

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three and six months ended June 30, 2010 and 2009**

## 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 June 30, 2010 and results of operations for the three and six months ended June 30, 2010 and 2009 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**

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
Revenues (US\$ million)	8,026	5,269	52.3	15,322	9,511	61.1
EBITDA (US\$ million)	1,550	1,501	3.3	3,136	2,459	27.5
Hydrocarbon production including our share in equity investees (millions of boe)	95.74	88.14	8.6	190.37	174.05	9.4
Refining throughput at own and equity investee refineries (millions of tonnes)	8.69	8.01	8.5	17.65	15.39	14.7

### **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, Angola, Italy, Kazakhstan, Kyrgyzstan, Tajikistan and Belarus.

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 20 to the Interim Condensed Consolidated Financial Statements for operating segments financial data.

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

2010/2009

### **Malka Oil**

On February 4, 2010 the Company completed the acquisition of 100% of the share capital of OOO STS-Service, a company previously owned by Malka Oil AB, for a cash consideration of 820 million Swedish Kroner (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 tonnes, and there are 11 prospective structures within the area. Along with the prospective structures, these fields are located in the immediate neighborhood of Shinginskoye field developed by the Company's subsidiary, Gazpromneft-Vostok LLC, which will integrate OOO STS-Service into its own structure.

### **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 May 18, 2010, the Company invested approximately US\$ 2,513 million to acquire 80.37% 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 69.67%.

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. Sibir also holds a 38.63% stake in the Moscow Oil Refinery ("Moscow Refinery"), which is jointly managed with Gazprom Neft, and a network of 134 retail stations in the City of Moscow and the Moscow region through JSC Moscow Fueling Company and JSC Mosnefteproduct.

### **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 types 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 exchange rate versus the US Dollar 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 second quarter and in the first half of 2010 average Brent crude oil price increased by 32.3% and 49.6% to US\$78.24 and US\$ 77.29 per barrel, respectively, compared to the same periods of 2009. Despite volatility of oil prices in the second quarter of 2010, the average price remained practically the same, compared to the first quarter of 2010 and the fourth quarter of 2009. During the last three quarters, global crude oil prices reached a comfortable level and for a while remained in the range of 70-80 dollars per barrel. To some extent it has been due to the stable demand for oil, which over the last 3 quarters has remained consistent, amounting to about 85.9 mln bpd, according to the preliminary estimate, and coupled with the pending uncertainty and anticipation of restoration of the global economy.

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

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
<b>International market</b>	(in US\$ per barrel)					
Brent	78.24	59.13	32.3	77.29	51.68	49.6
Urals Spot (average Med. + NWE)	76.89	58.47	31.5	76.11	50.96	49.4
	(in US\$ per tonne)					
Premium gasoline (average NWE)	732.88	586.50	25.0	729.54	496.81	46.8
Naphtha (average Med. + NWE)	683.88	486.45	40.6	692.33	429.82	61.1
Diesel fuel (average NWE)	686.02	509.30	34.7	665.91	473.60	40.6
Gasoil 0.2% (average Med. + NWE)	671.63	493.80	36.0	652.58	457.43	42.7
Fuel oil 3.5% (average NWE)	427.71	318.00	34.5	432.35	270.14	60.0
<b>Domestic market</b>	(in US\$ per tonne)					
High-octane gasoline	724.86	530.33	36.7	691.44	483.21	43.1
Low-octane gasoline	575.99	433.93	32.7	557.43	387.62	43.8
Diesel fuel	485.43	406.15	19.5	485.73	400.84	21.2
Fuel oil	252.58	182.71	38.2	245.01	150.95	62.3

Source: Platts (international market) and Kortes (domestic market)

## **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 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 second quarter and in the first half of 2010 Ruble appreciated against the US Dollar in nominal terms, which negatively affected the Company's margins. In order to mitigate the effects of fluctuation in Ruble - US Dollar exchange rate the Company is engaged in using derivative instruments. Refer to Note 17 to the Interim Condensed Consolidated Financial Statements.

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

	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
Consumer Price Index (CPI), %	1.2	2.0	4.4	7.4
Producer Price Index (PPI), %	2.8	5.6	5.5	10.0
US dollar / Ruble exchange rate as of the end of the period	-	-	31.20	31.29
Average Ruble/US dollar exchange rate for the period	30.24	32.21	30.07	33.07
Real appreciation (depreciation) of the Ruble against the US dollar, %	4.7	10.9	1.2	0.8
Change of the average invert exchange rate (RUB / US\$), %	6.5	(26.6)	10.0	(27.6)

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:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
<b>Export customs duty</b>						
Crude oil (US\$ per tonne)	281.69	133.55	110.9	272.66	122.90	121.9
Crude oil (US\$ per barrel)	38.43	18.22	110.9	37.20	16.77	121.8
Light and middle distillates products (US\$ per tonne)	202.12	102.26	97.7	196.03	95.11	106.1
Fuel oil (US\$ per tonne)	108.88	55.08	97.7	105.60	51.23	106.1
<b>Mineral extraction tax</b>						
Crude oil (RUR per tonne)	2,977.27	2,200.62	35.3	2,928.87	1,873.57	56.3
Crude oil (US\$ per barrel)	13.43	9.32	44.1	13.29	7.73	71.9
Natural gas (RUR per 1,000 cm)	147.00	147.00	-	147.00	147.00	-

**Crude oil export customs duty rate.** Export customs 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 the 15th calendar day of the prior month to the 14th calendar day of the current (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 second quarter and in the first half of 2010 the export customs duty rate on crude oil raised by 110.9% and 121.8% to US\$ 38.43 and US\$ 37.20 per barrel, respectively, compared to the same periods of 2009. The growth was mainly associated with an increase of Urals prices, which grew by 31.5% and 49.4% to US\$ 76.89 and US\$ 76.11 per barrel, respectively, in the second quarter and in the first half of as compared to the same periods of 2009.

**Export customs duty rate on petroleum products.** The export customs duty rate on oil products is determined by the Government based on the prices for crude on international markets and 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 second quarter and in the first half of 2010 mineral extraction tax rate on crude oil increased by 44.1% and 71.9% to US\$ 13.43 and US\$ 13.29 per barrel, respectively, compared to the same periods of 2009. The growth was driven by an increase in Urals prices by 31.5% and 49.4% to US\$ 76.89 and US\$ 76.11 per barrel, respectively, in the second quarter and in the first half of 2010 compared to US\$ 58.47 and US\$ 50.96 in the same periods of 2009.

**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 means of own 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/m<sup>3</sup> 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.

In the second quarter of 2010 the Company shipped 47.8% (48.4% in the first half of 2010) of crude oil for export through the Baltic Sea port Primorsk; 22.4 % of crude oil was exported through Transneft's Druzhba pipeline (23.9% in the first half of 2010) (mainly to Germany, Czech Republic and port Gdansk, Poland); 2% of crude oil shipped from the Black Sea ports Novorossiysk (5.1 % in the first half of 2010) and 12.7% from Tuapse sea port (10.5 % in the first half of 2010); 15.1 % (12.1% in the first half of 2010) of crude oil was exported through the recently launched East Siberia - Pacific Ocean pipeline system (ESPO) from Pacific port Kozmino. The remaining balance of crude oil in the second quarter of 2009 and in the first half of 2009 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 and Tomsk regions.

The Company's major crude oil production entities are JSC Gazpromneft-Noyabrskneftegaz (Noyabrskneftegaz), Gazpromneft-Khantos LLC (Khantos) and Gazpromneft-Vostok LLC (Vostok). The new operator Gazpromneft-Angara LLC (Angara) conducts exploration and development of new crude oil fields in the Eastern Siberia.

Noyabrskneftegaz, the Company's major production unit (41% of the Company's total proved reserves under PRMS classification), operates about 30 fields in the Yamal-Nenetsky and Khanti-Mansiysky autonomous districts and produced about 60.0% of the Company's consolidated production volume in the first half of 2010.

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 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, which account for 46% of the Company's total proved reserves under PRMS classification. Full-scale development of Priobskoe was launched in 2004. By the end of June 2010 the field was already producing about 29.5% of the Company's consolidated production volume.

Vostok operates Archinskoye, Shinginskoye, Urmanskoye, Nizhneluginetskoye, Zapadnoluginetskoye and Zapadno-Krapivinskoye fields in Tomsk region. All these fields form a new production center with a yearly increase in crude oil output that constitutes for about 5.3% of the Company's consolidated production in the first half of 2010.

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 control over its production subsidiary Magma and 50.0% share in Salym Petroleum Development (an upstream joint venture between Royal Dutch Shell and Sibir).

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

(millions of barrels)	For the three months		Change %	For the six months		Change %
	ended June 30			ended June 30		
	2010	2009		2010	2009	
Crude oil produced by consolidated subsidiaries	57.28	55.67	2.9	113.24	109.59	3.3
Company's share in production of equity investees	33.39	28.16	18.6	67.03	55.47	20.8
<b>Total crude oil production</b>	<b>90.67</b>	<b>83.83</b>	<b>8.2</b>	<b>180.27</b>	<b>165.06</b>	<b>9.2</b>

In the second quarter and in the first half of 2010 the Company's production of crude oil including share in equity investees increased by 8.2% and 9.2% to 90.67 and 180.27 million barrels (12.29 and 24.43 million tonnes), respectively, compared to the corresponding periods of 2009. The increase was mostly due to the Company's recent acquisitions.

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

(millions of barrels)	For the three months		Change %	For the six months		Change %
	ended June 30			ended June 30		
	2010	2009		2010	2009	
Crude oil purchases in Russia*	9.97	3.79	163.1	17.14	10.98	56.1
Crude oil purchases internationally	2.68	4.82	(44.4)	7.56	8.36	(9.6)
<b>Total crude oil purchases</b>	<b>12.65</b>	<b>8.61</b>	<b>46.9</b>	<b>24.70</b>	<b>19.34</b>	<b>27.7</b>

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

In the second quarter and in the first half of 2010 the Company increased the volumes of crude oil purchased by 46.9% and 27.7% to 12.65 and 24.70 million barrels (1.73 and 3.37 million tonnes), respectively, compared to the corresponding periods of 2009 as a result of trading activities expansion.

## Gas Production

In the second quarter and in the first half of 2010 the Company produced 0.86 and 1.72 billions of cubic meters of associated and natural gas (including share in production of equity investees), an increase of 16.2% and 12.4%, respectively, compared to 0.74 and 1.53 billions of cubic meters in the same periods of 2009. This increase relates to the Company's program for the utilization of associated gas (described below), particularly due to the launch of a gas pipeline (460 million m<sup>3</sup> per year) from Eti-Purovskoye field in fourth quarter 2009, and due to increase of associated gas refining at Sibur capacities after reconstruction.

In June 2010, Gazprom Neft adopted a complex program for the utilization of associated gas at Priobskoye field 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. In particular, the program provides for the construction of associated gas gathering and transportation facilities. These measures will help to utilize up to 500 million m<sup>3</sup> of associated gas per year at Uzhno-Balykский gas refining complex and reach the level of associated gas utilization of 95% at Priobskoye field.

## Production of Petroleum Products

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

(millions of tonnes)	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
Production of petroleum products at the Company's refineries in Russia	6.15	4.81	27.9	12.40	8.91	39.2
Production of petroleum products at the Company's refineries internationally	0.59	0.51	15.7	1.18	0.97	21.6
Production of petroleum products at equity refineries	1.55	2.27	(31.7)	3.13	4.60	(32.0)
<b>Total production of petroleum products</b>	<b>8.29</b>	<b>7.59</b>	<b>9.2</b>	<b>16.71</b>	<b>14.48</b>	<b>15.4</b>
Petroleum products purchases in Russia and CIS	0.20	0.15	33.3	0.47	0.44	6.8
Petroleum products purchases internationally	0.08	0.20	(60.0)	0.16	0.38	(57.9)
<b>Total petroleum products purchases</b>	<b>0.28</b>	<b>0.35</b>	<b>(20.0)</b>	<b>0.63</b>	<b>0.82</b>	<b>(23.2)</b>

In the second quarter and in the first half of 2010 the Company produced 8.29 and 16.71 million tonnes of petroleum products, respectively. The increase of 9.2% in the second quarter and 15.4% in the first half of 2010 as compared to the corresponding periods of 2009 was primarily due the Company's recent acquisitions during 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 80.37% interest in Sibir the Company also obtained control over Moscow Refinery, having increased its effective share in Moscow Refinery from 38.63% to 69.67%.

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. NIS is also a leading supplier of oil products on the Serbian market.

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 and CIS primarily through 25 subsidiaries. Most of these subsidiaries are retail distribution companies engaged in wholesale distribution or operate in the gas station retail markets. CJSC Gazprom Neft Aero, Gazpromneft Smazochny Materialy LLC and Gazprom Neft Marine Bunker LLC specialize in the sale of particular petroleum products.

At the end of the second quarter of 2010, we owned within Russia, CIS and Europe 1,443 active retail stations, operating under different brands. In the middle of 2009, we launched a program to consolidate and rebrand all our stations on the domestic market under the brand of Gazprom Neft. A scale project of establishing a unified network of filling stations involves modernization of over 1000 filling stations in 14 territorial subjects of the Russian Federation within 2009 - 2012. It is anticipated that the investments into the complex filling stations rebranding program will make about RUR 7 bln within the next three years.

The launch of the project was preceded by a complex of preliminary works including unification of management and organizational principles at all territorial sales outlets of Gazprom Neft. There are several standard design formats developed for Gazprom Neft branded filling stations in accordance with the size and functional interpretation of the outlet. This is not just about new signs, but retraining service personnel, adding services, installing a computer network, etc. The impact on our bottom line will be growth in volumes per location and also margin expansion as we roll the rebranding out over the next few years.

## Results of Operations

The following table represents the Company's results of operations for the three and six months ended June 30, 2010 and 2009:

(in US\$ million)	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
<b>Revenues</b>				
Refined products and oil and gas sales	7,811	5,146	14,928	9,277
Other	215	123	394	234
Total	8,026	5,269	15,322	9,511
<b>Costs and other deductions</b>				
Cost of purchased oil, gas, petroleum products	1,859	1,167	3,483	1,975
Operating expenses	544	381	1,004	769
Selling, general and administrative expenses	426	323	786	594
Transportation expenses	654	490	1,255	937
Depreciation, depletion and amortization	390	370	742	707
Export duties	1,779	711	3,363	1,351
Taxes other than income tax	1,290	855	2,497	1,528
Exploration expenses	15	20	34	63
Cost of other sales	115	72	200	154
Total	7,072	4,389	13,364	8,078
Operating income	954	880	1,958	1,433
<b>Other income (expense)</b>				
Share in income of equity affiliates	51	47	130	99
Gain on investment	-	470	-	470
Interest income	1	45	20	67
Interest expense	(103)	(93)	(197)	(142)
Other expense, net	(22)	(34)	(52)	(57)
Foreign exchange gain, net	39	174	88	8
Total	(34)	609	(11)	445
<b>Income before income taxes</b>	920	1,489	1,947	1,878
Provision for income taxes	159	236	363	334
Deferred income tax expense (benefit)	5	39	(20)	(8)
Total	164	275	343	326
<b>Net income</b>	756	1,214	1,604	1,552
Less: Net income attributable to non-controlling interest	(9)	(19)	(103)	(22)
<b>Net income attributable to Gazprom Neft</b>	747	1,195	1,501	1,530

## Revenues

The following table analyses revenues for the periods indicated:

(in US\$ million)	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
<b>Crude oil</b>						
Export and sales on international markets	2,374	1,442	64.6	4,482	2,695	66.3
Export to CIS	361	237	52.3	603	396	52.3
Domestic sales	-	9	(100.0)	-	42	(100.0)
<b>Total crude oil sales</b>	<b>2,735</b>	<b>1,688</b>	<b>62.0</b>	<b>5,085</b>	<b>3,133</b>	<b>62.3</b>
<b>Gas</b>	<b>26</b>	<b>19</b>	<b>36.8</b>	<b>105</b>	<b>51</b>	<b>105.9</b>
<b>Petroleum products</b>						
Export and sales on international markets	2,217	1,665	33.2	4,530	2,938	54.2
Export and sales in CIS	280	238	17.6	511	411	24.3
Domestic sales	2,553	1,536	66.2	4,697	2,744	71.2
<b>Total petroleum products sales</b>	<b>5,050</b>	<b>3,439</b>	<b>46.8</b>	<b>9,738</b>	<b>6,093</b>	<b>59.8</b>
<b>Other sales</b>	<b>215</b>	<b>123</b>	<b>74.8</b>	<b>394</b>	<b>234</b>	<b>68.4</b>
<b>Total sales</b>	<b>8,026</b>	<b>5,269</b>	<b>52.3</b>	<b>15,322</b>	<b>9,511</b>	<b>61.1</b>

## Sales Volumes

The following table analyses sales volumes for the periods indicated:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
<b>Crude oil (millions of barrels)</b>						
Export and sales on international markets	31.45	25.66	22.6	60.03	55.49	8.2
Export to CIS	6.38	5.86	8.9	11.58	11.87	(2.4)
Domestic sales	-	1.08	(100.0)	-	2.70	(100.0)
<b>Crude oil (millions of tonnes)</b>						
Export and sales on international markets	4.29	3.50	22.6	8.19	7.57	8.2
Export to CIS	0.87	0.80	8.8	1.58	1.62	(2.5)
Domestic sales	-	0.15	(100.0)	-	0.37	(100.0)
<b>Total crude oil sales</b>	<b>5.16</b>	<b>4.45</b>	<b>16.0</b>	<b>9.77</b>	<b>9.56</b>	<b>2.2</b>
<b>Gas (bcm)</b>	<b>0.96</b>	<b>0.80</b>	<b>20.0</b>	<b>2.64</b>	<b>1.84</b>	<b>43.5</b>
<b>Petroleum products (millions of tonnes)</b>						
Export and sales on international markets	3.34	3.41	(2.1)	7.03	6.47	8.7
Export and sales to CIS	0.45	0.60	(25.0)	0.84	1.04	(19.2)
Domestic sales	4.98	4.03	23.6	9.37	7.64	22.6
<b>Total petroleum products sales</b>	<b>8.77</b>	<b>8.04</b>	<b>9.1</b>	<b>17.24</b>	<b>15.15</b>	<b>13.8</b>

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

The following table analyses the Company's average prices for the periods indicated:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2010	2009		2010	2009	
<b>Crude oil (US\$ per barrel)</b>						
Export	75.48	56.20	34.3	74.66	48.57	53.7
CIS	56.58	40.44	39.9	52.07	33.36	56.1
<b>Crude oil (US\$ per tonne)</b>						
Export	553.38	412.00	34.3	547.25	356.01	53.7
CIS	414.94	296.25	40.1	381.65	244.44	56.1
<b>Petroleum products (US\$ per tonne)</b>						
Export	663.77	488.27	35.9	644.38	454.10	41.9
CIS	622.22	396.67	56.9	608.33	395.19	53.9
Domestic	512.65	381.14	34.5	501.28	359.16	39.6

In the second quarter and in the first half of 2010 the Company's revenues increased by 52.3% and 61.1% to US\$ 8,026 million and US\$ 15,322 million compared to the same periods of 2009, respectively. The growth was attributable to growth in Urals prices and increase in sales volumes.

### **Crude Oil Export Sales**

In the second quarter and in the first half of 2010 crude oil export revenues increased by 64.6% and 66.3% to US\$ 2,374 million and US\$ 4,482 million as compared to the same periods of 2009, respectively. The increase was driven by a growth in sales prices (34.3% in the second quarter and 53.7% in the first half of 2010 as compared to the same periods of 2009, respectively) supported by growing relative volumes of crude oil export sales (22.6% and 8.2% in the second quarter and in the first half of 2010 as compared to the same periods of 2009, respectively).

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

In the second quarter of 2010 crude oil sales to CIS increased by 52.3% to US\$ 361 million compared to US\$ 237 million in the same period of 2009. This growth was primarily due to an increase in sales prices by 39.9% and an increase of 8.9% in relative volumes of crude oil sales to CIS as compared to the corresponding period of 2009. The price increase was driven by the general growth in world prices. Increase in sales volumes was primarily due to the Company's recent acquisitions.

In the first half of 2010 crude oil sales to CIS increased by 52.3% to US\$ 603 million compared to the same period of 2009. The increase was driven by a growth in sales prices by 56.1%, which was partially offset by decrease in volumes by 2.4% as compared to the corresponding period of 2009.

### **Petroleum Products Export Sales**

In the second quarter of 2010 revenues from export sales of petroleum products increased by 33.2% to US\$ 2,217 million compared to the same period of 2009. The increase was driven by a growth in sales prices by 35.9%, which was offset by a decrease in relative volumes of petroleum products export sales by 2.1%.

In the first half of 2010 revenues from export sales of petroleum products increased by 54.2% to US\$ 4,530 million in the same period of 2009. The increase was primarily due to an increase in sales prices 41.9% which was supported by a 8.7% increase in sales volumes compared to the first half of 2009.

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

In the second quarter and in the first half of 2010 revenues from sales of petroleum products to CIS increased by 17.6% and 24.3% to US\$ 280 million and US\$ 511 million in the same periods of 2009, respectively. The increase was driven by a growth in sales prices (56.9% in the second quarter and 53.9% in the first half of 2010 as compared to the same periods of 2009, respectively) partially compensated by a decrease in relative volumes of petroleum products sales to CIS by 25.0% and 19.2% in the second quarter and in the first half of 2010 compared to the same periods of 2009, respectively.

### **Petroleum Products Domestic Sales**

In the second quarter and in the first half of 2010 domestic petroleum products revenues increased by 66.2% and 71.2% to US\$ 2,553 million and US\$ 4,697 million as compared to the same periods of 2009, respectively. The increase was driven by a growth in sales prices (34.5% in the second quarter and 39.6% in the first half of 2010 as compared to the same periods of 2009, respectively) supported by growing relative volumes of domestic petroleum products sales (23.6% and 22.6% in the second quarter and in the first half of 2010 as compared to the same periods of 2009, respectively).

### **Other 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.

Other sales were US\$ 215 million in the second quarter and US\$ 394 million in the first half of 2010 that is higher than in the same periods of 2009 by 74.8% and 68.4%. The increase is due to increase in prices and volumes.

### **Costs and Other Deductions**

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

In the second quarter and in the first half of 2010 cost of purchased crude oil, gas and petroleum products increased by 59.3% and 76.4% to US\$ 1,859 million and US\$ 3,483 million compared to the same periods of 2009, respectively. This increase was primarily due to a growth in crude oil and petroleum products prices and the Company's recent acquisitions.

#### **Operating Expenses**

The following table comprises operating expenses for the periods indicated:

(in US\$ millions)	For the three months		Change %	For the six months		Change %
	ended June 30 2010	2009		ended June 30 2010	2009	
Hydrocarbon extraction expenses	332	235	41.3	602	481	25.2
Refining expenses at own refineries	152	79	92.4	279	156	78.8
Refining expenses at equity investee refineries	60	67	(10.4)	123	132	(6.8)
<b>Total operating expenses</b>	<b>544</b>	<b>381</b>	<b>42.8</b>	<b>1,004</b>	<b>769</b>	<b>30.6</b>

#### **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 second quarter of 2010 the Company's extraction expenses increased by 41.3% to US\$ 332 million compared to the same period of 2009. This was primarily due to Ruble appreciation to the US Dollar and the Company's recent acquisitions. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US\$ 4.03 to US\$ 5.44, or by 35.0% compared to the corresponding period of 2009.

In the first half of 2010 the Company's extraction expenses increased by 25.2% to US\$ 602 million compared to the same period of 2009. The increase was attributable to Ruble appreciation and the Company's recent acquisitions. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US\$ 4.17 to US\$ 4.99, or by 19.7% compared to the first half of 2009.

### **Refining Expenses at Own Refineries**

Our refining expenses at own refineries include expenditures related to raw materials and supplies, maintenance and repairs of productive equipment, labor costs and electricity costs and other similar costs at our refinery subsidiaries.

In the second quarter of 2010 the Company's refining expenses at own refineries increased by 92.4% to US\$ 152 million compared to the same period of 2009. The increase relates to obtaining control over Moscow Refinery, which became the Company's subsidiary. The Company's average refining expenses at own refineries per barrel of crude oil processed increased from US\$ 1.91 to US\$ 2.95 in the second quarter of 2010 compared to the corresponding period of 2009, or by 54.5%.

In the first half of 2010 the Company's refining expenses at own refineries increased by 78.8% to US\$ 279 million compared to the same period of 2009. The increase relates to obtaining control over Moscow Refinery, which became the Company's subsidiary. The Company's average refining expenses at own refineries per barrel of crude oil processed increased from US\$ 2.02 to US\$ 2.66 in the first half of 2010 compared to the same of 2009, or by 31.7%.

### **Refining Expenses at Equity Investee Refineries**

In the second quarter of 2010 the Company's refining expenses at equity investee refineries decreased by 10.4% to US\$ 60 million compared to the same period of 2009. 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 at equity investee refineries per barrel of crude oil processed increased from US\$ 3.84 to US\$ 4.96 in the second quarter of 2010 compared to the corresponding period of 2009, or by 29.2%.

In the first half of 2010 the Company's refining expenses at equity investee refineries decreased by 6.8% to US\$ 123 million compared to the same period of 2009, respectively. 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 at equity investee refineries per barrel of crude oil processed increased from US\$ 3.71 to US\$ 5.04 in the first half of 2010 compared to the corresponding period of 2009, or by 35.8%.

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

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

In the second quarter and in the first half of 2010 the Company's selling, general and administrative expenses increased by 31.9% and 32.3% to US\$ 426 million and US\$ 786 in the corresponding periods of 2009, respectively. The growth was due the expanded activities and the Company's recent acquisitions.

## 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 second quarter and in the first half of 2010 our transportation expenses increased by 33.5% and 33.9% to US\$ 654 million and US\$ 1,255, respectively, compared to the corresponding periods of 2009. This was primarily due to increase in transportation tariffs in Russia and the Company's recent acquisitions.

## 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 second quarter and in the first half of 2010 our depreciation, depletion and amortization expenses increased by 5.4% and 5.0% to US\$ 390 million and US\$ 742, respectively, compared to the corresponding periods of 2009. 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\$ millions)	For the three months		Change %	For the six months		Change %
	ended June 30 2010	2009		ended June 30 2010	2009	
Export customs duties for crude oil	1,332	483	175.8	2,393	942	154.0
Export customs duties for petroleum products	447	228	96.1	970	409	137.2
Total export customs duties	1,779	711	150.2	3,363	1,351	148.9

In the second quarter and in the first half of 2010 export customs duties increased by 150.2% and 148.9% to US\$ 1,779 million and US\$ 3,363 million compared to the same periods of 2009, respectively. The growth was due to an increase in export customs duty rates.

## Taxes Other Than Income Taxes

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

(in US\$ millions)	For the three months		Change %	For the six months		Change %
	ended June 30 2010	2009		ended June 30 2010	2009	
Mineral extraction taxes	752	504	49.2	1,449	836	73.3
Excise	432	272	58.8	819	559	46.5
Property tax	38	30	26.7	80	56	42.9
Other taxes	68	49	38.8	149	77	93.5
Total taxes other than income tax	1,290	855	50.9	2,497	1,528	63.4

In the second quarter and in the first half of 2010 taxes other than income tax increased by 50.9% and by 63.4% to US\$ 1,290 million and to US\$ 2,497 million compared to the same periods of 2009, respectively, primarily due to an increase in mineral extraction tax rate by 44.1% and 71.9%, respectively, as well as due to increase in crude oil produced by consolidated entities by 2.9% and 3.3% for the periods indicated. Excise tax increased for the periods indicated by 58.8% and by 46.5%, respectively, due to increase in petroleum products production by 9.2% and by 15.4%, respectively, in the periods indicated that is mostly due the Company's recent acquisitions.

### Interest Income

In the second quarter and in the first half of 2010 interest income decreased by 97.8% and 70.1% compared to the same periods of 2009, respectively. A decrease relates to a lower level of placed deposits during 2010.

### Interest Expense

In the second quarter and in the first half of 2010 interest expense increased by 10.8% and 38.7% to US\$ 103 million and US\$ 197 million compared to the the same periods of 2009, respectively. The growth was mainly due to an increase in outstanding loans compared to the corresponding periods of 2009 and the Company's recent acquisitions.

### Income Tax Expenses

In the second quarter and in the first half of 2010 effective income tax rate was 17.8% and 17.6%, in the same periods of 2009 the effective income tax rate was 18.5% and 17.4%, respectively. These rates reflect the enacted income tax rate in the Russian Federation of 20% with some adjustments made due to non-taxable income or expenses.

**Adjusted EBITDA (Earnings before Interest, Income Tax, Depreciation and Amortization) to Income before Provision for Income Taxes) is reconciled below:**

	For the three- months ended June 30, 2010	For the three- months ended June 30, 2009	For the six- months ended June 30, 2010	For the six- months ended June 30, 2009
<b><i>Adjusted EBITDA</i></b>	\$ 1,550	\$ 1,501	\$ 3,136	\$ 2,459
The Company's share in EBITDA of equity affiliates	(206)	(251)	(436)	(319)
Gain on investment	-	470	-	470
Share in income of equity affiliates	51	47	130	99
Foreign exchange gain, net	39	174	88	8
Other expenses, net	(22)	(34)	(52)	(57)
Interest expense	(103)	(93)	(197)	(142)
Interest income	1	45	20	67
Depreciation, depletion and amortization	(390)	(370)	(742)	(707)
<b><i>Income before income taxes</i></b>	\$ 920	\$ 1,489	\$ 1,947	\$ 1,878

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)	For the six months ended June 30		
	2010	2009	Change %
Net cash provided by operating activities	2,364	1,648	43.4
Net cash used in investing activities	(2,023)	(3,365)	(39.9)
Net cash (used in) provided by financing activities	(8)	1,192	(100.7)

### Net Cash Provided by Operating Activities

In the first half of 2010 net cash provided by operating activities was US\$ 2,364 million as compared to US\$ 1,648 million in the same period of 2009. The increase of US\$ 716 million or 43.4% in net cash provided by operating activities was due to the following:

- an increase in net income before tax adjusted for gain on investment of US\$ 522 million;
- an increase in working capital of US\$ 73 million;
- an increase in income taxes of US\$ 12 million.

### Net Cash Used in Investing Activities

In the first half of 2010 net cash used in investing activities was US\$ 2,023 million compared to US\$ 3,365 million in the same period of 2009 (39.9% decrease). The decrease of US\$ 1,342 million in the net cash used in investing activities was mainly due to a lower level of M&A activities in the first half of 2010 compared to the same period of 2009.

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

In the first half of 2010 net cash used in financing activities was US\$ 8 million as compared to net cash provided by financing activities in amount of US\$ 1,192 million for the same period of 2009. A decrease was mainly due to decrease in net loans proceeds over repayments by US\$ 1,304 million supported by a decrease in dividend payments of US\$ 104 million in the first half of 2010 compared to the same period of 2009.

### Capital Expenditures

The following table represents the Company's capital expenditures:

(in US\$ million)	For the six months ended June 30		
	2010	2009	Change %
Exploration and production	1,039	913	13.8
Refining	186	139	33.8
Marketing and distribution	97	105	(7.6)
Others	21	42	(50.0)
Total capital expenditures	1,343	1,199	12.0

In the first half of 2010 the Company's capital expenditures increased by 12.0% to US\$ 1,343 million as compared to the corresponding period of 2009. The increase was primarily driven by the exploration and production increase by 13.8% to US\$ 1,039 million due to expanding of oil and gas activities and increase by 33.8% to US\$ 186 million in refining due to launching the modernization program at the Company's refineries.

### Debt obligations

As of June 30, 2010 the Company's long-term debt was US\$ 6,018 million as compared to US\$ 5,628 million as of December 31, 2009.

The following table shows maturities of long-term loans as of June 30, 2010 (in US\$ million):

<u>Year due</u>	<u>Amount due</u>
2011	\$ 2,367
2012	1,002
2013	2,448
2014	103
2015 and further	98
	<u>\$ 6,018</u>