



JSC Gazprom Neft

Interim Condensed Consolidated Financial Statements

**As of and for the three and nine months ended September 30, 2008 and 2007
(Unaudited)**

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JSC Gazprom Neft
Interim Condensed Consolidated Balance Sheets
As of September 30, 2008 and December 31, 2007

Currency – US\$ millions

	Notes	September 30, 2008 (unaudited)	December 31, 2007
Assets			
Current assets:			
Cash and cash equivalents	2	\$ 2,634	\$ 721
Short-term investments		13	-
Short-term loans receivable		16	12
Accounts receivable, net		2,801	2,264
Inventories	3	1,556	1,083
Other current assets, net		824	661
Current deferred income tax assets		40	19
Total current assets		7,884	4,760
Long-term investments	4	5,059	4,685
Long-term loans receivable		102	51
Oil and gas properties, net		7,155	5,802
Property, plant and equipment, net		1,063	832
Construction-in-progress		425	230
Other non-current assets		178	112
Non-current deferred income tax assets		135	137
Total assets		\$ 22,001	\$ 16,609
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	5	\$ 571	\$ 241
Accounts payable and accrued liabilities		1,269	1,171
Income and other taxes payable		761	734
Dividends payable		813	381
Current portion of long-term debt	7	1,534	1,098
Total current liabilities		4,948	3,625
Asset retirement obligations	6	352	324
Long-term debt	7	1,818	2,083
Deferred income tax liabilities		196	141
Total liabilities		7,314	6,173
Minority interest		147	3
Shareholders' equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Reserves		573	573
Retained earnings		13,974	9,858
Less: Common stock held in treasury, at cost (2,263,193 shares as of September 30, 2008)		(9)	-
Total shareholders' equity		14,540	10,433
Total liabilities and shareholders' equity		\$ 22,001	\$ 16,609

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 and nine months ended September 30, 2008 and 2007

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

	Notes	For the three months ended September 30, 2008 (unaudited)	For the three months ended September 30, 2007 (unaudited)	For the nine months ended September 30, 2008 (unaudited)	For the nine months ended September 30, 2007 (unaudited)
Revenues					
Refined products and oil and gas sales		\$ 9,492	\$ 5,323	\$ 26,806	\$ 14,322
Other		146	112	509	356
Total	12	9,638	5,435	27,315	14,678
Costs and other deductions					
Crude oil, petroleum and other products purchased		2,405	1,127	6,875	2,551
Operating expenses		585	498	1,580	1,442
Selling, general and administrative expenses		332	301	790	732
Transportation expenses		418	265	1,242	810
Depreciation, depletion and amortization		371	312	943	820
Export duties		2,040	806	5,319	2,378
Taxes other than income taxes		1,305	898	3,799	2,293
Exploration expenses		46	15	147	83
Cost of other sales		109	75	365	229
Total		7,611	4,297	21,060	11,338
Operating income		2,027	1,138	6,255	3,340
Other income (expense)					
Income from equity affiliates	4	244	103	563	325
Interest income		37	44	61	85
Interest expense		(44)	(54)	(122)	(98)
Other income (expense), net		25	(17)	176	(29)
Foreign exchange (loss) gain, net		(187)	83	(133)	106
Minority interest		(20)	-	(48)	-
Total		55	159	497	389
Income before provision for income taxes		2,082	1,297	6,752	3,729
Provision for income taxes		468	334	1,515	967
Deferred income tax expense (benefit)		20	6	36	(57)
Total	8	488	340	1,551	910
Net income		\$ 1,594	\$ 957	\$ 5,201	\$ 2,819
Basic and Diluted Earnings per Common Share (US\$ per share)		0.3362	0.2019	1.0970	0.5946
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4,741	4,741	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 nine months ended September 30, 2008

Currency - US\$ millions

	<u>Common Stock</u>	<u>Common Stock held in treasury</u>	<u>Reserves</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance as of December 31, 2007	\$ 2	\$ -	\$ 573	\$ 9,858	\$ 10,433
Net income for the period	-	-	-	5,201	5,201
Common stock dividends	-	-	-	(1,085)	(1,085)
Acquisition of treasury shares	-	(9)	-	-	(9)
Balance as of September 30, 2008 (unaudited)	\$ 2	\$ (9)	\$ 573	\$ 13,974	\$ 14,540

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 nine months ended September 30, 2008 and 2007

Currency - US\$ millions

	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)
<i>Operating activities</i>		
Net income	\$ 5,201	\$ 2,819
Reconciliation of net income to net cash provided by operating activities:		
Income from equity affiliates, net of dividends received	(485)	(264)
Deferred income tax expense (benefit)	36	(57)
Depreciation, depletion and amortization	943	820
Asset retirement obligation accretion expense net of spending on existing obligations	17	17
Allowance for doubtful accounts	9	(5)
(Gain) loss on disposal of property, plant and equipment	(1)	6
Changes in assets and liabilities:		
Accounts receivable	(546)	142
Inventories	(473)	(181)
Other current assets	(163)	102
Other non-current assets	(66)	9
Accounts payable and accrued liabilities	98	115
Income and other taxes payable	27	91
Net cash provided by operating activities	<u>4,597</u>	<u>3,614</u>
<i>Investing activities</i>		
Purchase of investments in associated entities	(32)	(1)
Loans and short-term investments received	334	151
Loans and short-term investments issued	(402)	(29)
Proceeds from disposals of property, plant and equipment	19	29
Capital expenditures	(2,442)	(1,439)
Net cash used in investing activities	<u>(2,523)</u>	<u>(1,289)</u>
<i>Financing activities</i>		
Short and long-term loans proceeds received	1,846	4,105
Short and long-term loans repaid	(1,345)	(2,859)
Dividends paid	(653)	(1,155)
Purchase of treasury shares	(9)	-
Net cash used in (provided by) financing activities	<u>(161)</u>	<u>91</u>
Increase in cash and cash equivalents	1,913	2,416
Cash and cash equivalents as of the beginning of the year	721	1,335
Cash and cash equivalents as of the end of the period	<u>\$ 2,634</u>	<u>\$ 3,751</u>

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

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 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 and nine months ended September 30, 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.

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 September 30, 2008 and December 31, 2007 were 25.25 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.

Derivative Instruments

The Company uses derivative instruments to manage its exposure to changes in foreign currency exchange rates. A substantial portion of the Company's revenues are received in US Dollars. Additionally, a significant portion of the Company's financing and investing activities are also undertaken in US Dollars. However, Company's operating expenditures and capital spending are primarily denominated in Russian Rubles. Accordingly, a growth or a decline in the value of the US Dollar against the Russian Ruble will impact the Company's operating results and cash flows. Therefore the Company enters into foreign currency forward contracts to manage this risk.

Derivative instruments are recorded at fair value in either other current assets or other current liabilities on the interim condensed consolidated balance sheet. Realized and unrealized gains and losses are presented in the interim condensed consolidated statements of income on a net basis. These transactions are not accounted for as hedges pursuant to SFAS 133 "*Accounting for Derivative Instrument and Hedging Activities*" or its related guidance.

Accounting Standards Adopted

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115," was adopted by the Company on January 1, 2008. The standard 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, accordingly, SFAS No. 159 has not had an impact on its financial position or results of operations.

Recently Issued Accounting Standards

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Enhanced disclosures to improve financial reporting transparency are required and include disclosure about the location and amounts of derivative instruments in the financial statements, how derivative instruments are accounted for and how derivatives affect an entity's financial position, financial performance and cash flows. A tabular format including the fair value of derivative instruments and their gains and losses, disclosure about credit risk-related derivative features and cross-referencing within the footnotes are also new requirements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application and comparative disclosures encouraged, but not required. The Company has not yet adopted SFAS No. 161. The Company does not believe that SFAS No. 161 will have an impact on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," which identifies a consistent framework for selecting accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with accounting principles generally accepted in the United States (US GAAP). The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The FASB does not expect that SFAS No. 162 will have a change in current practice, and the Company does not believe that SFAS No. 162 will have an impact on its financial position, results of operations or cash flows.

2. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2008 and December 31, 2007 comprise the following (in US\$ millions):

	2008	2007
	<u> </u>	<u> </u>
Cash in bank - Rubles	\$ 522	\$ 177
Cash in bank - foreign currency	537	237
Bank deposits and other cash equivalents	1,572	306
Cash on hand	3	1
Total cash and cash equivalents	<u>\$ 2,634</u>	<u>\$ 721</u>

The majority of cash in bank - foreign currency is primarily represented by US Dollars.

As of September 30, 2008 and December 31, 2007 the majority of bank deposits are 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 September 30, 2008 and December 31, 2007 (in US\$ millions):

	2008	2007
Crude oil	\$ 148	\$ 121
Petroleum products	510	356
Materials and supplies	835	577
Other	63	29
Total inventories	\$ 1,556	\$ 1,083

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 current market price for these investments. The significant equity and other long-term investments are summarized below as of September 30, 2008 and December 31, 2007 (in US\$ millions):

	Ownership percentage as of	Net book value as of		
		September 30, 2008	September 30, 2008	December 31, 2007
Investments in equity affiliates:				
JSC Slavneft	49.9		\$ 2,819	\$ 2,501
JSC Tomskneft VNK	50.0		1,567	1,419
JSC Moscow Oil Refinery	38.6		334	316
Total investments in equity affiliates			4,720	4,236
Long-term investments, at cost:				
JSC Mosnefteprodukt	27.4		56	56
Other various marketing entities			116	162
Other entities			167	231
Total long-term investments, at cost			339	449
Total long-term investments			\$ 5,059	\$ 4,685

Company's share of net income including minority interest for the three and the nine months ended September 30, 2008 (in US\$ millions):

	Company's share of net income including minority interest			
	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Income from equity affiliates:				
JSC Slavneft	\$ 177	\$ 92	\$ 396	\$ 292
JSC Tomskneft VNK	56	-	149	-
JSC Moscow Oil Refinery	11	11	18	33
Total income from equity affiliates	\$ 244	\$ 103	\$ 563	\$ 325

During 2008 Gazprom Neft and MNGK created a joint-venture - Moscow NPZ Holding B. V., into which both parties agreed to contribute their respective interests in JSC Moscow Oil Refinery ("Moscow Refinery"). In August 2008, the Company transferred its 38.8% interest in the Moscow Refinery to Moscow NPZ Holding B. V. As a result, Moscow NPZ Holding B. V. controls 77.2% of the Moscow Refinery. The Company and MNGK have agreed to jointly manage the Moscow Refinery.

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 million. The purchase price was based on the fair value of Tomskneft, which amounted to US\$ 3,670 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\$ 2,154 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.

5. Short-Term Loans

As of September 30, 2008 and December 31, 2007 the Company has short-term loans outstanding as follows (in US\$ millions):

	2008	2007
Banks	\$ 101	\$ 165
Related parties	469	60
Other	1	16
Total	<u>\$ 571</u>	<u>\$ 241</u>

In general, short-term loans are used for the provision of working capital needs.

As of September 30, 2008 and December 31, 2007 the Company has a US\$ 50 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 September 30, 2008 the Company has a US\$ 50 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 September 30, 2008 the Company has an interest-free loan from Tomskneft of US\$ 469 million, repayable in Rubles which matures in August 2009. Tomskneft is a related party to the Company.

As of December 31, 2007 the Company had a loan from Slavneft of US\$ 59 million repayable in Rubles which bore interest at a rate of 6%, which was repaid during the period ended September 30, 2008. Slavneft is a related party to the Company.

As of December 31, 2007 the Company had a US\$ 75 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 September 30, 2008.

JSC Gazprom Neft**Notes to Interim Condensed Consolidated Financial Statements - Unaudited**

As of September 30, 2008 and December 31, 2007

Currency - US\$ millions

As of December 31, 2007 the Company had a US\$ 40 million loan outstanding from Raiffeisenbank repayable in US Dollars which bore interest rate of LIBOR plus 0.5%, which was repaid during the period ended September 30, 2008.

Weighted average interest rates related to the short-term loans outstanding as of September 30, 2008 for US Dollar and Ruble denominated loans equal 4.6% and 0.1%, 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\$ millions)

	2008	2007
Beginning balance as of January 1,	\$ 324	\$ 288
Change in estimate	11	14
Spending on existing obligations	(2)	(1)
Accretion expense	19	23
Ending balance as of September 30, 2008	<u>\$ 352</u>	
Ending balance as of December 31, 2007		<u>\$ 324</u>

7. Long-term Debt

As of September 30, 2008 and December 31, 2007 the Company has long-term outstanding loans as follows (in US\$ millions):

	2008	2007
Bonds	\$ 500	\$ 500
Bank loans outstanding	2,834	2,662
Other borrowings	18	19
Less current portion of long-term debt	<u>(1,534)</u>	<u>(1,098)</u>
Total long-term debt	<u>\$ 1,818</u>	<u>\$ 2,083</u>

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

In December 2002, the Company placed US\$ 500 million in 7-year Eurobonds on the Luxemburg Stock Exchange (all current as of September 30, 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. These Eurobonds mature in January 2009.

During 2006 the Company obtained US\$ 630 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 September 30, 2008, the amount outstanding under this syndicated loan is US\$ 233 million (all current as of September 30, 2008). As of December 31, 2007 the amount outstanding under the loan was US\$ 443 million (including current portion of US\$ 280 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 September 30, 2008, the amount outstanding under this syndicated loan is US\$ 1.6 billion (including current portion of US\$ 800 million). As of December 31, 2007 the amount outstanding under the loan was US\$ 2.2 billion (including current portion of US\$ 800 million).

JSC Gazprom Neft**Notes to Interim Condensed Consolidated Financial Statements - Unaudited**

As of September 30, 2008 and December 31, 2007

Currency - US\$ millions

During 2008 the Company obtained US\$ 1 billion in syndicated loan in two tranches from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank maturing in May 2013. The loan bears floating interest at rates of LIBOR plus 1.75% for the first US\$ 685 million part and LIBOR plus 1.5% for the second US\$ 315 million part.

As of December 31, 2007 the Company had US\$ 17 million loan from Gazprombank, bearing interest rate of 9.60%, which was repaid during the period ended September 30, 2008.

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 September 30, 2008 and December 31, 2007, respectively.

Maturities of long-term loans as of September 30, 2008 are as follows (in US\$ millions):

<u>Year due</u>	<u>Amount due</u>
2009	\$ 1,534
2010	915
2011	529
2012	211
2013	163
	<u>\$ 3,352</u>

8. Income Taxes

The Company's provision for income taxes as reported in the accompanying interim condensed consolidated statements of income for the three and nine months ended September 30, 2008 and 2007 is as follows (in US\$ millions):

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Current income taxes	\$ 468	\$ 334	\$ 1,515	\$ 967
Deferred income taxes	20	6	36	(57)
Total provision for income taxes	<u>\$ 488</u>	<u>\$ 340</u>	<u>\$ 1,551</u>	<u>\$ 910</u>

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

9. Financial Instruments

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 establishes a formal fair value hierarchy based on the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment.

The Company's only assets and liabilities measured at fair value on a recurring basis are its derivative financial instruments, which has been valued using Level 2 inputs under the fair value hierarchy.

The Company uses derivative financial instruments to manage its exposure to changes in foreign currency exchange rates. A majority of Company's sales revenues are received in US Dollars, a growth or a decline in the value of the US Dollar against the Russian Ruble impacts the Company's operating results and cash flows. During the nine months ended September 30, 2008 the Company entered into foreign currency forward contracts to manage this risk.

As of September 30, 2008 the Company has derivatives with a total notional value of US\$ 1.3 billion to manage its future exposures to the variability in foreign currency rates under this program. The fair value of these derivative financial instruments was a loss of US\$ 86 million which is included in other accrued liabilities on the interim condensed consolidated balance sheet. During the three month period ended September 30, 2008, the Company recognized US\$ 23 million in realized losses and US\$ 106 million in unrealized losses in foreign exchange loss, net in the interim condensed consolidated statements of income. During the nine month period ended September 30, 2008, the Company recognized US\$ 23 million in realized losses and US\$ 86 million in unrealized losses in foreign exchange loss, net in the interim condensed consolidated statements of income.

The Company does not purchase, hold or sell derivative financial instruments unless it has an existing asset or obligation or anticipates a future activity that is likely to occur that will result in an exposure to foreign exchange risk. The Company does not enter into any derivative instruments for speculative purposes.

10. Commitments and Contingencies

Taxes

The tax authorities are currently reviewing the operation of the Company and its subsidiaries for the year 2005 and 2006. 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. 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 year 2007 is 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 higher 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.

Recent volatility in global financial markets

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market have also led to bank failures and/or bank rescues. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2008.

Management believes the Group's current and long-term investment and capital expenditures program can be funded through cash generated from existing operations or existing lines of credit. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future. The full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against. Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets.

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.

11. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

During 2008 the Company processed crude oil based on processing agreements and conducted other transactions with Moscow Refinery. Such transactions are in the ordinary course of business and on terms available to other suppliers. The information on transactions with Moscow Refinery for the three and nine months ended September 30, 2008 and 2007 is presented below (in US\$ millions):

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Processing fees	\$ 29	\$ 26	\$ 75	\$ 72
Oil products purchased	3	2	7	5
Oil products sales	4	2	9	7

JSC Gazprom Neft**Notes to Interim Condensed Consolidated Financial Statements - Unaudited****As of September 30, 2008 and December 31, 2007****Currency - US\$ millions**

As of September 30, 2008 the Company has US\$ 48 million in payables to Moscow Refinery and US\$ 8 million in receivables from Moscow Refinery. As of December 31, 2007 the Company had US\$ 15 million in payables to Moscow Refinery and US\$ 2 million in receivables from Moscow Refinery.

Slavneft Group (Slavneft)

During 2008 the Company conducted numerous transactions with Slavneft or its subsidiaries. The Company and TNK-BP have in principle agreed to split Slavneft's production based on each party's respective interest. The information on transactions with Slavneft for the three and nine months ended September 30, 2008 and 2007 is presented below (in US\$ millions):

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Processing fees	\$ 71	\$ 49	\$ 177	\$ 148
Crude, gas and oil products purchased	918	661	2,758	1,704
Crude and oil products sales	166	123	559	343

As of September 30, 2008 the Company has US\$ 71 million in payables to Slavneft and US\$ 41 million in receivables from Slavneft. As of December 31, 2007 the Company had US\$ 173 million in payables to Slavneft and US\$ 17 million in receivables from Slavneft.

Gazprom Group (Gazprom)

During 2008 the Company conducted numerous transactions with Gazprom, its primary shareholder, or its subsidiaries. The information on transactions with Gazprom for the three and nine months ended September 30, 2008 and 2007 is presented below (in US\$ millions):

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Gas and oil products purchased	\$ 19	\$ 5	\$ 59	\$ 24
Gas and oil products sales	36	28	101	91

As of September 30, 2008 the Company has US\$ 37 million in payables to Gazprom and US\$ 15 million in receivables from Gazprom. As of December 31, 2007 the Company had US\$ 38 million in payables to Gazprom and US\$ 7 million in receivables from Gazprom.

Tomskneft Group (Tomskneft)

For the nine months ended September 30, 2008 the Company purchased crude and gas from Tomskneft or its subsidiaries amounting to US\$ 1,122 million (US\$ 448 million for the three months ended September 30, 2008). The Company and Rosneft have in principle agreed to split Tomskneft's production based on each party's respective 50% interest. As of September 30, 2008 the Company has US\$ 18 million in payables to Tomskneft and US\$ 6 million in receivables from Tomskneft.

Refer also to Note 4 Long-term Investments and Note 5 Short-term Loans for other related party balances.

12. Segment information

Presented below is information about the Company's operating segments for the three and nine months ended September 30, 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.

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

Operating Segments for the three months ended September 30, 2008 (in US\$ millions):

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues				
Revenues from external customers	\$ 30	\$ 9,608	-	\$ 9,638
Inter-segment revenues	2,505	16	(2,521)	-
Total	2,535	9,624	(2,521)	9,638
Operating income	422	1,605	-	2,027
Capital expenditures	792	91	-	883
Depreciation, depletion and amortization	342	29	-	371
Income tax expense	162	326	-	488

Operating Segments for the three months ended September 30, 2007 (in US\$ millions):

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues				
Revenues from external customers	\$ 25	\$ 5,410	-	\$ 5,435
Inter-segment revenues	1,666	5	(1,671)	-
Total	1,691	5,415	(1,671)	5,435
Operating income	194	944	-	1,138
Capital expenditures	506	35	-	541
Depreciation, depletion and amortization	290	22	-	312
Income tax expense	84	256	-	340

Operating Segments for the nine months ended September 30, 2008 (in US\$ millions):

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues				
Revenues from external customers	\$ 103	\$ 27,212		\$ 27,315
Inter-segment revenues	6,894	79	(6,973)	-
Total	6,997	27,291	(6,973)	27,315
Operating income	1,062	5,193	-	6,255
Capital expenditures	2,252	190	-	2,442
Depreciation, depletion and amortization	863	80	-	943
Income tax expense	329	1,222	-	1,551
Segment assets as of September 30, 2008	\$ 11,780	\$ 19,095	(8,874)	\$ 22,001

Operating Segments for the nine months ended September 30, 2007 (in US\$ millions):

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues				
Revenues from external customers	\$ 61	\$ 14,617	-	\$ 14,678
Inter-segment revenues	4,474	15	(4,489)	-
Total	4,535	14,632	(4,489)	14,678
Operating income	503	2,837	-	3,340
Capital expenditures	1,319	120	-	1,439
Depreciation, depletion and amortization	754	66	-	820
Income tax expense	198	712	-	910
Segment assets as of December 31, 2007	11,030	15,069	(9,490)	16,609

For the three months ended September 30, 2008 and 2007 the Company had one customer which accounted for approximately 22.9% and 27.1% of the Company's sales, respectively. For the nine months ended September 30, 2008 and 2007 the Company had one customer which accounted for approximately 21.6% and 26.5% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

JSC Gazprom Neft**Notes to Interim Condensed Consolidated Financial Statements - Unaudited****As of September 30, 2008 and December 31, 2007****Currency - US\$ millions**

The geographical segmentation of the Company's revenue for the three and nine months ended September, 2008 and 2007 is presented below (in US\$ millions):

	For the three months ended September 30, 2008	For the three months ended September 30, 2007	For the nine months ended September 30, 2008	For the nine months ended September 30, 2007
Export	\$ 5,742	\$ 3,137	\$ 16,874	\$ 9,061
Domestic	3,299	1,885	8,676	4,506
CIS	597	413	1,765	1,111
Total revenues from external customers	<u>\$ 9,638</u>	<u>\$ 5,435</u>	<u>\$ 27,315</u>	<u>\$ 14,678</u>

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