

**Management's Discussion and Analysis of Financial Condition and  
Results of Operations for the three and nine months ended  
September 30, 2009 and 2008**

## Forward-Looking Statements

This discussion contains forward-looking statements concerning the financial condition, results of operations and businesses of Gazprom Neft and its consolidated subsidiaries. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.

Forward-looking statements include, among other things, statements concerning the potential exposure of Gazprom Neft to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Gazprom Neft and could cause those results to differ materially from those expressed in the forward-looking statements included in this Report, inclusively (without limitation): (a) price fluctuations in crude oil and gas; (b) changes in demand for the Company's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) economic and financial market conditions in various countries and regions; (j) political risks, project delay or advancement, approvals and cost estimates; and (k) changes in trading conditions.

The following discussion is intended to assist you in understanding of JSC Gazprom Neft's financial position as of September 30, 2009 and results of operations for the three and nine months ended September 30, 2009 and 2008 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with accounting principles generally accepted in the United States of America.

Such terms as "Gazprom Neft", "Company" and "Group" in their different forms in this report represent JSC Gazprom Neft and its consolidated subsidiaries and affiliated companies. This report represents JSC Gazprom Neft's financial condition and results of operations on a consolidated basis.

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of our 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 meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet into BOE at the rate of 6 thousand cubic feet per BOE.

### **Key Financial and Operational Results**

	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008		2009	2008	
Revenues (US\$ million)	7,087	10,307	(31,2)	16,596	28,717	(42,2)
Adjusted EBITDA (US\$ million)	1,823	2,752	(33,8)	4,280	8,164	(47,6)
Hydrocarbon production including our share of equity investees (millions of boe)	92.6	81.3	13,9	256.8	253.6	1,3
Refining throughput at own and equity investee refineries (millions of tonnes)	9.6	7.5	28,0	25,1	21.3	17,8

### **Operating Segments**

The Company's activities are divided into two main operating segments:

- Exploration and production segment- which includes exploration, development and production of crude oil and gas.
- Refining, Marketing and Distribution - which includes refining of crude oil, purchases, sales and transportation of crude oil and refined petroleum products.

The Company primarily conducts its operations in Russia. It also has assets located in Serbia, Kazakhstan, Kyrgyzstan and Tajikistan.

The Company's operating segments are interdependent; a portion of the revenues of one segment forms a part of the costs of the other segment. In particular, JSC Gazprom Neft, as a holding company, buys crude oil from its production subsidiaries, part of which is processed at the Company's and other downstream facilities; the remaining portion of crude output is primarily exported through a wholly owned export trading company. The refined petroleum products are distributed in the international and domestic markets through the Company's own marketing subsidiaries. In most cases it is difficult to assess market prices for crude oil in the domestic market due to the significant intragroup turnover within the vertically integrated oil companies. The prices set for intragroup purchases of crude oil reflect a combination of market factors such as global crude pricing environment, transportation, crude processing costs, capital investment requirements as well as other factors. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations. For this reason, we do not analyze our segments separately. Refer to Note 16 to the Interim Condensed Consolidated Financial Statements for operating segments financial data.

## **Changes in the Company's Structure**

### **Sibir Energy (Sibir)**

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\$ 1,659 million) to acquire 48.39% of the ordinary shares of Sibir, and the rights to purchase additional 6.32% 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%.

Sibir Energy plc is a vertically integrated energy company with exploration and production operations in Western Siberia and refining and marketing in the City of Moscow and the Moscow region. 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 total current production is over 80,000 barrels of oil per day (bopd). Sibir also holds a 38.6% stake in the Moscow Oil Refinery ("Moscow Refinery"), which is jointly managed with Gazprom Neft, and a network of 134 retail stations in the City of Moscow and the Moscow region through JSC Moscow Fueling Company and JSC Mosnefteproduct.

### **Naftna Industrija Srbije (NIS)**

In February 2009 JSC Gazprom Neft completed the acquisition of 51% interest in the Serbian oil company NIS for the total consideration of € 400 million. Separately, under the purchase agreement Gazprom Neft is also obliged to invest in NIS upgrade program € 547 million by 2012. As part of the upgrade, measures will be taken to improve the quality of produced oil products to ensure that they meet European standards (Euro-5).

### **Chevron Italia S.p.A. brand in Bari (Italy)**

JSC Gazprom Neft acquired 100% of oils and lubricants producing facility in Bari (Italy) from Chevron Global Energy. The facility's productive capacity includes 30 thousand tonnes of oils and 6 thousand tonnes of lubricants annually. The production range includes 150 type of oils used in cars and commercial transport as well as oils meant for industrial use. Production capacity also allows for production of 25 different special high-technology lubricants used particularly in the course of drilling operations. In accordance with technological agreement, Chevron Global Energy has provided a license on technical data as well as patent rights for 2 years on "Texaco" brand in Italy to LLC Gazprom Neft - Lubricants. Products manufactured at the facility under "Gazprom neft" trade mark will be distributed both in Italian and Russian markets.

## **Main Macroeconomic Factors Affecting Results of Operations**

The main factors affecting the Company's results of operations include:

- Changes in market prices of crude oil and petroleum products;
- Russian Ruble ("RR") exchange rate versus the US Dollar ("USD") and Inflation;
- Taxation;
- Changes in transportation tariffs of crude oil and petroleum products.

## **Changes in Market Prices of Crude Oil and Petroleum Products**

The prices for crude oil and petroleum products in the international and Russian markets are the primary factor affecting the Company's results of operations. In the nine months of 2009, the Brent crude oil price increased from US\$ 40.04 per barrel to US\$ 68.08.

In 2008 Brent crude oil price increased from the average of US\$ 92.00 per barrel in January 2008 to its historical high of US\$ 144.22 in July 2008. Shortly afterwards it plummeted to as low as US\$ 36.55 in December 2008. Crude pricing growth in first half of 2008 was driven mainly by money supply increase which caused US dollar weakening globally. In the second half of 2008 global money supply crunch as well as deterioration demand for oil caused crude oil price plunge. In the nine months of 2009 crude oil prices averaged at US\$ 57 per barrel.

The following table provides information on average crude oil and petroleum products prices in the international and domestic markets during the periods analyzed:

	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008	2009	2008		
<b>International market</b>	(in US\$ per barrel, except for figures in percent)					
Brent	68.08	115.09	(40.8)	57.32	111.21	(48.5)
Urals Spot (average Med. + NWE)	67.82	113.44	(40.2)	56.76	108.22	(47.5)
	(in US\$ per tonne, except for figures in percent)					
Premium gasoline (average NWE)	641.92	1,000.06	(35.8)	546.71	965.95	(43.4)
Naphtha (average Med. + NWE)	589.46	951.05	(38.0)	484.73	921.37	(47.4)
Diesel fuel (average NWE)	571.13	1,091.69	(47.7)	507.14	1,060.29	(52.2)
Gasoil 0.2% (average Med. + NWE)	551.52	1,059.26	(47.9)	480.96	1,028.24	(53.2)
Fuel oil 3.5% (average NWE)	391.90	598.19	(34.5)	312.01	522.18	(40.2)
<b>Domestic market*</b>	(in US\$ per tonne, except for figures in percent)					
High-octane gasoline	728.03	1,027.41	(29.1)	562.01	925.39	(39.3)
Low-octane gasoline	611.37	800.85	(23.7)	459.63	751.87	(38.9)
Diesel fuel	423.54	881.12	(51.9)	408.22	822.67	(50.4)
Fuel oil	250.73	376.51	(33.4)	183.06	319.83	(42.8)

Source: Platts (international market) and Kortess (domestic market). \* Domestic prices net of VAT.

### **Ruble vs. US Dollar Exchange Rate and Inflation**

A substantial part of the Company's revenues from sales of crude oil and petroleum products is denominated in US Dollars, while most of the expenses are settled in Russian Rubles. Accordingly, any real Ruble appreciation to the US Dollar negatively affects the results of the Company's operations, though this is partially offset by Ruble denominated revenue from sales in Russia. In the nine months of 2009 Ruble appreciated against the US Dollar in real and nominal terms, which negatively affected the Company's margins. In order to mitigate the effects of fluctuation in Ruble - US Dollar exchange rate, in April 2008 the Company began using derivative instruments. Refer to Note 13 to the Interim Condensed Consolidated Financial Statements.

The following table comprises the information on exchange rate movements and inflation during the periods analyzed:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Ruble inflation (CPI), %	0.7	1.9	8.1	10.6
Ruble/USD dollar exchange rate at the end of the period	30.09	25.25	30.09	25.25
Average Ruble/USD dollar exchange rate for the period	31.33	24.25	32.48	24.05
Real appreciation (depreciation) of the ruble against the US dollar, %	4.7	(5.3)	5.5	7.5

Source: the Central Bank of the Russian Federation, the Federal State Statistics Service.

## Taxation

The following table provides information on average enacted tax rates specific to the oil and gas industry in Russia for the periods indicated:

	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008		2009	2008	
<b>Export customs duty</b>						
Crude oil (US\$ per tonne)	224.25	462.95	(51.6)	157.05	379.00	(58.6)
Crude oil (US\$ per barrel)	30.59	63.16	(51.6)	21.43	51.71	(58.6)
<b>Light and middle distillate products</b>						
(US\$ per tonne)	163.40	324.19	(49.6)	118.12	267.63	(55.9)
Fuel oil (US\$ per tonne)	88.01	174.64	(49.6)	63.62	144.19	(55.9)
<b>Mineral extraction tax</b>						
Crude oil (RUR per tonne)	2,663.06	4,012.23	(33.6)	2,139.62	3,806.10	(43.8)
Crude oil (US\$ per barrel)	11.28	23.17	(51.3)	8.83	21.69	(59.3)
Natural gas (RUR per 1000 cm)	147.00	147.00	-	147.00	147.00	-

**Crude oil export customs duty rate.** Export custom duty rate per tonne of crude oil is established on a monthly basis by the Government of the Russian Federation. The actual rate is based on the average Urals price in the period from 15 calendar day in the month to the 14 calendar day of the following month (monitoring period). The rate is effective on the first day of the coming month after the monitoring period.

The Government sets export custom duty rates according to the following formulas:

Quoted Urals price (P), USD per tonne	Maximum Export Custom Duty Rate
0 - 109.50	0%
109.50 - 146.00	35.0% * (P - 109.50)
146.00 - 182.50	USD 12.78 + 45.0% * (P - 146.00)
>182.50	USD 29.20 + 65.0% * (P - 182.50)

In the third quarter and in the nine months of 2009 the export customs duty on crude oil declined by 51.6% and 58.6% to US\$ 30.59 per barrel and US\$ 21.43 per barrel, respectively, compared to the corresponding periods of 2008. Export duty reduction over the reporting periods followed similar crude pricing environment trend with a time lag.

**Export customs duty rate on petroleum products.** The export custom duty rate on oil products is determined by the Government based on the prices for crude on international markets is set separately for light and middle distillates and for fuel oil.

**Mineral extraction tax (MET).** Starting from January 1, 2007 mineral extraction tax rate on crude oil (R) is calculated using the following general formula:  $R = 419 * (P - 9) * D / 261$ , where P is the average monthly Urals oil price on the Rotterdam and Mediterranean markets (US\$/bbl) and D is the actual RUR/US\$ average exchange rate. Effective from January 1, 2009 the formula was amended to incorporate higher threshold oil price:  $R = 419 * (P - 15) * D / 261$ .

Depleted oil assets are subject to lower MET. Depleted oil assets are those that have depletion rate exceeding 80%. Depletion rate is calculated by dividing accumulated production volume from oil field (N) by the field's total reserves (V, where V is ABC1 + C2 reserves volume as per Russian classification). Should the field's depletion rate exceed 80% general MET formula is multiplied by coefficient C, which is calculated as follows:  $C = -3.5 * N / V + 3.8$ . Thus every marginal percent of depletion in the excess of 80% reduces MET payable by 3.5%.

In the third quarter and in the nine months of 2009 mineral extraction tax rate on crude oil decreased by 51.3% and 59.3% to US\$ 11.28 per barrel and US\$ 8.83 per barrel, respectively, compared to the corresponding periods of 2008. The decrease in both comparative periods was driven by the declining Urals prices, which decreased by approximately 40.2% and 47.5% compared to the third quarter and nine months of 2008.

**Natural gas mineral extraction tax rate.** The rate of mineral extraction tax for natural gas has remained stable since January 1, 2006 and equals 147.00 Rubles per thousand cubic meters of natural gas.

### **Transportation of Crude Oil and Petroleum Products**

Gazprom Neft transports its crude oil for export primarily through Russia's state-owned pipeline system, which is operated by JSC Transneft ("Transneft"). Russian Ministry of Industry and Energy is in charge of providing access to the pipeline system. Capacity in the pipeline network system is generally allocated among all users in proportion to their quarterly supply volumes to the system and on the basis of their requests. Pursuant to the Natural Monopolies Law, pipeline terminal access rights are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion only to oil production volumes).

The Federal Energy Agency currently approves quarterly schedules detailing the precise volumes of oil each producer can transport through the Transneft system. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to others. Alternative access to international markets bypassing Transneft export routes can be obtained through railroad transport, by tankers, and by the owned export infrastructure of oil producing companies.

Most of the oil produced by the Company is classified as "Siberian Light" crude or "SILCO" and has sub-average density of 34.20 degrees API or 830-850 kg/cm and sub-average sulfur content of 0.56% compared to average Russian crude oil. When not blended with other Russian crude oil, crude oil produced by the Company might be sold with a premium over the Urals blend. This advantage, however, is generally lost because crude oil produced by the Company is blended with crude oil belonging to other Russian companies when transported through the trunk pipeline system.

The Company exports SILCO through Tuapse, where the delivery is made through a special pipeline for this type of crude oil.

In the nine months of 2009 the Company shipped 43% of crude oil for export through the Baltic Sea ports (mainly Primorsk); 21% of crude oil was exported through Transneft's Druzhba pipeline (mainly to Germany, Poland and Slovakia); 28% of crude oil shipped from various Black Sea ports Novorossiysk, Tuapse and the Ukrainian port Yuzhniy and 7% of crude oil was exported to China via transit pipeline through Kazakhstan.

Transportation of refined products in Russia is performed by means of railway transport and the pipeline system of OJSC Transneftproduct. The Russian railway infrastructure is owned and operated by JSC Russian Railways. Both these companies are state-owned. Besides transportation of refined products, JSC Russian Railways provides oil companies with crude oil transportation services. We transport the major part of our refined products by railway transport.

The transportation tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Tariffs Service of the Russian Federation ("FTS"). 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 owners of transport infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by entities of natural monopolies.

Tariffs are to be revised by FTS at least annually, comprising a dispatch tariff, loading, transshipment, pumping and other tariffs.

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, the access of crude oil production companies to the markets is dependent on the extent of diversification of transport infrastructure. Consequently, transportation cost is an important macroeconomic factor affecting our results.

## **Production of Crude Oil, Gas and Petroleum Products**

### **Crude Oil Production**

Gazprom Neft is engaged in the exploration, development and production of crude oil and gas principally through fields located in the Yamal-Nenetsky and Khanti-Mansiysky autonomous districts, the Omsk, Tomsk, Tumen and Irkutsk regions and the Chukotka autonomous district.

The Company's major crude oil production entities are JSC Gazpromneft-Noyabrskneftegaz (Noyabrskneftegaz), Gazpromneft-Khantos LLC (Khantos) and Gazpromneft-Vostok LLC (Vostok). Within the course of 2007 the Company established two new operating subsidiaries: Gazpromneft-Yamal LLC (Yamal) and Gazpromneft-Angara LLC (Angara). Gazpromneft-Yamal LLC (Yamal) conducts exploration and development of JSC Gazprom's oil fields (the Company's parent company), whereas Gazpromneft-Angara LLC (Angara) was established to develop the Company's new crude oil fields in the Eastern Siberia.

Noyabrskneftegaz, Gazprom Neft major production unit, operates about 30 fields in the Yamal-Nenetsky and Khanti-Mansiysky autonomous districts, which account for 58% of the Company's total proved reserves under PRMS classification. Separately, it provides operating services to other Company's production subsidiaries such as JSC Meretoyakhaneftegaz ("Meretoyakhaneftegaz"), Sibneft-Chukotka LLC ("Sibneft-Chukotka") as well as Pechora Neftegaz LLC, NGP Ortjagynskoe LLC.

Khantos is developing Zimnee field in the Khanti-Mansiysky autonomous district and Tumen region. It also provides operating services to Sibneft-Yugra LLC ("Sibneft-Yugra"). Sibneft-Yugra (the Company owns 99% interest in the assets) holds production licenses for two fields: Priobskoye and Palyanovskoye in the Khanti-Mansiysky autonomous district. Priobskoye field is one of the Company's largest and most promising oil field. Full-scale development of Priobskoye was launched in 2004. By 2007 the field was already producing over 19% of the Company's consolidated production volume. Gazprom Neft considers Priobskoye to become its key oil field.

Vostok operates Krapivinskoye field in Omsk region and Archinskoye, Shinginskoye and Urmanskoye fields in Tomsk region. All these fields form a new production center with a yearly increase in crude oil output.

The NIS Exploration and Production division produces crude oil and natural gas in Serbia. In addition NIS holds a 7% non-operating interest in an Angola concession-type contract, from which it receives production volumes. Crude oil produced in Serbia is primarily refined by NIS's Refining division.

Slavneft (equally split and controlled by Gazprom Neft and TNK-BP) develops oil assets in the Urals Federal District and conducts exploration in the Siberian Federal District.

Tomskneft (equally split and controlled by Gazprom Neft and Rosneft) holds licenses for the development of fields in the Tomsk region and Khanty-Mansiysky autonomous district.

Following the acquisition of Sibir the Company simultaneously gained 50.0% share in Salym Petroleum Development (a joint venture with Royal Dutch Shell and Sibir).

The following table represents the Company's production for the periods indicated:

(millions of barrels)	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008		2009	2008	
Crude oil produced in Russia	56.4	57.3	(1.6)	163.8	172.8	(5.2)
Crude oil produced internationally	1.5	-	-	3.6	-	-
Company's share in production of equity investees	34.7	24.0	44.6	89.4	80.8	10.6
<b>Total crude oil production</b>	<b>92.6</b>	<b>81.3</b>	<b>13.9</b>	<b>256.8</b>	<b>253.6</b>	<b>1.3</b>

In the third quarter and in the nine months of 2009 the Company's crude oil production in Russia decreased by 1.6% and 5.2% to 56.4 million barrels (7.7 million tonnes) and 163.8 million barrels (22.4 million tonnes), respectively, compared to the corresponding periods of 2008. The reduction was primarily the result of Noyabrskneftegaz output decline. Production decline by Noyabrskneftegaz was partially offset by the output growth in new fields such as Priobskoye and certain fields in Tomsk and Omsk regions.

In the third quarter and in the nine months of 2009 the Company's crude oil volume produced internationally came in at 1.5 million barrels (0.2 million tonnes) and 3.6 million barrels (0.5 million tonnes), respectively, due to the acquisition of our 51% interest in Naftna Industrija Srbije ("NIS") in February 2009.

In the third quarter and in the nine months of 2009 the Company's production of crude oil including share in equity investees increased by 13.9% and 1.3% to 92.6 million barrels (12.6 million tonnes) and 256.8 million barrels (35.1 million tonnes) compared to the third quarter of 2008. An increase in production was due to the acquisition of 50% interest in Salym Petroleum Development ("SPD") in June 2009.

The following table summarizes the Company's crude oil purchases for the periods indicated:

(millions of barrels)	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008		2009	2008	
Crude oil purchases in Russia*	4.7	3.2	46.9	15.7	9.9	58.6
Crude oil purchases internationally	3.6	4.3	(16.3)	12.0	13.2	(9.1)
<b>Total crude oil purchases</b>	<b>8.3</b>	<b>7.5</b>	<b>10.7</b>	<b>27.7</b>	<b>23.1</b>	<b>19.9</b>

\* Crude oil purchases in Russia exclude purchases from Company's equity investees Slavneft, Tomskneft and Salym Petroleum Development.

In the third quarter and in the nine months of 2009 the Company increased the volumes of crude oil purchased in Russia by 10.7% and 19.9% to 8.3 million barrels (1.1 million tonnes) and 27.7 million barrels (3.7 million tonnes), respectively, as a result of refined volumes growth and trading activities expansion.

## Gas Production

In the nine months of 2009 the Company produced 2.6 billions of cubic meters of associated and natural gas (including share in production of equity investees), an increase of 4%, compared to 2.6 billions of cubic meters in the nine months of 2008.

In February 2008, Gazprom Neft adopted a medium term program for the utilization of associated gas with the goal of increasing its efficient use, mitigating environmental and tax risks and increasing revenues from the sale of additional volumes of associated gas and its refined products. The Company plans to invest Rubles 3.1 billion (approximately US\$ 99 million) to implement this program during 2009. In particular, the program provides for the construction of associated gas transportation facilities from the Ety-Purovskoye, Meretoyakhinskoye, Severo-Yangtinskoye, Chatylkinskoye, Kholmistoye, Yuzhno-Udmurtskoye, Ravninnoye, Vorgenskoye, Urmanskoye and Shinginskoye fields.

### Production of Petroleum Products

The following table summarizes the Company's production of petroleum products for the periods indicated:

(millions of tonnes)	Three Months Ended		Change %	Nine Months Ended		Change %
	September 30			September 30		
	2009	2008		2009	2008	
Production of petroleum products in Russia	6.5	4.6	41.8	15.3	13.1	16.7
Production of petroleum products internationally	0.6	-	-	1.8	-	-
Production of petroleum products at equity refineries	1.8	2.7	(33.3)	6.4	7.1	(9.4)
<b>Total production of petroleum products</b>	<b>8.9</b>	<b>7.3</b>	<b>22.2</b>	<b>23.5</b>	<b>20.2</b>	<b>16.5</b>
Petroleum products purchased*	0.6	0.6	-	1.3	2.2	(40.9)

\* include petroleum products purchased in Russia and internationally

In the third quarter and nine months of 2009 the Company produced 8.9 million tonnes and 23.5 million tonnes (including share in production of equity investees), respectively. The increase of 22.2% and 16.5% in corresponding periods was primarily due the acquisition of NIS in February 2009 and Sibir in June 2009.

The Company processes domestic crude oil into refined products primarily at its Omsk Refinery, Moscow Refinery and Yaroslavl Refinery. Gazprom Neft owns the Omsk Refinery and has access to the Yaroslavl Refinery in proportion of its equity interest. As a result of the acquisition of 54.71% interest in Sibir the Company also obtained control over Moscow Refinery, having increased its effective share in Moscow Refinery from 38.6% to 59.75%. Gazprom Neft processed its crude oil at Moscow and Yaroslavl refineries based on tolling agreements.

The NIS Refining division consists of Pancevo and Novi Sad refineries with capacity of 7.2 millions tonnes of crude oil processing per year including 5.2 million tonnes in Pancevo and 2 million tonnes in Novi Sad. The refineries also process external oil under tolling agreements whereby customers provide crude oil and necessary chemicals to refineries for processing and pay refining fee. The volume of tolling agreements is below 20% of total processing volumes.

The Company primarily markets its own crude oil and petroleum products for export through Gazprom Neft Trading GmbH, its trading subsidiary in Austria.

The Company's petroleum products are distributed within Russia primarily through 21 subsidiaries. Most of these subsidiaries are retail distribution companies engaged in wholesale distribution or operate in the gas station retail markets. Gazprom Neft Aero JSC, Gazpromneft Smazochny materialy LLC and Gazprom Neft Marine Bunker LLC specialize in the sale of particular petroleum products.

NIS Distribution division operates the largest network of crude oil storages and 475 oil and gas retail stations and is a leading supplier of oil products on the Serbian market. NIS produces about 80% of all domestically consumed oil products.

## Results of Operations

The following table represents the Company's results of operations for the three and nine months periods ended September 30, 2009 and 2008:

(in US\$ million)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Revenues</b>				
Refined products and oil and gas sales	6,960	10,161	16,236	28,208
Other	127	146	360	509
Total	7,087	10,307	16,596	28,717
<b>Costs and other deductions</b>				
Crude oil, petroleum and other products purchased	1,807	2,404	3,828	6,875
Operating expenses	561	547	1,300	1,449
Selling, general and administrative expenses	306	308	910	747
Transportation expenses	475	483	1,398	1,361
Depreciation, depletion and amortization	407	371	1,114	943
Export duties	1,188	2,261	2,539	5,949
Taxes other than income taxes	1,166	1,788	2,693	4,646
Exploration expenses	14	46	77	147
Cost of other sales	102	71	243	345
Total	6,026	8,279	14,102	22,462
Operating income	1,061	2,028	2,494	6,255
<b>Other income (expense)</b>				
Income from equity affiliates	116	244	216	563
Gain from Sibir Energy acquisition	-	-	470	-
Interest income	49	38	115	61
Interest expense	(123)	(44)	(266)	(122)
Other income (expense), net	(47)	24	(104)	175
Foreign exchange (loss) gain, net	72	(189)	80	(132)
Total	67	73	511	545
<b>Income before provision for income taxes</b>	1,128	2,101	3,005	6,800
Provision for income taxes	287	468	621	1,515
Deferred income tax (benefit) expense	(21)	21	(29)	36
Total	266	489	592	1,551
<b>Net income</b>	862	1,612	2,413	5,249
Less: Net income attributable to non-controlling interest	(16)	(19)	(38)	(48)
<b>Net income attributable to Gazprom Neft</b>	846	1,593	2,375	5,201

## **Revenues**

The following table analyses revenues for the periods indicated:

(in US\$ million)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Crude oil				
Export and sales on international markets	1,836	3,176	4,531	9,948
Export to CIS	348	464	744	1,247
Domestic sales	7	27	49	230
Total crude oil sales	2,191	3,667	5,324	11,425
Gas sales	24	30	75	108
Petroleum products				
Export and sales on international markets	2,175	2,640	5,274	7,217
Export and sales to CIS	277	264	602	801
Domestic sales	2,294	3,559	4,961	8,656
Total petroleum products sales	4,746	6,463	10,827	16,674
Other sales	127	146	360	509
Total sales	7,087	10,307	16,596	28,717

## **Sales Volumes**

The following table analyses sales volumes for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Crude oil (millions of barrels)				
Export and sales on international markets	27.9	29.3	83.9	93.8
Export to CIS	7.3	5.9	19.1	17.6
Domestic sales	0.1	0.7	1.7	4.4
Crude oil (millions of tonnes)				
Export and sales on international markets	3.8	4.0	11.4	12.8
Export to CIS	1.0	0.8	2.6	2.4
Domestic sales	0.1	0.1	0.2	0.6
Total crude oil sales	4.9	4.9	14.2	15.8
Gas sales (bcm)	0.8	0.8	2.6	2.6
Petroleum products (millions of tonnes)				
Export and sales on international markets	3.5	2.9	10.6	8.6
Export and sales to CIS	0.6	0.4	1.4	1.1
Domestic sales	4.9	4.5	12.3	12.2
Total petroleum products sales	9.0	7.8	24.3	21.9

### **Realized Average Sales Prices.**

The following table analyses the Company's average realized export and domestic prices for the periods indicated:

	Nine Months Ended September 30			
	2009		2008	
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)
Average realized price international				
Crude oil				
Export and sales, excluding CIS	54.2	397.5	106.1	777.2
Export and sales to CIS*	39.0	286.2	70.8	519.5
Petroleum products				
Export and sales, excluding CIS		497.6		839.2
Export and sales to CIS*		430.0		728.2
Average realized price domestic				
Crude oil	28.8	205.3	52.3	386.8
Petroleum products		403.3		709.5

\* net of export duties to CIS

During the nine months of 2009 the Company's revenues decreased by 42.2% to US\$ 16,596 million compared to US\$ 28,717 million in the nine months of 2008. The decrease in revenues was primarily due to a significant decrease in market prices.

### **Crude Oil Export Sales**

In the third quarter of 2009 crude oil export revenues decreased by 42.2% to US\$ 1,836 million compared to US\$ 3,176 million in the third quarter of 2008. The decrease was driven by a significant decline in sales prices (-39.3%) as well as a reduction in the relative volumes of crude oil (-4.8%). The decline in sales prices were reflected by a decrease in Urals prices.

In the nine months of 2009 the Company's revenues from export crude oil sales were US\$ 4,531 million compared to US\$ 9,948 million in the nine months of 2008, a decrease of US\$ 5,417 million or 54.5%. The decrease was attributable to a 10.9% decrease in sales volumes and 48.9% decline in sales prices that were driven by the general decrease in world prices.

### **Crude Oil Sales to CIS**

In the third quarter of 2009 the Company's revenues from CIS crude oil sales decreased by 24.9% to US\$ 348 million compared to US\$ 464 million in the third quarter of 2008. The decrease was primarily due to reduction in sales prices by 39.3%, which was partially offset by a 23.7% increase in sales volumes.

In the nine months of 2009 crude oil revenues to CIS were US\$ 744 million compared to US\$ 1,247 million in the nine months of 2008, a decrease of US\$ 503 million or 40.3%. The decrease was primarily due to a significant decline in sales prices by 45.0%, which was slightly offset by a 8.5% increase in sales volumes. The price decline was driven by the general decrease in world prices.

### **Crude Oil Domestic Sales**

In the nine months of 2009 our revenues from domestic crude oil sales decreased by 78.7% to US\$ 49 million compared to US\$ 230 million in the nine months of 2008. The decrease in domestic crude oil sales was caused by a 61.4% reduction in the relative volumes of crude oil and a 44.9% decrease in sales prices.

### **Petroleum Products Export Sales**

In the third quarter of 2009 the Company's revenues from export petroleum product sales decreased by 17.6% to US\$ 2,175 million compared to US\$ 2,640 million in the third quarter of 2008. The decrease was primarily a result of a decline in sales prices by 31.7%, which was partially offset by a 20.7% increase in sales volumes. The price reduction was attributable to the decrease in Urals price by 47.5%.

In the nine months of 2009 the Company's revenues from export petroleum product sales were US\$ 5,274 million compared to US\$ 7,217 million in the nine months of 2008, a decrease of US\$ 1,953 million or 26.9%. This was primarily a result of a significant decrease in sales prices by 40.7%, which was partially offset by a 23.3% increase in sales volumes. The price decrease was driven by the general reduction in world prices.

### **Petroleum Products Sales to CIS**

In the third quarter of 2009 our revenues from CIS petroleum product sales increased by 4.9% to US\$ 277 million compared to US\$ 264 million in the third quarter of 2008. The increase was mainly attributable to a 50% growth in sales volumes, which was partially offset by a 30.1% decline in sales prices.

In the nine month of 2009 our revenues from CIS petroleum product sales were US\$ 602 million compared to US\$ 801 million in the nine months of 2008, a decrease of US\$ 199 million or 24.8%. The decrease was primarily due to a reduction in sales prices by 40.9%, which was partially offset by 27.3% increase in the relative volumes. The price decrease was attributable to the general reduction in sales prices.

### **Petroleum Products Domestic Sales**

In the third quarter of 2009 the Company's revenues from domestic petroleum product sales decreased by 35.6% to US\$ 2,294 million compared to US\$ 3,559 million in the third quarter of 2008. This decrease was primarily due to a decrease in sales prices by 40.8%, which was offset by 8.9% increase in sales volumes. The increase in sales volumes was attributable to the acquisition of Sibir in June 2009.

In the nine months of 2009 the Company's revenues from domestic petroleum product sales were US\$ 4,961 million compared to US\$ 8,656 million in the nine months of 2008, a decrease of US\$ 3,695 million or 42.7%. The decrease was primarily due to reduction in sales prices by 43.2%, which was partially offset a 0.8% increase in sales volumes. The price decrease was driven by the general reduction in world prices.

### **Other Sales**

Other revenues consist primarily of sales of services such as 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.

Other sales were US\$ 360 million in the nine months of 2009 that is lower by 29.3% compared to the US\$ 509 million in the nine months of 2008 due to the fall in prices and volumes.

### **Costs and Other Deductions**

#### **Crude Oil, Petroleum and Other Products Purchased**

In the third quarter and in the nine months of 2009 cost of purchased crude oil, gas and petroleum products decreased by 24.8% and 44.3% to US\$ 1,807 million and US\$ 3,828 million, compared to the same periods of 2008. This decrease was primarily due to a significant decline in crude oil and petroleum products prices.

## Operating Expenses

The following table comprises operating expenses for the periods indicated:

(in US\$ million)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Hydrocarbon extraction expenses	381	360	841	960
Refining expenses at own refinery	120	85	270	237
Refining expenses at equity investees refineries	60	102	189	252
Total operating expenses	561	547	1,300	1,449

### Hydrocarbon Extraction Expenses

Our hydrocarbon extraction expenses include expenditures related to raw materials and supplies, maintenance and repairs of extraction equipment, labor costs, fuel and electricity costs, activities to enhance oil recovery and other similar costs at our extraction subsidiaries.

In the third quarter of 2009 the Company's extraction expenses increased by 5.7% to US\$ 381 million compared to US\$ 360 million in the third quarter of 2008. This was primarily due to the real Ruble appreciation to the US Dollar and the acquisition of NIS in February 2009 and Sibir in June 2009. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US\$ 5.98 to US\$ 6.20, or by 3.7% compared to the third quarter of 2008.

In the nine months of 2009 the Company's extraction expenses decreased by 12.4% to US\$ 841 million compared to US\$ 960 million in the nine months of 2008. The decrease was primarily attributable to the real Ruble depreciation to the US Dollar, which was partially offset by increase in expenses for energy supply, workovers and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent decreased from US\$ 5.27 to US\$ 4.74, or by 10.1% compared to the nine months of 2008.

### Refining Expenses at Own Refineries

In the third quarter of 2009 the Company's refining expenses at our own refineries increased by US\$ 35 million, or 42.1%, compared to the same period of 2008. The increase relates to the acquisition of NIS and obtaining control over Moscow Refinery, which became the Company's subsidiary. The Company's average refining expenses per barrel at own refineries decreased from US\$ 2.40 to US\$ 2.16, or by 10.0% in the third quarter of 2009 compared to the same period of 2008.

In the nine months of 2009 the Company's refining expenses at our own refineries increased by US\$ 33 million, or 14.0%, compared to the same period of 2008. The increase was attributable to the acquisition of NIS and obtaining control over Moscow Refinery, which became the Company's subsidiary. The Company's average refining expenses per barrel at own refineries decreased from US\$ 2.33 to US\$ 2.00, or by 14.2% in the nine months of 2009 compared to the same period of 2008.

### Refining Expenses at Equity Investee Refineries

In the third quarter of 2009 the Company's refining expenses at equity investee refineries decreased by US\$ 42 million, or 41.2%, compared to the same period of 2008. As mentioned above the Moscow Refinery became the Company's subsidiary from June 2009 and its expenses were included as Refining Expenses at Own Refineries together with relative volumes for that period. The Company's average refining expenses per barrel at equity investee refineries decreased from US\$ 5.18 to US\$ 4.11 per barrel, or by 20.7%, compared to the nine months of 2008.

In the nine months of 2009 the Company's refining expenses at equity investee refineries decreased by US\$ 63 million, or 25.2%, compared to the same period of 2008. As mentioned above the Moscow Refinery became the Company's subsidiary from June 2009 and its expenses were included as Refining Expenses at Own Refineries together with relative volumes for that period. The Company's average refining expenses per barrel at equity investee refineries decreased from US\$ 4.65 to US\$ 3.84 per barrel, or by 17.4%, compared to the nine months of 2008.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses include general business expenses, wages, salaries, social benefits (except for wages and salaries at our production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charity, allowances for doubtful accounts and other expenses.

In the nine months of 2009 the Company's selling, general and administrative expenses increased by 21.8% to US\$ 910 million and stayed stable in the third quarter of 2009, compared to the same periods of 2008. The growth in the nine month of 2009 was due to the acquisition of NIS in February 2009 and Sibir in June 2009 and due to an increase in the Company's trading activities.

### **Transportation Expenses**

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling and other transportation costs.

In the nine months of 2009 our transportation expenses slightly increased by 2.7% to US\$ 1,398 million, compared to the same periods of 2008. This was primarily due to increase in transportation tariffs in Russia and the acquisition of of NIS in February 2009 and Sibir in June 2009.

### **Depreciation, Depletion and Amortization**

Depreciation, depletion and amortization expenses include depletion of oil and gas producing assets and depreciation of other fixed assets.

In the third quarter and nine months of 2009 our depreciation, depletion and amortization expenses increased by 9.7% and 18.1% to US\$ 407 million and US\$ 1,114 million, respectively, compared to the corresponding periods of 2008. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program.

### **Export Duties**

Export customs duties include duties related to the export of both crude oil and petroleum products.

The following table presents export customs duties for the periods analyzed:

(in US\$ million)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Export customs duties for crude oil	892	1,599	1,834	4,345
Export customs duties for petroleum products	296	662	705	1,604
<b>Total export customs duties</b>	<b>1,188</b>	<b>2,261</b>	<b>2,539</b>	<b>5,949</b>

In the third quarter and nine months of 2009 export customs duties decreased by 47.5% and 57.3% to US\$ 1,188 million and US\$ 2,539 million, respectively, compared to the same period of 2008. The reduction was due to a decrease in tariff rates because of crude oil prices decline.

## Taxes Other Than Income Taxes

The following table summarizes the Company's taxes other than income taxes for the periods indicated.

(in US\$ million)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Mineral extraction taxes	619	1,251	1,455	3,647
Excise	433	502	992	847
Property tax	26	29	82	79
Other taxes	88	6	164	73
<b>Total taxes other than income tax</b>	<b>1,166</b>	<b>1,788</b>	<b>2,693</b>	<b>4,646</b>

In the third quarter and nine months of 2009 taxes other than income tax decreased by 34.8% and 42.0% to US\$ 1,166 million and US\$ 2,693 million, respectively, compared to the same period of 2008 primarily due to a decrease in mineral extraction taxes and slight increase in excise tax rates.

### Income from equity affiliates

The Company has investments in affiliated companies and joint ventures. These companies are primarily engaged in crude oil production, refining and distribution activities in Russia.

In the third quarter and nine months of 2009 income from equity affiliates decreased by 52.5% and 61.6% to US\$ 116 million and US\$ 216 million, respectively, compared to the same period of 2008 due to a decrease in crude oil prices decline.

### Interest income

In the third quarter and in the nine months of 2009 interest income increased by 28.9% and 88.5% to US\$ 49 million and US\$ 115 million, respectively, compared to the corresponding periods of 2008. This was due to an increase in cash and deposits placed in banks during the related periods compared to the corresponding periods of 2008.

### Interest expense

In the third quarter and in the nine months of 2009 interest expense increased by 179.5% and 118.0% to US\$ 123 million and US\$ 266 million, respectively, compared to the third quarter and nine months of 2008. The growth was mainly due to an increase in loans proceeds compared to the corresponding periods of 2008.

## Reconciliation of Net income to EBITDA (Earnings before Interest, Income Tax, Depreciation and Amortization)

(in US\$ million)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net income	846	1,593	2,375	5,201
Add back:				
Minority interest	16	19	38	48
Income tax expense	266	489	592	1,551
Depreciation and amortization	407	371	1,114	943
Interest income	(49)	(38)	(115)	(61)
Interest expense	123	44	266	122
Other income and expenses	47	(24)	104	(175)
Foreign exchange (loss) gain, net	(72)	189	(80)	132
Share in net income of equity investees	(116)	(244)	(216)	(563)
Gain from acquisition of Sibir Energy	-	-	(470)	-
EBITDA	1,468	2,399	3,608	7,198
The Company's share in EBITDA of equity affiliates	355	353	672	966
Adjusted EBITDA	1,823	2,752	4,280	8,164

EBITDA represents earnings before interest, income tax, depreciation and amortization. EBITDA is a supplemental non-GAAP financial measure used by management, as well as industry analysts, to evaluate operations. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is not used by management as an alternative to net income as an indicator of the Company's operating performance, as an alternative to any other measure of performance in conformity with US GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. EBITDA does not have a standardized meaning prescribed by US GAAP.

## Liquidity and Capital Resources

### Cash Flows

(in US\$ million)	Nine Months Ended September 30	
	2009	2008
Net cash provided by operating activities	2,411	4,645
Net cash used in investing activities	(4,065)	(2,571)
Net cash provided by (used in) financing activities	502	(113)

### Net Cash Provided by Operating Activities

In the nine months of 2009 net cash provided by operating activities was US\$ 2,411 million as compared to US\$ 4,645 million in the same period of 2008. The decrease of US\$ 2,234 million or 48.1% in net cash provided by operating activities is due to the following:

- a decrease in operating income of US\$ 3,761 million;
- net change in working capital of US\$ 671 million;
- a decrease in income taxes of US\$ 959 million.

### Net Cash Used in Investing Activities

In the nine months of 2009 net cash used in investing activities was US\$ 4,065 million compared to US\$ 2,571 million in the same period of 2008 (58.1% increase). The increase of US\$ 1,494 million in the net cash used in investing activities was mainly due to acquisition of NIS and Sibir Energy in the nine months of 2009.

## **Net Cash Provided by (Used in) Financing Activities**

In the nine months of 2009 net cash provided by financing activities was US\$ 502 million as compared to US\$ 113 million of cash used in financing activities for the same period of 2008. An increase was mainly due to increase in net loans proceeds over repayments by US\$ 747 million, which was offset by an increased in dividend payments of US\$ 140 million in the nine months of 2009 compared to the same period of 2008.

## **Capital Expenditures**

The following table represents the Company's capital expenditures:

(in US\$ million)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Exploration and production	430	792	1,326	2,252
Refining	72	38	212	101
Marketing and distribution	77	71	245	137
Total capital expenditures	585	902	1,783	2,490

In the third quarter and nine months of 2009 the Company's capital expenditures decreased by 31.5% and 28.4% to US\$ 585 million and US\$ 1,783 million as compared to the corresponding periods of 2008. The decrease was primarily driven by the exploration and production decrease, which was partially offset by the increase in refining and marketing and distribution.

## **Credit ratings**

### **Standard & Poor's Ratings Services**

On January 9, 2008, Standard & Poor's Ratings Services raised its corporate credit rating on JSC Gazprom Neft to 'BBB-' from 'BB+'. The outlook is stable. At the same time, Standard & Poor's affirmed its 'ruAA+' Russia national scale rating on the company.

The stable outlook reflects S&P expectation that Gazprom Neft will maintain strong financial metrics given the continuing high oil price environment. Capital expenditures and investments are, however, likely to increase, reflecting the Company's need to invest in new fields to offset declines at other major fields.

On October 24, 2008, Standard & Poor's Ratings Services affirmed 'BBB-' long-term corporate credit rating and 'ruAA+' Russia national scale rating on JSC Gazprom Neft. The outlook is stable.

### **Moody's Investors Service**

On July 4, 2008 Moody's Investors Service upgraded the senior unsecured ratings of JSC Gazprom Neft ("Gazprom Neft") to Baa3 from Ba1. As part of the upgrade of the ratings into investment grade, the Ba1 Corporate Family Rating and Probability of Default Rating have been withdrawn.

Gazprom Neft's ratings have a stable outlook which is based on expectation that the recently upgraded investment grade rating is not expected to move further over the immediate term due to the fundamental constraining factors. To maintain current rating Moody's expect the Company to continue delivering a robust operational and financial performance, while adhering to its financial policies and business plan targets.

### Debt obligations

As of September 30, 2009 The Company's long-term debt was US\$ 3,878 million as compared to US\$ 3,080 million as of December 31, 2008. An increase of US\$ 798 million or 25.9% was mainly due to the acquisition of NIS and Sibir Energy in the nine months of 2009.

The following table shows maturities of long-term loans as of September 30, 2009 (in US\$ million):

<u>Year due</u>	<u>Amount due</u>
2010	\$ 1,780
2011	1,169
2012	650
2013	166
2014 and further	113
	<hr/>
	\$ 3,878