (high sulphur content) crude oil compensate the shippers of higher quality crude oil for the deterioration in crude quality due to blending. Although the introduction of a blending compensation system, often referred to as a "quality bank", has been discussed between Transneft and the Russian Government, these proposals have been generally met with resistance by producers with reserves of a lower quality and regional authorities where such reserves are located.

Petroleum products are transported by similar means as crude oil, including railways, sea transportation and specially designed pipelines for petroleum products. The majority of petroleum products, however, are transported by railways. The regime for the transportation of petroleum products is generally similar to the regime for the transportation of crude oil. In particular, the rules provide for equal access to petroleum products pipelines, which currently transport primarily petrol and diesel fuel. Deliveries through Transnefteprodukt are based on the applications of oil companies in proportion to Transnefteprodukt pipeline capacity. The FTS sets the upper limits of the tariffs for the use of Transnefteprodukt pipelines as well. Transnefteprodukt establishes tariffs for the transportation of petroleum products within the limits established by the FTS.

Export of Petroleum Products

In the past, the Russian Government imposed seasonal limitations on the export of certain petroleum products (such as diesel fuel, fuel oil, petrol and jet fuel). No such restrictions are in effect at present. To protect national economic interests, the Russian Government currently implements export duties on petroleum products. The amounts of export duties vary depending on existing crude oil prices, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation—Export Customs duty on Crude Oil*" and *Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation—Export Customs duty on Petroleum Products*".

Environmental Protection

Petroleum operations are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set various standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions. Issues of environmental protection in Russia

are regulated primarily by the Federal Law No. 7-FZ of 10 January 2002 “On Environmental Protection” (as amended) (the “Environmental Protection Law”), as well as by a number of other federal laws and regulations.

Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. The MNR has established standards relating to the permissible impact on the environment and resource extraction, while Rostekhnadzor has set limits for the emission and disposal of substances as well as for waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in Decree of the Russian Government No. 344 of 12 June 2003 “On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutant Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste” (as amended) and certain other regulations, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits, whereby the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Natural resources development issues are subject to periodic environmental evaluation. While these evaluations have in the past generally not resulted in substantial limitations on natural resources exploration and development activities, they are expected to become increasingly strict in the future. Currently, conducting operations that may cause damage to the environment without state ecological expertise may result in negative consequences. Thus, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. The limitation period for compensation claims regarding damages caused by pollution is 20 years.

Oil Spills and Soil Contamination

Any contamination of soil and ground water resulting from oil spills may create a number of obligations on the responsible company.

On 21 August 2000, the Russian Government approved the Basic Requirements for the Plans of Prevention and Clean-up of Oil Spills, which obliges companies to develop plans for the prevention and clean-up of oil spills. Such plans are approved by a number of Russian authorities. A further resolution of the Russian Government (No. 240 of 15 April 2002 “On approval of the Rules for Organisation of the Prevention and Liquidation of the Spills of Oil and Petroleum Products”) requires crude oil producing, transportation, refinery and storage companies to have their own dedicated human, technical and financial resources to clean-up oil spills as and when they occur.

In addition, the Environmental Protection Law and the Land Code of the Russian Federation contain provisions relating to the payment of compensation for damage resulting from the contamination of the land. According to Article 14 of the Land Code of the Russian Federation, if a company’s activities cause chemical contamination of the land, making it impossible to use such land for a “designated purpose”, or reduce its quality generally, the relevant company must pay compensation to the owner of the land in respect of such damage, any agricultural losses and costs of cleaning up the land so that it can again be used for its “designated purpose”.

Companies that damage the fertile soil layer of land during construction or other activities are required to restore the land at the end of their activities at their own expense and in accordance with restoration programmes approved by environmental experts, pursuant to the Resolution of the Government of the Russian Federation No. 140 of 23 February 1994 “On Restoration of Land and Removal, Storage and Use of the Fertile Soil Layer”.

According to the Water Code of the Russian Federation, water users are required to take measures to prevent and clean-up accidents that may affect the condition of rivers, lakes or other bodies of water. Facilities for the transportation and storage of crude oil cannot operate without devices for the prevention of contamination of rivers, lakes or other bodies of water and for the control and detection of oil spills.

Gas Flaring

Russian oil producers flare a portion of the associated gas produced in their fields. Consequently, such oil producers are subject to state-imposed charges for the gas flared in accordance with the payment regime for emissions within the statutory and individually approved limits. Under Resolution of the Russian Government

No. 7 of 8 January 2009 “On Measures Related to Stimulation of Reduction of the Atmosphere Contamination by Products of Flaring of the Associated Gas at Flare Devices”, starting from 1 January 2012, the overall limit for flaring is 5% of the associated gas produced in the relevant field. Any associated gas flared in excess of this limit will result in significantly increased emission charges.

Health and Safety

The principal law regulating industrial safety is the Federal Law No. 116-FZ of 21 July 1997 “On Industrial Safety of Hazardous Industrial Facilities” (as amended) (the “Safety Law”). The Safety Law applies, in particular, to industrial facilities and sites where certain activities related to exploration and production of crude oil are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for certain operations that the Company conducts.

The Company’s activities also include operation of certain hazardous industrial sites regulated by Rostekhnadzor. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licenced expert and approved by Rostekhnadzor. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with emergence services and organisations or create their own emergency services in certain cases, conduct personnel training programmes, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular regulated industrial site and the measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, is required for the issuance of a licence permitting the operation of a dangerous industrial facility.

In the case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place bears all costs of an investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company’s compliance with safety rules. Rostekhnadzor may suspend or terminate a company’s operations or impose administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that harms the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages and, in certain cases, its activity may be suspended.

Anti-monopoly Regulation

The anti-monopoly legislation of the Russian Federation is based on the Federal Law No. 135-FZ of 26 July 2006 “On Protection of Competition” (the “Competition Law”) (as amended) and other federal laws and regulations governing anti-monopoly issues.

The anti-monopoly legislation of the Russian Federation governs relations which are aimed at the protection of competition, including where certain transactions (activities) are executed (performed) outside Russia but may influence competition on the Russian market and which involve, *inter alia*, Russian legal entities, foreign legal entities, state agencies of the Russian Federation and local government authorities.

The compliance with anti-monopoly legislation in Russia is monitored by the FAS. Russian legislation grants the FAS ample powers necessary for the performance of its functions and dealing with violations of anti-monopoly legislation. The FAS is, *inter alia*, authorised (i) to initiate or examine cases regarding violation of anti-monopoly legislation; (ii) to issue binding orders to business entities in cases specified in the Competition Law; (iii) to hold commercial and non-commercial organisations and their officers to account for violating anti-monopoly laws in the instances and by the procedure that is established by Russian legislation; and (iv) to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including, *inter alia*, invalidating in full or in part any agreements that do not correspond to the anti-monopoly legislation.

In general, anti-monopoly regulation comprises certain measures aimed at prevention and termination of monopolistic activity and control over the economic concentration. A number of legislative acts have been

amended recently to tighten liability for monopolistic activities. In particular, the amendments increased the fines which may be imposed on companies performing monopolistic activities and officers of such companies.

Anti-monopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of conclusion of anticompetitive agreements, exercise of anticompetitive coordinated actions, unfair competition, and abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if: (a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50%, *unless* it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share on a particular commodity market which is less than 50% but more than 35% and the dominant position of the entity (or the group of entities) is specifically established by FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market; and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market to new competitors); or (c) the entity has a market share on a particular market which is less than 35% but exceeds the market shares of other entities operating on the market, if the market meets the criteria specifically listed in the Competition Law and the dominant position of such entity was established by FAS based on the analysis of the competitive environment on a particular market.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively have a dominant position. In particular, each of three business entities collectively having a market share exceeding 50%, or each of five business entities collectively having a market share exceeding 70%, provided that the market share of each entity in any case exceeds 8%, may be considered as having dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors into the particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; and (iv) the demand for the commodity is price-inelastic.

Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position on the relevant commodity market which represents the natural monopoly ("natural monopolies" are created by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through; *inter alia*, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation which results in price increases; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or technologically unjustified reducing or terminating the production of certain goods; (v) economically or technologically unjustified refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement; (vi) economically or technologically unjustified fixing various prices (tariffs) for the same goods if the federal laws do not provide otherwise; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

If a company enjoying a dominant position systematically carries out any monopolistic activities, then a court, upon a suit being brought by the FAS, may decide that such company is a subject to forcible division or spin-off.

Anti-monopoly control over economic concentration involves control (a) over mergers, accessions, and incorporation of companies, and (b) over acquisitions (i) of more than 25%, 50% or 75% of the shares of Russian joint-stock companies (or more than 1/3, 1/2 or 2/3 of the participatory shares of Russian limited liability companies); (ii) of more than 20% of the assets of Russian companies (except for non-industrial buildings, land plots and unfinished construction objects); (iii) of rights to determine the commercial activity of Russian companies; and (iv) of more than 50% of the shares of foreign legal entities or rights to determine their commercial activity, provided in each case where the transaction involves shares (participation interests) in, or rights with respect to, a foreign person; antimonopoly control only applies if such person in the year preceding the transaction had supplied goods of value exceeding RUB 1 billion to the territory of the Russian Federation. All abovementioned transactions require either prior approval or subsequent notification of the FAS in accordance with in the Competition Law.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and the Loans and does not purport to be a comprehensive discussion of the tax treatment of the Notes or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences arising in their particular circumstances under the tax laws of countries of which they are residents of a purchase and holding of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. This summary is based upon the law as in effect on the date of this Base Prospectus.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes or the Loans.

Russian Taxation

Taxation of the Notes

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes, as well as the taxation of interest income on the Loan. The overview is based on the laws of the Russian Federation in effect on the date of this Base Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of the Russian Federation. Nor does the overview seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes are made hereby to any particular Noteholder.

The provisions of the Russian Tax Code applicable to Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, in the absence of binding precedents court rulings on tax or related matters by different Russian courts relating to the same or similar circumstances may also be inconsistent or contradictory.

According to the Russian Tax Code, a tax resident is an individual who spent in Russia not less than 183 days within 12 consecutive months (days of medical treatment and education outside of the Russian Federation are also counted as Russian days if the individual departed from the Russian Federation for these purposes for less than six months).

The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for tax withholding purposes an individual's tax residence status should be determined on the date of income payment (based on the number of Russian days in the 12-month period preceding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year (or shorter period upon departure from Russia) should be determined based on his/her tax residence status for such calendar year (or such shorter period), i.e. based on the number of Russian days in the 12-month period as of the end of such period.

For the purposes of this overview, a "non-resident Noteholder" means (i) an individual Noteholder who has not established a Russian tax residence status for the reporting calendar year as discussed above; or (ii) a legal entity or organisation in each case not organised under Russian law that holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

For the purposes of this overview, a "Russian resident Noteholder" means (i) an individual Noteholder who has established a Russian tax residence status for the reporting calendar year as discussed above ; or (ii) a legal entity or organisation which is a Noteholder but is not a non-resident Noteholder defined in the previous paragraph.

The Russian tax treatment of interest payments made by the Company to the Issuer under the Loan Agreement may affect the holders of the Notes. See — "*Taxation of Interest Income on the Loan*" below.

Non-Resident Noteholders

A non-resident Noteholder should not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes, subject to what is stated in “*Taxation of Interest Income on the Loan*” below.

A non-resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or a disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption or other disposal of the Notes are not received from a source within the Russian Federation.

In the event that proceeds from sales, redemption or a disposal of Notes are received from a source within the Russian Federation, a non-resident Noteholder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20% subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the possibility of obtaining a respective double tax treaty relief.

If proceeds from sales, redemption or other disposal of the Notes are received from a Russian source, a non-resident Noteholder who is an individual will generally be subject to tax at a rate of 30% subject to any available double tax treaty relief as discussed below, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the Notes). Any portion of the above proceeds from sale, redemption or other disposal of the Notes attributable to accrued interest income under the Notes which is received by a non-resident Noteholder from the Russian sources may be subject to tax at a rate of 30% subject to any available double tax treaty relief as discussed below. In this regard, if the Notes are disposed of in the Russian Federation, for Russian personal income tax purposes, the proceeds of such disposal (including any portion of such proceeds attributable to accrued interest income under the Notes) are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds (including the interest income portion) are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. Unless the tax is withheld by the payer, the non-resident individual Noteholder would be liable to pay the tax to the Russian budget.

In such a situation, there is a risk that the taxable base may be affected by fluctuations in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and roubles. Non-resident Noteholders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a disposal of the Notes.

Resident Noteholders

A Russian resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gains from disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

Tax Treaty Relief

Advance Treaty Relief

Where proceeds from the disposal of the Notes are received from a Russian source, in order for the non-resident Noteholders, whether an individual, legal entity or organisation, to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

Currently, a non-resident Noteholder, legal entity or organisation should present to the payer of income an apostilled or legalised confirmation of its tax residence, attaching a notarised translation in Russian. The confirmation should be presented before any payment is made and should be certified by the competent authority of the country of the Noteholder’s tax residence. Such confirmation is valid for the calendar year in which it is issued. Non-resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the opportunity to benefit from any double tax treaty relief and the relevant Russian procedures.

For non-resident individual Noteholders, procedures for advance treaty clearance are not provided for by current Russian legislation. Therefore, technically, for non-resident individual Noteholders a reduction of the Russian withholding income tax either exemption from such tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual Noteholder could practically not be obtained. Non-resident individual Noteholders should consult their own tax advisers with respect to the opportunity to benefit from any double tax treaty relief or tax refund and the relevant Russian procedures.

Refund of Tax Withheld

For a non-resident Noteholder that is not an individual and for whom double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a refund of such tax is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

If non-resident individual Noteholders do not obtain double tax treaty relief at the time the proceeds from a disposal of the Notes are paid to such non-resident individual Noteholders and income tax is withheld by a Russian payer of the income, such non-resident individual Noteholders may apply for a refund within one year from the end of the tax period in which the tax was withheld. The documentation requirements to obtain such a refund would include a confirmation of the income received and the taxes paid in the country of tax residence of the non-resident individual Noteholders as confirmed by the relevant tax authorities of such countries. However, there can be no assurance that the refund of any taxes withheld or double tax treaty relief (as described above) will be available for such non-resident individual Noteholders.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code.

Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons.

Taxation of Interest Income on the Loan

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation are subject to Russian withholding income tax at a rate of 20% (or 30% in respect of non-resident individuals), subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice reviewed, the Company's management believes that interest payments on the Loan made by the Company to the Issuer should not be subject to withholding taxes under the terms of the double tax treaty between the Russian Federation and Luxembourg, provided that the Russian tax documentation requirements (annual advance confirmation of the lender's tax residency) are satisfied.

A recent protocol to the double tax treaty between the Russian Federation and Luxembourg, would, if ratified, introduce certain changes to the treaty, including, *inter alia*, a limitation of benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was receipt of treaty benefits and the extension of exchange of information procedures. Once the protocol is ratified and becomes effective, it may have an impact on future payments under the Loan Agreement.

Application of tax benefits under the double tax treaty could be influenced by the change in the position of the Russian fiscal authorities to look beyond the mere form of the transaction while assessing the applicability of treaty benefits.

There is a risk that under the Russian thin capitalisation rules in certain circumstances where parties related to the Company hold Notes part or all of the interest to be paid by the Company under the Loan could be reclassified as dividends for Russian tax purposes.

The thin capitalisation rules apply to "controlled debt", which includes (i) debt to a foreign company owning directly or indirectly more than 20% of the borrower's charter capital; (ii) debt to a Russian company that is, in accordance with Russian legislation, affiliated with a foreign company in (i); and (iii) debt whose repayment is secured in the form of a guarantee, surety or otherwise, by the foreign company in (i) and/or a Russian affiliated company in (ii).

This would occur if the overall amount of the "controlled debt" of the Company calculated on an individual related party basis exceeded the capital of the Company, calculated in accordance with the requirements of the Russian Tax Code, by more than three times. Interest on the amount of such excess would be reclassified as dividends for Russian tax purposes. Under the Russian Tax Code, there is a risk that the "controlled debt" of the Company may include all or part of the Loan to the extent that certain related parties acquires any portion of the Notes.

Such reclassification of all or a portion of the interest as dividends could potentially lead to the imposition of Russian withholding tax on such reclassified interest at the rate of 15%, subject to possible exemption under the double tax treaty between the Russian Federation and Luxembourg, and the non-deductibility of such interest for Russian profit tax purposes by the Company.

Based on the assumption that the amount of the Company's "controlled debt" calculated in accordance with the requirements of Article 269 of the Russian Tax Code will not exceed by more than 3 times the amount of "own capital" ("собственный капитал") of the Company calculated on an individual related party basis, the Russian

thin capitalisation rules should not apply currently to the interest on a Loan. However, changes in these assumptions could result in all or a portion of such interest being subject to the thin capitalisation rules in the future so as to treat “excess interest” related to a Loan as a dividend under the double tax treaty between the Russian Federation and Luxembourg subject to 15% withholding tax applicable to dividends (subject to possible Luxembourg or other double tax treaty relief, if any) rather than zero withholding tax applicable to interest.

The 2012 Russian Tax Code Amendments should allow the interest on a Loan not to be subject to withholding. In particular, these amendments introduce into the Russian Tax Code an exemption from the obligation to withhold tax from interest paid under transactions similar to the transactions described herein. The 2012 Russian Tax Code Amendments have entered in force beginning 1 July 2012.

According to the 2012 Russian Tax Code Amendments, in respect of bonds issued prior to 1 January 2014, Russian borrowers are exempted from the obligation to withhold Russian withholding tax from interest payments made to foreign companies on debt obligations arising in connection with placement by these foreign companies of quoted bonds, provided that (i) there is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer, and (ii) the issuer duly confirms its tax residence. The 2012 Russian Tax Code Amendments do not provide a tax exemption for the holders of Notes from Russian tax on interest payments, although at present there is no mechanism or requirement for non-residents to self-assess and pay the tax.

For the purpose of the 2012 Russian Tax Code Amendments, “quoted bonds” means bonds and other debt obligations which passed the listing procedure and/or were admitted to circulation on one or more foreign stock exchanges and/or rights to which are recorded by a foreign depository-clearing organisation, provided such foreign stock exchanges and depository-clearing organisations are specified in the list approved by the FSFM in consultation with the Ministry of Finance of the Russian Federation. Until such list is adopted, bonds and other debt obligations that passed the listing procedure and/or were admitted to circulation on one or more foreign stock exchanges and/or rights to which are recorded by any foreign depository-clearing organisation should be recognised as quoted bonds. According to publicly available information, this list has not been drafted yet.

According to the 2012 Russian Tax Code Amendments, the above exemption established for the interest payments is also applicable to (i) income payable by a Russian legal entity in connection with a guarantee, surety or other security granted by such Russian organisation with respect to a debt obligation to a foreign organisation and/or with respect to quoted bonds and (ii) other income payable by a Russian organisation provided that the payment of such income is established by the provisions of the respective debt obligation or such income is paid due to a change in the terms and conditions of the respective quoted bonds and/or debt obligations including the cases of their early repurchase or redemption.

The 2012 Russian Tax Code Amendments address Russian withholding tax treatment of interest payments or other above payments to be made to foreign companies on debt obligations arising in connection with the issuance by these foreign companies of quoted bonds before 1 January 2014. The 2012 Russian Tax Code Amendments do not address Russian tax treatment of payments under quoted bonds issued on or after 1 January 2014.

If the payments under the Loan are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Company is required to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions in contracts may not be enforceable in the Russian Federation. In the event that the Company fails to increase the payments, such failure would constitute an Event of Default. If the Company is obliged to increase payments, it may prepay the relevant Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in the Russian Federation on any payment of interest or principal in respect of a Loan.

European Union Directive on the Taxation of Savings Income

Under the Savings Directive, each Member State of the EU is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year

following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any such law.

Luxembourg

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Taxation of Luxembourg non-residents

Under the Luxembourg laws dated 21 June 2005 implementing the Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the EU, a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required as of 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain “residual entities” as defined in Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, which are not and have not opted to be treated as UCITS recognised in accordance with Council Directive 85/611/EEC as replaced by Council Directive 2009/65/EC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands).

The current withholding tax rate is 35%. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

Investors should note that the European Commission adopted a new draft Savings Directive, which, among other changes, seeks to extend the application of the Savings Directive to (i) payments channelled through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to savings income. Further developments in this respect should be monitored on a continuing basis, since no certainty exists over whether and when the proposed amendments to the Savings Directive will be implemented. Investors who are in any doubt as to their position should consult their professional advisers.

Taxation of Luxembourg residents

In accordance with the law of 23 December 2005, as amended by the law of 17 July 2008, on the introduction of a withholding tax on certain interest payments on savings income, interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC as replaced by the Council Directive 2009/65/EC or for the exchange of information regime) are subject to a 10% withholding tax (the “10% Luxembourg Withholding Tax”).

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realise capital gains on the sale of any Notes.

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals, acting in the course of a private, non-business capacity, can opt to self-declare and pay a 10% tax (the “10% Tax”) on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an international agreement directly related to the Savings Directive. The 10% Luxembourg Withholding Tax (see “—*Withholding tax—Taxation of Luxembourg residents*”) or the 10% Tax represents the final tax liability on interest received for the Luxembourg resident individuals receiving the payment in a private, non-business capacity. Individual Luxembourg resident Noteholders receiving the interest as business income must include interest income in their taxable basis. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of the Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will be subject to the 10% Withholding Tax or to the 10% Tax (if the Luxembourg resident individuals opt for the 10% Tax). Individual Luxembourg resident Noteholders receiving the interest as business income must also include the portion of the price corresponding to this interest in their taxable income. The 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident companies

Luxembourg resident corporate Noteholders (*société de capitaux*) or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as family wealth management companies subject to the law of 11 May 2007, undertakings for collective investment subject to the law of 17 December 2010 or specialised investment funds subject to the law of 13 February 2007) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a corporate Noteholder, unless (a) such Noteholder is a Luxembourg resident other than a Noteholder governed by (i) the laws of 17 December 2010 and 13 February 2007 on undertakings for collective investment; (ii) the law of 22 March 2004 on securitisation; (iii) the law of

15 June 2004 on the investment company in risk capital; or (iv) the law of 11 May 2007 on family estate management companies, or (b) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes. Proceedings in a Luxembourg court or the presentation of the Notes or any documents relating to the Notes to an “*autorité constituée*” may require registration of the documents, in which case the documents will be subject to registration duties depending on the nature of the documents. In particular, a loan agreement not represented by the Notes will be subject to an ad valorem registration of 0.24% of the amounts mentioned therein.

There is no Luxembourg VAT payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

United States

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY PROSPECTIVE INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “U.S. TAX CODE”); (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms or Series Prospectus, as the case may be, will contain additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that (i) are U.S. Holders, (ii) will hold the Notes as capital assets and (iii) acquired the Notes upon their initial issuances at the original offering price. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders in securities who elect to mark their securities to market, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity taxable as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the U.S. Tax Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW

Characterization of the Notes

No authority directly addresses the U.S. federal income tax characterization of securities like the Notes and the Issuer has not and will not seek a ruling from IRS as to their characterization for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterization of the Notes that is contrary to this discussion. One possible alternative characterization is treatment of the Notes as beneficial ownership of the Loans, the U.S. federal income tax consequences of which should be no less favorable than holding Notes of the Issuer. Another alternative characterization may be as equity in the Issuer. In that event, because the Issuer is a passive foreign investment company ("PFIC"), such characterization generally would result in adverse U.S. federal income tax consequences to the U.S. Holders and may require additional filings by U.S. Holders with the IRS. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterizations of the Notes for U.S. federal income tax purposes.

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "foreign currency"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Original Issue Discount

This summary assumes that the Notes will not be issued at a premium or with original issue discount ("OID"). Generally, a Note will be treated as issued with OID if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity). The following summary also does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Notes are issued at a premium or with OID, or the Issuer issues contingent payment debt instruments, the applicable Final Terms or Series Prospectus, as the case may be, will describe certain U.S. federal income tax consequences thereof.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Purchase, Sale and Retirement of Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

In the case of an accrual basis U.S. Holder, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Sale or Retirement

As discussed above under “—Purchase, Sale and Retirement of Notes”, a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder’s tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder’s purchase price for the Note (i) on the date of sale or retirement and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest on, and the proceeds of a sale, redemption or other disposition of, the Notes payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or

fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Account Tax Compliance Requirements

Beginning in 2017, the Issuer may be required pursuant to FATCA to withhold U.S. tax on payments on Notes issued after 31 December 2012 to investors who do not provide information sufficient for the Issuer to determine whether the investors are U.S. persons or should otherwise be treated as holding a “United States account” of the Issuer, or to investors that are, or hold their Notes through, non-U.S. financial institutions that are not in compliance with FATCA. If an amount of, or in respect of, U.S. withholding tax on account of FATCA were to be deducted or withheld from interest or other payments on the Notes as a result of the failure of an investor or such non-U.S. financial institution to comply with these rules, neither the Issuer nor any Paying Agent nor any other person would, pursuant to the Terms and Conditions of the Notes, be required to pay additional amounts with respect to any Notes as a result of the deduction or withholding of such tax. Holders should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

Reportable Transactions

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds USD 50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of Notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of USD 10,000 in the case of a natural person and USD 50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a U.S. Holder realises a loss on any Note (or, possibly, aggregate losses from the Notes) satisfying the monetary thresholds discussed above, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to the penalties described above. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

CERTAIN U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Notes are not permitted to be acquired by employee benefit plans as described in Section 3(3) of ERISA that are subject to Title I of ERISA (collectively, “ERISA Plans”), plans not subject to ERISA but subject to Section 4975 of the U.S. Tax Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, “4975 Plans”), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, “Plan Asset Entities”). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as “Benefit Plan Investors.” Subject to certain restrictions described below, Notes are permitted to be acquired by governmental plans and non-electing church plans that are not subject to ERISA or Section 4975 of the U.S. Tax Code (collectively, “Non-ERISA Plans”).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. 4975 Plans are subject to certain restrictions similar to ERISA’s prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the U.S. Department of Labor (“DOL”), as modified by Section 3(42) of ERISA (the “Plan Assets Regulations”), unless certain exceptions apply, if a Benefit Plan Investor invests in an “equity interest” of an entity, its assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This “look through” rule will only apply where Benefit Plan Investors own 25% or more of the value of any class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. To the extent that the value of a Benefit Plan Investor’s equity interest in an entity relates solely to identified property of the entity, such property may be treated as the sole property of a separate entity.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity’s assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the U.S. Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, the Issuer will not be able to monitor the Noteholders’ status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired by any Benefit Plan Investor.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire the Notes subject to certain restrictions described below. If the Non-ERISA Plan is a governmental plan, as defined in Section 3(32) of ERISA, the Non-ERISA Plan will be deemed to represent and warrant that the acquisition and holding of the Notes does not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan and does not result in the assets of the Issuer being considered plan assets of such Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the U.S. Tax Code apply to these types of plans. However, such plans are subject to prohibitions on related-party transactions under Section 503 of the U.S. Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the U.S. Tax Code. In addition, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. TAX CODE APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THE NOTES OR ANY INTEREST THEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN WILL NOT RESULT IN THE ASSETS OF THE ISSUER OF THE NOTES BEING CONSIDERED PLAN ASSETS OF SUCH GOVERNMENTAL PLAN

AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THIS SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult counsel with respect to issues arising under ERISA, the U.S. Tax Code and other applicable laws and make their own independent decisions.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated •

Joint Stock Company Gazprom Neft

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by GPN Capital S.A. for the purpose of financing a Loan to Joint Stock Company Gazprom Neft
under a **U.S.\$• Programme for the Issuance of Loan Participation Notes**

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated • [and the supplemental Base Prospectus dated •] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on Gazprom Neft, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When completing final terms consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|----|---|--|
| 1 | (i) Issuer: | GPN Capital S.A. |
| | (ii) Borrower: | Joint Stock Company Gazprom Neft |
| 2 | Series Number: | • |
| | <i>[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)</i> | <i>•]</i> |
| 3 | Specified Currency: | • |
| 4 | Aggregate Principal Amount of Notes admitted to trading: | • |
| 5 | Issue Price: | •% of the Aggregate Principal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| 6 | Specified Denominations: | • |
| | | • |
| 7 | (i) Issue Date: | • |
| | (ii) Interest Commencement Date: | • |
| 8 | Maturity Date: | <i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i> |
| 9 | Interest Basis: | [•% Fixed Rate]
[Floating Rate](further particulars specified below) |
| 10 | Redemption/Payment Basis: | Redemption at par |
| 11 | Change of Interest or Redemption/Payment Basis: | • |
| 12 | (i) Status and Form of the Notes: | Senior, Registered |
| | (ii) [Date Board approval for issuance of Notes and borrowing of Loan obtained: | [] [and [] , respectively]](N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes or related Loan)] |
| 13 | Method of distribution: | [Syndicated/Non-syndicated] |
| 14 | Financial Centres (Condition [•]): | • |
| 15 | Loan Amount: | • |
| 16 | Put/Call Options: | [Put Option/Call Option/Not Applicable] [(further particulars specified below)] |

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

- 17** Fixed Rate Note Provisions: [Applicable/Not Applicable] (*if not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate [(s)] of Interest: ● % per annum payable [annually/ semi-annually] in arrear
 - (ii) Interest Payment Date(s): ● in each year
 - (iii) Fixed Coupon Amount [(s)]: ● per ● in principal amount
 - (iv) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)]]*
[30/360/Actual/Actual(ICMA/ISDA)]
 - (v) Day Count Fraction (Condition [•]): ● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
 - (vi) Determination Date(s) (Condition [•]):
- 18** Floating Rate Note Provisions: [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Interest Period(s): ●
 - (ii) Specified Interest Payment Dates: ●
 - (iii) Business Day Convention: [Floating Rate Business Day Convention/
Following Business Day Convention/Modified
Following Business Day Convention/Preceding
Business Day/Convention/other]
 - (iv) Business Centre(s): ●
 - (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA]
 - (vi) Interest Period Date(s): [Not Applicable/specify dates] (*will be not applicable unless different from Interest Payment Date*)
 - (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): ●
 - (viii) Screen Rate Determination: See paragraph 8 under Part B
 - (ix) ISDA Determination: See paragraph 8 under Part B
 - (x) Margin(s): [+/-●] % per annum
 - (xi) Minimum Rate of Interest: ● % per annum
 - (xii) Maximum Rate of Interest: ● % per annum
 - (xiii) Day Count Fraction (Condition [•]): ●
 - (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans: ●

PROVISIONS RELATING TO REDEMPTION

- 19** Final Redemption Amount of each Note: [● per Note of ● specified denomination]
- 20** Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: [● per Note of ● specified denomination]
- 21** Call Option: [Applicable/Not Applicable]/(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Early Redemption Amount: See paragraph 8 under Part B
 - (ii) Make Whole Amount: See paragraph 8 under Part B
- 22** Put Option: [Applicable/Not Applicable]/(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Put Settlement Date(s): ●

DISTRIBUTION

- 23 (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilising Manager(s) (if any): [Not Applicable/give names]
24 If non-syndicated, name of Dealer: [Not Applicable/give names]
25 Additional selling restrictions: [Not Applicable/give names]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of the Irish Stock Exchange the issue of Notes described herein pursuant to the U.S.\$• Programme for the Issuance of Loan Participation Notes of Gazprom neft.]

RESPONSIBILITY

The Issuer and Gazprom neft accept responsibility for the information contained in these Final Terms. [• has been extracted from •. Each of the Issuer and Gazprom neft confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by •, no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of Gazprom neft:

By: _____
Duly authorised

By: _____
Duly authorised

By: _____
Duly authorised

By: _____
Duly authorised

Part B—Other Information

1 LISTING

- (i) Listing: [Irish Stock Exchange/None]
(ii) Admission to trading: [Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the “Official List”) and trading on its regulated market (the “Main Securities Market”) with effect from •.] [Not Applicable.]
(iii) Estimate of total expenses related to • admission to trading: ●

2 RATINGS

Ratings:

The Notes to be issued have been rated:

●

[[Insert credit rating agency] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.] [[Insert credit rating agency] is established in the European Community and registered under Regulation (EC) No 1060/2009.] [[Insert credit rating agency] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.] [[Insert credit rating agency] is not established in the European

Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by *[insert credit rating agency]* which is established in the European Union and registered under Regulation (EC) No 1060/2009.] *[[Insert credit rating agency]* is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the “CRA Regulation”) unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused. *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3 [NOTIFICATION]

The Central Bank has provided the competent authority(ies) of *[insert details of relevant Host Member State(s)]* with a certificate of approval attesting that the *[Base Prospectus—insert details of relevant Base Prospectus]* has been drawn up in accordance with the Prospectus Directive 2003/71/EC and Commission Regulation (EC) No809/2004.]

4 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer”.]

5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

[(i) Reasons for the offer

[

(See “Use of Proceeds” wording in Base Prospectus—if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

[(ii)] Estimated net proceeds:

•

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses:

•[Include breakdown of expenses.]

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

6 [Fixed Rate Notes only-YIELD Indication of yield: The yield is calculated at the Issue Date on the yield: basis of the Issue Price. It is not an indication of future yield.]

7 OPERATIONAL INFORMATION

ISIN Code (Reg S Notes): ●

ISIN Code (Rule 144A Notes): ●

Common Code (Reg S Notes): ●

Common Code (Rule 144A Notes): ●

Rule 144A CUSIP number: ●

Any clearing system(s) other than Euroclear Bank[Not Applicable/give name(s) and number(s) [and S.A./N.V. and Clearstream Banking société anonyme [or DTC] and the relevant identification number(s):

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying

Agent(s) (if any):

8 THE LOAN

Terms of the Loan

(i) Drawdown: ● [Closing Date]

(ii) Closing Date: ●

(iii) Early Redemption Amount: ● per ●] amount of the Loan, plus accrued interest, if any, to the Call Redemption Date;] [Note: include if Call Option applicable, otherwise delete]

(iv) Make Whole Premium: the excess, if any (as reported in writing to the Lender and the Trustee by a reputable financial institution operating in ● market in ● selected by the Lender and approved in writing by the Trustee (the “Financial Adviser”) (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan;

(v) Put Settlement Date: ●

(vi) Repayment Date: ● [Note amend as required for Floating Rate Notes];

(vii) Specified Currency: ●

(viii) Treasury Rate: a rate equal to the yield, as published by the ●, on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the Calculation Date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Call

	Redemption Date; and] <i>[Note: include if Call Option applicable, otherwise delete]</i>
(ix) Drawdown:	• <i>[Closing Date]</i>
(xi) Governing Law:	Loan Supplement shall be governed by and construed in accordance with English law. This Loan Supplement has been entered into on the date stated at the beginning.
(xii) Put/Call Options:	<i>[Put Option/Call Option/Not Applicable]</i>
Interest	
The Loan is a <i>[Fixed Rate][Floating Rate]</i> Loan <i>[and the Notes comprise a Rule 144A Series]</i> . Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:	
Fixed Rate Loan Provisions	<i>[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Interest Commencement Date:	•
(ii) Rate[(s)] of Interest:	• per cent. per annum payable <i>[annually/semi-annually]</i> in arrear
(iii) Interest Payment Date(s):	• in each year <i>[adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]</i>
(iv) Fixed Amount[(s)]:	•per • in principal amount
(v) Broken Amount:	<i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)]] and the Interest Payment Date(s) to which they relate]</i>
(vi) Day Count Fraction (Clause 4.9):	• <i>[Day count fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified)]</i>
(vii) Determination Date(s) (Clause 4.9):	• in each year. <i>[Insert regular Interest Payment Dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last Interest Period]</i>
(viii) Other terms relating to the method of calculating interest for Fixed Rate Loans:	<i>[Not Applicable]</i>
Floating Rate Loan Provisions	<i>[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Interest Commencement Date:	•
(ii) Interest Period(s):	•
(iii) Specified Interest Payment Dates:	•
(iv) Business Day Convention:	<i>[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other]</i>
(v) Business Centre(s) (Clause 4.9):	•
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	<i>[Screen Rate Determination/ISDA Determination]</i>
(vii) Interest Period Date(s):	<i>[Not Applicable] (will be not applicable unless different from Interest Payment Date)</i>

- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
- (ix) Screen Rate Determination (Clause 4.3.3):
- Reference Rate:
 - Interest Determination Date(s): *[• [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*
 - Relevant Screen Page: *[Specify relevant screen page or “Reference Banks”]*
 - Reference Banks (if Primary Source is “Reference Banks”): *[Specify four]*
 - Relevant Financial Centre: *[The financial centre most closely connected to the Reference Rate- specify if not London]*
 - Reference Rate: *[LIBOR, EURIBOR or other reference rate]*
 - Representative Amount: *Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]*
 - Effective Date: *[Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]*
 - Specified Duration: *[Specify period for quotation if not duration of Interest Accrual Period]*
- (x) ISDA Determination (Clause 4.3.3):
- Floating Rate Option:
 - Designated Maturity:
 - Reset Date: •
- (xi) Margin(s): • per cent. per annum
- (xii) Minimum Rate of Interest: • per cent. per annum
- (xiii) Maximum Rate of Interest: • per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9): •
- (xv) Rate Multiplier: •
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans: •

GENERAL INFORMATION

- (1) Transactions in the Notes will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme that will not be listed on any stock exchange. The listing agent is not seeking admission to listing of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of the Company and the Issuer. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on its regulated market for the purposes of the Prospectus Directive.
- (2) As of the date of this Base Prospectus, the Company had approved loans from the Issuer in the principal amount of up to USD 3.5 billion, with total outstanding amounts of up to USD 6.16 billion. The establishment of the Programme was approved by a resolution of the Board of Directors of the Issuer on 26 July 2012. The Company and the Issuer will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.
- (3) The Company's date of incorporation was 6 October 1995. Its Main State Registration Number is 1025501701686. Its telephone number is +7 (812) 363 3152. The Company currently has Rouble-denominated bonds listed on the Moscow Exchange.
- (4) Except as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Company or the Group since 31 March 2012 and no material adverse change in the prospects of the Company or the Group since 31 March 2012.
- (5) There has been no significant change in the financial or trading position of the Issuer since and no material adverse change in its prospects since its incorporation on 10 April 2012. The Issuer has not commenced operations and no financial statements have been made up as at the date of the registration document.
- (6) Except as disclosed in this Base Prospectus, neither the Company nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Base Prospectus that may have or have had in the recent past significant effects on the financial position or profitability of the Company or the Group.
- (7) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.
- (8) ZAO PricewaterhouseCoopers Audit has rendered unqualified audit reports on the consolidated annual accounts of the Company prepared according to U.S. GAAP as of and for the years ended 31 December 2011, 2010 and 2009. Starting in 2012, the Company publishes unaudited consolidated interim condensed financial information prepared in accordance with IFRS, beginning with the three-month period ended 31 March 2012. Starting in 2012, the Company does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP. ZAO PricewaterhouseCoopers Audit is a member of the Institute of Professional Accountants of Russia and the Audit Chamber of Russia.
- (9) Certain information with respect to the Group's crude oil reserves associated with crude oil properties as of 31 December 2011 is derived from a report of D&M, an internationally recognised firm of independent reservoir engineers, as of 31 December 2011, and a summary of this report has been included herein upon the authority of said firm as an expert with respect to the matters covered by such report and in giving such report.
- (10) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number ("ISIN") and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.
- (11) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. The Company and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes.
- (12) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any

weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal Paying Agent:

- the articles of association of the Issuer and the charter of the Company;
- the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
- the Dealer Agreement;
- the Facility Agreement;
- the audited consolidated financial statements of the Company as of and for the years ended 31 December 2011, 2010 and 2009, in each case together with the audit reports thereon;
- the unaudited consolidated interim condensed financial statements of the Company as of and for the three months ended 31 March 2012 and 2011;
- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Company and the Principal Paying Agent as to its holding of Notes and identity);
- the Summary Reserves Report from DeGolyer and MacNaughton; and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(13) Any website referred to in this document does not form part of this Base Prospectus.

GLOSSARY OF SELECTED TERMS

Associated gas: Natural gas found in association with oil, either dissolved in the oil or as a cap of free gas above the oil.

Bitumen: The residual product of crude oil vacuum distillation. A black or dark brown solid or semi-solid organic compound that gradually softens and turns into a liquid when heated.

Catalytic cracking: Method of making petrol out of heavier crude oil by breaking large hydrocarbon molecules into smaller molecules.

Condensate: Light hydrocarbons produced with natural gas which condenses into a liquid at normal temperatures and pressures.

Conversion ratio: In refining crude oil, the percentage of crude oil that is converted to refined products.

Development well: A well drilled within a proven area of an oil or gas reservoir to a depth known to be productive.

Diesel fuel: Hydrocarbon mixture that is heavier than petrol or jet fuel that is used primarily in diesel engines (fuel ignited by compression rather than by a spark).

Exploratory well: A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to produce oil from another reservoir, or to extend a known reservoir.

Euro fuel standards (e.g. Euro 3, Euro 4, Euro 5): Emission standards in the EU for passenger cars and light duty vehicles, originally introduced by EU Directive 70/220/EEC, followed by a number of amendments and subsequent directives with increasingly stringent emission standards.

Field: An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure.

Fuel oil (mazut): Heavier hydrocarbons than in petrol, diesel or jet fuel and used to generate heat and commercial electric power.

Gas oil: Obtained from the lowest fraction (heaviest) from the atmospheric distillation of crude oil and often used for diesel fuel.

Hydrocarbon: Naturally occurring organic substances composed of carbon and hydrogen, including oil and gas, occurring in subsoil, which is recoverable as well as that which has already been extracted.

Isomerisation plant: Rearranging the structure of molecules without changing the number of hydrocarbons to produce isomers which have different properties.

Jet fuel (kerosene): Heavier hydrocarbons than petrol, but lighter than diesel fuel and used for jet engines, heating and illumination.

Lubricants: Specially formulated oil to reduce friction and wear between solid surfaces (usually metals) that are in contact and in relative motion.

Netback: The sales price of crude oil or refined products less all costs such as transportation to customers, taxes and duties.

Octane: A measure of how well a fuel resists premature combustion, or “knocking”. Petrol with too low an octane rating converts fuel to heat rather than power, resulting in less efficient fuel usage and reduced engine life.

Petrol: Light hydrocarbon mixture used mainly in internal combustion engines.

Reserves Replacement Ratio: A measure of proved reserves added to a company's reserve base during a period relative to the amount of oil and gas produced.

Reservoir: A porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Seismic survey: Energy waves sent into the earth and along rock layers which are reflected back to the surface. The data obtained is used to produce “record sections” which are cross sections of the earth.

Three-dimensional seismic survey: Seismic survey that is processed to yield a three-dimensional picture of the subsurface.

Two-dimensional seismic survey: Seismic survey that is processed to yield a two-dimensional picture of the subsurface.

Watercut: The percentage of water in the oil/water mixture coming from the well.

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Gazprom Neft Group

Interim Condensed Consolidated Financial Statements

**As of March 31, 2012 and
for the three months ended March 31, 2012**

Gazprom Neft Group

Interim Condensed Consolidated Financial Statements

**As of March 31, 2012 and
for the three months ended March 31, 2012**

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Report on review of interim condensed consolidated financial information

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JSC "Gazprom Neft" and its subsidiaries (the 'Group') as of March 31, 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

ZAO PricewaterhouseCoopers Audit

May 22, 2012

Moscow, Russia

Gazprom Neft Group
Interim Condensed Consolidated Statement of Financial position (Unaudited)
As of March 31, 2012

Currency – RUB millions

	Notes	March 31, 2012	December 31, 2011	January 1, 2011
Assets				
Current assets				
Cash and cash equivalents	6	58,568	29,435	34,920
Short-term financial assets	7	25,095	18,951	11,734
Trade and other receivables	8	70,014	70,780	48,010
Inventories	9	77,426	74,201	56,536
Current income tax prepayments		9,605	12,377	3,622
Other current assets	10	90,187	89,518	62,548
Assets classified as held for sale	11	777	2,029	7,466
Total current assets		331,672	297,291	224,836
Non-current assets				
Property, plant and equipment	12	581,861	574,982	468,424
Goodwill and other intangible assets		38,096	40,194	39,278
Investments in associates and joint ventures	13	187,257	175,315	179,301
Long-term trade and other receivables		211	219	256
Long-term financial assets	14	13,213	9,487	22,290
Deferred income tax asset		12,053	11,934	9,855
Other non-current assets		9,072	8,737	11,162
Total non-current assets		841,763	820,868	730,566
Total assets		1,173,435	1,118,159	955,402
Liabilities and shareholders' equity				
Current liabilities				
Short-term debt and current portion of long-term debt	15	51,373	44,330	52,860
Trade and other payables	16	43,841	41,196	36,995
Other current liabilities		25,153	25,165	21,385
Current income tax payable		1,299	1,994	4,139
Other taxes payable	17	41,441	30,089	22,458
Provisions for liabilities and charges		8,009	6,888	10,551
Liabilities associated with assets classified as held for sale	11	7	667	3,873
Total current liabilities		171,123	150,329	152,261
Non-current liabilities				
Long-term debt	18	164,960	176,979	149,424
Other non-current financial liabilities		999	6,824	-
Deferred income tax liability		33,721	32,443	22,856
Provisions for liabilities and charges		16,114	17,458	19,017
Other non-current liabilities		1,892	1,956	1,880
Total non-current liabilities		217,686	235,660	193,177
Equity				
Share capital		98	98	98
Treasury shares		(1,170)	(1,170)	(1,170)
Additional paid-in capital		9,833	10,022	-
Retained earnings		725,320	676,947	537,533
Other reserves		4,026	(940)	5,978
Equity attributable to the Company's owners		738,107	684,957	542,439
Non-controlling interest		46,519	47,213	67,525
Total equity		784,626	732,170	609,964
Total liabilities and shareholders' equity		1,173,435	1,118,159	955,402

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich
Chief Financial Officer
JSC Gazprom Neft

	Notes	Three months ended March 31, 2012	Three months ended March 31, 2011
Sales		344,535	288,311
Less export duties and sales related excise tax		(66,559)	(56,292)
Total revenue from sales	23	277,976	232,019
Costs and other deductions			
Purchases of oil, gas and petroleum products		(87,571)	(65,498)
Production and manufacturing expenses		(27,042)	(24,042)
Selling, general and administrative expenses		(14,008)	(13,098)
Transportation expenses		(23,775)	(20,162)
Depreciation, depletion and amortization		(14,070)	(12,097)
Taxes other than income tax	17	(64,283)	(46,976)
Exploration expenses		(355)	(522)
Total operating expenses		(231,104)	(182,395)
Other income, net		237	298
Operating profit		47,109	49,922
Share of profit of equity accounted investments		12,087	1,700
Net foreign exchange gain		2,552	3,813
Finance income		543	376
Finance expense		(2,338)	(3,019)
Total other income/expense		12,844	2,870
Profit before income tax		59,953	52,792
Current profit tax expense		(8,325)	(12,156)
Deferred profit tax (expense) benefit		(1,540)	132
Total income tax expense		(9,865)	(12,024)
Profit for the period		50,088	40,768
Other comprehensive income / (loss):			
Currency translation differences		(6,602)	(3,478)
Share of other comprehensive income of associates		-	7
Cash flow hedge		9,517	7,345
Other comprehensive income for the period		2,915	3,874
Total comprehensive income for the period		53,003	44,642
Profit attributable to:			
- Gazprom Neft shareholders		48,373	39,990
- Non-controlling interest		1,715	778
Profit for the period		50,088	40,768
Total comprehensive income attributable to:			
- Gazprom Neft shareholders		53,339	44,875
- Non-controlling interest		(336)	(233)
Total comprehensive income for the period		53,003	44,642
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (RUB per share)		10,62	8,64
Diluted earnings (RUB per share)		10,62	8,64
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718

	Attributable to equity holders of the Company					Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves		
Balance as of January 1, 2011	98	(1,170)	-	537,533	5,978	67,525	609,964
Profit for the period	-	-	-	39,990	-	778	40,768
Other comprehensive income							
Currency translation differences	-	-	-	-	(2,467)	(1,011)	(3,478)
Share of other comprehensive income of associates	-	-	-	-	7	-	7
Cash flow hedge	-	-	-	-	7,345	-	7,345
Total comprehensive income for the period	-	-	-	39,990	4,885	(233)	44,642
Acquisition of non-controlling interest	-	-	8,732	-	-	(32,316)	(23,584)
Balance as of March 31, 2011	98	(1,170)	8,732	577,523	10,863	34,976	631,022

	Attributable to equity holders of the Company					Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves		
Balance as of January 1, 2012	98	(1,170)	10,022	676,947	(940)	47,213	732,170
Total comprehensive income for the period							
Profit for the period	-	-	-	48,373	-	1,715	50,088
Other comprehensive income							
Currency translation differences	-	-	-	-	(4,551)	(2,051)	(6,602)
Cash flow hedge	-	-	-	-	9,517	-	9,517
Total comprehensive income for the period	-	-	-	48,373	4,966	(336)	53,003
Acquisition of non-controlling interest	-	-	(189)	-	-	(358)	(547)
Balance as of March 31, 2012	98	(1,170)	9,833	725,320	4,026	46,519	784,626

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from operating activities		
Profit before income tax	59,953	52,792
Adjustments for:		
Share of profit of equity accounted investments	(12,087)	(1,700)
Gain on foreign exchange differences	(10,018)	(8,433)
Finance income	(543)	(376)
Finance expense	2,338	3,019
Depreciation, depletion and amortization	14,070	12,097
Allowance for doubtful accounts	(657)	124
Other non-cash items	2,422	3,718
Changes in working capital:		
Accounts receivable	(2,261)	(21,731)
Inventories	(4,822)	(10,088)
Other current assets	(982)	(2,472)
Accounts payable	8,079	4,621
Taxes payable	11,473	8,792
Other liabilities	3,200	(9,192)
Income taxes paid	(6,160)	(11,675)
Interest paid	(1,996)	(1,994)
Dividends received	228	2,851
Net cash provided by operating activities	62,237	20,353
Cash flows from investing activities		
Proceeds from disposal of subsidiaries, net of cash disposed	-	292
Acquisition of equity-accounted investments	-	(815)
Bank deposits placement	(16,671)	-
Repayment of bank deposits	5,066	700
Acquisition of other investments	(2,724)	(2,357)
Short-term loans issued	(1,003)	(1,181)
Repayment of short-term loans issued	9,284	652
Long-term loans issued	-	(1,231)
Repayment of long-term loans issued	-	353
Capital expenditures	(30,313)	(23,256)
Proceeds from sale of property, plant and equipment	148	313
Interest received	472	635
Net cash used in investing activities	(35,741)	(25,895)
Cash flows from financing activities		
Proceeds from short-term borrowings	1,514	8,451
Repayment of short-term borrowings	(14)	(7,027)
Proceeds from long-term borrowings	10,096	30,000
Repayment of long-term borrowings	(6,911)	(5,058)
Transaction costs directly attributable to the borrowings received	-	(206)
Dividends paid to the Company's shareholders	-	(4,380)
Dividends paid to non-controlling interest	-	(8)
Acquisition of non-controlling interest in subsidiaries	(272)	(23,316)
Net cash provided by / (used in) financing activities	4,413	(1,544)
Increase / (decrease) in cash and cash equivalents	30,909	(7,086)
Effect of foreign exchange on cash and cash equivalents	(1,777)	(878)
Cash and cash equivalents as of the beginning of the period	29,436	34,928
Cash and cash equivalents as of the end of the period	58,568	26,964

1. General

Description of Business

JSC Gazprom Neft (the “Company”) and its subsidiaries (together referred to as the “Group”) is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a joint stock company and was set up in accordance with Russian regulations. JSC Gazprom (“Gazprom”), the Group’s ultimate parent company, owns 95.68% shares in the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Interim Condensed Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (“IFRS”).

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS. For all periods up to and including the year ended December 31, 2011, the Group prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). These are the first financial statements the Group has published in accordance with IFRS. Refer to Note 25 for information on the Group’s adoption of IFRS.

These significant accounting policies and estimates represent those policies and estimates that the Group expects to use in its first IFRS financial statements as of December 31, 2012.

In the opinion of the Group’s management (“Management”), the Interim Condensed Consolidated Financial Statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to fairly state the Group’s financial position, results of operations and cash flows for the interim periods. Subsequent events occurring after March 31, 2012 were evaluated through May 22, 2012, the date these financial statements were authorised for issue.

The results for the three months ended March 31, 2012 are not necessarily indicative of the results expected for the full year.

Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, financial investments classified as available-for-sale, and obligations under Stock Appreciation Rights (SAR’s) are stated at fair value.

Seasonality of Operations

The Group as a whole is not subject to significant seasonal fluctuations.

Foreign Currency Translation

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that are influenced by the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

The presentation currency for the Group is the Russian Ruble. Gains and losses resulting from the re-measurement into presentation currency are included in separate line of equity in the Interim Condensed Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Interim Condensed Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of Consolidation

The financial statements include the accounts of subsidiaries in which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Accordingly, the Group's share of net earnings from these companies is included in profit and loss as share of profit of equity accounted investments. All other investments are classified either as held-to-maturity or as available for sale.

Business Combinations

The Group accounts for its business combinations according to IFRS 3 *Business Combinations*. The Group applies the acquisition method of accounting and recognises assets acquired and liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company have not public market price). Measurement choice is made for each business combination.

Goodwill and Other Intangible Assets

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-Controlling Interest

Certain changes in a parent's ownership interest are accounted for as equity transactions. When a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary measured at carrying value at the date control is lost. In addition, ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Interim Condensed Consolidated Statements of Comprehensive Income.

Acquisitions from Entities under Common Control

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity.

Investments in Associates and Joint Ventures (Equity Accounted Investees)

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and Cash Equivalents

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

Non-Derivative Financial Assets

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit and loss.

Held-to-maturity Financial Assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and Receivables

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates are based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit and loss. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses.

Non-Derivative Financial Liabilities

The Group initially recognises debt securities issued and liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Derivative Financial Instruments

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

Derivative instruments are recorded at fair value on the Consolidated Statement of Financial Position in either other financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation. 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 expected.

Hedge Accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument.

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is ultimately recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is calculated on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Assets Classified as Held for Sale

Assets are classified in the Consolidated Statement of Financial Position as ‘assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period in which they were reclassified. These assets are measured at the lower of the carrying amounts and fair value less costs to sell. Assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Intangible Assets

Intangible assets that have limited useful lives are amortised on a straight-line basis over the shorter of their useful lives and the period set by legislation. Useful lives with respect to intangible assets are determined as follows:

<u>Intangible Asset Group</u>	<u>Average Life</u>
Licenses and software	1-5 years
Land rights	25 years

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and any impairments. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred; renewals and improvements of assets are capitalised. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

Oil and Gas Properties

Exploration and Evaluation assets

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

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

Exploration and evaluation assets include:

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

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

Development Costs

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, are capitalised within oil and gas assets.

Depreciation, Depletion and Amortisation

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

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

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

Catalysts and reagents mainly used in the refining operations are treated as fixed assets. The assets are depreciated based on the straight-line method.

Capitalisation of Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

Decommissioning Obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and Production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

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

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period for the purposes other than to produce inventories during that period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income Taxes

Currently the Group does not exercise the option to pay taxes as a consolidated tax-payer and, accordingly, the Group is not subject to taxation on a consolidated basis. Current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are not deductible for tax purposes. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Interim Condensed Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 *Income Taxes*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Interim Condensed Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Income tax expense is recognised based on Management's estimate of the weighted average annual income tax rate expected for the full financial year.

Mineral Extraction Tax and Excise Duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Common Stock

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

Treasury stock

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

Earnings per Share

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

Stock-Based Compensation

In accordance with IFRS 2 *Share-Based Payments* the Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SARs in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and Other Benefit Obligations

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

Government Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

Recognition of Revenues

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

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales include revenue, export duties and sales related excise tax.

Buy/Sell Transactions

Purchases and sales under the same contract with a specific counterparty (buy-sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of a certain type of products during the same reporting period from / to the same counterparty, is to leverage production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in crude oil transportation to the refinery costs and any negative difference is treated as an increase in crude oil transportation costs to the refinery.

Transportation Costs

Transportation expenses recognised in profit and loss represent all expenses incurred to transport crude oil and oil products through the Transneft pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Maintenance and Repair

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

3. Critical accounting estimates, assumptions and judgments

Preparing financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Interim Condensed Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortisation charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

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

Oil and gas reserves have a direct impact on certain amounts reported in the Interim Condensed Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Impairment of Long-Lived Assets

The carrying amounts of the Group's long-lived assets, other than goodwill, inventories, long-term financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment of Non-Derivative Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investments are assessed for specific impairment. Loans and receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning Obligations

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

Contingencies

Certain conditions may exist as of the date of these Interim Condensed Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Interim Condensed Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies can not be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to shareholders or others.

4. New Accounting Standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and that the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is deferred until 2015, earlier adoption is permitted. The Group does not plan to adopt the standard before 2015 and is currently assessing the impact of the new standard on its financial statements.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after January 1, 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after January 1, 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after July 1, 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Other revised standards and interpretations: The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, the amendments to IAS 19 “Employee benefits”, relating to changes in recognition and measurement of defined benefit pension expense, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

5. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group’s business more secure in both the short and the long term.

The Group's goal in risk management is to create additional guarantees of achievement by Gazprom Neft of its strategic goals by identifying and guarding against risks and by instituting effective mechanisms to deal with them.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:

- market risk (including currency risk, interest rate risk and commodity price risk);
- credit risk; and
- liquidity risk.

Currency Risk

The Group is exposed to currency risk primarily on sales and borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the group companies, for instance the Russian Ruble (RUB) for companies operating in Russia. The currency in which these transactions are denominated is mainly US Dollar (USD).

The Group's currency exchange risk is considerably mitigated by its foreign currency liabilities: large share of the Group's borrowings of its loans and associated loan servicing costs is US dollars. The currency structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. A balanced structure of currency assets and liabilities minimises the impact of currency risk factors on the Group's financial and business performance.

Furthermore, the Group applies hedge accounting to manage volatility in profit or loss with its cash flows in foreign currency.

Interest Rate Risk

The major part of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment, depending on which Management of the Group decides whether it is more secure to obtain financing on a fixed-rate or variable-rate basis. When changes in the fixed or variable market interest rates are considered significant Management may consider refinancing of certain debt instruments on more favorable terms.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate would be more favorable over the expected period until maturity.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group continuously uses a range of actions to reduce mineral extraction costs.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. Gazprom Neft has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual lending limits depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and actively uses alternative sources of loan financing in addition to bank loans. The Group's stable financial situation, which is confirmed by international rating agencies, helps it to mobilize funds in Russian and foreign banks with comparative ease.

6. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Cash on hand	604	479	222
Cash in bank	37,718	16,376	6,730
Term deposits with original maturity of less than three months	19,379	11,791	27,694
Cash equivalents	867	789	274
Total cash and cash equivalents	58,568	29,435	34,920

As of March 31, 2012, December 31, 2011 and January 1, 2011 the majority of bank deposits are held in Russian Ruble. Bank deposits represent deposits with original maturities of less than three months.

7. Short-term financial assets

Short-term financial assets as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Deposits with original maturity more than 3 months less than 1 year	11,828	246	3,334
Short-term loans issued	5,700	14,524	5,468
Forward contracts - cash flow hedge	2,598	1,858	2,932
Financial assets held to maturity	4,969	2,323	-
Total short-term financial assets	25,095	18,951	11,734

8. Trade and Other receivables

Trade and other receivables as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Trade receivables	74,293	75,356	50,279
Other financial receivables	1,121	1,480	3,558
Less impairment provision	(5,400)	(6,056)	(5,827)
Total trade and other receivables	70,014	70,780	48,010

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

9. Inventories

Inventories as of March 31, 2012, December 31, 2011 and January 1, 2011 consist of the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Crude oil	15,437	14,047	10,366
Gas	2,873	4,168	1,745
Petroleum products and petrochemicals	39,851	35,702	24,831
Materials and supplies	18,753	19,804	18,631
Other	4,104	4,263	2,607
Less provision for impairment	(3,592)	(3,783)	(1,644)
Total inventory	77,426	74,201	56,536

As part of the management of crude inventory, the Group may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy/sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken for the three months ended March 31, 2012 and 2011 is as follows:

	2012	2011
Buy/sell crude oil transactions for the three months ended March 31	19,372	17,392

10. Other Current Assets

Other current assets as of March 31, 2012, December 31, 2011 and January 1, 2011 consist of the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Prepaid custom duties	23,861	26,103	15,219
Advances paid	23,595	29,572	17,985
Prepaid expenses	586	343	857
Value added tax receivable	24,158	28,347	23,567
Other assets	24,348	12,004	10,263
Less impairment provision	(6,361)	(6,851)	(5,343)
Total other current assets	90,187	89,518	62,548

The impairment provision mainly relates to other assets being other receivables of our Serbian subsidiary.

11. Assets Classified as Held for Sale

	March 31, 2012	December 31, 2011	January 1, 2011
Assets			
Property, plant and equipment	200	694	5,060
Deferred income tax asset	412	417	-
Other intangible assets	6	117	39
Other non-current assets	-	-	4
Other current assets	159	337	759
Current income tax prepayments	-	2	37
Short-term financial assets	-	47	-
Inventories	-	142	1,060
Trade and other receivables	-	272	499
Cash and cash equivalents	-	1	8
	<u>777</u>	<u>2,029</u>	<u>7,466</u>
Liabilities			
Debt	-	45	-
Trade and other payables	-	163	1,327
Other current liabilities	-	57	463
Current income tax payable	-	-	13
Other taxes payable	7	103	742
Provisions for liabilities and charges	-	265	1,063
Deferred tax liabilities	-	34	265
	<u>7</u>	<u>667</u>	<u>3,873</u>

12. Property, Plant and Equipment

Movements in property, plant and equipment for the three months ended March 31, 2012 and 2011 are as follows:

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
<i>As of January 1, 2011</i>	367,506	127,681	56,884	3,548	32,571	588,190
Additions	13,638	129	46	5,322	7,706	26,841
Changes in asset retirement obligations	850	-	-	-	-	850
Capitalised borrowing costs	118	-	-	-	113	231
Transfers	-	5,124	1,667	267	(7,058)	-
Disposals	(491)	(124)	(307)	(4)	(146)	(1,072)
Translation differences	(1,220)	(856)	(1,520)	(129)	(259)	(3,984)
<i>As of March 31, 2011</i>	380,401	131,954	56,770	9,004	32,927	611,056
Depreciation and impairment						
<i>As of January 1, 2011</i>	(76,924)	(36,865)	(5,736)	(241)	-	(119,766)
Depreciation charge	(10,231)	(948)	(649)	(95)	-	(11,923)
Disposals	291	15	36	3	-	345
Translation differences	183	97	136	23	-	439
<i>As of March 31, 2011</i>	(86,681)	(37,701)	(6,213)	(310)	-	(130,905)
Net book value						
<i>As of January 1, 2011</i>	290,582	90,816	51,148	3,307	32,571	468,424
<i>As of March 31, 2011</i>	293,720	94,253	50,557	8,694	32,927	480,151

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total PPE
<i>As of January 1, 2012</i>	469,374	145,959	70,314	11,411	48,579	745,637
Additions	18,423	1,046	-	-	9,809	29,278
Changes in asset retirement obligations	(1,436)	-	-	-	-	(1,436)
Capitalised borrowing costs	170	-	-	-	572	742
Transfers	-	422	3,502	108	(4,032)	-
Disposals	(544)	(113)	(448)	(3)	(287)	(1,395)
Translation differences	(2,343)	(1,237)	(2,172)	(351)	(1,485)	(7,588)
<i>As of March 31, 2012</i>	483,644	146,077	71,196	11,165	53,156	765,238
Depreciation and impairment						
<i>As of January 1, 2012</i>	(118,171)	(41,903)	(9,969)	(612)	-	(170,655)
Depreciation charge	(11,272)	(1,480)	(1,355)	(116)	-	(14,223)
Disposals	473	22	175	2	-	672
Translation differences	355	180	281	13	-	829
<i>As of March 31, 2012</i>	(128,615)	(43,181)	(10,868)	(713)	-	(183,377)
Net book value						
<i>As of January 1, 2012</i>	351,203	104,056	60,345	10,799	48,579	574,982
<i>As of March 31, 2012</i>	355,029	102,896	60,328	10,452	53,156	581,861

The information regarding Group's exploration and evaluation assets (part of O&G assets) are presented below:

	Exploration and evaluation assets		Exploration and evaluation assets
<i>As of January 1, 2011</i>	13,576	<i>As of January 1, 2012</i>	16,676
Additions	1,118	Additions	3,329
Translation differences	-	Translation differences	(338)
<i>As of March 31, 2011</i>	14,694	<i>As of March 31, 2012</i>	19,667
Depreciation and impairment		Depreciation and impairment	
<i>As of January 1, 2011</i>	(772)	<i>As of January 1, 2012</i>	(2,275)
Depreciation charge	(146)	Depreciation charge	(123)
<i>As of March 31, 2011</i>	(918)	<i>As of March 31, 2012</i>	(2,398)
Net book value		Net book value	
<i>As of January 1, 2011</i>	12,804	<i>As of January 1, 2012</i>	14,401
<i>As of March 31, 2011</i>	13,776	<i>As of March 31, 2012</i>	17,269

13. Investments in Associates and Joint Ventures

The Group has several investments in associates and joint ventures. The carrying value of the most significant investments as of March 31, 2012, December 31, 2011 and January 1, 2011 are summarized below:

	Ownership percentage	March 31, 2012	December 31, 2011	January 1, 2011
Slavneft	49.9	79,117	72,681	77,642
Tomskneft	50.0	33,145	31,284	33,516
SPD	50.0	46,580	43,316	40,129
SeverEnergy	25.5	24,576	24,599	26,209
Others		3,839	3,435	1,805
Total investments in associates and joint ventures		187,257	175,315	179,301

The reconciliation of carrying amount of investments in associates and joint ventures as at the beginning of the reporting period and as at the end of the reporting period is shown below:

	March 31, 2012	March 31, 2011
Carrying amount at the beginning of the reporting period	175,315	179,301
Share of profit of associates and joint ventures	12,087	1,700
Dividends received	(145)	(512)
Fair value of net assets of associates and joint ventures acquired	-	815
Share of other comprehensive income of associates and joint ventures	-	(2)
Carrying amount at the end of the reporting period	187,257	181,302

The Company's share of the profit of equity accounted investments increased to RUB 12,087 million in the three months ended March 31, 2012 as compared to the three months ended March 31, 2011 due to the adoption of the 60/66 tax system in the end of 2011 financial year (under which export duty rates on crude oil sales decreased from 65% to 60%), which lead to increases in the domestic price of crude oil. The tax change resulted in an increase in the profit of associated entities selling crude oil domestically

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

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For the three months ended March, 31 2012
Currency – RUB millions

The following table summarises the financial information of Slavneft as of March 31, 2012 and December 31, 2011. Revenue and net income are shown for the three months ended March 31, 2012 and 2011:

	2012	2011
Current assets	48,132	30,181
Non-current assets	204,584	209,369
Total liabilities	100,399	100,467
Revenues	53,735	38,593
Net income	12,815	1,881

In December 2007 the Group acquired a 50% equity interest in JSC Tomskneft VNK (–Tomskneft”) and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft (–Rosneft”). As part of this transaction, the Group and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

The following table summarises the financial information of Tomskneft as of March 31, 2012 and December 31, 2011. Revenue and net income are shown for the three months ended March 31, 2012 and 2011:

	2012	2011
Current assets	24,848	19,499
Non-current assets	78,541	76,864
Total liabilities	61,194	57,883
Revenues	27,943	23,057
Net income	3,722	1,586

As part of the acquisition of Sibir Energy in June 2009 the Group acquired a 50% equity interest in Salym Petroleum Development N.V. (–Salym”). Salym is owned 50% by Sibir and 50% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of Salym relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarises the financial information of Salym as of March 31, 2012 and December 31, 2011. Revenue and net income are shown for the three months ended March 31, 2012 and 2011:

	2012	2011
Current assets	13,357	12,512
Non-current assets	26,692	28,670
Total liabilities	14,660	19,914
Revenues	22,212	15,513
Net income	6,158	2,891

In December 2010 Yamal Razvitie LLC (a 50%:50% joint venture between the Group and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom. The respective purchase price paid by the Group comprised RUB 28,123 million. SeverEnergy is developing through its subsidiaries the Samburgskoye and Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The following table summarises the financial information of SeverEnergy as of March 31, 2012 and December 31, 2011. Net income is shown for the three months ended March 31, 2012 and 2011:

	2012	2011
Current assets	4,474	5,029
Non-current assets	170,167	166,165
Total liabilities	63,899	60,686
Net income	(349)	(777)

14. Long-term Financial Assets

Long-Term financial assets as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Long-term loans issued	5,506	2,800	10,419
Forward contracts - cash flow hedge	794	-	2,942
Financial assets held to maturity	-	-	1,531
Available for sale financial assets	7,612	7,478	7,398
Less impairment provision	(699)	(791)	-
Total long-term financial assets	13,213	9,487	22,290

15. Short-term Debt and Current Portion of Long-term Debt

As of March 31, 2012, December 31, 2011 and January 1, 2011 the Group has short-term loans outstanding as follows:

	March 31, 2012	December 31, 2011	January 1, 2011
Bank loans	1,542	116	773
Other borrowings	8,648	7,456	7,738
Finance lease liabilities	1,000	1,257	-
Current portion of long-term debt	40,183	35,501	44,349
Total short-term debt and current part of long-term debt	51,373	44,330	52,860

Current portion includes interest payable on short-term and long-term borrowings.

As of March 31, 2012 short-term loans were provided by international banks for funding of working capital and consisted of unsecured facilities.

16. Trade and Other Payables

Accounts payable as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Trade accounts payable	35,742	36,997	28,061
Dividends payable	1,357	1,534	8,932
Other accounts payable	6,742	2,665	2
Total trade and other payables	43,841	41,196	36,995

17. Other Taxes Payable

Other taxes payable as of March 31, 2012, December 31, 2011 and January 1, 2011 comprise the following:

	March 31, 2012	December 31, 2011	January 1, 2011
Mineral extraction tax	14,032	12,428	10,233
VAT	16,509	9,970	6,311
Excise tax	6,792	3,968	3,006
Property tax	1,446	1,350	1,414
Other taxes	2,662	2,373	1,494
Total other taxes payable	41,441	30,089	22,458

Taxes other than income tax expense for the three months ended March 31, 2012 and 2011 comprise the following:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Mineral extraction tax	39,878	29,794
Property tax	1,683	1,514
Excise	19,793	12,690
Others	2,929	2,978
Total taxes other than income tax	64,283	46,976

18. Long-Term Debt

As of March 31, 2012, December 31, 2011 and January 1, 2011 the Group has long-term outstanding loans as follows:

	March 31, 2012	December 31, 2011	January 1, 2011
Bank loans	118,021	136,456	149,639
Other borrowings	1,022	818	4,961
Bonds	82,866	71,999	39,173
Finance lease liabilities	3,234	3,207	-
less current portion of debt	(40,183)	(35,501)	(44,349)
Total long-term debt	164,960	176,979	149,424

On April 21, 2009, the Group placed ten-year Ruble Bonds (04 series) with the total par value of RUB 10 billion (all non-current as of March 31, 2012 and December 31, 2011). In April, 2011 an option to redeem the bonds earlier was exercised and in August, 2011 the Company completed a secondary placement of RUB 6.1 billion. The bonds maturing in 2019 bear interest of 8.2% per year and have semi-annual coupon payments.

On July 21, 2009, the Group placed seven-year Ruble Bonds (03 series) with the total par value of RUB 8 billion (all current as of March 31, 2012 and December 31, 2011). The bonds bear interest of 14.75% per year with three year put option and have semi-annual coupon payments.

On April 13, 2010, the Group placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUB 20 billion (all non-current as of March 31, 2012 and December 31, 2011). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed five-year Ruble Bonds (08 series) with the total par value of RUB 10 billion (all non-current as of March 31, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (09 series) with the total par value of RUB 10 billion (all non-current as of March 31, 2012 and December 31, 2011). The bonds bear interest of 8.5% per year with a five year put option and have semi-annual coupon payments.

On February 08, 2011, the Group placed ten-year Ruble Bonds (10 series) with the total par value of RUB 10 billion (all non-current as of March 31, 2012 and December 31, 2011). The bonds bear interest of 8.9% per year with a seven year put option and have semi-annual coupon payments.

On February 7, 2012 the Group placed ten-year Ruble Bonds (11 series) with the total par value of RUB 10 billion (all non-current as of March 31, 2012). The bonds bear interest of 8.25% per year. The bonds have an early redemption offer to be made 3 years following the placement.

In July 2010 the Group completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of US\$ 1.5 billion (approximately RUB 46 billion). The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015. As of March 31, 2012 and December 31, 2011 the Group has US\$ 1.5 billion (approximately RUB 44 billion and RUB 48 billion, respectively) outstanding under the loan (including current portion of US\$ 0.4 billion and US\$ 0.3 billion (approximately RUB 12 billion and RUB 10 billion) as of March 31, 2012 and all non-current as of December 31, 2011, respectively).

As of March 31, 2012 the Group has RUB 74,024 million in long term loans from a number of banks, primarily denominated in US Dollars (including current portion of RUB 15,872 million). As of December 31, 2011 the Group had RUB 88,812 million in long term loans from a number of banks (including current portion of RUB 15,312 million). Interest rates under the loans varied from LIBOR plus 0.5% to fixed interest rate of 6.75%.

The loan agreements contain financial covenants that require the Group's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of March 31, 2012 and December 31, 2011, respectively.

19. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of January 1, 2011					
Forward exchange contracts					
Assets	5,874	2,850	82	2,942	-
Liabilities	-	-	-	-	-
Total	5,874	2,850	82	2,942	-
As of December 31, 2011					
Forward exchange contracts					
Assets	1,858	111	1,747	-	-
Liabilities	(8,604)	(153)	(1,629)	(2,154)	(4,668)
Total	(6,746)	(42)	118	(2,154)	(4,668)
As of March 31, 2012					
Forward exchange contracts					
Assets	3,392	2,511	87	600	194
Liabilities	(1,133)	(21)	(115)	(69)	(928)
Total	2,259	2,490	(28)	531	(734)

As of March 31, 2012 and December 31, 2011 the Group has outstanding forward currency exchange contracts for a total notional value of US\$ 3,923 million and US\$ 3,609 million respectively. During the reporting period the amount of RUB 18 million was reclassified from equity to profit and loss (for the three months ended March 31, 2011 – RUB 264 million).

No significant ineffectiveness occurred during the reporting period.

20. Commitments and Contingencies

Taxes

During 2011 the Russian tax authorities completed reviews of the operations of the Group and its Russian subsidiaries for the year ended December 31, 2009. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations and changes that can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group, including the allocation of tax payments to the Federal and Regional budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their interpretation of legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court has issued guidance for reviewing tax cases to lower courts, which provides a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceeding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2010 and 2011 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these reviews.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce significant reporting and documentation requirements. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions (transactions with related party and some types of transactions with unrelated party), if the transaction pricing was not at arm's length. Management exercises its judgement about whether or not the transfer pricing documentation that the Group has prepared to comply with the new legislation, provides sufficient evidence to support the Group's tax positions and related tax returns. Given that the practice of implementation of the new transfer pricing rules has not yet developed, the impact of any challenge to the Group's transfer prices cannot be reliably estimated.

The transfer pricing legislation that is applicable to transactions on or prior to December 31, 2011 also allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if transaction price differs from the market price by more than 20%. Management believes it has adequately provided for any probable losses that might arise.

Operating Environment

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

Environmental Matters

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

Capital Commitments

During the year ended March 31, 2012 the Group entered into contracts to purchase property, plant and equipment for RUB 26,136 million (December 31, 2011: RUB 16,794 million, January 1, 2011: RUB 18,317 million).

21. Group Entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

Subsidiary	Country of incorporation	Ownership interest	
		31 March, 2012	31 December, 2011
OJSC "GazpromNefit"	Russian Federation	100%	100%
OJSC "GPN-Omsk"	Russian Federation	100%	100%
OJSC "GPN-Tumen"	Russian Federation	100%	100%
OJSC "GPN-Ural"	Russian Federation	100%	100%
OJSC "GPN-Novosibirsk"	Russian Federation	100%	97%
OJSC "GPN-Yaroslavl"	Russian Federation	91%	91%
OJSC "NNG"	Russian Federation	100%	100%
OJSC "Uzhuralneftegaz"	Russian Federation	88%	88%
OJSC "ONPZ"	Russian Federation	100%	100%
OJCS "MNPZ"	Russian Federation	78%	78%
OJSC "CNT"	Russian Federation	100%	100%
CJSC "GPN-Severo-Zapad"	Russian Federation	100%	100%
CJSC "GPN-Kuzbass"	Russian Federation	100%	100%
CJSC "Aero"	Russian Federation	100%	100%
CJSC "GPN-Orenburg"	Russian Federation	62%	62%
LLC "Marin Bunker"	Russian Federation	100%	100%
LLC "GPN-Center"	Russian Federation	100%	100%
LLC "GPN-Finance"	Russian Federation	100%	100%
LLC "Smaz Materials"	Russian Federation	100%	100%
LLC "Ugra"	Russian Federation	100%	100%
LLC "Vostok"	Russian Federation	100%	100%
LLC "Zapolyarneft"	Russian Federation	100%	100%
LLC "Hantos"	Russian Federation	100%	100%
SibOil GMBH Trading	Austria	100%	100%
NAFTNA INDUSTRIJA SRBIJE (NIS)	Serbia	56%	56%

22. Related party transactions

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 *Related Party Disclosures*. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. The table below summarises transactions in the ordinary course of business with either the parent company or associates and joint ventures.

Transactions with key management personnel

Key management received remunerations: salaries, bonuses and contributions to the pension funds amounted to RUB 81 million for the three months ended March 31, 2012 and to RUB 57 million for the three months ended March 31, 2011.

Other related party transactions

The Group enters into transactions with related parties based on market or regulated prices.

At March 31, 2012, December 31, 2011 and January 1, 2011 the outstanding balances with related parties were as follows:

January 1, 2011

	Parent company	Entities under common control	Associates and joint ventures
Short-term financial assets	-	-	2,127
Gross amount of trade receivables	-	394	644
Other assets	-	414	1,201
Long-term financial assets	-	-	7,940
Total assets	-	808	11,912
Borrowings	-	-	7,434
Trade and other payables	-	208	1,867
Other current liabilities	-	35	2,648
Long-term debt	-	-	1,102
Total liabilities	-	243	13,051

December 31, 2011

	Parent company	Entities under common control	Associates and joint ventures
Short-term financial assets	-	-	13,461
Gross amount of trade receivables	921	309	4,440
Gross amount of other receivables	-	-	21
Other assets	-	361	1,109
Long-term financial assets	-	-	2,095
Total assets	921	670	21,126
Borrowings	1,222	-	7,174
Trade and other payables	439	319	5,828
Other current liabilities	260	41	1,416
Long-term debt	3,207	-	573
Total liabilities	5,128	360	14,991

March 31, 2012

	Parent company	Entities under common control	Associates and joint ventures
Short-term financial assets	-	-	4,294
Gross amount of trade receivables	740	296	4,104
Other assets	-	451	1,134
Long-term financial assets	-	-	2,544
Total assets	740	747	12,076
Borrowings	971	-	8,365
Trade and other payables	206	277	7,601
Other current liabilities	119	80	1,216
Long-term debt	3,234	-	543
Total liabilities	4,530	357	17,725

For the three months ended March 31, 2012 and 2011 the following transaction occurs with related parties:

Three months ended March 31, 2011	Parent company	Entities under common control	Associates and joint ventures
Crude oil, gas and oil products sales	13	392	9,447
Other revenue	-	17	554
Purchases of crude oil, gas and oil products	-	-	36,610
Production related services	-	-	1,951
Transportation costs	663	1,135	3,481
Other services	3	208	2
Interest income	-	-	76

Three months ended March 31, 2012	Parent company	Entities under common control	Associates and joint ventures
Crude oil, gas and oil products sales	1,504	844	13,700
Other revenue	-	53	1,257
Purchases of crude oil, gas and oil products	-	4,128	49,122
Production related services	-	-	2,486
Transportation costs	1,139	906	4,344
Other services	262	2,163	1
Interest income	-	-	236

23. Segment information

Presented below is information about the Group's operating segments for the three months ended March 31, 2012 and 2011. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas (including PSA results and joint ventures results), oil field services. The Group entities included in the Upstream segment sell most of their products to the Downstream segment entities.

Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Downstream segment also includes other operations of the premium segment (delivery of refined products for sea transport and airplanes, production and distribution of lubricants).

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and products, and other adjustments.

Intersegment revenues are based upon estimated market prices.

Adjusted EBITDA represents the Group's EBITDA and its share in equity accounted investments' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA represents earnings before interest, income tax, net foreign exchange gain (loss), depreciation and amortization. EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

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For the period ended March 31, 2012	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	3,880	274,096	-	277,976
Inter-segment	96,530	1,208	(97,738)	-
Total revenues	100,410	275,304	(97,738)	277,976
Segment results				
Adjusted EBITDA	56,805	22,457	-	79,262
Depreciation, depletion and amortisation	9,489	4,581	-	14,070
Segment assets as of March 31, 2012	741,039	740,530	(308,135)	1,173,434
Capital expenditure	17,700	12,613	-	30,313

For the period ended March 31, 2011	Upstream	Downstream	Eliminations	Total
Segment revenues				
Refined products, oil and gas sales and other revenues :				
External parties	1,358	230,661	-	232,019
Inter-segment	76,897	992	(77,889)	-
Total revenues	78,255	231,653	(77,889)	232,019
Segment results				
Adjusted EBITDA	39,787	31,849	-	71,636
Depreciation, depletion and amortisation	9,377	2,720	-	12,097
Segment assets as of December 31, 2011	616,075	787,795	(285,711)	1,118,159
Capital expenditure	14,960	8,296	-	23,256

The geographical segmentation of the Group's revenue for the period ended March 31 is presented below:

For the period ended March 31, 2012	Russian Federation	CIS	Export and international sales	Total
Sales from external customers, gross	139,708	23,522	181,305	344,535
Less custom duties and sales related exices	-	(1,444)	(65,115)	(66,559)
Revenues from external customers, net	139,708	22,078	116,190	277,976
For the period ended March 31, 2011				
Sales from external customers, gross	107,278	18,381	162,652	288,311
Less custom duties and sales related exices	-	(1,636)	(54,656)	(56,292)
Revenues from external customers, net	107,278	16,745	107,996	232,019
For the period ended and as of March 31, 2012	Russian Federation	CIS	Export and international sales	Total
Non-current assets	742,800	6,460	67,237	816,497
Capital expenditures	30,032	93	188	30,313
For the period ended March 31, 2011 and as of December 31, 2011				
Non-current assets	720,350	7,130	71,967	799,447
Capital expenditures	21,711	139	1,406	23,256

Adjusted EBITDA for the three months ended March 31, 2012 and 2011 is reconciled below:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Profit for the period	50,088	40,768
Total income tax expenses	9,865	12,024
Finance expense	2,338	3,019
Finance income	(543)	(376)
Depreciation, depletion and amortisation	14,070	12,097
Net foreign exchange gain	(2,552)	(3,813)
less Share of profit of equity accounted investments	(12,087)	(1,700)
Other income, net	(237)	(298)
EBITDA	60,942	61,721
Share of EBITDA in associates and joint ventures	18,320	9,915
Total EBITDA	79,262	71,636

24. Subsequent Events

On April 9, 2012, JSC Gazprom Neft's Board of Directors recommended that annual general meeting of shareholder's to approve an annual dividend of RUB 34.6 billion for the 2011 financial year.

25. Explanation to transition to IFRS

As stated in Note 2 these are the first Interim Condensed Consolidated Financial Statements prepared in accordance with IFRS. The date of the Group transition to IFRS is January 1, 2011 (the "Transition date").

Accounting policies described in Note 2 were applied when preparing Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2012 and the comparative information and Consolidated Statement of Financial Position as at the Transition Date.

In preparing its opening IFRS Consolidated Statement of Financial Position and adjusting amounts reported previously in the financial statements prepared in accordance with US GAAP (previous GAAP), the Group has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, which contains a number of voluntary exemptions and mandatory exceptions from the requirement to apply IFRS retrospectively.

Exemptions used during transition to IFRS

The Group has applied the following exemptions allowed by IFRS 1:

a. Business combinations

The Group elected to apply IFRS 3 (R) prospectively to business combinations occurring after its transition date. All business combinations, which occurred prior to the Transition Date, have not been restated. Correspondingly, any goodwill recognised under previous GAAP has not been restated as of the Transition Date. The Group tested goodwill for impairment as of the Transition Date and no impairments were recognised.

The exemption was also applied to associates and joint ventures.

b. Deemed cost

As deemed cost as of January 1, 2011 the Group measured certain items of property, plant and equipment at fair value or at fair value based on previous acquisition. All other items of property, plant and equipment as well as investments in jointly controlled entities and associates have been accounted under the historical cost convention.

c. Cumulative Translation Differences

Cumulative translation differences are deemed to be zero at the Transition Date.

d. Decommissioning liabilities included in the cost of property, plant and equipment

When accounting for decommissioning liability, the Group applied a shortcut method by:

- measuring the liability as of the transition date in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* based on the new functional currency; and
- recognising in retained earnings the difference between that amount of the liability at the date of transition and the amount determined under the Group's previous GAAP.

Adjustments Made in Connection with Transition to IFRS

The financial statements under US GAAP were presented in US Dollars. In presenting the reconciliation of the transition to IFRS and the Russian Ruble as the presentation currency for the financial statements, the following rules were followed:

- all items in the statement of financial position were translated using closing exchange rates at the end of the period;
- all items in the statement of comprehensive income were translated using the average exchange rate for the period.

The official exchange rates of the Ruble to the US Dollar were:

29.32 RUB/USD as of March 31, 2012;
32.20 RUB/USD as of December 31, 2011;
31.88 RUB/USD as of September 30, 2011;
28.08 RUB/USD as of June 30, 2011;
28.43 RUB/USD as of March 31, 2011;
30.48 RUB/USD as of December 31, 2010.

The average exchange rates of the Ruble to the US Dollar were 30.26 RUB/USD for the three months ended March 31, 2012; 31.23 for the three months ended December 31, 2011; 29.05 for the three months ended September 30, 2011; 27.99 for the three months ended June 30, 2011; 29.27 for the three months ended 31 March 2011.

The following material adjustments were made to the US GAAP financial statements in connection with the transition to IFRS:

a. Reclassifications

To align the presentation of certain items of assets and liabilities, income and expenses with the requirements of IFRS, the Group made a number of reclassifications from US GAAP financial statements.

The major reclassifications were:

- export duties and excise tax related to sales volumes are presented as deductions from sales in IFRS financial statements rather than operating expenses;
- part of transportation expenses (regarding transportation to refinery) was transferred to production and manufacturing expenses;
- tax prepayments were reclassified from trade and other receivables to other current assets and investments in associates were separated from long-term financial assets.

b. Functional Currency

Under US GAAP the Group's functional currency was US Dollar. For the purposes of reporting under IFRS the local currency was determined to be the functional currency for most group entities. The Russian Ruble was set as the functional currency of JSC Gazprom Neft and its subsidiaries operating in Russian Federation and as the presentation currency for the whole Group.

c. Deemed Cost

As described above the Group applied the exemption allowed by IFRS to the measurement of certain items of property, plant and equipment. The fair values of assets were determined by an independent appraiser to be RUB 171,532 million. The aggregate adjustment to the amounts presented in US GAAP financial statements comprised RUB (16,173) million as of January 1, 2011.

As of January 1, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the FVDC adjustment (increase in deferred tax asset of RUB 3,235 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 3,694 million).

As of March 31, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the FVDC adjustment (increase in deferred tax asset of RUB 813 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 914 million).

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the FVDC adjustment (increase in deferred tax asset of RUB 162 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 87 million).

As of September 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the FVDC adjustment (increase in deferred tax asset of RUB 4,705 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 4,341 million).

As of September 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the FVDC adjustment (increase in deferred tax asset of RUB 5,683 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (decrease in net deferred tax of RUB 8,948 million).

d. Historical cost

Except as described in paragraph c. Deemed Cost above, the Group applied historical cost for measurement of items of property, plant and equipment. Several subsidiaries operating in the Russian Federation had used Russian Rubles as their functional currency since their acquisition dates. As several non-monetary assets were purchased before January 1, 2002 the Group applied IAS 29 *Financial reporting in Hyper-Inflationary Economies* to inflate items purchased during 1995 – 2002.

As of January 1, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (increase in deferred tax asset of RUB 320 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 4,119 million).

As of March 31, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (decrease in deferred tax asset of RUB 3,017 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 6,181 million).

As of June 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (decrease in deferred tax asset of RUB 3,560 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 5,998 million).

As of September 30, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (increase in deferred tax asset of RUB 3,245 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 2,048 million).

As of December 31, 2011 the deferred taxes relate to changes in temporary differences between the accounting and tax base of the assets as a result of the historical cost adjustment (increase in deferred tax asset of RUB 3,936 million) and the change in translation difference between the calculation of deferred tax in US Dollars under US GAAP compared to Russian Rubles under IFRS (increase in net deferred tax of RUB 1,020 million).

e. Measurement of financial liabilities

Under US GAAP short-term and long-term debt were reported at book value and related transaction costs were accounted for separately. In accordance with IFRS financial liabilities are stated at amortised cost.

f. Hedge accounting

As allowed by IAS 39 the Group applied hedge accounting in financial statements prepared in accordance with IFRS .

g. Decommissioning obligation

The decommissioning obligation reported under US GAAP was measured using a credit-adjusted risk free discount rate of 8% and a US dollar inflation rate of 2.5%. For the purposes of these Interim Condensed Consolidated Financial Statements the Group changed the discount and inflation rates based on the conditions existing for the Russian Ruble as of the Transition Date to 11% and 5%, respectively.

h. Accounting for Transactions under Common Control

Under previous US GAAP the Group was obliged to present results of the acquisitions under common control as if the acquired assets and liabilities had always been under control of the Group. Under IFRS accounting policies the Group decided to account for business combinations under common control from the date when control was obtained by the Group.

In the fourth quarter of 2011, the group had acquired certain entities under common control which were accounted for retrospectively under US GAAP. For the purpose of the IFRS financial statements these acquisitions have been accounted for from the date control was obtained. Hence, the effects of retrospective consolidation in US GAAP have been eliminated in these IFRS financial statements.

Since the acquisition did not have any effect on the interim financial statements under US GAAP for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011, there were no transition adjustments made to those financial statements.

i. Other adjustments

Other adjustments include all other individually insignificant adjustments required to make the financial statements compliant with IFRS and adjustments to deferred taxes necessary as a consequence of previous adjustments.

Reconciliations to IFRS of data provided under previous GAAP are provided in the tables below.

Management has decided that it is more useful to present all the required reconciliations between previous GAAP and IFRSs in these first Interim Condensed Consolidated Financial Statements.

Impact on the cash flow statements

The Group has made a number of reclassifications to the numbers reported under US GAAP in order to present its operating cash flows in accordance with IFRS. These reclassification adjustments have no significant impact on the results presented for each type of the Group's activities.

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		US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control			Other adjustments
Reconciliation of shareholders' equity as of January, 1 2011												
Assets												
Current assets												
Cash and cash equivalents	1,146	34,927	-	-	-	-	-	-	-	(7)	(7)	34,920
Short-term financial assets	218	6,644	5,029	-	-	-	-	-	-	61	5,090	11,734
Trade and other receivables	2,600	79,240	(30,233)	-	-	-	-	(1,036)	39	(31,230)	48,010	
Inventories	1,874	57,114	-	(212)	-	-	-	(366)	-	(578)	56,536	
Current income tax prepayments	-	-	3,657	-	-	-	-	-	(35)	3,622	3,622	
Other current assets	1,112	33,891	29,227	(287)	(283)	-	-	-	-	28,657	62,548	
Assets classified as held for sale	189	5,760	-	1,706	-	-	-	-	-	1,706	7,466	
Total current assets	7,139	217,576	7,680	-	1,207	(283)	-	-	(1,402)	58	7,260	224,836
Non-current assets												
Property, plant and equipment	16,466	501,833	1,189	(16,173)	(1,602)	-	-	-	(16,823)	-	(33,409)	468,424
Goodwill and other intang ble assets	1,274	38,828	-	-	450	-	-	-	-	-	450	39,278
Investments in associates	-	-	188,896	-	(9,595)	-	-	-	-	-	179,301	179,301
Long-term trade and other receivables	-	-	274	-	-	-	-	-	-	(18)	256	256
Long-term financial assets	6,994	213,155	(189,505)	-	(1,440)	-	-	-	-	80	(190,865)	22,290
Deferred income tax asset	220	6,705	-	1,054	2,016	-	105	(52)	-	27	3,150	9,855
Other non-current assets	569	17,341	(4,419)	-	(4)	(1,756)	-	-	-	-	(6,179)	11,162
Total non-current assets	25,523	777,862	(3,565)	(15,119)	(10,175)	(1,756)	105	(52)	(16,823)	89	(47,296)	730,566
Total assets	32,662	995,438	4,115	(15,119)	(8,968)	(2,039)	105	(52)	(18,225)	147	(40,036)	955,402

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	Under previous US GAAP, USD million	US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Adjustments Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments	Total impact of change to IFRS	Under IFRS
Reconciliation of shareholders' equity as of January, 1 2011												
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,740	53,030	1,402	-	-	(409)	-	-	(1,402)	239	(170)	52,860
Trade and other payables	2,216	67,537	(28,526)	-	-	-	-	-	(2,042)	26	(30,542)	36,995
Other current liabilities	-	-	20,694	-	-	-	-	-	-	691	21,385	21,385
Current income tax payable	-	-	4,175	-	-	-	-	-	-	(36)	4,139	4,139
Other taxes payable	884	26,942	(4,175)	-	-	-	-	-	(305)	(4)	(4,484)	22,458
Provisions for liabilities and charges	-	-	10,545	-	-	-	-	-	-	6	10,551	10,551
Liabilities associated with assets classified held for sale	134	4,084	-	-	-	-	-	-	-	(211)	(211)	3,873
Total current liabilities	4,974	151,593	4,115	-	-	(409)	-	-	(3,749)	711	668	152,261
Non-current liabilities												
Long-term debt	4,942	150,617	-	-	-	(1,190)	-	-	-	(3)	(1,193)	149,424
Deferred income tax liability	816	24,869	-	1,513	(2,423)	88	-	-	(1,158)	(33)	(2,013)	22,856
Provisions for liabilities and charges	429	13,075	6,644	-	-	-	-	(262)	(427)	(13)	5,942	19,017
Other non-current liabilities	428	13,044	(6,644)	-	-	-	-	-	(4,511)	(9)	(11,164)	1,880
Total non-current liabilities	6,615	201,605	-	1,513	(2,423)	(1,102)	-	(262)	(6,096)	(58)	(8,428)	193,177
Equity												
Share capital	2	61	-	-	37	-	-	-	-	-	37	98
Treasury shares	(45)	(1,371)	-	-	201	-	-	-	-	-	201	(1,170)
Additional paid-in capital	677	20,631	-	-	(15,453)	-	-	-	(5,178)	-	(20,631)	-
Retained earnings	18,223	555,381	-	(16,632)	5,481	(528)	(5,873)	210	-	(506)	(17,848)	537,533
Other reserves	-	-	-	-	-	-	5,978	-	-	-	5,978	5,978
Equity attributable to the Company's owners	18,857	574,702	-	(16,632)	(9,734)	(528)	105	210	(5,178)	(506)	(32,263)	542,439
Non-controlling interest	2,216	67,538	-	-	3,189	-	-	-	(3,202)	-	(13)	67,525
Total equity	21,073	642,240	-	(16,632)	(6,545)	(528)	105	210	(8,380)	(506)	(32,276)	609,964
Total liabilities and shareholders' equity												
Total liabilities and shareholders' equity	32,662	995,438	4,115	(15,119)	(8,968)	(2,039)	105	(52)	(18,225)	147	(40,036)	955,402

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	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Reconciliation of shareholders' equity as of March, 31 2011												
Assets												
Current assets												
Cash and cash equivalents	948	26,951	-	-	-	-	-	-	-	(7)	(7)	26,944
Short-term financial assets	286	8,131	5,174	-	-	-	-	-	-	47	5,221	13,352
Trade and other receivables	3,500	99,502	(34,513)	-	-	-	-	-	-	259	(34,254)	65,248
Inventories	2,234	63,510	341	-	904	-	-	-	-	-	1,245	64,755
Current income tax prepayments	-	-	3,269	-	-	-	-	-	-	22	3,291	3,291
Other current assets	1,322	37,583	29,452	-	(440)	(212)	-	-	-	-	28,800	66,383
Assets classified as held for sale	220	6,254	-	-	2,393	-	-	-	-	-	2,393	8,647
Total current assets	8,510	241,931	3,723	-	2,857	(212)	-	-	-	321	6,689	248,620
Non-current assets												
Property, plant and equipment	16,468	468,169	1,080	(4,063)	15,087	-	-	-	-	(122)	11,982	480,151
Goodwill and other intang ble assets	1,270	36,105	-	-	1,967	-	-	-	-	-	1,967	38,072
Investments in associates	-	-	177,596	-	3,706	-	-	-	-	-	181,302	181,302
Long-term trade and other receivables	-	-	227	-	-	-	-	-	-	5	232	232
Long-term financial assets	6,961	197,894	(170,858)	-	(1,092)	-	-	-	-	(211)	(172,161)	25,733
Deferred income tax asset	219	6,226	-	1,274	2,191	-	933	29	-	8	4,435	10,661
Other non-current assets	719	20,440	(8,415)	-	(3)	(1,621)	-	-	-	-	(10,039)	10,401
Total non-current assets	25,637	728,834	(370)	(2,789)	21,856	(1,621)	933	29	-	(320)	17,718	746,552
Total assets	34,147	970,765	3,353	(2,789)	24,713	(1,833)	933	29	-	1	24,407	995,172

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Reconciliation of shareholders' equity as of March, 31 2011												
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,949	55,408	2,217	-	-	(334)	-	-	-	3	1,886	57,294
Trade and other payables	1,898	53,958	(20,128)	-	-	-	-	-	-	(204)	(20,332)	33,626
Other current liabilities	-	-	17,341	-	-	-	-	-	-	987	18,328	18,328
Current income tax payable	-	-	2,672	-	-	-	-	-	-	(5)	2,667	2,667
Other taxes payable	1,183	33,632	(2,672)	-	-	-	-	-	-	204	(2,468)	31,164
Provisions for liabilities and charges	-	-	4,264	-	-	-	-	-	-	(197)	4,067	4,067
Liabilities of disposal groups classified as held for sale	148	4,207	(341)	-	-	-	-	-	-	287	(54)	4,153
Total current liabilities	5,178	147,205	3,353	-	-	(334)	-	-	-	1,075	4,094	151,299
Non-current liabilities												
Long-term debt	5,887	167,362	-	-	-	(1,007)	-	-	-	7	(1,000)	166,362
Deferred income tax liability	803	22,828	-	1,375	(973)	98	-	-	-	(24)	476	23,304
Provisions for liabilities and charges	481	13,674	7,704	-	-	-	-	(92)	-	5	7,617	21,291
Other non-current liabilities	340	9,666	(7,704)	-	-	-	-	-	-	(68)	(7,772)	1,894
Total non-current liabilities	7,511	213,530	-	1,375	(973)	(909)	-	(92)	-	(80)	(679)	212,851
Equity												
Share capital	2	57	-	-	41	-	-	-	-	-	41	98
Treasury shares	(45)	(1,279)	-	-	109	-	-	-	-	-	109	(1,170)
Additional paid-in capital	715	20,327	-	-	(11,595)	-	-	-	-	-	(11,595)	8,732
Retained earnings	19,660	558,914	-	(4,164)	33,155	(590)	(12,390)	121	-	2,477	18,609	577,523
Other reserves	-	-	-	-	-	-	13,323	-	-	(2,460)	10,863	10,863
Equity attributable to the Company's owners	20,332	578,019	-	(4,164)	21,710	(590)	933	121	-	17	18,027	596,046
Non-controlling interest	1,126	32,011	-	-	3,976	-	-	-	-	(1,011)	2,965	34,976
Total equity	21,458	610,030	-	(4,164)	25,686	(590)	933	121	-	(994)	20,992	631,022
Total liabilities and shareholders' equity	34,147	970,765	3,353	(2,789)	24,713	(1,833)	933	29	-	1	24,407	995,172

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		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Reconciliation of shareholders' equity as of June, 30 2011												
Assets												
Current assets												
Cash and cash equivalents	1,129	31,698	-	-	-	-	-	-	-	(10)	(10)	31,688
Short-term financial assets	279	7,833	1,572	-	-	-	-	-	-	(258)	1,314	9,147
Trade and other receivables	3,505	98,406	(30,434)	-	-	-	-	-	-	318	(30,116)	68,290
Inventories	2,280	64,013	-	-	1,322	-	-	-	-	-	1,322	65,335
Current income tax prepayments	-	-	4,071	-	-	-	-	-	-	(13)	4,058	4,058
Other current assets	1,401	39,334	32,568	-	720	(245)	-	-	-	-	33,043	72,377
Assets classified as held for sale	310	8,703	-	-	739	-	-	-	-	-	739	9,442
Total current assets	8,904	249,987	7,777	-	2,781	(245)	-	-	-	37	10,350	260,337
Non-current assets												
Property, plant and equipment	16,790	471,393	1,179	(809)	17,799	-	-	-	-	(221)	17,948	489,341
Goodwill and other intang ble assets	1,273	35,740	-	-	1,839	-	-	-	-	-	1,839	37,579
Investments in associates	-	-	168,567	-	5,435	-	-	-	-	-	174,002	174,002
Long-term trade and other receivables	-	-	225	-	-	-	-	-	-	2	227	227
Long-term financial assets	6,909	193,976	(167,163)	-	(1,081)	-	-	-	-	(95)	(168,339)	25,637
Deferred income tax asset	172	4,829	-	1,087	2,380	-	1,883	(122)	-	(31)	5,197	10,026
Other non-current assets	712	19,990	(6,542)	-	-	(1,696)	-	-	-	56	(8,182)	11,808
Total non-current assets	25,856	725,928	(3,734)	278	26,372	(1,696)	1,883	(122)	-	(289)	22,692	748,620
Total assets	34,760	975,915	4,043	278	29,153	(1,941)	1,883	(122)	-	(252)	33,042	1,008,957

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Reconciliation of shareholders' equity as of June, 30 2011												
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,164	32,680	2,078	-	-	(152)	-	-	-	(67)	1,859	34,539
Trade and other payables	2,915	81,840	(22,405)	-	-	-	-	-	-	(147)	(22,552)	59,288
Other current liabilities	-	-	18,951	-	-	-	-	-	-	(164)	18,787	18,787
Current income tax payable	-	-	2,639	-	-	-	-	-	-	(5)	2,634	2,634
Other taxes payable	1,185	33,270	(2,639)	-	-	-	-	-	-	9	(2,630)	30,640
Provisions for liabilities and charges	-	-	5,419	-	-	-	-	-	-	466	5,885	5,885
Liabilities of disposal groups classified as held for sale	140	3,931	-	-	-	-	-	-	-	581	581	4,512
Total current liabilities	5,404	151,721	4,043	-	-	(152)	-	-	-	673	4,564	156,285
Non-current liabilities												
Long-term debt	5,919	166,181	-	-	-	(1,104)	-	-	-	(3)	(1,107)	165,074
Deferred income tax liability	830	23,303	-	1,012	(58)	137	-	-	-	44	1,135	24,438
Other non-current financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Provisions for liabilities and charges	406	11,399	5,756	-	-	-	-	887	-	(80)	6,563	17,962
Other non-current liabilities	273	7,665	(5,756)	-	-	-	-	-	-	(156)	(5,912)	1,753
Total non-current liabilities	7,428	208,548	-	1,012	(58)	(967)	-	887	-	(195)	679	209,227
Equity												
Share capital	2	56	-	-	42	-	-	-	-	-	42	98
Treasury shares	(45)	(1,263)	-	-	93	-	-	-	-	-	93	(1,170)
Additional paid-in capital	717	20,130	-	-	(11,156)	-	-	-	-	-	(11,156)	8,974
Retained earnings	20,078	563,706	-	(734)	36,544	(822)	(5,819)	(1,009)	-	3,168	31,328	595,034
Other reserves	-	-	-	-	-	-	7,702	-	-	(2,717)	4,985	4,985
Equity attributable to the Company's owners	20,752	582,629	-	(734)	25,523	(822)	1,883	(1,009)	-	451	25,292	607,921
Non-controlling interest	1,176	33,017	-	-	3,688	-	-	-	-	(1,181)	2,507	35,524
Total equity	21,928	615,646	-	(734)	29,211	(822)	1,883	(1,009)	-	(730)	27,799	643,445
Total liabilities and shareholders' equity	34,760	975,915	4,043	278	29,153	(1,941)	1,883	(122)	-	(252)	33,042	1,008,957

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		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Reconciliation of shareholders' equity as of September, 30 2011												
Assets												
Current assets												
Cash and cash equivalents	1,459	46,506	-	-	-	-	-	-	-	24	24	46,530
Short-term financial assets	253	8,064	3,666	-	-	-	-	-	-	14	3,680	11,744
Trade and other receivables	2,975	94,828	(31,174)	-	-	-	-	-	-	443	(30,731)	64,097
Inventories	2,116	67,448	-	(2,298)	-	-	-	-	-	-	(2,298)	65,150
Current income tax prepayments	-	-	5,993	-	-	-	-	-	-	(15)	5,978	5,978
Other current assets	1,179	37,581	34,744	(958)	(604)	-	-	-	-	-	33,182	70,763
Assets classified as held for sale	307	9,786	-	(313)	-	-	-	-	-	-	(313)	9,473
Total current assets	8,289	264,213	13,229	-	(3,569)	(604)	-	-	-	466	9,522	273,735
Non-current assets												
Property, plant and equipment	17,594	560,811	1,339	(23,525)	(16,226)	-	-	-	-	63	(38,349)	522,462
Goodwill and other intangible assets	1,263	40,258	-	-	(891)	-	-	-	-	-	(891)	39,367
Investments in associates	-	-	191,856	-	(16,448)	-	-	-	-	-	175,408	175,408
Long-term trade and other receivables	-	-	191	-	-	-	-	-	-	(6)	185	185
Long-term financial assets	6,894	219,747	(200,271)	-	(1,839)	-	-	-	-	31	(202,079)	17,668
Deferred income tax asset	160	5,100	-	1,295	2,632	-	3,259	(148)	-	10	7,048	12,148
Other non-current assets	516	16,448	(1,530)	-	-	(1,695)	-	-	-	118	(3,107)	13,341
Total non-current assets	26,427	842,364	(8,415)	(22,230)	(32,772)	(1,695)	3,259	(148)	-	216	(61,785)	780,579
Total assets	34,716	1,106,577	4,814	(22,230)	(36,341)	(2,299)	3,259	(148)	-	682	(52,263)	1,054,314

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Reconciliation of shareholders' equity as of September, 30 2011												
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,328	42,330	1,849	-	-	(423)	-	-	-	(45)	1,381	43,711
Trade and other payables	1,917	61,104	(23,906)	-	-	-	-	-	-	727	(23,179)	37,925
Other current liabilities	-	-	20,145	-	-	-	-	-	-	1,557	21,702	21,702
Current income tax payable	-	-	1,849	-	-	-	-	-	-	1	1,850	1,850
Other taxes payable	1,041	33,182	(1,849)	-	-	-	-	-	-	(13)	(1,862)	31,320
Provisions for liabilities and charges	-	-	6,726	-	-	-	-	-	-	2	6,728	6,728
Liabilities of disposal groups classified as held for sale	117	3,729	-	-	-	-	-	-	-	528	528	4,257
Total current liabilities	4,403	140,345	4,814	-	-	(423)	-	-	-	2,757	7,148	147,493
Non-current liabilities												
Long-term debt	5,277	168,205	-	-	-	(816)	-	-	-	(4)	(820)	167,385
Deferred income tax liability	859	27,381	-	931	(2,661)	212	-	-	-	(19)	(1,537)	25,844
Other non-current financial liabilities	-	-	9,531	-	-	-	-	-	-	(3)	9,528	9,528
Provisions for liabilities and charges	386	12,304	6,120	-	-	-	-	943	-	(78)	6,985	19,289
Other non-current liabilities	555	17,691	(15,651)	-	-	-	-	-	-	(68)	(15,719)	1,972
Total non-current liabilities	7,077	225,581	-	931	(2,661)	(604)	-	943	-	(172)	(1,563)	224,018
Equity												
Share capital	2	64	-	-	34	-	-	-	-	-	34	98
Treasury shares	(45)	(1,434)	-	-	264	-	-	-	-	-	264	(1,170)
Additional paid-in capital	715	22,791	-	-	(14,002)	-	-	-	-	-	(14,002)	8,789
Retained earnings	21,349	680,502	-	(23,161)	(20,035)	(1,272)	10,265	(1,091)	-	(4,891)	(40,185)	640,317
Other reserves	-	-	-	-	-	-	(7,006)	-	-	1,906	(5,100)	(5,100)
Equity attributable to the Company's owners	22,021	701,923	-	(23,161)	(33,739)	(1,272)	3,259	(1,091)	-	(2,985)	(58,989)	642,934
Non-controlling interest	1,215	38,728	-	-	59	-	-	-	-	1,082	1,141	39,869
Total equity	23,236	740,651	-	(23,161)	(33,680)	(1,272)	3,259	(1,091)	-	(1,903)	(57,848)	682,803
Total liabilities and shareholders' equity	34,716	1,106,577	4,814	(22,230)	(36,341)	(2,299)	3,259	(148)	-	682	(52,263)	1,054,314

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		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Reconciliation of shareholders' equity as of December, 31 2011												
Assets												
Current assets												
Cash and cash equivalents	914	29,427	-	-	-	-	-	-	-	8	8	29,435
Short-term financial assets	529	17,032	1,932	-	-	-	-	-	-	(13)	1,919	18,951
Trade and other receivables	3,562	114,683	(43,851)	-	-	-	-	-	-	(52)	(43,903)	70,780
Inventories	2,343	75,435	-	-	(1,234)	-	-	-	-	-	(1,234)	74,201
Current income tax prepayments	-	-	12,267	-	-	-	-	-	-	110	12,377	12,377
Other current assets	1,642	52,866	37,605	-	(66)	(887)	-	-	-	-	36,652	89,518
Assets classified as held for sale	81	2,608	-	-	(579)	-	-	-	-	-	(579)	2,029
Total current assets	9,071	292,051	7,953	-	(1,879)	(887)	-	-	-	53	5,240	297,291
Non-current assets												
Property, plant and equipment	19,313	621,803	1,352	(28,417)	(19,682)	-	-	-	-	(74)	(46,821)	574,982
Goodwill and other intang ble assets	1,275	41,050	-	-	(856)	-	-	-	-	-	(856)	40,194
Investments in associates	-	-	195,269	-	(19,954)	-	-	-	-	-	175,315	175,315
Long-term trade and other receivables	-	-	225	-	-	-	-	-	-	(6)	219	219
Long-term financial assets	6,453	207,761	(196,042)	-	(2,269)	-	-	-	-	37	(198,274)	9,487
Deferred income tax asset	214	6,890	-	(460)	1,774	-	3,649	175	-	(94)	5,044	11,934
Other non-current assets	357	11,494	(1,578)	-	-	(1,411)	-	-	-	232	(2,757)	8,737
Total non-current assets	27,612	888,998	(774)	(28,877)	(40,987)	(1,411)	3,649	175	-	95	(68,130)	820,868
Total assets	36,683	1,181,049	7,179	(28,877)	(42,866)	(2,298)	3,649	175	-	148	(62,890)	1,118,159

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Reconciliation of shareholders' equity as of December, 31 2011												
Liabilities and shareholders' equity												
Current liabilities												
Short-term debt and current portion of long-term debt	1,277	41,114	3,574	-	-	(368)	-	-	-	10	3,216	44,330
Trade and other payables	2,126	68,449	(26,790)	-	-	-	-	-	-	(463)	(27,253)	41,196
Other current liabilities	-	-	23,246	-	-	-	-	-	-	1,919	25,165	25,165
Current income tax payable	-	-	1,996	-	-	-	-	-	-	(2)	1,994	1,994
Other taxes payable	997	32,100	(1,996)	-	-	-	-	-	-	(15)	(2,011)	30,089
Provisions for liabilities and charges	-	-	7,148	-	-	-	-	-	-	(260)	6,888	6,888
Liabilities of disposal groups classified as held for sale	17	547	-	-	-	-	-	-	-	120	120	667
Total current liabilities	4,417	142,210	7,178	-	-	(368)	-	-	-	1,309	8,119	150,329
Non-current liabilities												
Long-term debt	5,420	174,503	3,220	-	-	(707)	-	-	-	(37)	2,476	176,979
Deferred income tax liability	1,014	32,647	-	2,805	(3,182)	245	-	-	-	(72)	(204)	32,443
Other non-current financial liabilities	-	-	6,858	-	-	-	-	-	-	(34)	6,824	6,824
Provisions for liabilities and charges	393	12,653	3,703	-	-	-	-	1,109	-	(7)	4,805	17,458
Other non-current liabilities	493	15,873	(13,780)	-	-	-	-	-	-	(137)	(13,917)	1,956
Total non-current liabilities	7,320	235,676	1	2,805	(3,182)	(462)	-	1,109	-	(287)	(16)	235,660
Equity												
Share capital	2	64	-	-	34	-	-	-	-	-	34	98
Treasury shares	(45)	(1,449)	-	-	279	-	-	-	-	-	279	(1,170)
Additional paid-in capital	731	23,535	-	-	(13,513)	-	-	-	-	-	(13,513)	10,022
Retained earnings	22,824	734,844	-	(31,682)	(26,152)	(1,468)	768	(934)	-	1,571	(57,897)	676,947
Other reserves	-	-	-	-	-	-	2,881	-	-	(3,821)	(940)	(940)
Equity attributable to the Company's owners	23,512	756,994	-	(31,682)	(39,352)	(1,468)	3,649	(934)	-	(2,250)	(72,037)	684,957
Non-controlling interest	1,434	46,169	-	-	(332)	-	-	-	-	1,376	1,044	47,213
Total equity	24,946	803,163	-	(31,682)	(39,684)	(1,468)	3,649	(934)	-	(874)	(70,993)	732,170
Total liabilities and shareholders' equity												
Total liabilities and shareholders' equity	36,683	1,181,049	7,179	(28,877)	(42,866)	(2,298)	3,649	175	-	148	(62,890)	1,118,159

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Reconciliation of comprehensive income for the three months ended March , 31 2011	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Sales	9,865	288,747	-	-	-	-	-	-	-	(436)	(436)	288,311
Less export duties and excise tax	(1,766)	(51,690)	(4,625)	-	-	-	-	-	-	23	(4,602)	(56,292)
Total revenue from sales	8,099	237,057	(4,625)	-	-	-	-	-	-	(413)	(5,038)	232,019
Costs and other deductions												
Purchases of oil, gas and petroleum products	(2,224)	(65,096)	702	-	(1,309)	-	-	-	-	205	(402)	(65,498)
Production and manufacturing expenses	(695)	(20,343)	(3,951)	-	-	-	-	-	-	252	(3,699)	(24,042)
Selling, general and administrative expenses	(456)	(13,347)	146	-	-	-	-	-	-	103	249	(13,098)
Transportation expenses	(800)	(23,416)	3,220	-	-	-	-	-	-	34	3,254	(20,162)
Depreciation, depletion and amortization	(424)	(12,410)	-	420	(107)	-	-	-	-	-	313	(12,097)
Taxes other than income tax	(1,772)	(51,866)	4,830	-	-	-	-	-	-	60	4,890	(46,976)
Exploration expenses	(22)	(644)	(88)	-	-	-	-	-	-	210	122	(522)
Total operating expenses	(6,393)	(187,122)	4,859	420	(1,416)	-	-	-	-	864	4,727	(182,395)
Other income, net	20	585	(176)		(230)					119	(287)	298
Operating profit	1,726	50,520	58	420	(1,646)	-	-	-	-	570	(598)	49,922
Share of profit of equity accounted investments	41	1,200	527	-	-	-	-	-	-	(27)	500	1,700
Net foreign exchange gain	166	4,859	176	-	-	-	(6,995)	-	-	5,773	(1,046)	3,813
Finance income	32	937	(527)	-	-	-	-	-	-	(34)	(561)	376
Finance expense	(93)	(2,722)	(234)	-	-	(88)	-	(99)	-	124	(297)	(3,019)
Total other income/expense	146	4,274	(58)	-	-	(88)	(6,995)	(99)	-	5,836	(1,404)	2,870
Profit before income tax	1,872	54,794	-	420	(1,646)	(88)	(6,995)	(99)	-	6,406	(2,002)	52,792
Current profit tax expense	(416)	(12,176)	-	-	-	-	-	-	-	20	20	(12,156)
Deferred profit tax (expense) benefit	(3)	(88)	-	204	34	(18)	-	-	-	-	220	132
Total income tax expenses	(419)	(12,264)	-	204	34	(18)	-	-	-	20	240	(12,024)
Profit for the period	1,453	42,530	-	624	(1,612)	(106)	(6,995)	(99)	-	6,426	(1,762)	40,768
Attributable to:												
- Gazprom Neft shareholders	1,437	42,062	-	624	(1,612)	(106)	(6,995)	(99)	-	6,116	(2,072)	39,990
- Non-controlling interest	16	468	-	-	-	-	-	-	-	310	310	778

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments		
Other comprehensive income:												
Currency translation differences	-	-	-	-	-	-	-	-	-	(3,478)	(3,478)	(3,478)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	7,345	-	-	-	7,345	7,345
Other comprehensive income for the period	-	-	-	-	-	-	7,345	-	-	(3,471)	3,874	3,874
Total comprehensive income for the period	1,453	42,530	-	624	(1,612)	(106)	350	(99)	-	2,955	2,112	44,642
Attributable to:												
- Gazprom Neft shareholders	1,437	42,062	-	624	(1,612)	(106)	350	(99)	-	3,656	2,813	44,875
- Non-controlling interest	16	468	-	-	-	-	-	-	-	(701)	(701)	(233)

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Reconciliation of comprehensive income for the six months ended June, 30 2011	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS	
		US GAAP converted to presentation currency	Reclassifi - cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control			Other adjustments
Sales	21,341	609,911	-	-	-	-	-	-	-	(545)	(545)	609,366
Less export duties and excise tax	(3,870)	(110,572)	(11,286)	-	-	-	-	-	-	(8)	(11,294)	(121,866)
Total revenue from sales	17,471	499,339	(11,286)	-	-	-	-	-	-	(553)	(11,839)	487,500
Costs and other deductions												
Purchases of oil, gas and petroleum products	(5,284)	(150,732)	926	-	(1,820)	-	-	-	-	410	(484)	(151,216)
Production and manufacturing expenses	(1,471)	(42,060)	(8,317)	-	-	-	-	-	-	41	(8,276)	(50,336)
Selling, general and administrative expenses	(854)	(24,485)	62	-	-	-	-	-	-	(303)	(241)	(24,726)
Transportation expenses	(1,696)	(48,491)	7,726	-	-	-	-	-	-	5	7,731	(40,760)
Depreciation, depletion and amortization	(929)	(26,543)	-	1,414	(709)	-	-	-	-	-	705	(25,838)
Taxes other than income tax	(3,885)	(111,000)	11,463	-	-	-	-	-	-	104	11,567	(99,433)
Exploration expenses	(34)	(980)	(88)	-	-	-	-	-	-	187	99	(881)
Total operating expenses	(14,153)	(404,291)	11,772	1,414	(2,529)	-	-	-	-	444	11,101	(393,190)
Other income, net	62	1,760	720	-	(1,035)	-	-	-	-	524	209	1,969
Operating profit	3,380	96,808	1,206	1,414	(3,564)	-	-	-	-	415	(529)	96,279
Share of profit of equity accounted investments	128	3,635	863	-	-	-	-	-	-	(16)	847	4,482
Net foreign exchange gain	60	1,893	(720)	-	-	-	(866)	-	-	7,554	5,968	7,861
Finance income	58	1,665	(863)	-	-	-	-	-	-	(47)	(910)	755
Finance expense	(169)	(4,849)	(486)	-	-	(224)	-	(208)	-	84	(834)	(5,683)
Total other income/expense	77	2,344	(1,206)	-	-	(224)	(866)	(208)	-	7,575	5,071	7,415
Profit before income tax	3,457	99,152	-	1,414	(3,564)	(224)	(866)	(208)	-	7,990	4,542	103,694
Current profit tax expense	(729)	(20,936)	-	-	-	-	-	-	-	(1)	(1)	(20,937)
Deferred profit tax expense	(57)	(1,599)	-	183	(570)	(45)	-	-	-	-	(432)	(2,031)
Total income tax expenses	(786)	(22,535)	-	183	(570)	(45)	-	-	-	(1)	(433)	(22,968)
Profit for the period	2,671	76,617	-	1,597	(4,134)	(269)	(866)	(208)	-	7,989	4,109	80,726
Attributable to:												
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	(866)	(208)	-	7,607	3,727	78,449
- Non-controlling interest	67	1,895	-	-	-	-	-	-	-	382	382	2,277

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments		
Other comprehensive income:												
Currency translation differences	-	-	-	-	-	-	-	-	-	(3,905)	(3,905)	(3,905)
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	1,724	-	-	-	1,724	1,724
Other comprehensive income for the period	-	-	-	-	-	-	1,724	-	-	(3,898)	(2,174)	(2,174)
Total comprehensive income for the period	2,671	76,617	-	1,597	(4,134)	(269)	858	(208)	-	4,091	1,935	78,552
Attributable to:												
- Gazprom Neft shareholders	2,604	74,722	-	1,597	(4,134)	(269)	858	(208)	-	4,890	2,734	77,456
- Non-controlling interest	67	1,895	-	-	-	-	-	-	-	(799)	(799)	1,096

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Reconciliation of comprehensive income for the nine months ended September, 30 2011	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments		
Sales	32,908	945,887	-	-	-	-	-	-	-	(2,282)	(2,282)	943,605
Less export duties and excise tax	(5,862)	(168,432)	(18,228)	-	-	-	-	-	-	770	(17,458)	(185,890)
Total revenue from sales	27,046	777,455	(18,228)	-	-	-	-	-	-	(1,512)	(19,740)	757,715
Costs and other deductions												
Purchases of oil, gas and petroleum products	(8,149)	(233,949)	1,042	-	(58)	-	-	-	-	251	1,235	(232,714)
Production and manufacturing expenses	(2,238)	(64,338)	(13,226)	-	-	-	-	-	-	547	(12,679)	(77,017)
Selling, general and administrative expenses	(1,262)	(36,336)	33	-	-	-	-	-	-	(92)	(59)	(36,395)
Transportation expenses	(2,559)	(73,558)	12,780	-	-	-	-	-	-	314	13,094	(60,464)
Depreciation, depletion and amortization	(1,454)	(41,792)	-	1,723	(195)	-	-	-	-	-	1,528	(40,264)
Taxes other than income tax	(6,052)	(173,943)	18,405	-	-	-	-	-	-	858	19,263	(154,680)
Exploration expenses	(46)	(1,329)	(88)	-	-	-	-	-	-	(55)	(143)	(1,472)
Total operating expenses	(21,760)	(625,245)	18,946	1,723	(253)	-	-	-	-	1,823	22,239	(603,006)
Other (expense) income , net	(16)	(506)	3,305	-	(1,465)	-	-	-	-	547	2,387	1,881
Operating profit	5,270	151,704	4,023	1,723	(1,718)	-	-	-	-	858	4,886	156,590
Share of profit of equity accounted investments	196	5,610	1,183	-	-	-	-	-	-	(12)	1,171	6,781
Net foreign exchange (loss) gain	(239)	(6,792)	(3,305)	-	-	-	14,761	-	-	(3,067)	8,389	1,597
Finance income	90	2,594	(1,183)	-	-	-	-	-	-	(41)	(1,224)	1,370
Finance expense	(250)	(7,202)	(718)	-	-	(376)	-	(303)	-	48	(1,349)	(8,551)
Total income tax expenses	(203)	(5,790)	(4,023)	-	-	(376)	14,761	(303)	-	(3,072)	6,987	1,197
Profit before income tax	5,067	145,914	-	1,723	(1,718)	(376)	14,761	(303)	-	(2,214)	11,873	157,787
Current profit tax expense	(997)	(28,720)	-	-	-	-	-	-	-	365	365	(28,355)
Deferred profit tax expense	(65)	(1,831)	-	(457)	673	(75)	-	-	-	-	141	(1,690)
Total income tax expenses	(1,062)	(30,551)	-	(457)	673	(75)	-	-	-	365	506	(30,045)
Profit for the period	4,005	115,363	-	1,266	(1,045)	(451)	14,761	(303)	-	(1,849)	12,379	127,742
Attributable to:												
- Gazprom Neft shareholders	3,875	111,638	-	1,266	(1,045)	(451)	14,761	(303)	-	(2,134)	12,094	123,732
- Non-controlling interest	130	3,725	-	-	-	-	-	-	-	285	285	4,010

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

	Under previous US GAAP, USD million	Adjustments								Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassifi- cation	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommis- sioning obligation	Transaction under common control	Other adjustments	
Consolidated statement of comprehensive income											
Other comprehensive income:											
Currency translation differences	-	-	-	-	-	-	-	-	-	2,981	2,981
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7
Available-for-sale investments:	-	-	-	-	-	-	-	-	-	-	-
- Gains less losses arising during the period	-	-	-	-	-	-	-	-	-	-	-
- Gains less losses recycled to profit or loss	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-	(12,984)	-	-	-	(12,984)
Other comprehensive income for the period	-	-	-	-	-	-	(12,984)	-	-	2,988	(9,996)
Total comprehensive income for the period	4,005	115,363	-	1,266	(1,045)	(451)	1,777	(303)	-	1,139	2,383
Attributable to:											
- Gazprom Neft shareholders	3,875	111,638	-	1,266	(1,045)	(451)	1,777	(303)	-	(228)	1,016
- Non-controlling interest	130	3,725	-	-	-	-	-	-	-	1,367	5,092

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Reconciliation of comprehensive income for the period ended December, 31 2011	Under previous US GAAP, USD million	US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments	Total impact of change to IFRS	Under IFRS
Sales	44,172	1,297,666	-	-	-	-	-	-	(3,685)	(2,385)	(6,070)	1,291,596
Less export duties and excise tax	(8,092)	(238,076)	(24,568)	-	-	-	-	-	-	851	(23,717)	(261,793)
Total revenue from sales	36,080	1,059,590	(24,568)	-	-	-	-	-	(3,685)	(1,534)	(29,787)	1,029,803
Costs and other deductions												
Purchases of oil, gas and petroleum products	(10,817)	(317,272)	1,573	-	1,295	-	-	-	-	205	3,073	(314,199)
Production and manufacturing expenses	(3,039)	(89,354)	(19,316)	-	-	-	-	-	500	647	(18,169)	(107,523)
Selling, general and administrative expenses	(1,779)	(52,482)	1,345	-	-	-	-	-	156	(449)	1,052	(51,430)
Transportation expenses	(3,391)	(99,542)	17,246	-	-	-	-	-	-	361	17,607	(81,935)
Depreciation, depletion and amortization	(1,963)	(57,688)	-	(351)	1,334	-	-	-	906	-	1,889	(55,799)
Taxes other than income tax	(8,038)	(235,967)	24,745	-	-	-	-	-	2,155	871	27,771	(208,196)
Exploration expenses	(74)	(2,203)	(88)	-	-	-	-	-	-	186	98	(2,105)
Total operating expenses	(29,101)	(854,508)	25,505	(351)	2,629	-	-	-	3,717	1,821	33,321	(821,187)
Other income, net	39	1,212	1,556	-	(2,204)	-	-	-	-	361	(287)	925
Operating profit	7,018	206,294	2,493	(351)	425	-	-	-	32	648	3,247	209,541
Share of profit of equity accounted investments	248	7,234	(97)	-	-	-	-	-	-	(263)	(360)	6,874
Net foreign exchange (loss) gain	(172)	(4,700)	(1,556)	-	-	-	11,170	-	31	(4,205)	5,440	740
Finance income	66	1,844	97	-	-	-	-	-	-	15	112	1,956
Finance expense	(329)	(9,669)	(937)	-	-	(442)	-	(385)	(156)	143	(1,777)	(11,446)
Total income tax expenses	(187)	(5,291)	(2,493)	-	-	(442)	11,170	(385)	(125)	(4,310)	3,415	(1,876)
Profit before income tax	6,831	201,003	-	(351)	425	(442)	11,170	(385)	(93)	(3,662)	6,662	207,665
Current profit tax expense	(1,173)	(34,217)	-	-	-	-	-	-	-	489	489	(33,728)
Deferred profit tax expense	(71)	(2,018)	-	(2,846)	(1,066)	(88)	-	-	(250)	-	(4,250)	(6,268)
Total income tax expenses	(1,244)	(36,235)	-	(2,846)	(1,066)	(88)	-	-	(250)	489	(3,761)	(39,996)
Profit for the period	5,587	164,768	-	(3,197)	(641)	(530)	11,170	(385)	(343)	(3,173)	2,901	167,669
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	11,170	(385)	(374)	(3,507)	2,536	160,362
- Non-controlling interest	233	6,942	-	-	-	-	-	-	31	334	365	7,307

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the three months ended March, 31 2012
Currency – RUB millions

Consolidated statement of comprehensive income	Under previous US GAAP, USD million	Adjustments									Total impact of change to IFRS	Under IFRS
		US GAAP converted to presentation currency	Reclassification	Fair value as deemed cost	Historical cost	Amortised cost	Hedge accounting	Decommissioning obligation	Transaction under common control	Other adjustments		
Other comprehensive income:												
Currency translation differences	-	-	-	-	-	-	-	-	-	3,526	3,526	3,526
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	7	7	7
Cash flow hedge	-	-	-	-	-	-	(9,075)	-	-	-	(9,075)	(9,075)
Other comprehensive income for the period	-	-	-	-	-	-	(9,075)	-	-	3,533	(5,542)	(5,542)
Total comprehensive income for the period	5,587	164,768	-	(3,197)	(641)	(530)	2,095	(385)	(343)	360	(2,641)	162,127
Attributable to:												
- Gazprom Neft shareholders	5,354	157,826	-	(3,197)	(641)	(530)	2,095	(385)	(343)	(1,381)	(4,382)	153,444
- Non-controlling interest	233	6,942	-	-	-	-	-	-	-	1,741	1,741	8,683

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JSC Gazprom Neft

Consolidated Financial Statements

**As of December 31, 2011 and 2010 and
for the years ended December 31, 2011, 2010 and 2009**

JSC Gazprom Neft

Consolidated Financial Statements

**As of December 31, 2011 and 2010 and
for the years ended December 31, 2011, 2010 and 2009**

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of JSC Gazprom Neft and its subsidiaries as of December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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 24, 2012

JSC Gazprom Neft
Consolidated Balance Sheets
As of December 31, 2011 and 2010

(in millions of US Dollars)

	<u>Notes</u>	December 31, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents	4	\$ 914	\$ 1,146
Short-term investments		80	110
Short-term loans receivable		449	108
Accounts receivable, net	5	3,562	2,600
Inventories	6	2,343	1,874
Assets held for sale	7	81	189
Other current assets, net	8	1,642	1,112
Total current assets		9,071	7,139
Long-term investments and loans receivable	9	6,453	6,994
Property, plant and equipment, net	10	19,313	16,466
Goodwill and other intangible assets	11	1,275	1,274
Other non-current assets		357	569
Non-current deferred income tax assets		214	220
Total assets		\$ 36,683	\$ 32,662
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans and current portion of long-term debt	12, 15	\$ 1,277	\$ 1,740
Accounts payable and accrued liabilities	13	2,078	1,923
Income and other taxes payable	14	997	884
Dividends payable		48	293
Liabilities associated with assets held for sale	7	17	134
Total current liabilities		4,417	4,974
Long-term debt	15	5,420	4,942
Asset retirement obligations		393	429
Other long-term liabilities		493	428
Deferred income tax liabilities		1,014	816
Total liabilities		11,737	11,589
Equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Additional paid-in-capital		731	677
Retained earnings		22,824	18,223
Less: Common stock held in treasury, at cost (23,359,582 shares as of December 31, 2011)		(45)	(45)
Total shareholders' equity		23,512	18,857
Non-controlling interest		1,434	2,216
Total equity		24,946	21,073
Total liabilities and shareholders' equity		\$ 36,683	\$ 32,662

A. V. Dyukov

Chief Executive Officer
JSC Gazprom Neft

A. V. Yankevich

Acting Chief Financial Officer
JSC Gazprom Neft

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

JSC Gazprom Neft
Consolidated Statements of Income
For the years ended December 31, 2011, 2010 and 2009

**(in millions of US Dollars,
except per share data)**

	Note	2011	2010	2009
Revenues				
Refined products and oil and gas sales		\$ 43,268	\$ 32,176	\$ 23,773
Other		904	736	532
Total	22	44,172	32,912	24,305
Costs and other deductions				
Cost of purchased oil, gas and petroleum products		10,817	7,459	5,335
Operating expenses		2,464	2,126	1,896
Selling, general and administrative expenses		1,779	1,660	1,287
Transportation expenses		3,391	2,886	2,262
Depreciation, depletion and amortization		1,963	1,649	1,503
Export duties		8,092	6,631	3,948
Taxes other than income tax	14	8,038	5,301	4,027
Exploration expenses		74	91	147
Cost of other sales		575	436	297
Loss on sale of assets, net		-	-	142
Total		37,193	28,239	20,844
Operating income		6,979	4,673	3,461
Other (expense)/ income				
Share in net income of equity affiliates	9	248	229	212
Gain on sales of investments		104	9	470
Interest income		66	48	108
Interest expense		(329)	(347)	(380)
Other expense, net		(65)	(309)	(1)
Foreign exchange (loss) / gain, net		(172)	(24)	45
Total		(148)	(394)	454
Income before income taxes		6,831	4,279	3,915
Provision for income taxes		1,173	884	801
Deferred income tax expense / (benefit)	19	71	(43)	13
Total		1,244	841	814
Net income		\$ 5,587	\$ 3,438	\$ 3,101
Less: Net income attributable to non-controlling interest		(235)	(287)	(75)
Net income attributable to Gazprom Neft		\$ 5,352	\$ 3,151	\$ 3,026
Basic and Diluted Net income per Common Share attributable to Gazprom Neft (US\$ per share)		1.13	0.67	0.64
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,718

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

JSC Gazprom Neft
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2011, 2010 and 2009

(in millions of US Dollars)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Non- controlling Interest	Total Equity
Balance as of December 31, 2008	\$ 2	\$ 776	\$ 13,431	\$ (45)	\$ 14,164	\$ 265	\$ 14,429
Net income for the period	-	13	3,013	-	3,026	75	3,101
Common stock dividends	-	-	(823)	-	(823)	-	(823)
Recognition of the financial effect of a transaction under common control	-	(30)	-	-	(30)	(18)	(48)
Changes in non-controlling interest and other	-	-	-	-	-	2,299	2,299
Balance as of December 31, 2009	\$ 2	\$ 759	\$ 15,621	\$ (45)	\$ 16,337	\$ 2,621	\$ 18,958
Net income for the period	-	3	3,148	-	3,151	287	3,438
Common stock dividends	-	-	(546)	-	(546)	-	(546)
Recognition of the financial effect of a transaction under common control	-	(19)	-	-	(19)	(12)	(31)
Changes in non-controlling interest and other	-	(66)	-	-	(66)	(680)	(746)
Balance as of December 31, 2010	\$ 2	\$ 677	\$ 18,223	\$ (45)	\$ 18,857	\$ 2,216	\$ 21,073
Net income for the period	-	2	5,350	-	5,352	235	5,587
Common stock dividends	-	-	(749)	-	(749)	(22)	(771)
Recognition of the financial effect of a transaction under common control	-	(116)	-	-	(116)	-	(116)
Changes in non-controlling interest and other	-	168	-	-	168	(995)	(827)
Balance as of December 31, 2011	\$ 2	\$ 731	\$ 22,824	\$ (45)	\$ 23,512	\$ 1,434	\$ 24,946

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

JSC Gazprom Neft
Consolidated Statements of Cash Flows
For the years ended December 31, 2011, 2010 and 2009

(in millions of US Dollars)

	2011	2010	2009
Operating activities			
Net income	\$ 5,587	\$ 3,438	\$ 3,101
Reconciliation of net income to net cash provided by operating activities:			
Share in income of equity affiliates, net of dividends received	314	49	11
Effect of foreign exchange	337	(50)	(143)
Deferred income tax expense / (benefit)	71	(43)	13
Depreciation, depletion and amortization	1,963	1,649	1,503
Asset retirement obligation accretion expense, net of spending on existing obligations	17	(17)	28
Allowance for doubtful accounts	61	36	(26)
Allowance for inventory obsolescence	65	19	11
Loss on disposal of property, plant and equipment	49	37	(6)
Gain on disposal of investments	(104)	14	(328)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(1,135)	285	(443)
Inventories	(607)	(323)	(249)
Other current assets	(717)	(205)	(277)
Other non-current assets	38	109	(64)
Accounts payable, accrued and other long-term liabilities	(89)	219	187
Income and other taxes payable	151	174	181
Net cash provided by operating activities	6,001	5,391	3,499
Investing activities			
Purchase of investments, net of cash acquired	(1,457)	(1,624)	(2,282)
Acquisition of investments held-to-maturity	(322)	(209)	(361)
Proceeds from sales of investments held-to-maturity	383	91	458
Loans issued	(393)	(233)	(345)
Loan proceeds received	43	209	247
Proceeds from sales of investments	301	215	10
Capital expenditures	(4,029)	(3,301)	(2,635)
Net cash used in investing activities	(5,474)	(4,852)	(4,908)
Financing activities			
Short and long-term loan proceeds received	2,774	4,003	5,702
Short and long-term loans repaid	(2,501)	(3,584)	(4,580)
Dividends paid	(1,025)	(728)	(937)
Net cash (used in)/ provided by financing activities	(752)	(309)	185
Increase in cash and cash equivalents	(225)	230	(1,224)
Cash and cash equivalents as of the beginning of the period	1,146	869	2,079
Effect of foreign exchange on cash and cash equivalents	(7)	47	13
Cash and cash equivalents as of the end of the period	\$ 914	\$ 1,146	\$ 868
Supplemental disclosures of cash flows information			
Cash paid for interest, net of amount capitalized	304	325	329
Cash paid for income taxes	1,431	744	541

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

JSC Gazprom Neft
Notes to Consolidated Financial Statements
(in millions of US Dollars)

1. General

Description of Business

JSC Gazprom Neft (formerly OAO Siberian Oil Company) and its subsidiaries (the “Company”) is a vertically integrated oil company operating in the Russian Federation, CIS and Europe. The Company’s principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

OAO Siberian Oil Company (“Sibneft”) was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft’s charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 OAO Gazprom (“Gazprom”) completed its acquisition of a 75.68% stake in Sibneft which became a subsidiary of Gazprom. On May 30, 2006 Sibneft was renamed “JSC Gazprom Neft”. In April 2009, Gazprom acquired an additional 20.00% interest in the Company and increased its interest to 95.68%.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying consolidated financial statements were primarily derived from the Company’s statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Subsequent events occurring after December 31, 2011 were evaluated through February 24, 2012, the date these financial statements were available to be issued.

Management Estimates

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

Foreign Currency Translation

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

The official exchange rates of the Ruble to the US Dollar as of December 31, 2011, 2010 and 2009 were 32.20 Rubles, 30.48 and 30.24 Rubles per US \$1.00, respectively.

JSC Gazprom Neft
Notes to Consolidated Financial Statements
(in millions of US Dollars)

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

Principles of Consolidation

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

Business Combinations

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

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the same parent that controls the Company are accounted for in accordance with ASC 805-50 using historical carrying values accounting approach. The acquirer reflects in its financial statements the information regarding the acquisition since the date when common control was established by the parent. The acquirer revised in its financial statements all comparative information for the periods beginning after the date of establishing the common control by the parent.

The assets and liabilities acquired are measured at their carrying amounts in the accounts of the parent company that has common control at the date of transfer. Any difference at the date of transfer between the consideration paid and the carrying value of the net assets is recorded in equity (as a part of Additional Paid-In Capital).

Goodwill and Other Intangible Assets

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

JSC Gazprom Neft
Notes to Consolidated Financial Statements
(in millions of US Dollars)

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

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful lives or the period set by legislation. Useful lives with respect to intangible assets are determined as follows:

<u>Intangible Asset Group</u>	<u>Average Life</u>
Licenses and software	1-5 years
Land rights	25 years

Non-Controlling Interest

Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary will be initially measured at fair value. In addition ownership interests in the Company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the consolidated balance sheet. The amount of consolidated net income attributable to the parent and the non-controlling interests are both presented on the face of the consolidated statements of income.

Cash and Cash Equivalents

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

Loans and Accounts Receivable

Loans and accounts receivable are stated at net realizable value. Allowances are provided for estimated losses and for doubtful debts based on estimation of uncollectible amounts. Estimation is made based on aging of the receivable, past history of settlements with the debtor and existing economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Inventories

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

Financial Investments

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

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

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

Unrealized gains or losses on trading securities and held-to-maturity securities are included in the consolidated statements of income. Unrealized gains or losses on available-for-sale securities less the related tax effect are recorded up to the date of their sale as a separate element of comprehensive income. Realized gains and losses on sale of securities designated as available-for-sale are determined separately for each type of security. Dividends and interest receivable are recorded on an accrual basis.

Oil and Gas Properties

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

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

Exploration costs include:

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

Exploration drilling costs are capitalized until it is determined that the well has proved oil and gas reserves and the reserves found are sufficient to justify its development. If the well is determined to be successful, the capitalized drilling costs will be reclassified as part of the cost of the well. The field is a cost centre. If proved reserves are not found, the capitalized drilling costs are charged to exploration expenses incurred in the period when it is determined that such cost would not bring additional proved oil and gas reserves.

Other exploration costs are charged to expense when incurred.

Development costs, which are capitalized within property plant and equipment, include expenditures incurred to:

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

Property, Plant and Equipment

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

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

Depreciation, Depletion and Amortization

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

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

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

Impairment of Long-Lived Assets

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

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

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

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at an operating unit level for other assets. Long-lived assets committed by management for disposal within one year are accounted for at the lower of amortized cost or fair value, less cost to sell. Acquisition costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense. No impairment has been recognized for the years ended December 31, 2011, 2010 and 2009.

Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects that could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period when construction activities are actually in progress and until the resulting properties are put into operation. During 2011, 2010 and 2009 interest capitalized related to capital projects amounted to US\$ 30 million, US\$ 40 million and US\$ 22 million, respectively.

Asset Retirement Obligations

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

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

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

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

As the regulatory and legal environment in the Russian Federation continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

Income Taxes

Russian legislation does not contain the concept of a "consolidated tax-payer" and, accordingly, the Company is not subject to taxation on a consolidated basis. Current income taxes are provided on taxable profit of each subsidiary as determined under mostly the Russian Federation Tax Code at a rate of 20% after adjustments for certain items which are not deductible for taxation purposes. Subsidiaries operating in countries other than the Russian Federation are chargeable to income at the applicable statutory rate in the country in which they operate.

JSC Gazprom Neft
Notes to Consolidated Financial Statements
(in millions of US Dollars)

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

Derivative Instruments

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

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

Common stock

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

Treasury stock

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

Earnings per Share

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

Contingencies

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

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

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

Retirement and Other Benefit Obligations

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

Stock-Based Compensation

In accordance with ASC 718-30 "*Compensation – Stock Compensation, Awards Classified as Liabilities*", the Company accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognized in respect of SARs in the income statement is adjusted accordingly. Expenses are recognized over the vesting period.

Recognition of Revenues

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

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

Buy/Sell Transactions

The Company accounts for buy/sell transactions in accordance with FASB ASC 845-10-15 "*Non-monetary Transactions*" which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, should be combined and considered as a single arrangement. The Company accounts for matching buy/sell arrangements entered into as exchanges of inventory.

Transportation Costs

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

Maintenance and Repair

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

Accounting Standards Adopted

In January 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-06 Fair Value Measurements and Disclosures (Topic 820). The new provisions require that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Furthermore in reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The amendments also clarify the existing disclosures as to the requirement for management of a reporting entity to use judgment in determining the appropriate classes of assets and liabilities. The new provisions also require a reporting entity to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. The provisions are effective for annual and interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 disclosure. This requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Adoption of the second part of the update did not have an effect on the Company's consolidated financial statements.

In December 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, (Topic 350 Intangibles – Goodwill and Other). ASU 2010-28 amends 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 exists. The amendments are effective for interim and annual reporting periods beginning after December 15, 2010. Early adoption is prohibited. Adoption did not have an effect on the Company's consolidated financial statements.

In December 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805 Business Combinations). ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description and amount of material, non recurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. 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. Early adoption is permitted. Adoption did not have an effect on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs. These amendments generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. These amendments result in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with US GAAP and IFRSs. The Board concluded that for nonpublic entities, these amendments should be effective for annual periods beginning after December 15, 2011, with early adoption permitted; however, adoption may be no earlier than for interim periods beginning after December 15, 2011. The management does not believe the amendments will have a significant impact on the Company's financial position, results of operations and cash flows.

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05: Presentation of Comprehensive Income Under the amendments to Topic 220, Comprehensive Income. Under these amendments an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. These amendments eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Board decided that for nonpublic entities, the amendments should be effective for annual periods ending after December 15, 2012, and interim and annual periods thereafter. The management does not believe the amendments will have a significant impact on the Company's financial position, results of operations and cash flows.

In September 2011 the Financial Accounting Standards Board ("FASB") issued ASU 2011-08: Testing Goodwill for Impairment (Intangibles – Goodwill and Other [Topic 350]). The amendments in this Update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The Board decided that the amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The management does not believe the amendments will have a significant impact on the Company's financial position, results of operations and cash flows.

In December 2011 FASB has issued ASU 2011-12 – Comprehensive Income (Topic 220). The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. Taking into account that Update 2011-05 will have not a significant impact on the Company's financial position, results of operations and cash flows the Update 2011-12 also will have no significant impact on the Company's financial position, results of operations and cash flows.

Reclassifications

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

3. Business Combinations

Acquisition of non-controlling interest in NIS

On March 18, 2011 the Company finalized its offer made in January 2011 to buy out the free float shares in NIS (a maximum 19.12% of the NIS equity was available for purchase). Approximately 8.4 million NIS shares were submitted for purchase amounting to 5.15% of NIS authorized share capital. Based on the previously announced offer price the Company paid US\$ 58 million for acquiring these shares increasing its interest in NIS from 51% to 56.15%.

The Company has accounted for the acquisition of the additional interest in NIS as an acquisition of non-controlling interest where control is maintained. As a result of the transaction the Company recognized a credit of US\$ 17 million in additional paid-in-capital in shareholders' equity for the year ended December 31, 2011. The US\$ 17 million represents the excess of the carrying value of the investments acquired of US\$ 75 million over the consideration paid.

Acquisition of non-controlling interest in Sibir Energy

On February 14, 2011 the Board of Directors of Sibir Energy adopted a resolution to reduce the share capital by 86.25 million shares (22.39%). Central Fuel Company, an affiliate to the Moscow Government, made a decision to withdraw membership in Sibir Energy for a compensation of US\$ 740 million. Starting from February 15, 2011 the Company has 100% interest in Sibir.

As a result of the transaction the Company recognized a credit of US\$ 21 million in additional paid-in-capital in shareholders' equity for the year ended December 31, 2011. The US\$ 21 million represents the excess of the carrying value of the investments acquired of US\$ 761 million over the consideration paid to Central Fuel Company.

Following the reduction in share capital of Sibir Energy, the Company has increased its effective interest in Moscow refinery from 69.02% to 77.72%. As a result of the increase in effective interest in Moscow refinery the Company recognized a credit of approximately US\$ 177 million in additional paid-in-capital in shareholders' equity for the year ended December 31, 2011.

Acquisition of Orenburg assets

On August 30, 2011 the Company acquired 100% of CJSC Centre of Science-Intensive Technologies, which holds exploration and production licenses for the Tsarichanskoye field. Furthermore, on October 18, 2011 the Company completed its purchase of a 61.8% stake in CJSC Gazprom Neft Orenburg from JSC Gazprom (the parent company). This entity holds the license for the Eastern part of the Orenburg field. The Company is also preparing to buy the remaining shares in CJSC Gazprom Neft Orenburg (belonging to Gazprom Dobycha Orenburg) and part of the field's infrastructure (owned by Gazprom). Finally, during November and December, 2011, the Company acquired 87.5% stake in JSC Yuzhuralneftegaz, which owns a license for the Kapitonovskoye field. All together these three assets form a new production cluster in the Orenburg region.

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The acquisition of CJSC Centre of Science-Intensive Technologies and JSC Yuzhuralneftegaz meets the definition of FASB ASC 805, *Business Combinations*, which requires the Company to apply the acquisition method of accounting and the following table summarizes the estimates of fair value of the assets and liabilities acquired:

	As of the acquisition date
Current assets	\$ 11
Property, plant and equipment	615
Other non-current assets	-
Total assets acquired	626
Current liabilities	(27)
Other non-current liabilities	(110)
Total liabilities assumed	(137)
Total identifiable assets acquired and liabilities assumed	489
NCI	(34)
Consideration paid	(455)
Goodwill	-

The acquisition of CJSC Gazprom Neft Orenburg from JSC Gazprom (the parent company) was deemed to have occurred between entities under common control and therefore was accounted for at Gazprom's historical cost. The difference between the cash consideration paid of 3.576 billion rubles (approximately US\$ 116 million paid in cash) and the historical cost of 4.272 billion rubles (approximately US\$ 139 million) was charged to additional paid-in-capital in shareholders' equity for the year ended December 31, 2011.

The following tables present information of CJSC Gazprom Neft Orenburg as of December 31, 2011 and 2010 and for the periods ending December 31, 2011, 2010 and 2009:

	December 31, 2011	December 31, 2010
Assets		
Current assets	53	46
Property, plant and equipment, net	456	552
Total assets acquired	\$ 509	\$ 598
Liabilities and shareholders' equity		
Current liabilities	131	123
Non-current liabilities	140	200
Total liabilities assumed	271	323
Total shareholders' equity	147	170
Non-controlling interest	91	105
Total liabilities and shareholders' equity	\$ 509	\$ 598

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	2011	2010	2009
Revenues	161	140	139
Depreciation	33	30	28
Other operating costs	117	95	79
Total	150	125	107
Operating income	11	15	32
Total other expense	(3)	(13)	(14)
Income before income taxes	8	2	18
Total income tax	(8)	(3)	(2)
Net income	\$ 16	\$ 5	\$ 20

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Cash in bank – Rubles	\$ 265	\$ 120
Cash in bank – foreign currency	244	101
Bank deposits and other cash equivalents	390	918
Cash on hand	15	7
Total cash and cash equivalents	\$ 914	\$ 1,146

As of December 31, 2011 and 2010 the majority of bank deposits are held in Russian Rouble. Bank deposits represent deposits with original maturities of less than three months.

5. Accounts Receivable, net

Accounts receivable as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Trade receivables	\$ 2,167	\$ 1,616
Value added tax receivable	791	682
Related party receivables	222	117
Other receivables	778	541
Less allowance for doubtful accounts	(396)	(356)
Total accounts receivable	\$ 3,562	\$ 2,600

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

6. Inventories

Inventories as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Crude oil	\$ 441	\$ 339
Petroleum products	1,119	807
Materials and supplies	515	587
Other	268	141
Total inventories	\$ 2,343	\$ 1,874

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As part of the management of crude inventory, the Company may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy/sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Buy/sell crude oil transactions	\$ 2,598	\$ 1,698	\$ 1,227

7. Assets held for sale

In April 2010, the Company's management approved the decision to sell the Company's oil field services business. In July 2010 the Company started the marketing stage of the process and as a result, the assets of oil field services entities and liabilities associated with these assets were classified as held for sale for the purposes of these consolidated financial statements. In 2011 the Company sold eight of nine oil field services entities for the total consideration of US\$ 304 million.

In May 2011 the Company agreed on sale of JSC Meretoyakhaneftegaz in the middle of 2012.

The following table summarizes the financial information of assets held for sale as of December 31, 2011 and 2010:

	2011	2010
Accounts receivable, net	\$ 13	\$ 22
Inventories	5	36
Other current assets	1	22
Property, plant and equipment, net	38	108
Other intangible assets	3	1
Non-current deferred income tax assets	21	-
<i>Assets held for sale</i>	\$ 81	\$ 189
Accounts payable and accrued liabilities	13	106
Income and other taxes	3	24
Deferred income tax liabilities	1	4
<i>Liabilities associated with assets held for sale</i>	\$ 17	\$ 134

8. Other Current Assets, net

Other current assets as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Prepaid customs duties	\$ 811	\$ 499
Advances paid	792	476
Prepaid expenses	12	28
Other assets	27	109
<i>Total other current assets</i>	\$ 1,642	\$ 1,112

9. Long-Term Investments and Loans Receivable

Long-Term Investments

None of the companies listed below are publicly traded in Russia. The significant equity and other long-term investments as of December 31, 2011 and 2010 are summarized below:

<i>Investments in equity affiliates:</i>	Ownership Percentage December 31, 2011	Net book value as of	
		December 31, 2011	December 31, 2010
JSC Slavneft	49.9	\$ 2,556	\$ 2,798
JSC Tomskneft VNK	50.0	1,249	1,334
Salym Petroleum Development N.V.	50.0	1,395	1,287
SeverEnergy	25.5	781	894
Others		108	59
<i>Total investments in equity affiliates</i>		<u>\$ 6,089</u>	<u>\$ 6,372</u>
<i>Total long-term investments, at cost</i>		278	290
<i>Long-term loans receivable</i>		86	332
<i>Total long-term investments</i>		<u>\$ 6,453</u>	<u>\$ 6,994</u>

The Company's share in income of equity affiliates including share in non-controlling interest consists of the following for the periods ended December 31:

	2011	2010	2009
<i>Equity affiliates:</i>			
JSC Slavneft	\$ 10	\$ 92	\$ 113
JSC Tomskneft VNK	101	55	138
Salym Petroleum Development N.V.	108	82	(44)
SeverEnergy	(10)	(5)	-
Others	39	5	5
<i>Total share of income in equity affiliates</i>	<u>\$ 248</u>	<u>\$ 229</u>	<u>\$ 212</u>

The Company's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Company and TNK-BP agreed to jointly manage the production and the refineries of the Slavneft group with each party purchasing its share of production, refer also to Note 21 "Related Party Transactions".

The following table summarizes the financial information of Slavneft as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010:

	2011	2010
Current assets	\$ 963	\$ 1,158
Long-term assets	7,125	6,807
Total liabilities	3,003	2,589
Revenues	5,427	4,311
Net income	20	185

In December 2007 the Company acquired a 50% equity interest in JSC Tomskneft VNK ("Tomskneft") and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft ("Rosneft"). As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

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The following table summarizes the financial information of Tomskneft as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010:

	2011	2010
Current assets	\$ 617	\$ 631
Long-term assets	3,251	3,420
Total liabilities	2,062	2,093
Revenues	3,524	2,652
Net income	203	111

As part of the acquisition of Sibir Energy in June 2009 the Company acquired a 50.0% equity interest in Salym Petroleum Development N.V. ("Salym"). Salym is owned 50.0% by Sibir and 50.0% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of Salym relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarizes the financial information of Salym as of December 31, 2011 and 2010 and for the years ended December 31, 2011 and 2010:

	2011	2010
Current assets	\$ 389	\$ 294
Long-term assets	890	934
Total liabilities	619	798
Revenues	2,161	1,567
Net income	429	332

In December 2010 Yamal Razvitie LLC (a joint venture between the Company and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom for US\$ 1.9 billion. The respective purchase price paid by the Company comprised US\$ 898 million. SeverEnergy is developing through its subsidiaries the Samburgskoye and Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

During 2011 Yamal Razvitie LLC (a joint venture between the Company and JSC Novatek) finalized purchase price allocation on SeverEnergy.

The following table summarizes the financial information of SeverEnergy as of December 31, 2011 and 2010 and for the year ended December 31, 2011:

	2011	2010
Current assets	\$ 156	\$ 162
Long-term assets	5,161	4,671
Total liabilities	1,885	1,232
Net loss	(115)	(18)

Long-Term Loans Receivable

Long-term loans receivable of US\$ 86 million and US\$ 332 million are mostly due from related parties as of December 31, 2011 and 2010, respectively. These loans bear interest at rates ranging from nil to 15.0%. The fair value of these loans is approximately US\$ 65 million and US\$ 279 million as of December 31, 2011 and 2010 assuming an average discount rate of 8.13% and 8.03% for the periods ended December 31, 2011 and 2010, respectively (CBR interbank refinancing rate).

10. Property, Plant and Equipment

As of December 31, 2011 property, plant and equipment comprise the following:

	Cost	Accumulated DD&A	Net book value
Exploration and production	\$ 25,041	\$ (12,891)	\$ 12,150
Refining	5,272	(2,129)	3,143
Marketing and distribution	2,326	(431)	1,895
Other	303	(24)	279
Assets under construction	1,846	-	1,846
Total	\$ 34,788	\$ (15,475)	\$ 19,313
Comparative balance as of December 31, 2010	\$ 30,420	\$ (13,954)	\$ 16,466

11. Goodwill and intangible assets

The goodwill balance of US\$ 523 million as of December 31, 2011 and 2010 relates to acquisitions of NIS, Sibir Energy and Orton for which goodwill in the amount of US\$ 349 million, US\$ 140 million and US\$ 34 million, was recognized, respectively. The goodwill recognized for these acquisitions was assigned to the respective downstream assets acquired. The Company assessed the carrying value of goodwill related to each acquisition for impairment as of December 31, 2011. No impairment of goodwill was recognized as of December 31, 2011.

Other intangible assets as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Licenses	\$ 28	\$ 20
Software	191	172
Land rights	493	535
Other intangible assets	40	24
Total other intangible assets	\$ 752	\$ 751

Land rights relate to the right to use land plots at the Moscow Refinery location and certain other retail and wholesale sites in Moscow and the Moscow region where the Company owns and operates refining and retail assets. Accumulated depreciation with respect to land rights is US\$ 55 million and US\$ 33 million as of December 31, 2011 and 2010.

12. Short-Term Debt

As of December 31, 2011 and 2010 the Company has short-term loans outstanding as follows:

	2011	2010
Banks	-	\$ 71
Related parties	223	244
Other	24	10
Current portion of long-term debt	1,030	1,415
Total short-term loans	\$ 1,277	\$ 1,740

As of December 31, 2011 and 2010 the Company has several interest-free loans from Tomskneft in the amount of US\$ 206 million (US\$ 231 million as of December 31, 2010), repayable in Rubles which mature in the period to September 2012. Tomskneft is a related party to the Company.

13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Trade accounts payable	\$ 981	\$ 853
Advances received from customers	318	342
Related party accounts payable	305	223
Accrued interest	71	46
Other payables	403	459
Total accounts payable	\$ 2,078	\$ 1,923

14. Income and Other Taxes Payable

Income and other taxes payable as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Mineral extraction tax	\$ 386	\$ 346
Value added tax	310	207
Excise tax	123	99
Income tax	62	137
Property tax	42	46
Other taxes	74	49
Total income and other taxes payable	\$ 997	\$ 884

Taxes other than income tax expense for the years ended December 31, 2011, 2010 and 2009 comprise the following:

	2011	2010	2009
Mineral extraction tax	\$ 4,614	\$ 3,107	\$ 2,256
Excise tax	2,845	1,743	1,412
Property tax	213	182	127
Other taxes	366	269	232
Total taxes other than income tax expense	\$ 8,038	\$ 5,301	\$ 4,027

15. Long-Term Debt

As of December 31, 2011 and 2010 the Company has long-term outstanding loans as follows:

Bonds and Bank Loans:	2011	2010
Russian Ruble bonds	\$ 2,112	\$ 1,247
Pre-Export Finance	1,500	1,500
Other bank loans outstanding	2,754	3,455
Other borrowings	84	155
Less current portion of long-term debt	(1,030)	(1,415)
Total Bonds and Bank Loans	\$ 5,420	\$ 4,942

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On April 21, 2009, the Company placed Ruble Bonds (04 series) with the total par value of RUR 10 billion (US\$ 311 million all non-current as of December 31, 2011 and US\$ 328 million all current as of December 31, 2010). In April, 2011 an option to redeem the bonds earlier was exercised and in August, 2011 the Company completed a secondary placement of RUR 6.1 billion or approximately US\$ 192 million. The bonds maturing in 2019 bear interest of 8.2% per year and have semi-annual coupon payments.

On July 21, 2009, the Company placed seven-year Ruble Bonds (03 series) with the total par value of RUR 8 billion (US\$ 248 million, all current as of December 31, 2011 and US\$ 263 million as of December 31, 2010, all non-current). The bonds bear interest of 14.75% per year with three year put option and have semi-annual coupon payments.

On April 13, 2010, the Company placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUR 20 billion (US\$ 621 million all non-current as of December 31, 2011 and US\$ 656 million as of December 31, 2010, all non-current). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

On February 08, 2011, the Company placed five-year Ruble Bonds (08 series) with the total par value of RUR 10 billion (US\$ 311 million as of December 31, 2011, non-current). The bonds bear interest of 8.5% per year and have semi-annual coupon payments.

On February 08, 2011, the Company placed ten-year Ruble Bonds (09 series) with the total par value of RUR 10 billion (US\$ 311 million as of December 31, 2011, non-current). The bonds bear interest of 8.5% per year with a five year put option and have semi-annual coupon payments.

On February 08, 2011, the Company placed ten-year Ruble Bonds (10 series) with the total par value of RUR 10 billion (US\$ 311 million as of December 31, 2011, non-current). The bonds bear interest of 8.9% per year with a seven year put option and have semi-annual coupon payments.

In July 2010 the Company had syndicated a five-year Pre-Export Term Loan Facility Agreement for the amount of US\$ 1.5 billion (US\$ 309 million current as of December 31, 2011). The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 1.6% and matures in July 2015 (LIBOR plus 2.1% as of December 31, 2010).

As of December 31, 2011 the Company has US\$ 2,754 million in long term loans from a number of banks, primarily denominated in US Dollars (including current portion of US\$ 470). As of December 31, 2010 the Company had US\$ 3,455 million in long term loans from a number of banks (including current portion of US\$ 1,059). Interest rates under the loans varied from LIBOR plus 0.5% to LIBOR plus 5% and from fixed interest rate of 5% to fixed interest rate of 6.75% .

The loan agreements contain financial covenants that require the Company to comply with certain levels of financial ratios namely Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of December 31, 2011 and December 31, 2010, respectively.

Maturities of long-term loans as of December 31, 2011 are as follows:

<u>Year due</u>	<u>Amount due</u>
2012	\$ 1,030
2013	2,187
2014	928
2015	621
2016 and further	1,684
	<hr/>
	\$ 6,450

16. Asset Retirement Obligations

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

	2011	2010
<i>Beginning balance as of January 1</i>	\$ 429	\$ 381
Change in estimate	(58)	49
New obligations incurred	19	16
Spending on existing obligations	(32)	(44)
Accretion expense	35	27
<i>Ending balance as of December 31, 2011 / December 31, 2010</i>	<u>\$ 393</u>	<u>\$ 429</u>

17. Cash-settled Stock Appreciation Rights

On January 12, 2010 the Board approved the implementation of a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Company and is designed to reward management for increasing shareholder value over a specified period. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense was based on the vesting period which expires on December 31, 2011.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Company's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognized in the period the change occurs subject to the vesting period.

In the consolidated statement of income for the periods ended December 31, 2011 and 2010 the Company recognized compensation expense, net of the deferred tax benefit, of US\$ 10 million and US\$ 38 million related to the SAR plan, accordingly. This expense is included within selling, general and administrative expenses. A provision of US\$ 59 million and US\$ 47 million has been recorded within other liabilities in respect of the Company's obligations under the plan as of December 31, 2011 and 2010.

18. Fair Value of Financial Instruments

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

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

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

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The company has certain Level 3 foreign currency derivative instruments. These have been valued using a Monte Carlo model, key inputs to which include assumptions for forward curves and exchange rate volatility.

The Company does not purchase, hold or sell derivative financial instruments unless it has an existing asset or obligation or anticipates a future activity that is likely to occur that will result in an exposure to foreign exchange risk. The Company does not enter into any derivative instruments for speculative purposes. As of December 31, 2011 and 2010 the Company has outstanding forward currency exchange contracts for a total notional value of US\$ 3,609 million and US\$ 1,265 million respectively.

The following table presents the fair values and corresponding balance sheet captions of the Company's derivative instruments as of December 31, 2011 and 2010:

	2011	2010
Assets		
Other current assets	\$ 2	\$ 96
Other non-current assets	-	97
Total assets	\$ 2	\$ 193
Liabilities		
Other non-current liabilities	213	-
Total liabilities	\$ 213	-
Unrealized (loss) / gain for the years ended December 31	(404)	59

19. Income Taxes

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

	2011	2010	2009
Current income taxes expense	\$ 1,173	\$ 884	\$ 801
Deferred income tax (benefit)/expense	71	(43)	13
Total provision for income taxes	\$ 1,244	\$ 841	\$ 814

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

	2011	2010	2009
Income before income taxes	\$ 6,831	\$ 4,279	\$ 3,915
Statutory income tax rate	20.0%	20.0%	20.0%
"Expected" income tax expense	1,366	856	783
Add (deduct) tax effect of:			
Foreign income taxed at different rates	(105)	(7)	(4)
Difference between enacted tax rate and taxes to be withheld from dividends	-	(21)	(15)
Non-deductible expenses and other permanent accounting differences	(17)	13	50
Income taxes	1,244	841	814
Effective tax rate	18.2%	19.7%	20.8%

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

	2011	2010
Assets and liabilities arising from the tax effect of:		
Inventory provision	16	-
Prepaid expenses	3	-
<i>Current deferred income tax assets</i>	<u>\$ 19</u>	<u>-</u>
Asset retirement obligation	74	84
Tax loss carryforward	19	18
Fixed assets and other non-current assets and liabilities	121	118
<i>Non-current deferred income tax assets</i>	<u>\$ 214</u>	<u>\$ 220</u>
Equity investments	-	(10)
Fixed assets and other non-current assets	(1,014)	(806)
<i>Deferred income tax liability</i>	<u>\$ (1,014)</u>	<u>\$ (816)</u>
<i>Net deferred income tax liability</i>	<u>(781)</u>	<u>(596)</u>

For income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling US\$ 95 million and US\$ 90 million as of December 31, 2011 and 2010, resulting in associated deferred income tax assets of US\$ 19 million and US\$ 18 million, respectively. Tax loss carry-forward as of December 31, 2011 expire between 2012 and 2020.

20. Commitments and Contingencies

Taxes

The Russian Tax Authorities completed reviews over the operations of JSC Gazprom Neft and its Russian subsidiaries for the year ended December 31, 2008. Tax claims rose after these reviews did not result in significant tax risk for the Company. In 2011 the Russian tax authorities initiated reviews of the Company and its significant Russian subsidiaries for the period ended 31 December 2010. As of the date of signing of the Consolidated Financial Statements the Management is not aware of any significant tax claims to be raised after these reviews.

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, including the allocation of tax payments to the Federal and Regional budgets, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2009, 2010 and 2011 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these matters.

Operating Environment

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

Environmental Matters

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

21. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

For the year ended December 31, 2009 up to the date control was obtained the Company processed crude oil based on processing agreements in Moscow Refinery. Such transactions were in the ordinary course of business and on terms available to other suppliers.

	<u>2009</u>
Processing fees	\$ 34
Crude, gas and oil products purchased	1

Following the acquisition of Sibir on June 23, 2009, the results of operations, cash flows and financial position of Moscow Refinery are included in the consolidated financial statements.

Slavneft Group (Slavneft)

The Company conducts a number of transactions with Slavneft or its subsidiaries. The Company and TNK-BP have split Slavneft's production based on each party's respective interest. The information on transactions with Slavneft for the years ended December 31, 2011, 2010 and 2009 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Processing fees	\$ 276	\$ 258	\$ 218
Crude, gas and oil products purchased	2,371	1,750	1,729
Crude and oil products sales	1,427	1,160	720

As of December 31, 2011 the Company has US\$ 377 million in payables to Slavneft and US\$ 111 million in receivables from Slavneft. As of December 31, 2010 the Company had US\$ 46 million in payables to Slavneft and US\$ 41 million in receivables from Slavneft.

Gazprom Group (Gazprom)

The Company conducted a number of transactions with Gazprom, the primary shareholder of the Company, or its subsidiaries. As a result of acquisition 61.8% share in CJSC Gazprom Neft Orenburg the Company included transactions of Gazprom Neft Orenburg with Gazprom to related party disclosure (Refer to Note 3).

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The information on transactions with Gazprom for the years ended December 31, 2011, 2010 and 2009 is presented below:

	2011	2010	2009
Crude, gas and oil products sales	\$ 194	\$ 154	\$ 157

As of December 31, 2011 the Company has US\$ 33 million in payables to Gazprom and US\$ 49 million in receivables from Gazprom. As of December 31, 2010 the Company had US\$ 9 million in payables to Gazprom and US\$ 27 million in receivables from Gazprom.

The Company has cash and short-term deposits in Gazprombank of US\$ 127 million and US\$ 176 million as of December 31, 2011 and as of December 31, 2010, respectively.

As of December 31, 2010 a loan facility of US\$ 624 million included in long-term bank loans outstanding is held from Gazprombank (Switzerland) Ltd. which is a related party to the Company. In August 2011, the loan was fully repaid.

Tomskneft Group (Tomskneft)

The Company conducted a number of transactions with Tomskneft and its subsidiaries. The information on transactions with Tomskneft for the years ended December 31, 2011, 2010 and 2009 is presented below:

	2011	2010	2009
Crude, gas and oil products purchased	\$ 1,574	\$ 1,148	\$ 997

As of December 31, 2011 the Company has US\$ 20 million in payables to Tomskneft and US\$ 9 million in receivables from Tomskneft. As of December 31, 2010 the Company had US\$ 15 million in payables to Tomskneft and US\$ 11 million in receivables from Tomskneft.

Salym Petroleum Development (SPD)

Since June 23, 2009 (the date of acquisition of Sibir), the Company conducts a number of transactions with Salym Petroleum development (SPD). The information on transactions with SPD for the years ended December 31, 2011, 2010 and 2009 is presented below:

	2011	2010	2009
Crude purchased	\$ 1,107	\$ 871	\$ 554

As of December 31, 2011 the Company has US\$ 5 million in receivables from SPD and US\$ 98 million in payables to SPD. As of December 31, 2010 the Company had US\$ 86 million in payables to SPD and US\$ 4 million in receivables from SPD.

22. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2011, 2010 and 2009. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the Company's Chief Executive Officer to make decisions about resources to be allocated and to assess performance of the Company.

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

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Adjusted EBITDA represents the Company's EBITDA and its share in equity affiliates' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA represents earnings before interest, income tax, depreciation and amortization. EBITDA (Earnings Before Interest, Income Tax, Depreciation and Amortization) is a supplemental non-GAAP financial measure used by management to evaluate operations. Operating Segments as of and for the year ended December 31, 2011 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 430	\$ 43,742	-	\$ 44,172
Inter-segment revenues	10,431	88	(10,519)	-
Total	10,861	43,830	(10,519)	44,172
Adjusted EBITDA	4,646	5,512	-	10,158
Capital expenditures	2,365	1,664	-	4,029
Depreciation, depletion and amortization	1,473	490	-	1,963
Income tax expense	206	1,038	-	1,244
Segment assets as of December 31, 2011	20,148	29,189	(12,654)	36,683

Operating Segments as of and for the year ended December 31, 2010 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 293	\$ 32,619	-	\$ 32,912
Inter-segment revenues	7,207	392	(7,599)	-
Total	7,500	33,011	(7,599)	32,912
Adjusted EBITDA	3,109	4,162	-	7,271
Capital expenditures	2,430	871	-	3,301
Depreciation, depletion and amortization	1,292	357	-	1,649
Income tax expense	183	658	-	841
Segment assets as of December 31, 2010	18,669	24,921	(10,928)	32,662

Operating Segments for the year ended December 31, 2009 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 215	\$ 24,090	-	\$ 24,305
Inter-segment revenues	6,519	66	(6,585)	-
Total	6,734	24,156	(6,585)	24,305
Adjusted EBITDA	3,301	2,736	-	6,037
Capital expenditures	2,053	582	-	2,635
Depreciation, depletion and amortization	1,330	173	-	1,503
Income tax expense	150	664	-	814

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Adjusted EBITDA for the years ended December 31, 2011, 2010 and 2009 is reconciled below:

	2011	2010	2009
<i>Adjusted EBITDA</i>	\$ 10,158	\$ 7,271	\$ 6,037
The Company's share in EBITDA of equity affiliates	(1,216)	(949)	(931)
Gain on sales of investments	104	9	470
Share in net income of equity affiliates	248	229	212
Foreign exchange (loss) / gain, net	(172)	(24)	45
Other expense, net	(65)	(309)	(143)
Interest expense	(329)	(347)	(380)
Interest income	66	48	108
Depreciation, depletion and amortization	(1,963)	(1,649)	(1,503)
<i>Income before income taxes</i>	\$ 6,831	\$ 4,279	\$ 3,915

For the years ended December 31, 2011, 2010 and 2009 the Company had one customer which accounted for approximately 6.4%, 13.5%, and 18.5% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

The geographical segmentation of the Company's revenue for the years ended December 31, 2011, 2010 and 2009 is presented below:

	2011	2010	2009
Export and international sales	\$ 23,531	\$ 18,828	\$ 14,154
Domestic	17,788	11,676	8,251
CIS	2,853	2,408	1,900
<i>Total revenues from external customers</i>	<u>\$ 44,172</u>	<u>\$ 32,912</u>	<u>\$ 24,305</u>

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

23. Subsequent Events

On February 7, 2012 the Company placed ten-year Ruble Bonds (11 series) for total amount of RUB 10 billion (approximately US\$ 332 million). The bonds bear interest of 8.25% per year. The bonds have an early redemption offer to be made 3 years following the placement.

As required by FASB ASC 932.235, "*Extractive Activities – Oil and Gas*", the Company makes certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Company or its expected future results.

The proved oil and gas reserve quantities and related information regarding standardized measure of discounted future net cash flows do not include reserve quantities or standardized measure information related to the Company's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalized costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

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

Capitalized Costs Relating to Oil and Gas Producing Activities

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the period ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Consolidated subsidiaries			
Unproved oil and gas properties	\$ 40	-	-
Proved oil and gas properties	24,028	21,910	19,563
Less: Accumulated depreciation, depletion and amortization	(12,581)	(11,634)	(10,494)
Net capitalized costs of oil and gas properties	\$ 11,447	\$ 10,276	\$ 9,069
Company's share of equity method investees			
Proved oil and gas properties	\$ 7,247	\$ 6,962	\$ 6,092
Less: Accumulated depreciation, depletion and amortization	(2,829)	(2,215)	(1,693)
Net capitalized costs of oil and gas properties	\$ 4,418	\$ 4,747	\$ 4,399
Total capitalized costs consolidated and equity interests	\$ 15,865	\$ 15,023	\$ 13,468

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

	2011	2010	2009
Consolidated subsidiaries			
Exploration costs	\$ 74	\$ 91	\$ 147
Development costs	2,229	2,351	1,976
Costs incurred	\$ 2,303	\$ 2,442	\$ 2,123
Company's share of equity method investees			
Exploration costs	\$ 39	\$ 37	\$ 25
Development costs	882	785	722
Costs incurred	\$ 921	\$ 822	\$ 747
Total costs incurred consolidated and equity interests	\$ 3,224	\$ 3,264	\$ 2,870

Results of Operations from Oil and Gas Producing Activities

The Company's results of operations from oil and gas producing activities are shown below.

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

Results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the years ended, respectively, adjusted for tax deductions, tax credits and allowances. For the period ended December 31, 2011, 2010 and 2009 results of operations are as follow:

	2011	2010	2009
Consolidated subsidiaries			
Revenues:			
Sales	\$ 6,756	\$ 5,841	\$ 5,428
Transfers	7,127	5,190	3,842
Total revenues	13,883	11,031	9,270
Production costs	(1,478)	(1,236)	(1,217)
Exploration expenses	(74)	(91)	(147)
Depreciation, depletion and amortization	(1,514)	(1,290)	(1,330)
Taxes other than income tax	(8,091)	(6,343)	(4,486)
Pretax income from producing activities	2,726	2,071	2,090
Income tax expenses	(620)	(398)	(404)
Results of oil and gas producing activities	\$ 2,106	\$ 1,673	\$ 1,686
Company's share of equity method investees			
Revenues:			
Sales	\$ 5,206	\$ 3,719	\$ 3,071
Total revenues	5,206	3,719	3,071
Production costs	(942)	(783)	(674)
Exploration expenses	(21)	(25)	(16)
Depreciation, depletion and amortization	(898)	(692)	(551)
Taxes other than income tax	(2,940)	(1,895)	(1,351)
Pretax income from producing activities	405	324	479
Income tax expenses	(61)	(62)	(96)
Results of oil and gas producing activities	344	262	383
Total consolidated and equity interests in results of oil and gas producing activities	\$ 2,450	\$ 1,935	\$ 2,069

Proved Oil and Gas Reserve Quantities

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

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

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

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

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

<u>Proved Oil Reserves Quantities - in MMBbl</u>			
	- 2011	2010	2009
Consolidated subsidiaries			
<i>Beginning of year</i>	3,605	3,385	3,004
Production	(233)	(233)	(225)
Purchases of minerals in place	262	-	15
Revision of previous estimates	404	453	591
<i>End of year</i>	4,038	3,605	3,385
Minority's share included in the above proved reserves	(91)	(5)	(2)
Proved reserves, adjusted for minority interest	3,947	3,599	3,383
 Proved developed reserves	 2,218	 2,038	 2,121
Proved undeveloped reserves	1,820	1,567	1,264
 Company's share of equity method investees			
<i>Beginning of year</i>	1,679	1,933	1,541
Production	(137)	(137)	(125)
Purchases of minerals in place	-	80	277
Revision of previous estimates	175	(197)	240
<i>End of year</i>	1,717	1,679	1,933
 Proved developed reserves	 918	 930	 1,340
Proved undeveloped reserves	799	749	593
 Total consolidated and equity interests in reserves - end of year	 5,665	 5,278	 5,316

<u>Proved Gas Reserves Quantities - in Bcf</u>			
	- 2011	2010	2009
Consolidated subsidiaries			
<i>Beginning of year</i>	2,795	1,650	1,458
Production	(346)	(172)	(162)
Purchases of minerals in place	8	-	-
Revision of previous estimates	1,875	1,318	354
<i>End of year</i>	4,332	2,795	1,650
Minority's share included in the above proved reserves	-	-	-
Proved reserves, adjusted for minority interest	4,332	2,795	1,650
Proved developed reserves	2,843	1,603	782
Proved undeveloped reserves	1,489	1,192	868
Company's share of equity method investees			
<i>Beginning of year</i>	2,615	871	812
Production	(51)	(49)	(43)
Purchases of minerals in place	-	2,016	-
Revision of previous estimates	1,189	(223)	102
<i>End of year</i>	3,753	2,615	871
Proved developed reserves	609	504	792
Proved undeveloped reserves	3,144	2,111	79
Total consolidated and equity interests in reserves - end of year	8,085	5,410	2,521

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

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

The information provided in tables set out below does not represent management's estimate of the Company's expected future cash flows or of the value Company's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The valuation prescribed under FASB ASC 932.235 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2011	2010	2009
Consolidated subsidiaries			
Future cash inflows	\$ 278,337	\$ 180,418	\$ 136,982
Future production costs	(181,278)	(124,810)	(87,936)
Future development costs	(13,182)	(9,898)	(7,434)
Future income tax expenses	(14,200)	(6,778)	(6,558)
Future net cash flow	69,677	38,932	35,054
10% annual discount for estimated timing of cash flow	(37,015)	(20,892)	(17,230)
Standardized measure of discounted future net cash flow	\$ 32,662	\$ 18,040	\$ 17,824
Company's share of equity method investees			
Future cash inflows	134,642	100,158	80,870
Future production costs	(101,964)	(77,813)	(38,781)
Future development costs	(7,450)	(6,542)	(20,300)
Future income tax expenses	(4,385)	(2,799)	(4,488)
Future net cash flow	20,843	13,004	17,301
10% annual discount for estimated timing of cash flow	(10,304)	(6,587)	(8,827)
Standardized measure of discounted future net cash flow	10,539	6,417	8,474
Total consolidated and equity interests in the standardized measure of discounted future net cash flow	\$ 43,201	\$ 24,457	\$ 26,298

Changes in the Standardized Measure of Discounted Cash Flows

	2011	2010	2009
Consolidated subsidiaries			
Discounted present value as of beginning of year	\$ 18,039	\$ 17,824	\$ 12,085
Sales and transfers of oil produced, net of production costs and other operating expenses	(4,363)	(3,451)	(3,568)
Net change in prices received per barrel, net of production costs and other operating expenses	12,836	(276)	4,801
Changes in future development costs	(2,291)	(865)	(1,997)
Development costs incurred during the period	2,303	2,442	2,123
Revisions of previous quantity estimates and acquisitions	6,215	4,045	4,079
Accretion of discount	(3,037)	(264)	(946)
Net change in income taxes	3,851	2,127	2,092
Other	(890)	(3,543)	(845)
Discounted present value as of the end of year	\$ 32,663	\$ 18,039	\$ 17,824
Company's share of equity method investees			
Discounted present value as of beginning of year	\$ 6,418	\$ 8,473	\$ 3,553
Sales and transfers of oil produced, net of production costs and other operating expenses	(3,337)	(2,447)	(880)
Net change in prices received per barrel, net of production costs and other operating expenses	3,598	(3,001)	3,085
Changes in future development costs	(966)	(1,532)	(219)
Development costs incurred during the period	977	822	661
Revisions of previous quantity estimates	551	257	647
Accretion of discount	(2,143)	1,405	(701)
Net change in income taxes	2,869	1,007	1,058
Net change due to purchases and sales of minerals in place	-	767	2,299
Other	2,572	666	(1,029)
Discounted present value as of the end of year	\$ 10,539	\$ 6,417	\$ 8,474

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for the years ended December 31, 2010, 2009 and 2008**

JSC Gazprom Neft

Consolidated Financial Statements

**As of December 31, 2010 and 2009 and
for the years ended December 31, 2010, 2009 and 2008**

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of JSC Gazprom Neft and its subsidiaries as of December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 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 18, 2011

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JSC Gazprom Neft
Consolidated Balance Sheets
As of December 31, 2010 and 2009

Currency - US\$ millions

	<u>Notes</u>	December 31, 2010	December 31, 2009
Assets			
Current assets:			
Cash and cash equivalents	4	\$ 1,146	\$ 868
Short-term investments		110	45
Short-term loans receivable		108	108
Accounts receivable, net	5	2,566	2,827
Inventories	6	1,862	1,596
Assets held for sale	7	189	-
Other current assets, net	8	1,112	1,147
Total current assets		7,093	6,591
Long-term investments and loans receivable	9	6,994	6,972
Property, plant and equipment, net	10	15,914	14,417
Goodwill and other intangible assets	11	1,274	1,317
Other non-current assets		569	491
Non-current deferred income tax assets	19	220	124
Total assets		\$ 32,064	\$ 29,912
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans and current portion of long-term debt	12, 15	\$ 1,694	\$ 2,148
Accounts payable and accrued liabilities	13	1,906	2,372
Income and other taxes payable	14	874	694
Dividends payable		293	416
Liabilities associated with assets held for sale	7	84	-
Total current liabilities		4,851	5,630
Long-term debt	15	4,942	4,162
Asset retirement obligations	16	415	367
Other long-term liabilities		280	341
Deferred income tax liabilities	19	778	755
Total liabilities		11,266	11,255
Equity:			
Common stock (authorized, issued and outstanding; 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Additional paid-in-capital		507	573
Retained earnings		18,223	15,621
Less: Common stock held in treasury, at cost (23,359,582 shares as of December 31, 2010)		(45)	(45)
Total shareholders' equity		18,687	16,151
Non-controlling interest		2,111	2,506
Total equity		20,798	18,657
Total liabilities and shareholders' equity		\$ 32,064	\$ 29,912
A. V. Dyukov Chief Executive Officer JSC Gazprom Neft		V. V. Yakovlev Chief Financial Officer JSC Gazprom Neft	

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

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues				
Refined products and oil and gas sales		\$ 32,044	\$ 23,648	\$ 33,205
Other		728	518	665
Total	22	32,772	24,166	33,870
Costs and other deductions				
Cost of purchased oil, gas and petroleum products		7,459	5,335	8,022
Operating expenses		2,111	1,883	2,015
Selling, general and administrative expenses		1,649	1,280	1,046
Transportation expenses		2,886	2,262	2,046
Depreciation, depletion and amortization		1,619	1,475	1,309
Export duties		6,631	3,948	7,328
Taxes other than income tax	14	5,240	3,982	5,353
Exploration expenses		91	147	193
Cost of other sales		428	283	309
Loss on sale of assets, net		-	142	-
Total		28,114	20,737	27,621
Operating income		4,658	3,429	6,249
Other (expense)/ income				
Share in income of equity affiliates	9	229	212	407
Gain on investment		9	470	-
Interest income		48	108	100
Interest expense		(336)	(369)	(167)
Other (expense)/ income, net		(309)	(1)	89
Foreign exchange (loss)/ gain, net		(22)	48	(517)
Total		(381)	468	(88)
Income before income taxes		4,277	3,897	6,161
Provision for income taxes		884	804	1,425
Deferred income tax (benefit)/ expense	19	(40)	12	39
Total		844	816	1,464
Net income		\$ 3,433	\$ 3,081	\$ 4,697
Less: Net income attributable to non-controlling interest		(285)	(68)	(39)
Net income attributable to Gazprom Neft		\$ 3,148	\$ 3,013	\$ 4,658
Basic and Diluted Net income per Common Share attributable to Gazprom Neft (US\$ per share)		0.67	0.64	0.98
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,718	4,718	4,736

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Non- controlling Interest	Total Equity
Balance as of December 31, 2007	\$ 2	\$ 573	\$ 9,858	-	\$ 10,433	-	\$ 10,433
Net income for the period	-	-	4,658	-	4,658	39	4,697
Common stock dividends	-	-	(1,085)	-	(1,085)	-	(1,085)
Acquisition of treasury shares	-	-	-	(45)	(45)	-	(45)
Changes in non- controlling interest	-	-	-	-	-	100	100
Balance as of December 31, 2008	\$ 2	\$ 573	\$ 13,431	\$ (45)	\$ 13,961	\$ 139	\$ 14,100
Net income for the period	-	-	3,013	-	3,013	68	3,081
Common stock dividends	-	-	(823)	-	(823)	-	(823)
Changes in non- controlling interest	-	-	-	-	-	2,299	2,299
Balance as of December 31, 2009	\$ 2	\$ 573	\$ 15,621	\$ (45)	\$ 16,151	\$ 2,506	\$ 18,657
Net income for the period	-	-	3,148	-	3,148	285	3,433
Common stock dividends	-	-	(546)	-	(546)	-	(546)
Changes in non- controlling interest	-	(66)	-	-	(66)	(680)	(746)
Balance as of December 31, 2010	\$ 2	\$ 507	\$ 18,223	\$ (45)	\$ 18,687	\$ 2,111	\$ 20,798

	2010	2009	2008
Operating activities			
Net income	\$ 3,433	\$ 3,081	\$ 4,697
Reconciliation of net income to net cash provided by operating activities:			
Share in income of equity affiliates, net of dividends received	49	11	(230)
Gain on investment	(5)	(470)	-
Deferred income tax (benefit)/expense	(40)	12	39
Depreciation, depletion and amortization	1,619	1,475	1,309
Asset retirement obligation accretion expense, net of spending on existing obligations	(17)	28	13
Allowance for doubtful accounts	36	(26)	44
Allowance for inventory obsolescence	19	11	(7)
Loss/ (gain) on disposal of property, plant and equipment	37	(6)	(16)
Loss on disposal of investments and assets	14	142	-
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	321	(393)	413
Inventories	(322)	(259)	(166)
Other current assets	(209)	(290)	89
Other non-current assets	68	(185)	(60)
Accounts payable, accrued and other long-term liabilities	217	156	(70)
Income and other taxes payable	172	188	(572)
Net cash provided by operating activities	5,392	3,475	5,483
Investing activities			
Purchase of investments, net of cash acquired (Note 3)	(1,624)	(2,282)	(33)
Acquisition of investments held-to-maturity	(209)	(361)	(143)
Proceeds from sales of investments held-to-maturity	91	458	342
Loans issued	(233)	(345)	(414)
Loan proceeds received	209	247	30
Proceeds from disposals of property, plant and equipment	9	10	82
Proceeds from sales of investments	206	-	-
Capital expenditures	(3,301)	(2,607)	(3,366)
Net cash used in investing activities	(4,852)	(4,880)	(3,502)
Financing activities			
Short and long-term loan proceeds received	4,003	5,702	2,367
Short and long-term loans repaid	(3,584)	(4,580)	(2,096)
Dividends paid	(728)	(937)	(792)
Purchase of treasury shares	-	-	(45)
Net cash (used in) / provided by financing activities	(309)	185	(566)
Effect of foreign exchange on cash and cash equivalents	47	13	(61)
Increase / (decrease) in cash and cash equivalents	278	(1,207)	1,354
Cash and cash equivalents as of the beginning of the period	868	2,075	721
Cash and cash equivalents as of the end of the period	\$ 1,146	\$ 868	\$ 2,075
Supplemental disclosures of cash flows information			
Cash paid for interest, net of amount capitalized	325	329	159
Cash paid for income taxes	744	528	1,819

1. General

Description of Business

JSC Gazprom Neft (formerly OAO Siberian Oil Company) and its subsidiaries (the "Company") is a vertically integrated oil company operating in the Russian Federation, CIS and Europe. The Company's principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

OAO Siberian Oil Company ("Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 OAO Gazprom ("Gazprom") completed its acquisition of a 75.68% stake in Sibneft which became a subsidiary of Gazprom. On May 30, 2006 Sibneft was renamed "JSC Gazprom Neft". In April 2009, Gazprom acquired an additional 20.00% interest in the Company and increased its interest to 95.68%.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying consolidated financial statements were primarily derived from the Company's statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Subsequent events occurring after December 31, 2010 were evaluated through February 18, 2011, the date these financial statements were available to be issued.

Management Estimates

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

Foreign Currency Translation

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

The official exchange rates of the Ruble to the US Dollar as of December 31, 2010, 2009 and 2008 were 30.48 Rubles, 30.24 Rubles and 29.38 Rubles per US \$1.00, respectively.

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

Principles of Consolidation

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

Business Combinations

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

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

Goodwill and Other Intangible Assets

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

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

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful lives or the period set by legislation. Useful lives with respect to intangible assets are determined as follows:

<u>Intangible Asset Group</u>	<u>Average Life</u>
Licenses and software	1-5 years
Land rights	25 years

Non-Controlling Interest

Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary will be initially measured at fair value. In addition ownership interests in the Company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the consolidated balance sheet. The amount of consolidated net income attributable to the parent and the non-controlling interests are both presented on the face of the consolidated statements of income.

Cash and Cash Equivalents

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

Loans and Accounts Receivable

Loans and accounts receivable are stated at net realizable value. Allowances are provided for estimated losses and for doubtful debts based on estimation of uncollectible amounts. Estimation is made based on aging of the receivable, past history of settlements with the debtor and existing economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Inventories

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

Financial Investments

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

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

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

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

Oil and Gas Properties

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

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

Exploration costs include:

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

Exploration drilling costs are capitalized until it is determined that the well has proved oil and gas reserves and the reserves found are sufficient to justify its development. If the well is determined to be successful, the capitalized drilling costs will be reclassified as part of the cost of the well. The field is a cost centre. If proved reserves are not found, the capitalized drilling costs are charged to exploration expenses incurred in the period when it is determined that such cost would not bring additional proved oil and gas reserves.

Other exploration costs are charged to expense when incurred.

Development costs, which are capitalized within property plant and equipment, include expenditures incurred to:

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

Property, Plant and Equipment

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

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

Depreciation, Depletion and Amortization

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

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

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

Impairment of Long-Lived Assets

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

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

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

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at an operating unit level for other assets. Long-lived assets committed by management for disposal within one year are accounted for at the lower of amortized cost or fair value, less cost to sell. Acquisition costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense. No impairment has been recognized for the years ended December 31, 2010, 2009 and 2008.

Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects that could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period when construction activities are actually in progress and until the resulting properties are put into operation. During 2010, 2009 and 2008 interest capitalized related to capital projects amounted to US\$ 40 million, US\$ 22 million and US\$ 16 million, respectively.

Asset Retirement Obligations

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

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

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

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

As the regulatory and legal environment in the Russian Federation continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

Income Taxes

Russian legislation does not contain the concept of a "consolidated tax-payer" and, accordingly, the Company is not subject to taxation on a consolidated basis. Current income taxes are provided on taxable profit of each subsidiary as determined under mostly the Russian Federation Tax Code at a rate of 20% after adjustments for certain items which are not deductible for taxation purposes. Subsidiaries operating in countries other than the Russian Federation are chargeable to income at the applicable statutory rate in the country in which they operate.

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

Derivative Instruments

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

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

Common stock

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

Treasury stock

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

Earnings per Share

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

Contingencies

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

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

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

Retirement and Other Benefit Obligations

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

Stock-Based Compensation

In accordance with ASC 718-30 *"Compensation – Stock Compensation, Awards Classified as Liabilities"*, the Company accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SARs") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognized in respect of SARs in the income statement is adjusted accordingly. Expenses are recognized over the vesting period.

Recognition of Revenues

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

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

Buy/Sell Transactions

The Company accounts for buy/sell transactions in accordance with FASB ASC 845-10-15 *"Non-monetary Transactions"* which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, should be combined and considered as a single arrangement. The Company accounts for matching buy/sell arrangements entered into as exchanges of inventory.

Transportation Costs

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

Maintenance and Repair

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

Accounting Standards Adopted

Effective January 1, 2010 the Company adopted provisions related to accounting for transfers of financial assets (Topic 820). These provisions require that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The provisions also require additional disclosures about any transfers of financial assets and a transferor's continuing involvement with transferred financial assets. Adoption did not have an effect on the Company's consolidated financial statements.

Effective January 1, 2010 the Company adopted provisions related to how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated (Topic 810). The provisions also require additional disclosures about a reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. Adoption did not have an effect on the Company's consolidated financial statements.

In January 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-06 Fair Value Measurements and Disclosures (Topic 820). The new provisions require that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Furthermore in reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The amendments also clarify the existing disclosures as to the requirement for management of a reporting entity to use judgment in determining the appropriate classes of assets and liabilities. The new provisions also require a reporting entity to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. The provisions are effective for annual and interim reporting periods beginning after December 15, 2010, except for the requirement to provide the Level 3 disclosure. This requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Adoption of the first part of the update did not have an effect on the Company's consolidated financial statements.

In January 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-02 Consolidation (Topic 810). The update addresses implementation issues related to the changes in ownership provisions in the Consolidation - Overall Subtopic 810-10 of the FASB codification. The amendments in this update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or non-profit activity for an equity interest in another entity. The amendments in this update expand the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of Subtopic 810-10. The provisions are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted Statement 160. Adoption did not have an effect on the Company's consolidated financial statements.

In March 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-11, Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives that amends Topic 815, Derivatives and Hedging, of the FASB Codification. ASU 2010-11 clarifies that scope exception for embedded credit derivative features relates to the transfer of credit risk in the form of subordination of one financial instrument to another. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each first fiscal quarter beginning after issuance of ASU 2010-11. Adoption did not have an effect on the Company's consolidated financial statements.

In April 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-13 Compensation (Topic 718). This Update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendment is effective for interim or annual periods beginning on or after December 15, 2010 and should be applied on a prospective basis. The management does not believe the adoption will have a significant impact on the Company's financial position, results of operations and cash flows.

In July 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses that amends Topic 310, Receivables, of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide the following additional disclosures about its financing receivables: 1) credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; 2) the aging of past due financing receivables at the end of the reporting period by class of financing receivables; 3) the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses; 4) the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; 5) significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The management does not believe the adoption will have a significant impact on the Company's financial position, results of operations and cash flows.

Reclassifications

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

3. Business Combinations

Acquisition of Naftna Industrije Srbije

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

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

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

The Company previously finalized the assessment of the estimated fair values of the assets and liabilities acquired. There were no changes compared to the estimated fair values disclosed as of December 31, 2009.

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

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

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

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

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

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

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

Acquisition of Sibir Energy

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

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

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

Cash paid	\$ 1,662
Fair value of the non-controlling interest in Sibir	1,015
Fair value of the non-controlling interest in Moscow Refinery	839
Fair value of the Company's investment in Moscow Refinery held before the business combination	806
Total fair value	\$ 4,322

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of June 23, 2009:

	As of the acquisition date
Cash and cash equivalents	\$ 181
Accounts receivable, net	461
Inventories	60
Other current assets, net	246
Intangible assets	618
Property, plant and equipment	2,421
Other non-current assets	1,621
Total assets acquired	\$ 5,608
Short-term and current portion of long-term debt	\$ (233)
Other current liabilities	(460)
Long-term debt	(174)
Other long-term liabilities	(559)
Total liabilities assumed	\$ (1,426)
Total identifiable assets acquired and liabilities assumed	\$ 4,182
Consideration transferred	\$ (4,322)
Goodwill	140

The purchase price allocation was finalized in the three-month period ended June 30, 2010. The main changes to fair value estimates compared to those disclosed as of December 31, 2009 related to revisions to the estimated fair value of accounts receivable previously fully provided in the initial purchase price allocation but in respect of which partial recovery was made in the year ended December 31, 2010, and prior to the finalisation of the purchase price allocation.

As a result of the Company obtaining control over Moscow Refinery, the Company's previously held 38.63% interest was re-measured to fair value at the date of acquisition, resulting in a gain of US\$ 470 million. This has been recognized in the line item "Gain on investment" in the consolidated statement of income for the year ended December 31, 2009.

The fair values of the non-controlling interests in Sibir and Moscow Refinery of US\$ 1,015 million and US\$ 839 million respectively were estimated by applying an income approach as there are no market comparatives. The fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements as defined by the Business Combinations Topic of the Codification. The fair value estimates are based on discount rates between 10.8% and 13.6%, financial forecasts prepared in nominal US Dollars and publicly available macroeconomic and industry information.

The acquisition of Sibir contributed revenues of approximately US\$ 1,345 million and net income of approximately US\$ 96 million during the period June 23, 2009 through December 31, 2009. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2008:

	Pro forma December 31, 2009	Pro forma December 31, 2008
Revenues	25,189	37,589
Net income	3,073	4,669

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Sibir and Moscow Refinery to reflect the additional depreciation and amortization arising from the purchase accounting that would have been charged assuming the fair values adjustments to property plant and equipment and intangible assets had been applied from January 1, 2008.

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

Acquisition of Orton Oil Limited

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

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

	As of the acquisition date
Other current assets, net	\$ 206
Long-term Investment	741
Total assets acquired	\$ 947
Other long-term liabilities	(872)
Total liabilities assumed	(872)
Total identifiable assets acquired and liabilities assumed	\$ 75
Consideration paid	\$ (109)
Goodwill	34

The primary reasons for the acquisition and the principal factors contributing to goodwill relate to the Company's ability to increase its influence on Sibir. All of the goodwill has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes. The purchase price allocation is now finalized.

Acquisition of STS Service

On February 4, 2010 the Company completed the acquisition of 100% of the share capital of STS-Service LLC, a company previously owned by Malka Oil AB, for a cash consideration of 820,000,000 Swedish Kroner (approximately US\$ 114 million). STS-Service owns Block 87 in the Tomsk Region comprising Zapadno-Luginetskoye field (currently under development), Nizhneluginetskoye and a part of Shinginskoye field. C1+C2 category reserves comprise 11.5 mln tons, and there are 11 prospective structures within the area.

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of February 4, 2010.

	As of the acquisition date
Current assets	3
Property, plant and equipment	125
Total assets acquired	\$ 128
Current liabilities	(10)
Long-term liabilities	(4)
Total liabilities assumed	\$ (14)
Total identifiable assets acquired and liabilities assumed	\$ 114
Consideration transferred	\$ (114)
Goodwill	-

The primary reasons for the acquisition are that these fields are located in the immediate vicinity of Shinginskoye field developed by the Company's subsidiary, Gazpromneft-Vostok LLC, which will integrate these operations. The purchase price allocation is now finalized.

Acquisition of Bennfield

On May 18, 2010 the Company acquired the remaining 50% stake in Bennfield Limited ("Bennfield") for a consideration of US\$ 741 million of which US\$ 525 million was paid in cash and US\$ 216 million related to the forgiveness of a loan between the Company and the former holder of the shares acquired. The acquisition increased the Company's share in Bennfield to 100%. Bennfield is an un-listed investment and financing company registered in the Isle of Man. The only asset held by Bennfield is a 25.66% interest in Sibir.

The Company has accounted for the acquisition of the additional interest in Sibir gained in the Bennfield acquisition as an acquisition of non-controlling interest where control is maintained. The difference between the fair value of the non-controlling interest acquired and its carrying value at the date of acquisition of US\$ 75 million has been recognized in equity and is included within additional paid-in-capital.

Sale of interest in Sibir to Moscow Central Fuel Company

On July 19, 2010 the Company sold a 3.02% interest in Sibir to the Moscow Central Fuel Company, a company owned by the Moscow Government. The consideration received was US\$ 101 million. Under the terms of the agreement Moscow Central Fuel Company has the option to acquire an additional 2.69% subject to certain conditions precedent. Control of Sibir is maintained by the Company following the transaction. Certain of the conditions precedent have not yet been satisfied and therefore the option is currently not effective.

As a result of the sale of the 3.02% interest in Sibir to the Moscow Central Fuel Company the Company recognized a credit of approximately US\$ 5 million in additional paid in capital in the year ended December 31, 2010. The US\$ 5 million represents the excess of the consideration received over the carrying value of the investment that was sold to Moscow Central Fuel Company.

Following the acquisition of Bennfield and the subsequent sale of the interest in Sibir to the Moscow Central Fuel Company the Company has increased its interest in Sibir from 54.71% to 77.61%. In addition, the Company's effective interest in Moscow refinery has increased from 59.75% to 69.02%. These transactions have resulted in a net decrease of US\$ 71 million in additional paid-in-capital.

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2010 and 2009 comprise the following:

	2010	2009
Cash in bank – Rubles	\$ 120	\$ 119
Cash in bank – foreign currency	101	172
Bank deposits and other cash equivalents	918	455
Cash on hand	7	122
<i>Total cash and cash equivalents</i>	<i>\$ 1,146</i>	<i>\$ 868</i>

As of December 31, 2010 and 2009 the majority of bank deposits are held in Russian Ruble and US Dollars, respectively. Bank deposits represent deposits with original maturities of less than three months.

5. Accounts Receivable, net

Accounts receivable as of December 31, 2010 and 2009 comprise the following:

	2010	2009
Trade receivables	\$ 1,616	\$ 1,772
Value added tax receivable	682	974
Related party receivables	83	44
Other receivables	541	483
Less allowance for doubtful accounts	(356)	(446)
<i>Total accounts receivable</i>	<i>\$ 2,566</i>	<i>\$ 2,827</i>

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

6. Inventories

Inventories as of December 31, 2010 and 2009 consist of the following:

	2010	2009
Crude oil	\$ 339	\$ 259
Petroleum products	807	618
Materials and supplies	575	636
Other	141	83
<i>Total inventories</i>	<i>\$ 1,862</i>	<i>\$ 1,596</i>

As part of the management of crude inventory, the Company may enter transactions to buy and sell crude oil from the same counterparty. Such transactions are referred to as buy/sell transactions and are undertaken in order to reduce transportation costs or to obtain alternate quality grades of crude oil. The total value of buy / sell transactions undertaken in the period is as follows:

	2010	2009	2008
Buy/sell crude oil transactions	\$ 1,698	\$ 1,227	\$ 2,178

7. Assets held for sale

In April 2010, the Company's management approved the decision to sell the Company's oil field services business. The oil field services business of the Group consists of one holding company Gazpromneft-Nefteservice LLC and nine subsidiaries. In July 2010 the Company started the marketing stage of the process and as a result, the assets of oil field services entities and liabilities associated with these assets were classified as held for sale for the purposes of these consolidated financial statements.

The following table summarizes the financial information of oil field services business as of December 31, 2010:

	2010
Accounts receivable, net	22
Inventories	36
Other current assets	22
Property, plant and equipment, net	108
Other intangible assets	1
<i>Assets held for sale</i>	<u>\$ 189</u>
Accounts payable and accrued liabilities	56
Income and other taxes	24
Deferred income tax liabilities	4
<i>Liabilities associated with assets held for sale</i>	<u>\$ 84</u>

8. Other Current Assets, net

Other current assets as of December 31, 2010 and 2009 consist of the following:

	2010	2009
Prepaid customs duties	\$ 499	\$ 411
Advances paid	476	440
Prepaid expenses	28	57
Other assets	109	239
<i>Total other current assets</i>	<u>\$ 1,112</u>	<u>\$ 1,147</u>

9. Long-Term Investments and Loans Receivable

Long-Term Investments

None of the companies listed below are publicly traded in Russia. The significant equity and other long-term investments as of December 31, 2010 and 2009 are summarized below:

	Ownership Percentage	Net book value as of	
	December 31, 2010	December 31, 2010	December 31, 2009
<i>Investments in equity affiliates:</i>			
JSC Slavneft	49.9	\$ 2,798	\$ 2,792
JSC Tomskneft VNK	50.0	1,334	1,470
Salym Petroleum Development N.V.	50.0	1,287	1,205
SeverEnergy	25.5	894	0
Others		13	-
<i>Total investments in equity affiliates</i>		<u>\$ 6,326</u>	<u>\$ 5,467</u>
<i>Total long-term investments, at cost</i>		336	1,097
<i>Long-term loans receivable</i>		332	408
<i>Total long-term investments</i>		<u>\$ 6,994</u>	<u>\$ 6,972</u>

As of December 31, 2009 total long-term investments at cost includes the Company's investment in Bennfield, acquired as part of the acquisition of Orton in 2009 (Note 3 "Business Combinations").

The Company's share in income of equity affiliates including share in non-controlling interest consists of the following for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
<i>Equity affiliates:</i>			
JSC Slavneft	\$ 92	\$ 113	\$ 353
JSC Tomskneft VNK	55	138	39
JSC Moscow Oil Refinery*	-	5	15
Salym Petroleum Development N.V.	82	(44)	-
SeverEnergy	(5)	-	-
Others	5	-	-
<i>Total share of income in equity affiliates</i>	<u>\$ 229</u>	<u>\$ 212</u>	<u>\$ 407</u>

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

The Company's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Company and TNK-BP agreed to jointly manage the production and the refineries of the Slavneft group with each party purchasing its share of production, refer also to Note 21 "Related Party Transactions".

The following table summarizes the financial information of Slavneft as of December 31, 2010 and 2009 and for the years ended December 31, 2010 and 2009:

	2010	2009
Current assets	\$ 1,158	\$ 1,011
Long-term assets	6,807	6,508
Total liabilities	2,589	1,901
Revenues	4,311	3,666
Net income including non-controlling interest	185	227

In December 2007 the Company acquired a 50% equity interest in JSC Tomskneft VNK (“Tomskneft”) and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft (“Rosneft”). As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft’s annual production.

The following table summarizes the financial information of Tomskneft as of December 31, 2010 and 2009 and for the years ended December 31, 2010 and 2009:

	2010	2009
Current assets	\$ 631	\$ 858
Long-term assets	3,420	3,596
Total liabilities	2,093	2,180
Revenues	2,652	2,259
Net income	111	277

As part of the acquisition of Sibir (Note 3 “Business Combinations”) the Company acquired a 50.0% equity interest in Salym Petroleum Development N.V. (“Salym”). Salym is owned 50.0% by Sibir and 50.0% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of Salym relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarizes the financial information of Salym as of December 31, 2010 and 2009. Revenue and net income are shown for the years ended December 31, 2010 and 2009:

	2010	2009
Current assets	\$ 294	\$ 272
Long-term assets	934	964
Total liabilities	798	980
Revenues	1,567	1,372
Net income	162	74

In December 2010 Yamal Rasviti LLC (a joint venture between the Company and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom for US\$ 1.9 billion. The respective purchase price paid by the Company comprised US\$ 898 million. SeverEnergy is developing through its subsidiaries the Samburgskoye, Evo-Yakhinskoye oil fields and some other small oil and gas fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

The following table summarizes the financial information of SeverEnergy as of December 31, 2010 and for the period ended December 31, 2010:

	2010
Current assets	\$ 162
Long-term assets	4,671
Total liabilities	1,232
Net loss	(18)

Long-Term Loans Receivable

Long-term loans receivable of US\$ 332 million and US\$ 408 million are mostly due from related parties as of December 31, 2010 and 2009, respectively. These loans bear interest at rates ranging from nil to 15.0%. The fair value of these loans is approximately US\$ 279 million and US\$ 318 million as of December 31, 2010 and 2009 assuming an average discount rate of 8.03% and 9.0% for the periods ended December 31, 2010 and 2009, respectively (CBR interbank refinancing rate).

10. Property, Plant and Equipment

As of December 31, 2010 property, plant and equipment comprise the following:

	Cost	Accumulated DD&A	Net book value
Exploration and production	\$ 21,910	\$ (11,634)	\$ 10,276
Refining	4,709	(1,948)	2,761
Marketing and distribution	1,802	(277)	1,525
Other	143	(16)	127
Assets under construction	1,225	-	1,225
Total	\$ 29,789	\$ (13,875)	\$ 15,914
Comparative balance as of December 31, 2009	\$ 27,550	\$ (13,133)	\$ 14,417

11. Goodwill and intangible assets

Changes in the carrying value of goodwill for the period ended December 31, 2010 by reportable segment are as follows:

	Exploration and Production	Refining, Marketing and Distribution	Total
Balance as of December 31, 2008	-	-	-
Acquisitions	-	\$ 523	\$ 523
Balance as of December 31, 2009 and 2010	-	\$ 523	\$ 523

The goodwill balance of US\$ 523 million as of December 31, 2010 relates to acquisitions of NIS, Sibir Energy and Orton for which goodwill in the amount of US\$ 349 million, US\$ 140 million and US\$ 34 million, was recognized, respectively. The goodwill recognized for these acquisitions was assigned to the respective downstream assets acquired. The Company assessed the carrying value of goodwill related to each acquisition for impairment as of December 31, 2010. No impairment of goodwill was recognized as of December 31, 2010.

Other intangible assets as of December 31, 2010 and 2009 comprise the following:

	2010	2009
Licenses	\$ 20	\$ 16
Software	172	160
Land rights	535	571
Other intangible assets	24	47
<i>Total other intangible assets</i>	\$ 751	\$ 794

Land rights relate to the right to use land plots at the Moscow Refinery location and certain other retail and wholesale sites in Moscow and the Moscow region where the Company owns and operates refining and other assets. Accumulated depreciation with respect to land rights is US\$ 33 million and US\$ 10 million as of December 31, 2010 and 2009.

12. Short-Term Debt

As of December 31, 2010 and 2009 the Company has short-term loans outstanding as follows:

	2010	2009
Banks	\$ 25	\$ 251
Related parties	244	428
Other	10	3
<i>Total short-term loans</i>	\$ 279	\$ 682

As of December 31, 2010 short-term loans were provided by international and Russian banks for funding of working capital and consisted of unsecured facilities.

As of December 31, 2010, the Company has US\$ 25 million in short-term loans from a number of European and Russian banks (US\$ 251 million as of December 31, 2009), primarily repayable in US Dollars. These loans bear interest rates fluctuating from BELIBOR plus margin of 1.1 to fixed rate of 5.5%.

As of December 31, 2010 the Company has several interest-free loans from Tomskneft in the amount of US\$ 231 million (US\$ 346 million as of December 31, 2009), repayable in Rubles which mature in the period to November 2011. Tomskneft is a related party to the Company.

As of December 31, 2010 weighted average interest rates related to the short-term loans in foreign currency and in Rubles were BELIBOR + 1% and 0%, respectively. As of December 31, 2009 weighted average interest rates related to the short-term loans in foreign currency and Rubles were 4.4% and 0%, respectively.

13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2010 and 2009 comprise the following:

	2010	2009
Trade accounts payable	\$ 853	\$ 943
Advances received from customers	342	287
Related party accounts payable	156	101
Accrued interest	46	46
Other payables	509	995
<i>Total accounts payable</i>	\$ 1,906	\$ 2,372

14. Income and Other Taxes Payable

Income and other taxes payable as of December 31, 2010 and 2009 comprise the following:

	2010	2009
Mineral extraction tax	\$ 336	\$ 224
Value added tax	207	198
Excise tax	99	127
Income tax	137	62
Property tax	46	44
Other taxes	49	39
Total income and other taxes payable	\$ 874	\$ 694

Taxes other than income tax expense for the year ended December 31, 2010, 2009 and 2008 comprise the following:

	2010	2009	2008
Mineral extraction tax	\$ 3,051	\$ 2,215	\$ 4,202
Excise tax	1,743	1,412	828
Property tax	177	123	107
Other taxes	269	232	216
Total taxes other than income tax expense	\$ 5,240	\$ 3,982	\$ 5,353

15. Long-Term Debt

As of December 31, 2010 and 2009 the Company has long-term outstanding loans as follows:

	2010	2009
Bonds	\$ 1,247	\$ 595
Bank loans outstanding	4,955	4,900
Other borrowings	155	133
Less current portion of long- term debt	(1,415)	(1,466)
Total long-term debt	\$ 4,942	\$ 4,162

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

On April 21, 2009, the Company placed ten-year Ruble Bonds (04 series) with the total par value of RUR 10 billion (US\$ 328 million all current as of December 31, 2010 and US\$ 331 million as of December 31, 2009). The bonds bear interest of 16.7% per year with a 2 year put option and have semi-annual coupon payments.

On July 21, 2009, the Company placed seven-year Ruble Bonds (03 series) with the total par value of RUR 8 billion (US\$ 263 million all non-current as of December 31, 2010 and US\$ 264 million as of December 31, 2009). The bonds bear interest of 14.75% per year with 3 year put option and have semi-annual coupon payments.

On April 13, 2010, the Company placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUR 20 billion (US\$ 656 million all non-current as of December 31, 2010). The bonds bear interest of 7.15% per year and have semi-annual coupon payments.

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

During 2008 the Company obtained a US\$ 1 billion syndicated loan in two tranches from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank. The first tranche in the amount of US\$ 315 million bears a floating interest rate of LIBOR plus 1.5% and matures in May 2011. The second tranche in amount of US\$ 685 million bears a floating interest rate of LIBOR plus 1.75% and matures in May 2013. As of December 31, 2010 the Company has US\$ 842 million outstanding under the syndicated loan (including current portion of US\$ 526 million). As of December 31, 2009 the amount outstanding under the loan was US\$ 1 billion (including current portion of US\$ 158 million).

During 2008 the Company was granted a credit line from the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) for a total of US\$ 750 million repayable in US Dollars bearing an interest rate of LIBOR plus 5.0% which matures in September 2011. The loan was fully repaid during 2010. As of December 31, 2009 the amount outstanding under the credit line was US\$ 750 million (including current portion of US\$ 150 million as of December 31, 2009).

During 2009 the Company obtained several loans from Sberbank for a total of US\$ 857 million repayable in US Dollars bearing an interest rate of 8.46% which mature in September 2012. By the end of 2010 the interest rate was decreased up to 6.21%. As of December 31, 2010 the Company has US\$ 545 million outstanding under the loans (including current portion of US\$ 312 million). As of December 31, 2009 the amount outstanding under the loan was US\$ 857 million (including current portion of US\$ 312 million).

During 2009 the Company obtained a loan from a Club of banks (The Bank of Tokyo-Mitsubishi UFJ, Raiffeisenbank, Nordea Bank, UniCredit Bank and Societe Generale) in the amount of US\$ 500 million repayable in US Dollars. This loan bears a floating interest rate of LIBOR plus 2.65% and matures in September 2013. As of December 31, 2010 the Company has US\$ 500 million outstanding under the loan (all non-current). As of December 31, 2009 the amount outstanding was US\$ 500 million (including current portion of US\$ 111 million).

During 2009 the Company obtained a loan from Gazprombank (Switzerland) Ltd. (former Russian Commercial Bank) in the amount of US\$ 624 million repayable in US Dollars. This loan bears a fixed interest rate of 6.50% and matures in December 2012. As of December 31, 2010 and December 31, 2009 the Company has US\$ 624 million outstanding under the loan (all non-current). Gazprombank (Switzerland) Ltd. is a related party to the Company.

In June 2010 the Company obtained a loan from Credit Agricole CIB in the amount of US\$ 250 million repayable in US Dollars (all non-current as of December 31, 2010). This loan bears a floating interest rate of LIBOR plus 2.15% and matures in June 2013.

In July 2010 the Company completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of up to US\$ 1.5 billion. The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Societe Generale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest rate of LIBOR plus 2.1% and matures in July 2015. As of December 31, 2010 the Company has US\$ 1.5 billion outstanding under the loan (all non-current). Arrangement fees and other issuance costs associated with the Pre-Export Finance Facility amounted to \$32 million and are included in financing activities in the statement of cash flows.

As of December 31, 2010 the Company has US\$ 694 million in long term loans from a number of banks (including current portion of US\$ 222). These loans bear interest rates fluctuating from LIBOR/EURIBOR plus 0.5% to fixed interest rate of 6.75%. As of December 31, 2009 the amount outstanding under the loans was US\$ 569 million (including current portion of US\$ 108 million). Interest rates under the loans varied from LIBOR / EURIBOR plus 3.2% to fixed interest rate of 6.6%.

The loan agreements contain financial covenants that require the Company's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of December 31, 2010 and December 31, 2009, respectively.

Maturities of long-term loans as of December 31, 2010 are as follows:

<u>Year due</u>	<u>Amount due</u>
2011	\$ 1,415
2012	1,873
2013	2,181
2014	509
2015 and further	379
	<hr/>
	\$ 6,357

16. Asset Retirement Obligations

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

	2010	2009
<i>Beginning balance as of January 1</i>	\$ 367	\$ 330
Change in estimate	49	(1)
New obligations incurred	16	11
Spending on existing obligations	(44)	(1)
Accretion expense	27	28
<i>Ending balance as of December 31</i>	<hr/> \$ 415 <hr/>	<hr/> \$ 367 <hr/>

17. Cash-settled Stock Appreciation Rights

On January 12, 2010 the Board approved the implementation of a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Company and is designed to reward management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Company's market capitalization. The plan is open to selected management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the vesting period which expires on December 31, 2011. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognized is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Company's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognized in the period the change occurs subject to the vesting period.

The following assumptions are used in the Black-Scholes-Merton model as of December 31, 2010:

	<u>2010</u>
Volatility	11.21%
Risk-free interest rate	5.96%
Dividend yield	3.83%

In the consolidated statement of income for the period ended December 31, 2010, the Company recognized compensation expense, net of the deferred tax benefit, of US\$ 38 million related to the SAR plan. This expense is included within selling, general and administrative expenses. A provision of US\$ 47 million has been recorded within other long-term liabilities in respect of the Company's estimated obligations under the plan at December 30, 2010. The unrecognized compensation cost of US\$ 47 million, based on the December 31, 2010 valuation, related to unvested SAR awards will be recognized in the year to December 31, 2011.

18. Fair Value of Financial Instruments

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

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

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

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. Management believes the carrying values of short-term and long-term debt are not materially different from their fair values.

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

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

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

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

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

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

The Company does not purchase, hold or sell derivative financial instruments unless it has an existing asset or obligation or anticipates a future activity that is likely to occur that will result in an exposure to foreign exchange risk. The Company does not enter into any derivative instruments for speculative purposes. As of December 31, 2010 and 2009 the Company has outstanding currency exchange derivative contracts for a total notional value of US\$ 1,265 million and US\$ 592 million respectively.

The following table presents the fair values and corresponding balance sheet captions of the Company's derivative instruments as of December 31, 2010 and 2009:

	2010	2009
Assets		
Other current assets	\$ 96	\$ 13
Other non-current assets	97	121
Total assets	\$ 193	\$ 134

During the years ended December 31, 2010, 2009 and 2008 the Company recognized US\$ 59 million and US\$ 143 million in unrealized gains and US\$ 9 million in unrealized losses, respectively, in foreign exchange (loss) gain, net in the consolidated statements of income.

19. Income Taxes

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

	2010	2009	2008
Current income taxes expense	\$ 884	\$ 804	\$ 1,425
Deferred income tax (benefit)/expense	(40)	12	39
Total provision for income taxes	\$ 844	\$ 816	\$ 1,464

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

	2010	2009	2008
Income before income taxes	\$ 4,277	\$ 3,897	\$ 6,161
Statutory income tax rate	20.0%	20.0%	24.0%
"Expected" income tax expense	855	779	1,479
Add (deduct) tax effect of:			
Foreign income taxed at different rates	(7)	(4)	5
Difference between enacted tax rate and taxes to be withheld from dividends	(21)	(15)	(1)
Non-deductible expenses and other permanent accounting differences	17	56	(19)
Income taxes	844	816	1,464
Effective tax rate	19.7%	20.9%	23.8%

Effective January 1, 2009 the income tax rate in Russia was reduced to 20%.

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

	2010	2009
Assets and liabilities arising from the tax effect of:		
Allowance for doubtful accounts	-	4
Prepaid expenses	-	7
<i>Current deferred income tax assets</i>	-	\$ 11
Asset retirement obligation	84	70
Tax loss carryforward	18	3
Fixed assets and other non-current assets and liabilities	118	51
<i>Non-current deferred income tax assets</i>	\$ 220	\$ 124
Equity investments	(10)	(20)
Fixed assets and other non-current assets	(768)	(735)
<i>Deferred income tax liability</i>	\$ (778)	\$ (755)
<i>Net deferred income tax liability</i>	(558)	(620)

For income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling US\$ 90 million and US\$ 17 million as of December 31, 2010 and 2009, resulting in associated deferred income tax assets of US\$ 18 million and US\$ 3 million, respectively. Tax loss carryforward as of December 31, 2010 expire between 2012 and 2020.

20. Commitments and Contingencies

Taxes

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

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, including the allocation of tax payments to the Federal and Regional budgets, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2008, 2009 and 2010 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these matters.

Operating Environment

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

Although the financial crisis appears to have eased in 2010, management is unable to reliably determine the effects on the Company's future financial position, results of operations or cash flows as a result of the ongoing crisis or a worsening in the crisis. Management believes the Company's current and long-term investment and capital expenditures program can be funded through cash generated from existing operations. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future (Refer to Note 23 Subsequent Events).

Environmental Matters

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

21. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

For the year ended December 31, 2009 up to the date control was obtained the Company processed crude oil based on processing agreements in Moscow Refinery. Such transactions were in the ordinary course of business and on terms available to other suppliers.

	2009	2008
Processing fees	\$ 34	\$ 100
Crude, gas and oil products purchased	1	8
Crude and oil products sales	-	10

Following the acquisition of Sibir on June 23, 2009, the results of operations, cash flows and financial position of Moscow Refinery are included in the consolidated financial statements.

Slavneft Group (Slavneft)

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

	2010	2009	2008
Processing fees	\$ 258	\$ 218	\$ 234
Crude, gas and oil products purchased	1,750	1,729	3,199
Crude and oil products sales	1,160	720	609

As of December 31, 2010 the Company has US\$ 46 million in payables to Slavneft and US\$ 41 million in receivables from Slavneft. As of December 31, 2009 the Company had US\$ 77 million in payables to Slavneft and US\$ 21 million in receivables from Slavneft.

Gazprom Group (Gazprom)

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

	2010	2009	2008
Crude, gas and oil products purchased	-	2	64
Crude and oil products sales	22	32	67

As of December 31, 2010 the Company has US\$ 9 million in payables to Gazprom and US\$ 27 million in receivables from Gazprom. As of December 31, 2009 the Company had US\$ 7 million in payables to Gazprom and US\$ 17 million in receivables from Gazprom.

The Company has cash deposits in Gazprombank of US\$ 176 million and US 30 million as December 31, 2010 and as of December 31, 2009, respectively.

Tomskneft Group (Tomskneft)

The Company conducted a number of transactions with Tomskneft and its subsidiaries. The information on transactions with Tomskneft for the years ended December 31 is presented below:

	2010	2009	2008
Crude, gas and oil products purchased	1,148	997	1,326

As of December 31, 2010 the Company has US\$ 15 million in payables to Tomskneft and US\$ 11 million in receivables from Tomskneft. As of December 31, 2009 the Company had US\$ 16 million in payables to Tomskneft and US\$ 5 million in receivables from Tomskneft.

Salym Petroleum Development (SPD)

Since June 23, 2009 (the date of acquisition of Sibir), the Company conducts a number of transactions with Salym Petroleum development (SPD). For the year ended December 31, 2010, the Company purchased crude oil from SPD amounting to US\$ 871 million (US\$ 554 million for the year ended December 31, 2009). As of December 31, 2010 the Company has US\$ 86 million in payables to SPD and US\$ 4 million in receivables from SPD. As of December 31, 2009 the Company had US\$ 1 million in payables to SPD and US\$ 1 million in receivables from SPD.

22. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2010, 2009 and 2008. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the Company's Chief Executive Office to make decisions about resources to be allocated and to assess performance of the Company.

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

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

Operating Segments as of and for the year ended December 31, 2010 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 153	\$ 32,619	-	\$ 32,772
Inter-segment revenues	7,207	392	(7,599)	-
Total	7,360	33,011	(7,599)	32,772
Adjusted EBITDA	3,064	4,162	-	7,226
Capital expenditures	2,430	871	-	3,301
Depreciation, depletion and amortization	1,262	357	-	1,619
Income tax expense	186	658	-	844
Segment assets as of December 31, 2010	18,371	24,621	(10,928)	32,064

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

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 76	\$ 24,090	-	\$ 24,166
Inter-segment revenues	6,519	66	(6,585)	-
Total	6,595	24,156	(6,585)	24,166
Adjusted EBITDA	3,241	2,736	-	5,977
Capital expenditures	2,025	582	-	2,607
Depreciation, depletion and amortization	1,302	173	-	1,475
Income tax expense	152	664	-	816
Segment assets as of December 31, 2009	17,237	22,706	(10,031)	29,912

Operating Segments for the year ended December 31, 2008 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	\$ 127	\$ 33,743	-	\$ 33,870
Inter-segment revenues	8,250	102	(8,352)	-
Total	8,377	33,845	(8,352)	33,870
Adjusted EBITDA	2,810	5,800	-	8,610
Capital expenditures	2,979	387	-	3,366
Depreciation, depletion and amortization	1,193	116	-	1,309
Income tax expense	281	1,183	-	1,464

Adjusted EBITDA for the years ended December 31, 2010, 2009 and 2008 is reconciled below:

	2010	2009	2008
Adjusted EBITDA	\$ 7,226	\$ 5,977	\$ 8,610
The Company's share in EBITDA of equity affiliates	(949)	(931)	(1,052)
Gain on investment	9	470	-
Share in income of equity affiliates	229	212	407
Foreign exchange (loss)/ gain, net	(22)	48	(517)
Other (expense)/ income, net	(309)	(143)	89
Interest expense	(336)	(369)	(167)
Interest income	48	108	100
Depreciation, depletion and amortization	(1,619)	(1,475)	(1,309)
Income before income taxes	\$ 4,277	\$ 3,897	\$ 6,161

For the years ended December 31, 2010 and 2009 the Company had one customer which accounted for approximately 13.5%, 18.5%, and 20.3% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

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

Export and international sales	\$ 18,827	\$ 14,154	\$ 19,730
Domestic	11,536	8,112	11,442
CIS	2,409	1,900	2,698
Total revenues from external customers	\$ 32,772	\$ 24,166	\$ 33,870

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

23. Subsequent Events

On January 31, 2011 the Company submitted an offer to buy out the free float shares in NIS (a maximum 19.12% of the NIS equity is available for purchase). The offer price is similar to the one at which the Company acquired NIS shares in 2009.

On February 8, 2011 the Company placed five-year Ruble Bonds (08 series), ten-year Ruble bonds (09 and 10 series) for total amount of RUB 30 billion (approximately US\$ 1 billion). The bonds (08 and 09 series) bear interest of 8.5% per year. The bonds 10 series bear interest of 8.9% per year. The bonds 09 and 10 series have an early redemption offer to be made 5 and 7 years following the placement, respectively.

On February 14, 2011 the Board of Directors of Sibir Energy adopted a resolution to reduce the share capital by 86.25 mln. shares (22.39%). Starting from February 15, 2011 the Company has 100% interest in Sibir. Affiliated to the Moscow government, Central Fuel Company took a decision to withdraw membership in Sibir Energy for a compensation of US\$ 740 million.

As required by FASB ASC 932.235, “*Extractive Activities – Oil and Gas*”, the Company makes certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Company or its expected future results.

The proved oil and gas reserve quantities and related information regarding standardized measure of discounted future net cash flows do not include reserve quantities or standardized measure information related to the Company's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalized costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

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

Capitalized Costs Relating to Oil and Gas Producing Activities

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the period ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Consolidated subsidiaries			
Proved oil and gas properties	\$ 21,910	\$ 19,563	\$ 15,181
Less: Accumulated depreciation, depletion and amortization	(11,634)	(10,494)	(7,622)
Net capitalized costs of oil and gas properties	\$ 10,276	\$ 9,069	\$ 7,559
Company's share of equity method investees			
Proved oil and gas properties	\$ 6,962	\$ 6,092	\$ 4,987
Less: Accumulated depreciation, depletion and amortization	(2,215)	(1,693)	(874)
Net capitalized costs of oil and gas properties	\$ 4,747	\$ 4,399	\$ 4,113
Total capitalized costs consolidated and equity interests	\$ 15,023	\$ 13,468	\$ 11,672

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

	2010	2009	2008
Consolidated subsidiaries			
Exploration costs	\$ 91	\$ 147	\$ 193
Development costs	2,351	1,976	2,979
Costs incurred	\$ 2,442	\$ 2,123	\$ 3,172
Company's share of equity method investees			
Exploration costs	37	25	52
Development costs	785	722	658
Costs incurred	\$ 822	\$ 747	\$ 710
Total costs incurred consolidated and equity interests	\$ 3,264	\$ 2,870	\$ 3,882

Results of Operations from Oil and Gas Producing Activities

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

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

Results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the years ended, respectively, adjusted for tax deductions, tax credits and allowances. For the period ended December 31, 2010, 2009 and 2008 results of operations are as follow:

	2010	2009	2008
Consolidated subsidiaries			
Revenues:			
Sales	\$ 5,841	\$ 5,428	\$ 9,996
Transfers	5,190	3,842	4,979
Total revenues	11,031	9,270	14,975
Production costs	(1,236)	(1,217)	(1,371)
Exploration expenses	(91)	(147)	(193)
Depreciation, depletion and amortization	(1,290)	(1,330)	(1,218)
Taxes other than income tax	(6,343)	(4,486)	(8,905)
Pretax income from producing activities	2,071	2,090	3,288
Income tax expenses	(398)	(404)	(637)
Results of oil and gas producing activities	\$ 1,673	\$ 1,686	\$ 2,651
Company's share of equity method investees			
Revenues:			
Sales	\$ 3,719	\$ 3,071	\$ 4,383
Total revenues	3,719	3,071	4,383
Production costs	(783)	(674)	(885)
Exploration expenses	(25)	(16)	(38)
Depreciation, depletion and amortization	(692)	(551)	(429)
Taxes other than income tax	(1,895)	(1,350)	(2,196)
Pretax income from producing activities	324	480	835
Income tax expenses	(62)	(96)	(179)
Results of oil and gas producing activities	262	384	656
Total consolidated and equity interests in results of oil and gas producing activities	\$ 1,935	\$ 2,070	\$ 3,307

Proved Oil and Gas Reserve Quantities

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

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

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

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

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

	2010	2009	2008
Consolidated subsidiaries			
<i>Beginning of year</i>	3,660	3,247	4,203
Production	(259)	(250)	(248)
Purchases of minerals in place	-	2	-
Revision of previous estimates and improved recovery	670	661	(708)
<i>End of year</i>	4,071	3,660	3,247
Proved developed reserves	2,306	2,258	2,281
Proved undeveloped reserves	1,765	1,402	966
Company's share of equity method investees			
<i>Beginning of year</i>	2,078	1,676	1,874
Production	(145)	(132)	(123)
Purchases of minerals in place	416	277	-
Revision of previous estimates and improved recovery	(234)	257	(75)
<i>End of year</i>	2,115	2,078	1,676
Proved developed reserves	1,014	1,472	1,278
Proved undeveloped reserves	1,101	606	398
Total consolidated and equity interests in proved reserves - end of year	6,186	5,738	4,923

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

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

The information provided in tables set out below does not represent management's estimate of the Company's expected future cash flows or of the value Company's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The valuation prescribed under FASB ASC 932.235 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2010	2009	2008
Consolidated subsidiaries			
Future cash inflows	\$ 180,418	\$ 136,982	\$ 84,439
Future production costs	(124,810)	(87,936)	(52,436)
Future development costs	(9,898)	(7,434)	(3,991)
Future income tax expenses	(6,778)	(6,558)	(4,515)
Future net cash flow	38,932	35,054	23,497
10% annual discount for estimated timing of cash flow	(20,892)	(17,230)	(11,412)
Standardized measure of discounted future net cash flow	\$ 18,040	\$ 17,824	\$ 12,085
Company's share of equity method investees			
Future cash inflows	100,158	80,870	44,441
Future production costs	(77,813)	(38,781)	(21,491)
Future development costs	(6,542)	(20,300)	(13,716)
Future income tax expenses	(2,799)	(4,488)	(1,806)
Future net cash flow	13,004	17,301	7,428
10% annual discount for estimated timing of cash flow	(6,587)	(8,827)	(3,875)
Standardized measure of discounted future net cash flow	6,417	8,474	3,553
Total consolidated and equity interests in the standardized measure of discounted future net cash flow	\$ 24,457	\$ 26,298	\$ 15,638

Changes in the Standardized Measure of Discounted Cash Flows

	2010	2009	2008
Consolidated subsidiaries			
Discounted present value as of beginning of year	\$ 17,824	\$ 12,085	\$ 34,266
Sales and transfers of oil produced, net of production costs and other operating expenses	(3,451)	(3,568)	(4,507)
Net change in prices received per barrel, net of production costs and other operating expenses	(276)	4,801	(31,333)
Changes in future development costs	(865)	(1,997)	(115)
Development costs incurred during the period	2,442	2,123	2,975
Revisions of previous quantity estimates	4,026	4,064	(838)
Accretion of discount	(264)	(946)	8,687
Net change in income taxes	2,127	2,092	1,780
Other	(3,524)	(830)	1,170
Discounted present value as of the end of year	\$ 18,039	\$ 17,824	\$ 12,085
Company's share of equity method investees			
Discounted present value as of beginning of year	\$ 8,473	\$ 3,553	\$ 16,843
Sales and transfers of oil produced, net of production costs and other operating expenses	(2,447)	(880)	(1,301)
Net change in prices received per barrel, net of production costs and other operating expenses	(3,001)	3,085	(17,437)
Changes in future development costs	(1,532)	(219)	1,168
Development costs incurred during the period	822	661	710
Revisions of previous quantity estimates	258	647	137
Accretion of discount	1,405	(701)	3,732
Net change in income taxes	1,007	1,058	414
Net change due to purchases and sales of minerals in place	767	2,299	-
Other	666	(1,030)	(713)
Discounted present value as of the end of year	\$ 6,418	\$ 8,473	\$ 3,553

ANNEX A - SUMMARY RESERVES REPORT FROM DEGOLYER
AND MACNAUGHTON

DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

This is a digital representation of a DeGolyer and MacNaughton report.

This file is intended to be a manifestation of certain data in the subject report and as such are subject to the same conditions thereof. The information and data contained in this file may be subject to misinterpretation; therefore, the signed and bound copy of this report should be considered the only authoritative source of such information.



DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

July 31, 2012

JSC Gazprom Neft
125A Profsoyuznaya St.
117647, Moscow RF
Russia

Subject: Estimates of JSC Gazprom Neft reserves and revenue, PRMS Case

Gentlemen:

Pursuant to your request, we have prepared estimates, as of December 31, 2011, of the extent of the proved, probable, and possible oil, condensate, and natural gas reserves owned or controlled by JSC Gazprom Neft (Gazprom Neft) either directly or through various subsidiary enterprises, referred to collectively herein as "GPN and Subsidiaries." Also included are estimates of the value of the proved, proved-plus-probable, and proved-plus-probable-plus-possible oil, condensate, and gas reserves attributable to GPN and Subsidiaries. These estimates are presented in our "Appraisal Report as of December 31, 2011 on Oil, Condensate, and Natural Gas Reserves in certain fields owned by OAO Gazprom Neft PRMS Case." The fields evaluated are located in North Central Russia and Orenburgskaya Oblast.

Gazprom Neft has represented that all fields included in GPN and Subsidiaries are 100 percent owned by the respective subsidiary enterprise. Gazprom Neft's ownership in all the subsidiary enterprises under GPN and Subsidiaries ranges from 61.8 percent to 100 percent, and Gazprom Neft exercises control over these subsidiaries. Therefore, the estimated reserves and associated values attributable to the subsidiary enterprises of GPN and Subsidiaries are reported herein at 100 percent.

Gazprom Neft also owns interests in several joint ventures. We have also prepared estimates of reserves and associated values of Gazprom Neft's interests in these joint ventures. These estimates are presented in our reports as follows:

“Report as of December 31, 2011 on Reserves and Associated Revenue and Contingent Resources in Vostochno-Messoyakhskoye and Zapadno-Messoyakhskoye Fields owned by ZAO Messoyakhneftegaz PRMS Case,”

“Appraisal Report as of December 31, 2011 on Oil and Natural Gas Reserves owned by Salym Petroleum Development in Certain Fields in Russia PRMS Case,”

“Appraisal Report as of December 31, 2011 on Gas, Oil, and Condensate Reserves owned by OOO SeverEnergia in Certain Fields Western Siberia Russian Federation PRMS Case Confidential,”

“Report as of December 31, 2011 on Reserves and Associated Revenue and Contingent Resources of Certain Fields owned by OAO NGK Slavneft PRMS Case,”

“Appraisal Report as of December 31, 2011 on Oil, Condensate, and Natural Gas Reserves owned by OAO Gazprom Neft through its Subsidiary OJSC Tomskneft VNK in Certain Fields in Russia PRMS Case.”

The aforementioned reports are referred to collectively hereinafter as “the PRMS Reports.”

Gazprom Neft has represented that it has a 50-percent interest in each of the following: Salym Petroleum Development, OJSC Tomskneft VNK, and ZAO Messoyakhneftegas. Gazprom Neft also has represented that it owns a 49.9-percent interest in OAO NGK Slavneft and 25.5-percent interest in OOO SeverEnergia. The OJSC Tomskneft VNK, Salym Petroleum Development, ZAO Messoyakhneftegas, OOO SeverEnergia, and OAO NGK Slavneft reports contain a detailed discussion of these ownership interests. The estimated reserves and values attributable to the joint ventures referenced above are collectively referred to as “GPN Joint Ventures.” The fields evaluated for these GPN Joint Ventures are located in western Siberia, Khanty-Mansiysky A.O., Tomskaya Oblast, North Central Russia, and Orenburgskaya Oblast.

Reserves and associated values for GPN and Subsidiaries and the GPN Joint Ventures are collectively referred to as “GPN Group.”

The proved, probable, and possible reserves and associated values presented in the PRMS Reports have been prepared in accordance with guidelines and definitions from the PRMS approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers (PRMS Case). However, associated values for possible reserves were not evaluated for OAO NGK Slavneft or OOO SeverEnergia and have not been included herein.

Reserves estimated in this report are expressed as gross reserves and net reserves. Gross reserves are defined as the total estimated oil, condensate, and gas to be produced from the fields evaluated in the PRMS Reports after December 31, 2011. Net reserves are defined as that portion of the gross reserves attributable to Gazprom Neft after deducting interests owned by others.

In this letter report, reserves quantities and associated values for those interests owned by others are presented herein as “Other Parties’ Share.” The quantities and associated values attributable to Other Parties’ Share have been deducted from the gross reserves and their associated values to arrive at estimates of net reserves, future net revenue, and present worth at 10 percent.

The estimated gross and net reserves, as of December 31, 2011, in the fields evaluated in the PRMS Reports referenced above, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized as follows:

	GPN and Subsidiaries			
	English Units		Metric Units	
	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Gross Proved Reserves	4,902,781	4,615,270	666,567	130,683
Other Parties’ Share Included Above	93,361	21,589	12,372	611
Net Proved Reserves	4,809,420	4,593,681	654,195	130,072
Gross Probable Reserves	2,378,226	3,393,921	321,012	96,090
Other Parties’ Share Included Above	83,367	12,531	11,072	355
Net Probable Reserves	2,294,859	3,381,390	309,940	95,735
Gross Possible Reserves	2,093,508	2,175,226	282,690	61,603
Other Parties’ Share Included Above	59,438	157,293	7,851	4,454
Net Possible Reserves	2,034,070	2,017,933	274,839	57,149

Note: Probable and possible reserves have not been risk adjusted to make them comparable to proved reserves.

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	GPN Joint Ventures			
	English Units		Metric Units	
	Oil and Condensate (10 ³ bbl)	Sales Gas (10 ⁶ ft ³)	Oil and Condensate (10 ³ mt)	Sales Gas (10 ⁶ m ³)
Gross Proved Reserves	4,096,086	16,559,605	548,686	468,901
Other Parties' Share Included Above	2,209,349	11,993,230	294,242	339,603
Net Proved Reserves	1,886,737	4,566,375	254,444	129,298
Gross Probable Reserves	5,170,615	11,925,009	692,698	337,673
Other Parties' Share Included Above	2,758,677	8,780,202	368,467	248,625
Net Probable Reserves	2,411,938	3,144,807	324,231	89,048
Gross Possible Reserves	4,997,098	13,464,463	668,128	381,264
Other Parties' Share Included Above	2,751,875	9,970,491	366,452	282,329
Net Possible Reserves	2,245,223	3,493,972	301,676	98,935

Note: Probable and possible reserves have not been risk adjusted to make them comparable to proved reserves.

	GPN Group			
	English Units		Metric Units	
	Oil and Condensate (10 ³ bbl)	Sales Gas (10 ⁶ ft ³)	Oil and Condensate (10 ³ mt)	Sales Gas (10 ⁶ m ³)
Gross Proved Reserves	8,998,867	21,174,875	1,215,253	599,584
Other Parties' Share Included Above	2,302,710	12,014,819	306,614	340,214
Net Proved Reserves	6,696,157	9,160,056	908,639	259,370
Gross Probable Reserves	7,548,841	15,318,930	1,013,710	433,763
Other Parties' Share Included Above	2,842,044	8,792,733	379,539	248,980
Net Probable Reserves	4,706,797	6,526,197	634,171	184,783
Gross Possible Reserves	7,090,606	15,639,689	950,818	442,867
Other Parties' Share Included Above	2,811,313	10,127,784	374,303	286,783
Net Possible Reserves	4,279,293	5,511,905	576,515	156,084

Note: Probable and possible reserves have not been risk adjusted to make them comparable to proved reserves.

The estimated future net revenue and present worth to be derived from the production and sale of the gross and net reserves in the fields evaluated in the PRMS Reports above, as of December 31, 2011, are summarized below, expressed in thousands of United States dollars (10³ U.S.\$). Values were estimated in United States dollars using the exchange rate of 29.2923 Russian Rubles (R) per U.S.\$1.00 for OAO NGK Slavneft and OOO SeverEnergiya and R30.7000 per U.S.\$1.00 for all

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other GPN Group. These exchange rates were provided respectively by OAO NGK Slavneft, OOO SeverEnergiya, and Gazprom Neft.

	<u>GPN and Subsidiaries</u>		<u>GPN Joint Ventures</u>		<u>GPN Group</u>	
	<u>Future Net Revenue (10³ U.S.\$)</u>	<u>Present Worth at 10% (10³ U.S.\$)</u>	<u>Future Net Revenue (10³ U.S.\$)</u>	<u>Present Worth at 10% (10³ U.S.\$)</u>	<u>Future Net Revenue (10³ U.S.\$)</u>	<u>Present Worth at 10% (10³ U.S.\$)</u>
Gross Proved Reserves	88,198,143	34,425,675	59,996,099	26,545,200	148,194,242	60,970,875
Other Parties' Share Included Above	1,405,575	551,162	36,814,148	15,701,771	38,219,723	16,252,933
Net Proved Reserves	86,792,568	33,874,513	23,181,951	10,843,429	109,974,519	44,717,942
Gross Proved-plus-Probable Reserves	122,669,892	39,703,809	113,417,275	34,559,888	236,087,167	74,263,697
Other Parties' Share Included Above	2,490,211	556,192	69,064,314	20,880,128	71,554,525	21,436,320
Net Proved-plus-Probable Reserves	120,179,681	39,147,617	44,352,961	13,679,760	164,532,642	52,827,377
Gross Proved-plus-Probable-plus-Possible Reserves	153,030,874	42,920,381	124,145,215	35,610,574	277,176,089	78,530,955
Other Parties' Share Included Above	3,066,050	618,886	74,428,285	21,405,471	77,494,335	22,024,357
Net Proved-plus-Probable-plus-Possible Reserves	149,964,824	42,301,495	49,716,930	14,205,103	199,681,754	56,506,598

Notes:

1. Values for probable and possible reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. Associated values for possible reserves were not evaluated for OAO NGK Slavneft or OOO SeverEnergiya and have not been included.

The estimates of GPN and Subsidiaries, GPN Joint Ventures, and GPN Group reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the PRMS Reports. These summaries should be considered in view of the PRMS Reports and are susceptible to being misunderstood apart from those reports.

Very truly yours,

DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716



Gary L. McKenzie, P.E.

Gary L. McKenzie, P.E.
Senior Vice President
DeGolyer and MacNaughton

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DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

31 июля 2012 г.

ОАО «Газпром нефть»
Российская Федерация
117647 г. Москва
ул. Профсоюзная, 125А,

Кас.: Оценки запасов ОАО «Газпром нефть» и их стоимости, вариант PRMS

Господа:

По вашему запросу мы подготовили оценки, по состоянию на 31 декабря 2011 г., величины доказанных, вероятных и возможных запасов нефти, конденсата и природного газа, принадлежащих или контролируемых ОАО «Газпром нефть» («Газпром нефть») непосредственно или через различные дочерние предприятия, называемые в настоящем письме-отчете совместно «ГПН и дочерние предприятия». В письме-отчете также представлены оценки стоимости доказанных, доказанных-плюс-вероятных и доказанных-плюс-вероятных-плюс-возможных запасов нефти, конденсата и природного газа Холдингов «Газпром нефти». Эти оценки представлены в нашем «Отчете по состоянию на 31 декабря 2011 г. по оценке запасов нефти, конденсата и природного газа некоторых месторождений, принадлежащих ОАО «Газпром нефть» вариант PRMS». Оцененные месторождения расположены на севере центральной части России и в Оренбургской области.

«Газпром нефть» заявляет, что все месторождения ГПН и дочерних предприятий на 100 процентов принадлежат соответствующим дочерним предприятиям. Доля собственности «Газпром нефти» во всех дочерних предприятиях, представляющих ГПН и дочерние предприятия, составляет от 61,8 до 100 процентов и «Газпром нефти» принадлежит контроль над этими предприятиями. Таким образом, оцениваемые запасы и соответствующие стоимости, относящиеся к ГПН и дочерним предприятиям, приведены в соответствии со 100 процентами участия.

«Газпром нефти» также принадлежат доли собственности в нескольких совместных предприятиях. Мы также подготовили оценки запасов и

соответствующей стоимости в соответствии с долей участия «Газпром нефти» в этих совместных предприятиях. Эти оценки приведены в следующих отчетах:

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов и соответствующей выручки и условных ресурсов Восточно-Мессояхского и Западно-Мессояхского месторождений, принадлежащих ЗАО «Мессояханефтегаз», классификация PRMS»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов нефти и природного газа, принадлежащих «Салым Петролеум Девелопмент» на некоторых месторождениях в России, вариант PRMS»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов газа, нефти и конденсата, принадлежащих ООО «Северэнергия» на ряде месторождений Западной Сибири в Российской Федерации, вариант PRMS, конфиденциально»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов и соответствующей выручки и условных ресурсов некоторых месторождений, принадлежащих ОАО «НГК «Славнефть», классификация PRMS»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов нефти, конденсата и природного газа, принадлежащих ОАО «Газпром нефть» через дочернее предприятие ОАО «Томскнефть» ВНК» на некоторых месторождениях в России, вариант PRMS».

Перечисленные выше отчеты далее совместно именуются «Отчетами PRMS».

«Газпром нефть» заявляет, что ей принадлежит 50-процентная доля участия в «Салым Петролеум Девелопмент», ОАО «Томскнефть» ВНК» и ЗАО «Мессояханефтегаз». «Газпром нефть» также заявляет, что ей принадлежит 49,9-процентная доля участия в ОАО «НГК «Славнефть» и 25,5-процентная доля участия в ООО «Северэнергия». Доли собственности в этих предприятиях подробно рассмотрены в отчетах по оценке предприятий «Салым Петролеум Девелопмент», ОАО «Томскнефть» ВНК», ЗАО «Мессояханефтегаз», ООО «Северэнергия» и ОАО «НГК «Славнефть». Оцениваемые запасы и стоимости по совместным предприятиям, перечисленным выше, именуются совместно «совместными предприятиями ГПН». Месторождения, оцениваемые по совместным

предприятиям ГПН, расположены в Западной Сибири, Ханты-Мансийском автономном округе, Томской области, на севере центральной России и в Оренбургской области.

Запасы и соответствующие стоимости ГПН и дочерних предприятий и совместных предприятий ГПН совместно именуются «Группой ГПН».

Доказанные, вероятные и возможные запасы и соответствующие стоимости, представляемые в Отчетах PRMS, были подготовлены в соответствии с методическими указаниями и определениями «Системы управления углеводородными ресурсами» (PRMS), утвержденной в марте 2007 г. Обществом инженеров-нефтяников, Всемирным нефтяным советом, Американской ассоциацией геологов-нефтяников и Обществом инженеров по оценке нефти и газа. Однако, стоимости возможных запасов не рассчитывались в оценке ОАО «НГК «Славнефть» и ООО «Северэнергия», и не были включены в настоящие расчеты.

Запасы, оцениваемые в настоящем письме-отчете, выражены в виде общих запасов и чистых запасов. Общие запасы определяются как суммарные оцениваемые нефть, конденсат и газ, которые будут добыты на месторождениях, оцениваемых в Отчетах PRMS, после 31 декабря 2011 г. Чистые запасы определяются как часть общих запасов, принадлежащая «Газпром нефти» после удержания доли, принадлежащей другим владельцам.

В настоящем письме-отчете части количеств запасов и их стоимости, соответствующие долям участия, принадлежащим другим владельцам, названы «долей других сторон». Количества запасов и их стоимости, соответствующие доле других сторон, вычитались из общих запасов и их стоимости для оценки чистых запасов, потока наличности и текущей стоимости с коэффициентом дисконтирования 10 процентов.

Оцениваемые общие и чистые запасы по состоянию на 31 декабря 2011 г. на месторождениях, оцениваемых в Отчетах PRMS, выраженные в миллионах кубических футов (млн.фт³) и миллионах кубических метров (млн.м³), и в тысячах баррелей (тыс.барр) и тысячах метрических тонн (тыс.т), приведены ниже:

	ГПН и дочерние предприятия			
	Английские единицы		Метрические единицы	
	Нефть и конденсат (тыс.барр)	Товарный газ (млн.фт ³)	Нефть и конденсат (тыс.т)	Товарный газ (млн.м ³)
Общие доказанные запасы	4,902,781	4,615,270	666,567	130,683
Доля других сторон, включенная в значения выше	93,361	21,589	12,372	611
Чистые доказанные запасы	4,809,420	4,593,681	654,195	130,072
Общие вероятные запасы	2,378,226	3,393,921	321,012	96,090
Доля других сторон, включенная в значения выше	83,367	12,531	11,072	355
Чистые вероятные запасы	2,294,859	3,381,390	309,940	95,735
Общие возможные запасы	2,093,508	2,175,226	282,690	61,603
Доля других сторон, включенная в значения выше	59,438	157,293	7,851	4,454
Чистые возможные запасы	2,034,070	2,017,933	274,839	57,149

Примечание: Вероятные и возможные запасы не были пересчитаны с учетом риска, что позволило бы их сопоставление с доказанными запасами.

	Совместные предприятия ГПН			
	Английские единицы		Метрические единицы	
	Нефть и конденсат (тыс.барр)	Товарный газ (млн.фт ³)	Нефть и конденсат (тыс.т)	Товарный газ (млн.м ³)
Общие доказанные запасы	4,096,086	16,559,605	548,686	468,901
Доля других сторон, включенная в значения выше	2,209,349	11,993,230	294,242	339,603
Чистые доказанные запасы	1,886,737	4,566,375	254,444	129,298
Общие вероятные запасы	5,170,615	11,925,009	692,698	337,673
Доля других сторон, включенная в значения выше	2,758,677	8,780,202	368,467	248,625
Чистые вероятные запасы	2,411,938	3,144,807	324,231	89,048
Общие возможные запасы	4,997,098	13,464,463	668,128	381,264
Доля других сторон, включенная в значения выше	2,751,875	9,970,491	366,452	282,329
Чистые возможные запасы	2,245,223	3,493,972	301,676	98,935

Примечание: Вероятные и возможные запасы не были пересчитаны с учетом риска, что позволило бы их сопоставление с доказанными запасами.

	Группа ГПН			
	Английские единицы		Метрические единицы	
	Нефть и конденсат (тыс.барр)	Товарный газ (млн.фт ³)	Нефть и конденсат (тыс.т)	Товарный газ (млн.м ³)
Общие доказанные запасы	8,998,867	21,174,875	1,215,253	599,584
Доля других сторон, включенная в значения выше	2,302,710	12,014,819	306,614	340,214
Чистые доказанные запасы	6,696,157	9,160,056	908,639	259,370
Общие вероятные запасы	7,548,841	15,318,930	1,013,710	433,763
Доля других сторон, включенная в значения выше	2,842,044	8,792,733	379,539	248,980
Чистые вероятные запасы	4,706,797	6,526,197	634,171	184,783
Общие возможные запасы	7,090,606	15,639,689	950,818	442,867
Доля других сторон, включенная в значения выше	2,811,313	10,127,784	374,303	286,783
Чистые возможные запасы	4,279,293	5,511,905	576,515	156,084

Примечание: Вероятные и возможные запасы не были пересчитаны с учетом риска, что позволило бы их сопоставление с доказанными запасами.

Оценки потока наличности и текущей стоимости, которые будут получены от добычи и реализации общих и чистых запасов на месторождениях, оцененных в Отчетах PRMS, по состоянию на 31 декабря 2011 г., приведены ниже, выраженные в тысячах долларов США (тыс.\$США). Стоимостные оценки были выполнены в долларах США на основании обменного курса в размере 29,2923 руб за 1,00 \$США для ОАО «НГК «Славнефть» и ООО «Северэнергия» и 30,7000 руб. за 1,00 \$США для остальных предприятий Группы ГПН. Эти обменные курсы были предоставлены соответственно компаниями ОАО «НГК «Славнефть», ООО «Северэнергия» и ОАО «Газпром нефть».

	ГПН и дочерние предприятия		Совместные предприятия		Группа ГПН	
	Поток наличности (тыс.\$США)	Текущая стоимость при 10% (тыс.\$США)	Поток наличности (тыс.\$США)	Текущая стоимость при 10% (тыс.\$США)	Поток наличности (тыс.\$США)	Текущая стоимость при 10% (тыс.\$США)
Общие доказанные запасы	88,198,143	34,425,675	59,996,099	26,545,200	148,194,242	60,970,875
Доля других сторон, включенная в значения выше	1,405,575	551,162	36,814,148	15,701,771	38,219,723	16,252,933
Чистые доказанные запасы	86,792,568	33,874,513	23,181,951	10,843,429	109,974,519	44,717,942
Общие доказанные-плюс-вероятные запасы	122,669,892	39,703,809	113,417,275	34,559,888	236,087,167	74,263,697
Доля других сторон, включенная в значения выше	2,490,211	556,192	69,064,314	20,880,128	71,554,525	21,436,320
Чистые доказанные-плюс-вероятные запасы	120,179,681	39,147,617	44,352,961	13,679,760	164,532,642	52,827,377
Общие доказанные-плюс-вероятные-плюс-возможные запасы	153,030,874	42,920,381	124,145,215	35,610,574	277,176,089	78,530,955
Доля других сторон, включенная в значения выше	3,066,050	618,886	74,428,285	21,405,471	77,494,335	22,024,357
Чистые доказанные-плюс-вероятные-плюс-возможные запасы	149,964,824	42,301,495	49,716,930	14,205,103	199,681,754	56,506,598

Примечания:

1. Стоимости вероятных и возможных запасов не были пересчитаны с учетом риска, что позволило бы их сопоставление со стоимостью доказанных запасов.
2. Стоимости возможных запасов не рассчитывались в оценке ОАО «НГК «Славнефть» и ООО «Северэнергия», и не были включены в приведенные выше расчеты.

Оценки запасов, потока наличности и текущей стоимости оценки потока наличности ГПН и дочерних предприятий, совместных предприятий ГПН и Группы ГПН приведены в соответствии с определениями, допущениями, ограничениями, пояснениями и выводами, изложенными в Отчетах PRMS. Представленные сводные данные следует рассматривать в соответствии с Отчетами PRMS, и они могут быть неверно интерпретированы в отрыве от этих отчетов.

С искренним уважением,

ДеГОЛЬЕР энд МакНОТОН
Зарегистрированная в Техасе инженерная
фирма F-716

Гэри Л. МакКензи, п.и.
Старший вице-президент
ДеГольер энд МакНотон

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DEGOLYER AND MACNAUGHTON
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DALLAS, TEXAS 75244

July 31, 2012

JSC Gazprom Neft
125A Profsoyuznaya St.
117647, Moscow RF
Russia

Subject: Estimates of JSC Gazprom Neft reserves and revenue, SEC Case

Gentlemen:

Pursuant to your request, we have prepared estimates, as of December 31, 2011, of the extent and value of the proved oil, condensate, and natural gas reserves owned or controlled by JSC Gazprom Neft (Gazprom Neft) either directly or through various subsidiary enterprises, referred to collectively herein as "GPN and Subsidiaries." These estimates are presented in our "Appraisal Report, as of December 31, 2011, on Oil, Condensate, and Natural Gas Reserves in Certain Fields Owned by OAO Gazprom Neft SEC Case – Economic Life." The fields evaluated are located in North Central Russia and Orenburgskaya Oblast.

Gazprom Neft has represented that all fields included in GPN and Subsidiaries are 100-percent owned by the respective subsidiary enterprise. Gazprom Neft's ownership in all the subsidiary enterprises under GPN and Subsidiaries ranges from 61.8 percent to 100 percent, and Gazprom Neft exercises control over these subsidiaries. Therefore, the estimated reserves and associated values attributable to the subsidiary enterprises of GPN and Subsidiaries are reported herein at 100 percent.

Gazprom Neft also owns interests in several joint ventures. We have also prepared estimates of reserves and associated values of Gazprom Neft's interests in these joint ventures. These estimates are presented in our reports as follows:

"Appraisal Report, as of December 31, 2011, on Oil and Natural Gas Reserves owned by Salym Petroleum Development in Certain Fields in Russia SEC Case – Economic Life,"

“Appraisal Report, as of December 31, 2011, on Gas, Oil, and Condensate Reserves owned by OOO SeverEnergiya in Certain Fields Western Siberia Russian Federation SEC Case Confidential,”

“Appraisal Report as of December 31, 2011 on Reserves of Certain Fields owned by OAO NGK Slavneft SEC Case – Economic Life,”

“Appraisal Report, as of December 31, 2011, on Oil, Condensate, and Natural Gas Reserves owned by OAO Gazprom Neft through its Subsidiary OJSC Tomskneft VNK in Certain Fields in Russia SEC Case – Economic Life.”

The aforementioned reports are referred to collectively hereinafter as “the SEC Reports.”

Gazprom Neft has represented that it has a 50-percent interest in each of the following: Salym Petroleum Development and OJSC Tomskneft VNK. Gazprom Neft also has represented that it owns a 49.9-percent interest in OAO NGK Slavneft and a 25.5-percent interest in OOO SeverEnergiya. The OJSC Tomskneft VNK, Salym Petroleum Development, OOO SeverEnergiya, and OAO NGK Slavneft reports contain a detailed discussion of these ownership interests. The estimated reserves and values attributable to the joint ventures referenced above are collectively referred to as “GPN Joint Ventures.” The fields evaluated for these GPN Joint Ventures are located in western Siberia, Khanty-Mansiysky A.O., Tomskaya Oblast, North Central Russia, and Orenburgskaya Oblast.

Reserves and associated values for GPN and Subsidiaries and the GPN Joint Ventures are collectively referred to as “GPN Group.”

The proved reserves and associated values presented in the SEC Reports have been prepared in compliance with the regulations promulgated by the United States Securities and Exchange Commission (SEC).

Reserves estimated in this report are expressed as gross reserves and net reserves. Gross reserves are defined as the total estimated oil, condensate, and gas to be produced from the fields evaluated in the SEC Reports after December 31, 2011. Net reserves are defined as that portion of the gross reserves attributable to Gazprom Neft after deducting interests owned by others.

In this letter report, reserves quantities and associated values for those interests owned by others are presented herein as “Other Parties’ Share.” The quantities and associated values attributable to Other Parties’ Share have been deducted from the gross reserves and their associated values to arrive at estimates of net reserves, future net revenue, and present worth at 10 percent.

The estimated gross and net reserves, as of December 31, 2011, in the fields evaluated in the SEC Reports, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized as follows:

	GPN and Subsidiaries			
	English Units		Metric Units	
	Oil and	Sales	Oil and	Sales
	Condensate	Gas	Condensate	Gas
	(10^3bbl)	(10^6ft^3)	(10^3mt)	(10^6m^3)
Gross Proved Reserves	4,037,999	4,332,193	547,473	122,674
Other Parties’ Share Included Above	90,543	21,589	12,003	611
Net Proved Reserves	3,947,456	4,310,604	535,470	122,063

	GPN Joint Ventures			
	English Units		Metric Units	
	Oil and	Sales	Oil and	Sales
	Condensate	Gas	Condensate	Gas
	(10^3bbl)	(10^6ft^3)	(10^3mt)	(10^6m^3)
Gross Proved Reserves	3,674,361	13,385,897	493,028	379,031
Other Parties’ Share Included Above	1,956,211	9,632,596	261,110	272,757
Net Proved Reserves	1,718,150	3,753,301	231,918	106,274

	GPN Group			
	English Units		Metric Units	
	Oil and	Sales	Oil and	Sales
	Condensate	Gas	Condensate	Gas
	(10^3bbl)	(10^6ft^3)	(10^3mt)	(10^6m^3)
Gross Proved Reserves	7,712,360	17,718,090	1,040,501	501,705
Other Parties’ Share Included Above	2,046,754	9,654,185	273,113	273,368
Net Proved Reserves	5,665,606	8,063,905	767,388	228,337

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The estimated future net revenue and present worth to be derived from the production and sale of the gross and net reserves in the fields evaluated in the SEC Reports above as of December 31, 2011, are summarized below, expressed in thousands of United States dollars (10³ U.S.\$). Values were estimated in United States dollars using the 12-month average exchange rate of R29.2923 per U.S.\$1.00, as shown by the Bank of Russian Federation on the first business day of each month.

	<u>GPN and Subsidiaries</u>		<u>GPN Joint Ventures</u>		<u>GPN Group</u>	
	<u>Future</u>	<u>Present</u>	<u>Future</u>	<u>Present</u>	<u>Future</u>	<u>Present</u>
	<u>Net</u>	<u>Worth</u>	<u>Net</u>	<u>Worth</u>	<u>Net</u>	<u>Worth</u>
	<u>Revenue</u>	<u>at 10%</u>	<u>Revenue</u>	<u>at 10%</u>	<u>Revenue</u>	<u>at 10%</u>
	<u>(10³ U.S.\$)</u>	<u>(10³ U.S.\$)</u>	<u>(10³ U.S.\$)</u>	<u>(10³ U.S.\$)</u>	<u>(10³ U.S.\$)</u>	<u>(10³ U.S.\$)</u>
Gross Proved Reserves	69,677,487	32,662,296	52,329,416	25,036,978	122,006,903	57,699,274
Other Parties' Share Included Above	1,458,754	582,956	31,314,300	14,571,702	32,773,054	15,154,658
Net Proved Reserves	68,218,733	32,079,340	21,015,116	10,465,276	89,233,849	42,544,616


The estimates of GPN and Subsidiaries, GPN Joint Ventures, and GPN Group reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the SEC Reports. These summaries should be considered in view of the SEC Reports and are susceptible to being misunderstood apart from those reports.

Very truly yours,



DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716




Gary L. McKenzie, P.E.
Senior Vice President
DeGolyer and MacNaughton

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Это электронная версия отчета «ДеГольер энд МакНотон».

Этот файл представляет определенные данные из названного отчета, и, следовательно, на них распространяются все условия отчета. Информация и данные, содержащиеся в этом файле, могут быть неверно истолкованы; и, таким образом, подписанная и переплетенная копия отчета должна считаться единственным авторитетным источником такой информации.



DEGOLYER AND MACNAUGHTON
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31 июля 2012 г.

ОАО «Газпром нефть»
Российская Федерация
117647 г. Москва
ул. Профсоюзная, 125А,

Кас.: Оценки запасов ОАО «Газпром нефть» и их стоимости, вариант SEC

Господа:

По вашему запросу мы подготовили оценки, по состоянию на 31 декабря 2011 г., величины и стоимости доказанных запасов нефти, конденсата и природного газа, принадлежащих или контролируемых ОАО «Газпром нефть» («Газпром нефть») непосредственно или через различные дочерние предприятия, называемые в настоящем письме-отчете совместно «ГПН и дочерние предприятия». Эти оценки представлены в нашем «Отчете по состоянию на 31 декабря 2011 г. по оценке запасов нефти, конденсата и природного газа некоторых месторождений, принадлежащих ОАО «Газпром нефть» вариант SEC – на срок рентабельности». Оцененные месторождения расположены на севере центральной части России и в Оренбургской области.

«Газпром нефть» заявляет, что все месторождения ГПН и дочерних предприятий на 100 процентов принадлежат соответствующим дочерним предприятиям. Доля собственности «Газпром нефти» во всех дочерних предприятиях, представляющих ГПН и дочерние предприятия, составляет от 61,8 до 100 процентов и «Газпром нефти» принадлежит контроль над этими предприятиями. Таким образом, оцениваемые запасы и соответствующие стоимости, относящиеся к ГПН и дочерним предприятиям, приведены в соответствии со 100 процентами участия.

«Газпром нефти» также принадлежат доли собственности в нескольких совместных предприятиях. Мы также подготовили оценки запасов и соответствующей стоимости в соответствии с долей участия «Газпром нефти» в этих совместных предприятиях. Эти оценки приведены в следующих отчетах:

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов нефти и природного газа, принадлежащих «Салым Петролеум Девелопмент» на некоторых месторождениях в России, вариант SEC – на срок рентабельности»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов газа, нефти и конденсата, принадлежащих ООО «Северэнергия» на ряде месторождений Западной Сибири в Российской Федерации, вариант SEC, конфиденциально»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов и соответствующей выручки и условных ресурсов некоторых месторождений, принадлежащих ОАО «НГК «Славнефть», классификация SEC – на срок рентабельности»,

«Отчет по состоянию на 31 декабря 2011 г. по оценке запасов нефти, конденсата и природного газа, принадлежащих ОАО «Газпром нефть» через дочернее предприятие ОАО «Томскнефть» ВНК» на некоторых месторождениях в России, вариант SEC – на срок рентабельности».

Перечисленные выше отчеты далее совместно именуются «Отчетами SEC».

«Газпром нефть» заявляет, что ей принадлежит 50-процентная доля участия в «Салым Петролеум Девелопмент» и ОАО «Томскнефть» ВНК». «Газпром нефть» также заявляет, что ей принадлежит 49,9-процентная доля участия в ОАО «НГК «Славнефть» и 25,5-процентная доля участия в ООО «Северэнергия». Доли собственности в этих предприятиях подробно рассмотрены в отчетах по оценке предприятий «Салым Петролеум Девелопмент», ОАО «Томскнефть» ВНК», ООО «Северэнергия» и ОАО «НГК «Славнефть». Оцениваемые запасы и стоимости по совместным предприятиям, перечисленным выше, именуются совместно «совместными предприятиями ГПН». Месторождения, оцениваемые по совместным предприятиям ГПН, расположены в Западной Сибири, Ханты-Мансийском автономном округе, Томской области, на севере центральной России и в Оренбургской области.

Запасы и соответствующие стоимости ГПН и дочерних предприятий и совместных предприятий ГПН совместно именуются «Группой ГПН».

Доказанные запасы и соответствующие стоимости, представляемые в Отчетах SEC, были подготовлены в соответствии с методическими указаниями, опубликованными Комиссией США по ценным бумагам и биржам (SEC).

Запасы, оцениваемые в настоящем письме-отчете, выражены в виде общих запасов и чистых запасов. Общие запасы определяются как суммарные оцениваемые нефть, конденсат и газ, которые будут добыты на месторождениях, оцениваемых в Отчетах SEC, после 31 декабря 2011 г. Чистые запасы определяются как часть общих запасов, принадлежащая «Газпром нефти» после удержания доли, принадлежащей другим владельцам.

В настоящем письме-отчете части количеств запасов и их стоимости, соответствующие долям участия, принадлежащим другим владельцам, названы «долей других сторон». Количества запасов и их стоимости, соответствующие доле других сторон, вычитались из общих запасов и их стоимости для оценки чистых запасов, потока наличности и текущей стоимости с коэффициентом дисконтирования 10 процентов.

Оцениваемые общие и чистые запасы по состоянию на 31 декабря 2011 г. на месторождениях, оцениваемых в Отчетах SEC, выраженные в миллионах кубических футов (млн.фт³) и миллионах кубических метров (млн.м³), и в тысячах баррелей (тыс.барр) и тысячах метрических тонн (тыс.т), приведены ниже:

	ГПН и дочерние предприятия			
	Английские единицы		Метрические единицы	
	Нефть и конденсат (тыс.барр)	Товарный газ (млн.фт ³)	Нефть и конденсат (тыс.т)	Товарный газ (млн.м ³)
Общие доказанные запасы	4,037,999	4,332,193	547,473	122,674
Доля других сторон, включенная в значения выше	90,543	21,589	12,003	611
Чистые доказанные запасы	3,947,456	4,310,604	535,470	122,063

	Совместные предприятия ГПН			
	Английские единицы		Метрические единицы	
	Нефть и конденсат	Товарный газ	Нефть и конденсат	Товарный газ
	(тыс.барр)	(млн.фт ³)	(тыс.т)	(млн.м ³)
Общие доказанные запасы	3,674,361	13,385,897	493,028	379,031
Доля других сторон, включенная в значения выше	1,956,211	9,632,596	261,110	272,757
Чистые доказанные запасы	1,718,150	3,753,301	231,918	106,274

	Группа ГПН			
	Английские единицы		Метрические единицы	
	Нефть и конденсат	Товарный газ	Нефть и конденсат	Товарный газ
	(тыс.барр)	(млн.фт ³)	(тыс.т)	(млн.м ³)
Общие доказанные запасы	7,712,360	17,718,090	1,040,501	501,705
Доля других сторон, включенная в значения выше	2,046,754	9,654,185	273,113	273,368
Чистые доказанные запасы	5,665,606	8,063,905	767,388	228,337

Оценки потока наличности и текущей стоимости, которые будут получены от добычи и реализации общих и чистых запасов на месторождениях, оцененных в Отчетах SEC, по состоянию на 31 декабря 2011 г., приведены ниже, выраженные в тысячах долларов США (тыс.\$США). Стоимостные оценки были выполнены в долларах США с учетом среднего за 12-месячный период обменного курса в размере 29,2923 руб. за 1,00 \$США на основании ставок Центрального Банка Российской Федерации на первый рабочий день каждого месяца.

	ГПН и дочерние предприятия		Совместные предприятия ГПН		Группа ГПН	
	Поток наличности	Текущая стоимость при 10%	Поток наличности	Текущая стоимость при 10%	Поток наличности	Текущая стоимость при 10%
	(тыс.\$США)	(тыс.\$США)	(тыс.\$США)	(тыс.\$США)	(тыс.\$США)	(тыс.\$США)
Общие доказанные запасы	69,677,487	32,662,296	52,329,416	25,036,978	122,006,903	57,699,274
Доля других сторон, включенная в значения выше	1,458,754	582,956	31,314,300	14,571,702	32,773,054	15,154,658
Чистые доказанные запасы	68,218,733	32,079,340	21,015,116	10,465,276	89,233,849	42,544,616

Оценки запасов, потока наличности и текущей стоимости оценки потока наличности ГПН и дочерних предприятий, совместных предприятий ГПН и Группы ГПН приведены в соответствии с определениями, допущениями, ограничениями, пояснениями и выводами, изложенными в Отчетах SEC. Представленные сводные данные следует рассматривать в соответствии с Отчетами SEC, и они могут быть неверно интерпретированы в отрыве от этих отчетов.

С искренним уважением,

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