

JSC Gazprom Neft

Interim Condensed Consolidated Financial Statements

As of March 31, 2008

**and for the three-month periods ended March 31, 2008 and 2007
(Unaudited)**

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Report of Independent Auditors

To the Board of Directors and Shareholders of
JSC Gazprom Neft:

We have reviewed the accompanying interim condensed consolidated balance sheet of JSC Gazprom Neft and its subsidiaries as of March 31, 2008, and the related interim condensed consolidated statements of income, of changes in shareholders' equity and of cash flows for the three-month period ended March 31, 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards generally accepted in the United States of America. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated May 14, 2008 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying interim condensed consolidated balance sheet as of March 31, 2008, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit
July 21, 2008

JSC Gazprom Neft
Interim Condensed Consolidated Balance Sheets
As of March 31, 2008 and December 31, 2007

Currency – US\$ thousands

	Notes	March 31, 2008 (unaudited)	December 31, 2007
Assets			
Current assets:			
Cash and cash equivalents	2	\$ 595,555	\$ 721,323
Short-term loans receivable		13,943	11,555
Accounts receivable, net		3,014,557	2,262,879
Inventories	3	1,196,820	1,083,479
Other current assets		763,514	661,899
Current deferred income tax assets	8	15,557	19,288
Total current assets		<u>5,599,946</u>	<u>4,760,423</u>
Long-term investments	4	4,811,027	4,684,772
Long-term loans receivable		112,049	50,986
Oil and gas properties, net		6,290,752	5,801,776
Property, plant and equipment, net		868,684	831,819
Construction-in-progress		245,832	229,668
Other non-current assets		110,402	109,655
Non-current deferred income tax assets	8	126,701	136,933
Total assets		<u>\$ 18,165,393</u>	<u>\$ 16,606,032</u>
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	5	\$ 245,812	\$ 241,136
Accounts payable and accrued liabilities		1,351,684	1,171,030
Income and other taxes payable		916,256	733,727
Dividends payable		397,376	380,771
Current portion of long-term debt	7	1,580,836	1,097,891
Total current liabilities		<u>4,491,964</u>	<u>3,624,555</u>
Asset retirement obligations	6	356,206	324,328
Long-term debt	7	1,314,271	2,083,299
Deferred income tax liabilities	8	159,242	140,971
Total liabilities		<u>6,321,683</u>	<u>6,173,153</u>
Commitments and contingencies	9		
Shareholders' equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		1,619	1,619
Reserves		572,726	572,726
Retained earnings		11,269,365	9,858,534
Total shareholders' equity		<u>11,843,710</u>	<u>10,432,879</u>
Total liabilities and shareholders' equity		<u>\$ 18,165,393</u>	<u>\$ 16,606,032</u>

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

V. V. Yakovlev
Chief Financial Officer
JSC Gazprom Neft

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

JSC Gazprom Neft
Interim Condensed Consolidated Statements of Income
For the three-month periods ended March 31, 2008 and 2007

Currency - US\$ thousands
(except per share data)

	Notes	March 31, 2008 (unaudited)	March 31, 2007 (unaudited)
Revenues			
Refined products and oil and gas sales		\$ 7,682,233	\$ 4,069,281
Other		183,539	72,043
Total	11	7,865,772	4,141,324
Costs and other deductions			
Crude oil, petroleum and other products purchased		2,095,473	588,433
Operating expenses		510,828	519,750
Selling, general and administrative expenses		572,518	481,999
Depreciation, depletion and amortization		255,765	233,334
Export duties		1,531,203	836,095
Taxes other than income taxes		1,116,163	649,695
Cost of other sales		119,326	21,146
Total		6,201,276	3,330,452
Operating income		1,664,496	810,872
Other income (expense)			
Income from equity affiliates	4	106,148	75,413
Interest income		7,566	21,464
Interest expense		(40,343)	(19,453)
Other income (expense), net		18,246	(8,165)
Foreign exchange gain, net		56,621	18,421
Total		148,238	87,680
Income before provision for income taxes		1,812,734	898,552
Provision for income taxes		369,669	252,011
Deferred income tax expense (benefit)		32,234	(25,254)
Total	8	401,903	226,757
Net income		\$ 1,410,831	\$ 671,795
Basic and Diluted Earnings per Common Share (US\$ per share)		0.2976	0.1417
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,741	4,741

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

JSC Gazprom Neft**Interim Condensed Consolidated Statement of Changes in Shareholders' Equity****For the three-month periods ended March 31, 2008****Currency - US\$ thousands**

	<u>Common</u> <u>Stock</u>	<u>Reserves</u>	<u>Retained</u> <u>Earnings</u>	<u>Total Shareholders'</u> <u>Equity</u>
Balance as of December 31, 2007	\$ 1,619	\$ 572,726	\$ 9,858,534	\$ 10,432,879
Net income	-	-	1,410,831	1,410,831
Balance as of March 31, 2008 (unaudited)	\$ 1,619	\$ 572,726	\$ 11,269,365	\$ 11,843,710

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

JSC Gazprom Neft
Interim Condensed Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2008 and 2007

Currency - US\$ thousands

	March 31, 2008 <u>(unaudited)</u>	March 31, 2007 <u>(unaudited)</u>
<i>Operating activities</i>		
Net income	\$ 1,410,831	\$ 671,795
Reconciliation of net income to net cash provided by operating activities:		
Income from equity affiliates, net of dividends received	(99,788)	(64,089)
Deferred income tax expense (benefit)	32,234	(25,254)
Depreciation, depletion and amortization	255,765	233,334
Asset retirement obligation accretion expense net of spending on existing obligations	5,445	5,766
Allowance for doubtful accounts	(3,431)	2,368
Loss on disposal of property, plant and equipment	6,940	1,302
Changes in assets and liabilities, excluding cash and debt:		
Accounts receivable	(748,247)	258,070
Inventories	(113,341)	(57,371)
Other current assets	(101,615)	24,758
Other non-current assets	(747)	(5,066)
Accounts payable and accrued liabilities	180,654	14,332
Income and other taxes payable	182,529	15,380
Net cash provided by operating activities	<u>1,007,229</u>	<u>1,075,325</u>
<i>Investing activities</i>		
Purchase of investments in associated entities	(26,467)	(330)
Loans received	1,736	20,207
Loans issued	(65,187)	(21,824)
Proceeds from disposals of property, plant and equipment	3,262	2,843
Capital expenditures	<u>(781,539)</u>	<u>(421,173)</u>
Net cash used in investing activities	(868,195)	(420,277)
<i>Financing activities</i>		
Short and long-term loans proceeds received	317,596	167,889
Short and long-term loans repaid	(599,003)	(553,480)
Dividends paid	16,605	(311,925)
Net cash used in financing activities	<u>(264,802)</u>	<u>(697,516)</u>
Decrease in cash and cash equivalents	(125,768)	(42,468)
Cash and cash equivalents as of the beginning of the year	721,323	1,334,733
Cash and cash equivalents as of the end of the year	<u>\$ 595,555</u>	<u>\$ 1,292,265</u>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

1. General

Description of Business

JSC Gazprom Neft (formerly OAO Siberian Oil Company) and its subsidiaries (the "Company") is a vertically integrated oil company operating in the Russian Federation. The Company's principle activities include the exploration, production and development of oil and gas fields, the production of refined petroleum products and distribution and marketing operations through its retail outlets. Export trade is conducted through a wholly owned subsidiary Gazprom Neft Trading GmbH, which operates as a trader for the Company's export sales.

OAO Siberian Oil Company ("Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 JSC Gazprom completed its acquisition of a 75.68% stake in Sibneft, becoming a subsidiary of JSC Gazprom. On May 30, 2006 Sibneft was renamed into "JSC Gazprom Neft".

Basis of Presentation

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. The accompanying interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company uses the US Dollar as its reporting currency.

The interim condensed consolidated financial statements are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principles Board Opinion 28 ("APB 28") "*Interim Financial Reporting*") and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2007 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2007 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods.

The results for the three-month period ended March 31, 2008 are not necessarily indicative of the results expected for the full year.

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Company include: recoverability and useful lives of long-term assets and investments; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; depreciation, depletion and amortization; environmental remediation obligations; oil reserves; recognition and disclosure of guarantees and other commitments. While management uses its best estimates and judgments, actual results could differ from those estimates and assumptions used.

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

Foreign Currency Translation

The management of the Company has determined the US Dollar is the functional and reporting currency of the Company as the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in US Dollars. Monetary assets and liabilities have been translated into US Dollars at the exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US Dollars at average rates for the period or exchange rates prevailing on the transactions dates where practicable. Gains and losses resulting from the re-measurement into US Dollars are included in the interim condensed consolidated statement of income.

The official rates of exchange of the Ruble to the US Dollar as of March 31, 2008 and December 31, 2007 were 23.52 Rubles and 24.55 Rubles per US \$1.00, respectively.

The translation of local currency denominated assets and liabilities into US Dollars for the purpose of these interim condensed consolidated financial statements does not indicate that the Company could realize or settle, in US Dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US Dollar value of capital to its shareholders.

Income Taxes

The Company follows the provisions of APB 28 to arrive at the effective tax rate. The effective tax rate is based on the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate of 24% and includes estimates for the annual tax effect of permanent differences and realization of deferred tax assets.

Recently Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by US GAAP to be measured at fair value. SFAS No. 157 clarifies guidance in FASB Concepts Statement (CON) No. 7 which discusses present value techniques in measuring fair value. Additional disclosures are also required for transactions measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, "Effective Date of FASB Statement No. 157," which granted a one year deferral (to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years) for certain non-financial assets and liabilities to comply with SFAS No. 157. The Company will adopt the provisions of FAS No. 157 covered under FSP No. 157-2 on January 1, 2009. Additionally, in February 2008, the FASB issued FSP No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," which amends SFAS No. 157 to exclude SFAS No. 13 and related pronouncements that address fair value measurements for purposes of lease classification and measurement. FSP No. FAS 157-1 is effective upon the initial adoption of SFAS No. 157. The Company adopted SFAS No. 157 and the related FSPs discussed above effective January 1, 2008 which did not have an impact on its financial position or results of operations for the three-month period ended March 31, 2008.

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SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115," became effective on January 1, 2008 and permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The provisions of SFAS No. 159 apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. At the effective date, companies may elect the fair value option for eligible items that exist at that date, and the effect of the first remeasurement to fair value must be reported as a cumulative-effect adjustment to the opening balance of retained earnings. Since the Company has not elected to adopt the fair value option for eligible items, SFAS No. 159 has not had an impact on its financial position or results of operations.

2. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2008 and December 31, 2007 comprise the following (in US\$ thousands):

	2008	2007
Cash in bank – Rubles	\$ 168,229	\$ 176,988
Cash in bank – foreign currency	161,415	237,480
Bank deposits and other cash equivalents	264,619	305,583
Cash on hand	1,292	1,272
Total cash and cash equivalents	\$ 595,555	\$ 721,323

The majority of cash in bank – foreign currency is primarily represented by US Dollars. As of March 31, 2008 cash in bank – Rubles includes US\$ 40.4 million in Gazprombank, a related party.

As of March 31, 2008 and December 31, 2007 the majority of bank deposits are primarily represented by Rubles. Bank deposits represent deposits with original maturities of less than 90 days at the date of acquisition.

3. Inventories

The following are the major components of inventories as of March 31, 2008 and December 31, 2007, (in US\$ thousands):

	2008	2007
Crude oil	\$ 137,546	\$ 121,115
Petroleum products	343,269	356,482
Materials and supplies	671,502	576,907
Other	44,503	28,975
Total inventories	\$ 1,196,820	\$ 1,083,479

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

4. Long-Term Investments

None of the companies listed below are publicly traded in Russia and due to the nature of the financial markets it is not possible to obtain a current market price for these investments. The significant equity and other long-term investments are summarized below as of March 31, 2008 and December 31, 2007 (in US\$ thousands):

	Ownership percentage as of March 31, 2008	Net book value as of		Company's share of net income including minority interest for the three-month periods ended March 31,	
		March 31, 2008	December 31, 2007	2008	2007
Investments in equity affiliates:					
JSC Slavneft	49.9	\$ 2,579,118	\$ 2,501,498	\$ 83,981	\$ 63,003
JSC Tomskneft VNK	50.0	1,432,382	1,418,934	13,447	-
JSC Moscow Oil Refinery	38.8	324,326	315,606	8,720	12,410
Total investments in equity affiliates / income		<u>4,335,826</u>	<u>4,236,038</u>	<u>106,148</u>	<u>75,413</u>
Long-term investments, at cost:					
JSC Mosnefteprodukt	27.4	56,018	56,018		
Other various marketing entities		187,374	162,364		
Other entities		231,809	230,352		
Total long-term investments, at cost		<u>475,201</u>	<u>448,734</u>		
Total long-term investments		<u>\$ 4,811,027</u>	<u>\$ 4,684,772</u>	<u>\$ 106,148</u>	<u>\$ 75,413</u>

The Company's investment in JSC Slavneft and various minority stakes in Slavneft's subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Company and TNK-BP agreed to jointly manage the refineries of the Slavneft group with each party purchasing its share of production. For the three-month periods ended March 31, 2008 and 2007, Slavneft paid dividends to the Company of US\$ 6.4 million and US\$ 11.3 million, respectively.

In December 2007 the Company acquired a 50% equity interest in JSC Tomskneft VNK ("Tomskneft") and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft ("Rosneft") for US\$ 3,567.3 million. The purchase price was based on the fair value of Tomskneft, which amounted to US\$ 3,670.0 million as determined by an independent appraiser. As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production. As both the Company and Rosneft are ultimately controlled by the Russian Federation, the transaction was deemed to have occurred between entities under common control and therefore was accounted for at Rosneft's historical cost. Accordingly, the difference of US\$ 2,153.7 million between the purchase price and historical cost was charged to additional-paid-in-capital and reserves in shareholders' equity for the year ended December 31, 2007.

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

5. Short-Term Loans

As of March 31, 2008 and December 31, 2007 the Company has short-term loans outstanding as follows (in US\$ thousands):

	2008	2007
Banks	\$ 141,830	\$ 165,399
Related parties	86,356	59,823
Other	17,626	15,914
Total	<u>\$ 245,812</u>	<u>\$ 241,136</u>

In general, short-term loans are used for the provision of working capital needs. As of March 31, 2008 and December 31, 2007 more than 50.0% of the loans were provided in US Dollars.

As of March 31, 2008 and December 31, 2007 the Company has a US\$ 40.0 million loan outstanding from Raiffeisenbank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.5% and matures in August 2008.

As of March 31, 2008 and December 31, 2007 the Company has a US\$ 50.0 million loan outstanding from ING Bank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.55% and matures in December 2008.

As of March 31, 2008 the Company has a US\$ 50.0 million loan outstanding from BBVA Bank repayable in US Dollars. The loan bears a floating interest rate of LIBOR plus 0.55% and matures in January 2009.

As of March 31, 2008 the Company has a loan from Slavneft of US\$ 85.7 million repayable in Rubles which bears interest at a rate of 6% and matures in December 2008. As of December 31, 2007 the Company had a loan from Slavneft of US\$ 59.1 million repayable in Rubles which bore interest at a rate of 6%. Slavneft is a related party to the Company.

As of December 31, 2007 the Company had a US\$ 75.0 million loan from Sumitomo Mitsui Banking Corporation repayable in US Dollars which bore interest at LIBOR plus 0.55%, which was repaid during the period ended March 31, 2008.

Weighted average interest rates related to the short-term loans outstanding as of March 31, 2008 for US Dollar and Ruble denominated loans equal 3.2% and 5.1%, respectively. Weighted average interest rates related to the short-term loans outstanding as of December 31, 2007 for US Dollar and Ruble denominated loans equaled 5.2% and 4.9%, respectively.

6. Asset Retirement Obligations

The following summarizes the activity of the asset retirement obligations (in US\$ thousands)

	2008	2007
Beginning balance as of January 1,	\$ 324,328	\$ 287,731
Change in estimate	26,433	13,854
Spending on existing obligations	(745)	(267)
Accretion expense	6,190	23,010
Ending balance as of March 31, 2008	<u>\$ 356,206</u>	
Ending balance as of December 31, 2007		<u>\$ 324,328</u>

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

7. Long-term Debt

As of March 31, 2008 and December 31, 2007 the Company has long-term outstanding loans as follows (in US\$ thousands):

	<u>2008</u>	<u>2007</u>
Bonds	\$ 500,000	\$ 500,000
Bank loans outstanding	2,374,796	2,662,025
Other borrowings	20,311	19,165
Less current portion of long- term debt	<u>(1,580,836)</u>	<u>(1,097,891)</u>
Total long-term debt	<u>\$ 1,314,271</u>	<u>\$ 2,083,299</u>

Bank loans are comprised of loan facilities in US Dollars and Rubles primarily from major western and Russian banks and their affiliates.

In December 2002, the Company placed US\$ 500.0 million in 7-year Eurobonds on the Luxemburg Stock Exchange (all current as of March 31, 2008). The bonds bear interest of 10.75% per year and have semi-annual coupon payments due on January, 15 and July, 15 of each year. Accrued interest for the bonds was US\$ 11.3 million and US\$ 25.7 million as of March 31, 2008 and December 31, 2007, respectively.

During 2006 the Company obtained US\$ 630.0 million syndicated loan from Citibank and ABN-AMRO Bank maturing in July 2009, bearing floating interest at rates of LIBOR plus 0.6%. As of March 31, 2008, the amount outstanding under this syndicated loan is US\$ 373.3 million (including current portion of US\$ 280.0 million). As of December 31, 2007 the amount outstanding under the loan was US\$ 443.3 million (including current portion of US\$ 280.0 million).

During 2007 the Company obtained US\$ 2.2 billion syndicated loan from Calyon, ABN-AMRO, Commerzbank and Citibank maturing in September 2010, bearing floating interest at rates of LIBOR plus 0.75%. As of March 31, 2008, the amount outstanding under this syndicated loan is US\$ 2.0 billion (including current portion of US\$ 800.0 million). As of December 31, 2007 the amount outstanding under the loan was US\$ 2.2 billion (including current portion of US\$ 800.0 million).

As of December 31, 2007 the Company had US\$ 17.1 million loan from Gazprombank, bearing interest rate of 9.60%, which was repaid during the period ended March 31, 2008. Gazprombank is a related party to the Company.

The loan agreements contain financial covenants that require the Company's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of March 31, 2008 and December 31, 2007, respectively.

Maturities of long-term loans as of March 31, 2008 are as follows (in US\$ thousands):

<u>Year due</u>	<u>Amount due</u>
2009	\$ 1,580,836
2010	906,171
2011	400,000
2012	3,100
2013	-
2014	5,000
	<u>\$ 2,895,107</u>

JSC Gazprom Neft
Notes to Interim Condensed Consolidated Financial Statements - Unaudited
As of March 31, 2008 and December 31, 2007

8. Income Taxes

The Company's provision for income taxes as reported in the accompanying interim condensed consolidated statements of income for the three-month periods ended March 31, 2008 and 2007 is as follows (in US\$ thousands):

	2008	2007
Current income taxes	\$ 369,669	\$ 252,011
Deferred income taxes	32,234	(25,254)
Total provision for income taxes	<u>\$ 401,903</u>	<u>\$ 226,757</u>

The current portion of income taxes represents the total income tax expense for the Company and each of its subsidiaries.

Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred income tax assets and liabilities as of March 31, 2008 and December 31, 2007 (in US\$ thousands):

	2008	2007
Assets (liabilities) arising from the tax effect of:		
Allowance for doubtful accounts	\$ 2,620	\$ 4,658
Inventories	9,253	9,265
Prepaid expenses	3,684	5,365
Current deferred income tax assets	<u>\$ 15,557</u>	<u>\$ 19,288</u>
Asset retirement obligation	\$ 85,489	\$ 77,839
Tax loss carryforward	18,223	17,457
Fixed assets and other non-current assets	22,989	41,637
Non-current deferred income tax assets	<u>\$ 126,701</u>	<u>\$ 136,933</u>
Other current assets	(23,095)	-
Equity Investment and other investments	(21,804)	(16,686)
Fixed assets	(114,343)	(124,285)
Deferred income tax liability	<u>\$ (159,242)</u>	<u>\$ (140,971)</u>
Net deferred income tax (liability) asset	<u>\$ (16,984)</u>	<u>\$ 15,250</u>

For Russian income tax purposes, certain subsidiaries of the Company have accumulated tax losses totaling to US\$ 75.9 million as of March 31, 2008 (US\$ 72.7 million as of December 31, 2007), resulting in associated deferred income tax assets of US\$ 18.2 million and US\$ 17.5 million, respectively. Tax losses carried forward as of March 31, 2008, expire between 2012 - 2017.

9. Commitments and Contingencies

Taxes

The tax authorities are currently reviewing the operation of the Company and its subsidiaries for the year 2005. The review is in process; the impact of the result of the tax review is not determinable, however management believes that the ultimate resolution of this matter will not have a material impact on the Company's financial position, results of operations and cash flows.

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The years 2006 and 2007 are currently open for review.

Operating Environment

While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in any countries outside of the Russian Federation, restrictive currency controls, and a level of inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Environmental Matters

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

10. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

During the three-month period ended March 31, 2008 the Company processed 0.8 million tons of crude oil (0.8 million tons in 2007) at Moscow Refinery based on processing agreements. Total cost of processing for the three-month period ended March 31, 2008 was US\$ 26.4 million (US\$ 22.5 million for 2007). Such transactions are in the ordinary course of business and on terms available to other suppliers. As of March 31, 2008 the Company has US\$ 17.2 million in payables to Moscow Refinery and US\$ 2.5 million in receivables from Moscow Refinery. As of December 31, 2007 the Company had US\$ 14.5 million in payables to Moscow Refinery and US\$ 1.9 million in receivables from Moscow Refinery.

JSC Gazprom Neft
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Slavneft Group (Slavneft)

The Company conducts numerous transactions with Slavneft. During the three-month period ended March 31, 2008 the Company sold directly 0.4 million tons of crude oil (0.2 million tons in 2007) to Slavneft amounting to US\$ 131.8 million (US\$ 39.9 million in 2007) and 0.1 million tons of oil products (0.1 million tons of oil products in 2007) amounting to US\$ 73.4 million (US\$ 57.6 million in 2007). The Company and TNK-BP have in principle agreed to split Slavneft's production based on each party's respective interest. During the three-month period ended March 31, 2008 the Company purchased from Slavneft 2.5 million tons of crude oil and 0.3 million tons of oil products amounting to US\$ 619.5 million and US\$ 198.7 million, respectively. During the three-month period ended March 31, 2007 the Company purchased from Slavneft 2.6 million tons of crude oil and 0.2 million tons of oil products amounting to US\$ 377.0 million and US\$ 71.9 million, respectively. During the three-month period ended March 31, 2008 the Company processed 1.6 million tons of crude oil (1.6 million tons in 2007) for a total cost of processing amounting to US\$ 50.2 million (US\$ 51.7 million in 2007). During the three-month period ended March 31, 2008 the Company purchased 0.1 billion cubic meters of gas (0.1 billion cubic meters in 2007) amounting to US\$ 1.0 million (US\$ 0.8 million in 2007) from Slavneft. As of March 31, 2008 the Company has US\$ 71.4 million in payables to Slavneft and US\$ 28.6 million in receivables from Slavneft. As of December 31, 2007 the Company had US\$ 172.8 million in payables to Slavneft and US\$ 16.7 million in receivables from Slavneft.

Gazprom Group (Gazprom)

The Company conducted numerous transactions with Gazprom, its primary shareholder. During the three-month period ended March 31, 2008 the Company purchased from a subsidiary of Gazprom 0.2 billion cubic meters of gas (0.2 billion cubic meters in 2007) amounting to US\$ 12.2 million (US\$ 10.8 million in 2007) and sold to a subsidiary of Gazprom 0.5 billion cubic meters of gas (0.4 billion cubic meters in 2007) amounting to US\$ 6.0 million (US\$ 3.5 million in 2007). During the three-month period ended March 31, 2008 Gazprom's subsidiaries performed construction works and sold other goods and services to the Company amounting to US\$ 20.6 million (US\$ 4.7 million in 2007). During the three-month period ended March 31, 2008 the Company sold oil products and rendered various services to Gazprom amounting to US\$ 27.3 million (US\$ 29.6 million in 2007). As of March 31, 2008 the Company has US\$ 37.4 million in payables to Gazprom and US\$ 12.8 million in receivables from Gazprom. As of December 31, 2007 the Company had US\$ 37.8 million in payables to Gazprom and US\$ 6.5 million in receivables from Gazprom.

Tomskneft Group (Tomskneft)

During the three-month period ended March 31, 2008 the Company purchased from Tomskneft 0.9 million tons of crude oil amounting to US\$ 219.7 million and 0.1 billion cubic meters of gas amounting to US\$ 5.2 million. As of March 31, 2008 the Company has US\$ 101.1 million in payables to Tomskneft and US\$ 4.4 million in receivables from Tomskneft.

Refer to Note 2 Cash and Cash Equivalents, Note 4 Long-term Investments, Note 5 Short-term Loans and Note 7 Long-term Debt.

11. Segment information

Presented below is information about the Company's operating segments for the three-month periods ended March 31, 2008 and 2007. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the chief operating decision maker to make decisions about resources to be allocated and to assess performance of the Company.

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The exploration and production segment explores, develops and produces crude oil and natural gas and sells its production to the refining, marketing and distribution segment. The refining and marketing segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products.

Operating Segments 2008 (in US\$ thousands):

	<u>Exploration and Production</u>	<u>Refining, Marketing and Distribution</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues				
Revenues from external customers	\$ 35,917	\$ 7,829,855		\$ 7,865,772
Inter-segment revenues	1,977,730	11,217	(1,988,947)	-
Total	2,013,647	7,841,072	(1,988,947)	7,865,772
Operating income	350,449	1,314,047	-	1,664,496
Capital expenditures	738,984	42,555	-	781,539
Depreciation, depletion and amortization	232,416	23,349	-	255,765
Income tax expense	61,807	340,096	-	401,903
Segment assets as of March 31, 2008	11,396,485	16,346,316	(9,577,408)	18,165,393

Operating Segments 2007 (in US\$ thousands):

	<u>Exploration and Production</u>	<u>Refining, Marketing and Distribution</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues				
Revenues from external customers	\$ 20,145	\$ 4,121,179		\$ 4,141,324
Inter-segment revenues	1,317,797	6,711	(1,324,508)	-
Total	1,337,942	4,127,890	(1,324,508)	4,141,324
Operating income	164,141	646,731	-	810,872
Capital expenditures	373,969	47,204	-	421,173
Depreciation, depletion and amortization	211,789	21,545	-	233,334
Income tax expense	69,792	156,965	-	226,757
Segment assets as of December 31, 2007	11,030,189	15,066,257	(9,490,414)	16,606,032

For the three-month periods ended March 31, 2008 and 2007 the Company had one customer which accounted for approximately 25.5% and 28.5% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

The geographical segmentation of the Company's revenue for the three-month periods ended March 31, 2008 and 2007 is presented below (in US\$ thousands):

	<u>2008</u>	<u>2007</u>
Export	\$ 5,261,332	\$ 2,716,210
Domestic	2,148,666	1,121,778
CIS	455,774	303,336
Total revenues from external customers	<u>\$ 7,865,772</u>	<u>\$ 4,141,324</u>

Substantially all of the Company's long-lived assets are located in the Russian Federation.

12. Subsequent events

In July 2008 the Company completed a US\$ 1.0 billion syndicated loan facility which comprises two tranches: a 3 year tranche bearing a floating rate of LIBOR plus 1.50% and a 5 year tranche bearing a floating rate of LIBOR plus 1.75%.

On June 20, 2008, general shareholder's meeting approved an annual dividend of 25,603 million Rubles (US\$ 1,085 million as of that date) for the 2007 fiscal year.