



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

Forward-Looking Statements

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

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

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

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

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of our oil fields. Crude oil purchased as well as other operational indicators expressed in barrels are translated from tonnes using a conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet into BOE at the rate of 6 thousand cubic feet per BOE.

Key Financial and Operational Results

	Three Month Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
Revenues (US\$ million)	5,180	9,957	(48)	9,365	18,002	(48)
Adjusted EBITDA (US\$ million)	1,501	3,204	(53)	2,459	5,413	(55)
Crude oil production including our share of equity investees (millions of barrels)	83.7	89.3	(6)	164.2	172.3	(5)
Refining throughput at own and equity investee refineries (millions of tonnes)	8.0	7.2	11	15.5	13.8	12

Operating Segments

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

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

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

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

Changes in the Company's Structure

Sibir Energy (Sibir)

In the period from April 23, 2009, being the date of the Company's first acquisition of shares in Sibir Energy plc ("Sibir"), until June 23, 2009, the Company invested £1,057 million (approximately US\$ 1,659 million) to acquire 48.39% of the ordinary shares of Sibir, and the rights to purchase additional 6.32% of the ordinary shares of Sibir. This acquisition of shares of Sibir provided the Company with effective control over Sibir and indirect control over Moscow Refinery, having increased its effective interest in Moscow Refinery from 38.63% to 59.75%.

Sibir Energy plc is a vertically integrated energy company with exploration and production operations in Western Siberia and refining and marketing in the City of Moscow and the Moscow region. Sibir's primary upstream assets include JSC Magma Oil Company (95% Sibir owned) and a 50% interest in Salym Petroleum Development (a joint venture with Royal Dutch Shell). Sibir's total current production is over 80,000 barrels of oil per day (bopd). Sibir also holds a 38.6% stake in the Moscow Oil Refinery ("Moscow Refinery"), which is jointly managed with Gazprom Neft, and a network of 134 retail stations in the City of Moscow and the Moscow region through JSC Moscow Fueling Company and JSC Mosnefteproduct.

Naftna Industrija Srbije (NIS)

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

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

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

Main Macroeconomic Factors Affecting Results of Operations

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

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

Changes in Market Prices of Crude Oil and Petroleum Products

The prices for crude oil and petroleum products in the international and Russian markets are the primary factor affecting the Company's results of operations. In the first half of 2009, the Brent crude oil price increased from US\$ 40.04 per barrel to US\$ 68.06.

In 2008 Brent crude oil price increased from the average of US\$ 92.00 per barrel in January 2008 to its historical high of US\$ 144.22 in July 2008. Shortly afterwards it plummeted to as low as US\$ 36.55 in December 2008. Crude pricing growth in first half of 2008 was driven mainly by money supply increase which caused US dollar weakening globally. In the second half 2008 global money supply crunch as well as deterioration demand for oil caused crude oil price plunge. In the first half of 2009 crude oil prices averaged at US\$ 52 per barrel.

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

	Three Months Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
International market	(in US\$ per barrel, except for figures in percent)					
Brent	59.13	121.18	(51)	51.68	109.18	(53)
Urals Spot (average Med. + NWE)	58.47	117.35	(50)	50.96	105.48	(52)
	(in US\$ per tonne, except for figures in percent)					
Premium gasoline (average NWE)	586.50	1,052.77	(44)	496.81	948.22	(48)
Naphtha (average Med. + NWE)	486.45	979.00	(50)	429.82	905.93	(53)
Diesel fuel (average NWE)	509.30	1,186.70	(57)	473.60	1,043.97	(55)
Gasoil 0.2% (average Med. + NWE)	486.95	1,143.54	(57)	443.98	1,012.11	(56)
Fuel oil 3.5% (average NWE)	318.00	528.33	(40)	270.14	482.65	(44)
Domestic market*	(in US\$ per tonne, except for figures in percent)					
High-octane gasoline	503.50	915.59	(45)	586.01	767.29	(24)
Low-octane gasoline	411.98	774.49	(47)	470.08	638.49	(26)
Diesel fuel	385.61	843.94	(54)	486.11	696.46	(30)
Fuel oil	173.47	316.97	(45)	183.06	255.67	(28)

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

Ruble vs. US Dollar Exchange Rate and Inflation

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

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Ruble inflation (CPI), %	2.0	3.9	7.4	8.7
Ruble/USD dollar exchange rate at the end of the period	31.29	23.46	31.29	23.46
Average Ruble/USD dollar exchange rate for the period	32.21	23.63	33.07	23.94
Real appreciation of the ruble against the US dollar, %	10.9	4.2	0.8	13.7

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

Taxation

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

	Three Months Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
Export customs duty						
Crude oil (US\$ per tonne)	133.55	359.22	(63)	122.90	336.56	(63)
Crude oil (US\$ per barrel)	18.22	49.01	(63)	16.77	45.92	(63)
Light and middle distillate products (US\$ per tonne)	102.26	254.29	(60)	95.11	239.03	(60)
Fuel oil (US\$ per tonne)	55.08	137.02	(60)	51.23	128.80	(60)
Mineral extraction tax						
Crude oil (RUR per tonne)	2,200.62	4,097.38	(46)	1,873.57	3,701.90	(49)
Crude oil (US\$ per barrel)	9.32	23.66	(61)	7.73	21.09	(63)
Natural gas (RUR per 1000 cm)	147.00	147.00	-	147.00	147.00	-

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

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

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

In the second quarter and first half of 2009 the export customs duty on crude oil declined by 63% in both periods to US\$ 18.22 per barrel and US\$ 16.77 per barrel, respectively, compared to the corresponding periods of 2008. Export duty reduction over the reporting periods followed similar crude pricing environment trend with a time lag.

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

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

Depleted oil assets are subject to lower MET. Depleted oil assets are those that have depletion rate exceeding 80%. Depletion rate is calculated by dividing accumulated production volume from oil filed (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 first half of 2009 mineral extraction tax rate on crude oil decreased by 61% and 63% to US\$ 9.32 per barrel and US\$ 7.73 per barrel, respectively, compared to the corresponding periods of 2008. The decrease in both comparative periods was driven by the declining Urals prices, which decreased by approximately 50% and 52% compared to the second quarter and first half of 2008.

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

Transportation of Crude Oil and Petroleum Products

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

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

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

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

In the first half of 2009 the Company shipped 39% of crude oil for export through the Baltic Sea ports (mainly Primorsk); 22% of crude oil was exported through Transneft's Druzhba pipeline (mainly to Germany, Poland and Slovakia); 34% of crude oil shipped from various Black Sea ports Novorossiysk, Tuapse and the Ukrainian port Yuzhnyi and 5% of crude oil was exported to China via transit pipeline through Kazakhstan.

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

The transportation tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Tariffs Service of the Russian Federation ("FTS"). The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Changes in the tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, the investment needs of owners of transport infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are to be revised by FTS at least annually, comprising a dispatch tariff, loading, transshipment, pumping and other tariffs.

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

Production of Crude Oil, Gas and Petroleum Products

Crude Oil Production

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

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

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

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

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

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

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

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

Following the acquisition of Sibir the Company simultaneously gained 27.4% share in Salym Petroleum Development (a joint venture with Royal Dutch Shell and Sibir).

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

(millions of barrels)	Three Months Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
Crude oil produced in Russia	54.3	57.3	(5)	107.4	115.5	(7)
Crude oil produced internationally	1.4	-	-	2.1	-	-
Company's share in production of equity investees	28.0	32.0	(13)	54.7	56.8	(4)
Total crude oil production	83.7	89.3	(6)	164.2	172.3	(5)

In the second quarter and first half of 2009 the Company's crude oil production in Russia decreased by 5% and 7% to 54.3 million barrels (7.4 million tonnes) and 107.4 million barrels (14.7 million tonnes), respectively, compared to the corresponding periods of 2008. The reduction was primarily the result of Noyabrskneftegaz output decline. Production decline by Noyabrskneftegaz was partially offset by the output growth in new fields such as Priobskoye and certain fields in Tomsk and Omsk regions.

In the second quarter and first half of 2009 the Company's crude oil volume produced internationally came in at 1.4 million barrels (0.2 million tonnes) and 2.1 million barrels (0.3 million tonnes), respectively, due to the acquisition of our 51% interest in Naftna Industrija Srbije ("NIS") in February 2009.

In the second quarter and first half of 2009 the Company's production of crude oil including share in equity investees decreased by 6% and 5% to 83.7 million barrels (11.4 million tonnes) and 164.2 million barrels (22.4 million tonnes), respectively, compared to the second quarter and first half of 2008. Production decline by the Company's consolidated assets was further boosted by equity investees production decline Slavneft and Tomskneft.

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

(millions of barrels)	Three Months Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
Crude oil purchases in Russia*	3.8	4.2	(10)	11.0	6.7	64
Crude oil purchases internationally	4.9	4.4	11	8.4	8.9	(6)
Total crude oil purchases	8.7	8.6	1	19.4	15.6	24

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

In the second quarter and first half of 2009 the Company slightly increased the volumes of crude oil purchased in Russia as a result of refined volumes growth and trading activities expansion.

Gas Production

In the first half of 2009 the Company produced 1.7 billions of cubic meters of associated and natural gas (including share in production of equity investees), a decrease of 6%, compared to 1.8 billions of cubic meters in the first half of 2008.

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

Production of Petroleum Products

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

(millions of tonnes)	Three Months Ended		Change %	Six Months Ended		Change %
	June 30			June 30		
	2009	2008		2009	2008	
Production of petroleum products in Russia	4.7	4.6	2	8.8	8.5	3
Production of petroleum products internationally	0.7	-	-	1.2	-	-
Production of petroleum products at equity refineries	2.2	2.1	6	4.6	4.4	5
Total production of petroleum products	7.6	6.7	13	14.6	12.9	13
Petroleum products purchased*	0.2	0.7	(71)	0.7	1.6	(56)

* include petroleum products purchased in Russia and internationally

In the second quarter and first half of 2009 the Company produced 7.6 million tonnes and 14.6 million tonnes (including share in production of equity investees), respectively, an increase of 13% in both periods was primarily due the acquisition of our 51% interest in Naftna Industrija Srbije ("NIS") in February 2009.

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

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

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

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

NIS Distribution division operates the largest network of crude oil storages and 480 oil and gas retail stations and is a leading supplier of oil products in the Serbian market. NIS produces about 80% of all domestically consumed oil products.

The Company plans to increase the number of filling stations not only by expanding the retail network in its traditional regions and those with high demand, but also by actively entering into new, promising regions. Gazprom Neft is beginning to bring the filling stations to a uniform exterior appearance, provide a wide range of auxiliary services, and increase the service quality to comply with modern standards, analyze demand and consumer satisfaction with its services, and develop customer loyalty programs.

In 2008 a visual concept and architectural-and-technical project of filling stations under the Gazprom Neft brand name was developed. The official opening of the first filling station under the brand name is contemplated for the first half of 2009. The first filling stations of the new network will appear in Moscow, Moscow Region, Saint-Petersburg, Kaluga, Nizhniy Novgorod and Tyumen. In 2009 it is planned to rebrand 225 filling stations.

Results of Operations

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

(in US\$ million)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenues				
Refined products and oil and gas sales	5,057	9,778	9,131	17,639
Other	123	179	234	363
Total	5,180	9,957	9,365	18,002
Costs and other deductions				
Crude oil, petroleum and other products purchased	1,167	2,375	2,000	4,470
Operating expenses	438	517	829	974
Selling, general and administrative expenses	330	265	601	439
Transportation expenses	415	434	810	824
Depreciation, depletion and amortization	369	316	706	572
Export duties	623	1,747	1,206	3,279
Taxes other than income taxes	855	1,545	1,527	2,859
Exploration expenses	20	58	63	101
Cost of other sales	82	136	188	256
Total	4,299	7,393	7,930	13,774
Operating income	881	2,564	1,435	4,228
Other income (expense)				
Income from equity affiliates	48	213	100	319
Gain from Sibir Energy acquisition	470	-	470	-
Interest income	45	16	67	24
Interest expense	(93)	(38)	(142)	(78)
Other income (expense), net	(32)	133	(56)	151
Foreign exchange (loss) gain, net	175	(3)	8	54
Total	613	321	447	470
Income before provision for income taxes	1,494	2,885	1,882	4,698
Provision for income taxes	236	677	334	1,047
Deferred income tax (benefit) expense	39	(16)	(8)	16
Total	275	661	326	1,063
Net income	1,219	2,224	1,556	3,635
Less: Net income attributable to non-controlling interest	(19)	(28)	(22)	(28)
Net income attributable to Gazprom Neft	1,200	2,196	1,534	3,607

Revenues

The following table analyses revenues for the periods indicated:

(in US\$ million)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Crude oil				
Export and sales on international markets	1,410	3,733	2,641	6,682
Export to CIS	209	420	346	644
Domestic sales	9	94	42	203
Total crude oil sales	1,628	4,248	3,029	7,530
Gas sales	19	40	51	78
Petroleum products				
Export and sales on international markets	1,753	2,113	3,063	4,410
Export and sales to CIS	172	291	320	523
Domestic sales	1,485	3,086	2,668	5,098
Total petroleum products sales	3,410	5,490	6,051	10,031
Other sales	123	179	234	363
Total sales	5,180	9,957	9,365	18,002

Sales Volumes

The following table analyses sales volumes for the periods indicated:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Crude oil (millions of barrels)				
Export and sales on international markets	25.7	32.2	55.7	64.5
Export to CIS	5.9	6.6	11.7	11.7
Domestic sales	0.4	1.5	1.7	3.7
Crude oil (millions of tonnes)				
Export and sales on international markets	3.5	4.4	7.6	8.8
Export to CIS	0.8	0.9	1.6	1.6
Domestic sales	0.1	0.2	0.2	0.5
Total crude oil sales	4.4	5.5	9.4	10.9
Gas sales (bcm)	0.8	0.9	1.7	1.8
Petroleum products (millions of tonnes)				
Export and sales on international markets	3.9	2.5	7.1	5.7
Export and sales to CIS	0.4	0.3	0.8	0.7
Domestic sales	3.9	4.2	7.4	7.7
Total petroleum products sales	8.2	7.0	15.3	14.1

Realized Average Sales Prices.

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

	Six Months Ended June 30			
	2009		2008	
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)
Average realized price international				
Crude oil				
Export and sales, excluding CIS	47.4	347.5	103.6	759.4
Export and sales to CIS*	29.6	216.3	55.1	402.7
Petroleum products				
Export and sales, excluding CIS		431.4		773.7
Export and sales to CIS*		400.0		747.1
Average realized price domestic				
Crude oil	24.7	184.4	54.9	406.0
Petroleum products		360.5		662.1

* net of export duties to CIS

During the first half of 2009 the Company's revenues decreased by 48.0% to US\$ 9,365 million compared to US\$ 18,002 million in the first half of 2008. The decrease in revenues was primarily due to a significant decrease in market prices.

Crude Oil Export Sales

In the second quarter of 2009 crude oil export revenues decreased by 62% to US\$ 1,410 million compared to US\$ 3,733 million in the second quarter of 2008. This reduction was due to 53% decrease in sales prices and a 20% decrease in sales volumes. The price reduction was attributable to the decrease in Urals price by 50%.

In the first half of 2009 the Company's revenues from export crude oil sales were US\$ 2,641 million compared to US\$ 6,682 million in the first half of 2008, a decrease of US\$ 4,041 million or 61%. The decrease was due to 54% decline in sales prices and a 14% decrease in sales volumes. The price decline was driven by the general decrease in world prices.

Crude Oil Sales to CIS

In the second quarter of 2009 the Company's revenues from CIS crude oil sales decreased by 50% to US\$ 209 million compared to US\$ 420 million in the second quarter of 2008. This decrease was primarily due to reduction in sales prices by 44% and a 11% decrease in sales volumes.

In the first half of 2009 crude oil revenues to CIS were US\$ 346 million compared to US\$ 644 million in the first half of 2008, a decrease of US\$ 298 million or 46%. This was primarily due to reduction in sales prices by 46%. The price decline was driven by the general decrease in world prices.

Crude Oil Domestic Sales

In the first half of 2009 our revenues from domestic crude oil sales decreased by 79% to US\$ 42 million compared to US\$ 203 million in the first half of 2008. The decrease in domestic crude oil sales was caused by a 54% reduction in the relative volumes of crude oil and a 55% decrease in average sales prices.

Petroleum Products Export Sales

In the second quarter of 2009 the Company's revenues from export petroleum product sales decreased by 17% to US\$ 1,753 million compared to US\$ 2,113 million in the second quarter of 2008. This decrease was primarily a result of a decline in sales prices by 47%, which was partially offset by a 56% increase in sales volumes. The price reduction was attributable to the decrease in Urals price by 50%.

In the first half of 2009 the Company's revenues from export petroleum product sales were US\$ 3,063 million compared to US\$ 4,410 million in the first half of 2008, a decrease of US\$ 1,347 million or 31%. This was primarily a result of a reduction in sales prices by 44%, which was partially offset by a 25% increase in sales volumes. The price decrease was driven by the general reduction in world prices.

Petroleum Products Sales to CIS

In the second quarter of 2009 our revenues from CIS petroleum product sales decreased by 41% to US\$ 172 million compared to US\$ 291 million in the second quarter of 2008. This decrease was primarily due to a reduction in sales prices by 56% and a 33% decrease in sales volumes.

In the first half of 2009 our revenues from CIS petroleum product sales were US\$ 320 million compared to US\$ 523 million for the first half of 2008, a decrease of US\$ 203 million or 39%. This was primarily due to a reduction in sales prices by 47%, which was offset by 14% increase in sales volumes. The price decrease was attributable to the general reduction in sales prices.

Petroleum Products Domestic Sales

In the second quarter of 2009 the Company's revenues from domestic petroleum product sales decreased by 52% to US\$ 1,485 million compared to US\$ 3,086 million in the second quarter of 2008. This decrease was primarily due to a decrease in sales prices by 48% and a 7% decrease in sales volumes.

In the first half of 2009 the Company's revenues from domestic petroleum product sales were US\$ 2,668 million compared to US\$ 5,098 million in the first half of 2008, a decrease of US\$ 2,430 million or 48%. This was primarily due to a decrease in sales prices by 46% and a 4% decrease in sales volumes. The price decrease was driven by the general reduction in world prices.

Other Sales

Other revenues consist primarily of sales of services such as transportation, construction, utilities and other services and are recognized when goods are provided to customers and services are performed providing that the price for the service can be determined and no significant uncertainties regarding realization exist.

Other sales were US\$ 234 million in the first half of 2009 that is 36% lower compared to the US\$ 363 million in the first half of 2008 due to the fall in prices and volumes.

Costs and Other Deductions

Crude Oil, Petroleum and Other Products Purchased

In the second quarter and first half of 2009 cost of purchased crude oil, gas and petroleum products decreased by 51% and 55% to US\$ 1,167 million and US\$ 2,000 million compared to the same periods of 2008. This decrease was primarily due to a decline in crude oil and petroleum products prices.

Operating Expenses

The following table comprises operating expenses for the periods indicated:

(in US\$ million)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Hydrocarbon extraction expenses	302	366	550	672
Refining expenses at own refinery	73	78	151	152
Refining expenses at equity investee refineries	64	73	128	150
Total operating expenses	438	517	829	974

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 2009 the Company's extraction expenses decreased by 18% to US\$ 302 million compared to US\$ 366 million in the second quarter of 2008. This was primarily due to the real Ruble depreciation to the US Dollar, which was partially offset by increase in expenses for energy supply, workovers and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent decreased from US\$ 6.0 to US\$ 5.3, or by 12% compared to the second quarter of 2008.

In the first half of 2009 the Company's extraction expenses decreased by 18% to US\$ 550 million compared to US\$ 672 million in the first half of 2008. This was primarily due to the real Ruble depreciation to the US Dollar, which was partially offset by increase in expenses for energy supply, workovers and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent decreased from US\$ 5.5 to US\$ 4.8, or by 12% compared to the first half of 2008.

Refining Expenses at Own Refineries

In the second quarter of 2009 the Company's refining expenses at our own refineries decreased by US\$ 5 million, or 7%, compared to the same period of 2008. This resulted primarily from the real Ruble depreciation to the US Dollar in the second quarter of 2009. The Company's average refining expenses per barrel at own refineries decreased from US\$ 2.2 to US\$ 1.8, or by 18% in the second quarter of 2009 compared to the same period of 2008.

In the first half of 2009 the Company's refining expenses at our own refineries slightly decreased by US\$ 1 million, or 1%, compared to the same period of 2008. This resulted primarily from the real Ruble depreciation to the US Dollar in the second quarter of 2009. The Company's average refining expenses per barrel at own refineries decreased from US\$ 2.3 to US\$ 1.9, or by 15% in the first half of 2009 compared to the same period of 2008.

Refining Expenses at Equity Investee Refineries

In the second quarter of 2009 the Company's refining expenses at equity investee refineries decreased by US\$ 9 million, or 13%, compared to the same period of 2008. This resulted primarily from the real Ruble depreciation to the US Dollar in the second quarter of 2009. The Company's average refining expenses per barrel at equity investee refineries decreased from US\$ 4.4 to US\$ 3.6 per barrel, or by 17%, compared to the second quarter of 2008.

In the first half of 2009 the Company's refining expenses at equity investee refineries decreased by US\$ 22 million, or 15%, compared to the same period of 2008. This resulted primarily from the real Ruble depreciation to the US Dollar in the first half of 2009. The Company's average refining expenses per barrel at equity investee refineries decreased from US\$ 4.3 to US\$ 3.6 per barrel, or by 18%, compared to the first half of 2008.

Selling, General and Administrative Expenses

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

In the second quarter and first half of 2009 the Company's selling, general and administrative expenses increased by 25% and 37% to US\$ 330 million and US\$ 601 million, respectively, compared to the same periods of 2008. This growth was due to an increase in the Company's trading activities and the acquisition of 51% interest in Naftna Industrija Srbije ("NIS") in February 2009.

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 first half of 2009 our transportation expenses slightly decreased by 4% and 2% to US\$ 415 million and US\$ 810 million, respectively, compared to the same periods of 2008. This was primarily due to decrease in freight rates and transportation tariffs in Russia. Transportation tariffs in Russia denominated in Rubles increased in the first half of 2009, however, this increase was compensated for by the real Ruble depreciation to the US Dollar.

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 first half of 2009 our depreciation, depletion and amortization expenses increased by 17% and 23% to US\$ 369 million and US\$ 706 million, respectively, compared to the corresponding periods of 2008. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program.

Export Duties

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

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

(in US\$ million)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Export customs duties for crude oil	423	1,374	838	2,516
Export customs duties for petroleum products	200	374	368	763
Total export customs duties	623	1,748	1,206	3,279

In the second quarter and first half of 2009 export customs duties decreased by 64% and 63% to US\$ 623 million and US\$ 1,206 million, respectively, compared to the same period of 2008. The reduction was due to a decrease in tariff rates because of crude oil prices decline.

Taxes Other Than Income Taxes

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

(in US\$ million)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Mineral extraction taxes	504	1,330	836	2,396
Excise	272	156	559	345
Property tax	30	26	56	50
Other taxes	49	33	76	67
Total taxes other than income tax	855	1,545	1,527	2,858

In the second quarter and first half of 2009 taxes other than income tax decreased by 45% and 47% to US\$ 855 million and US\$ 1,527 million, respectively, compared to the same period of 2008 primarily due to a decrease in mineral extraction taxes, which was partially offset by an increase in excise tax rates.

Income from equity affiliates

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

In the second quarter and first half of 2009 income from equity affiliates decreased by 78% and 69% to US\$ 48 million and US\$ 100 million, respectively, compared to the same period of 2008 due to a decrease in crude oil prices decline.

Interest income

In the second quarter and first half of 2009 interest income increased by 181% and 179% to US\$ 45 million and US\$ 67 million, respectively, compared to the corresponding periods of 2008. This was due to an increase in cash and deposits placed in banks during the related periods.

Interest expense

In the second quarter and first half of 2009 interest expense increased by 145% and 82% to US\$ 93 million and US\$ 142 million, respectively, compared to the first half of 2008. The growth was mainly due to an increase in loans proceeds in the first half of 2009 compared to the corresponding period of 2008.

Income tax expenses

In the second quarter and first half of 2009 effective income tax rate was 18% and 17%, respectively, compared to 23% in both comparative periods of 2008, which is lower than a statutory tax rate in Russia due to the change in income tax rate from 24% to 20% from January 1, 2009 and non-deductible permanent differences during the period indicated.

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

(in US\$ million)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Net income	1,200	2,196	1,534	3,607
Add back:				
Minority interest	19	28	22	28
Income tax expense	275	661	326	1,063
Depreciation and amortization	369	316	706	572
Interest income	(45)	(16)	(67)	(24)
Interest expense	93	38	142	78
Other income and expenses	32	(133)	56	(151)
Foreign exchange (loss) gain, net	(175)	3	(8)	(54)
Share in net income of equity investees	(48)	(213)	(100)	(319)
Gain from acquisition of Sibir Energy	(470)	-	(470)	-
EBITDA	1,250	2,880	2,141	4,800
The Company's share in EBITDA of equity affiliates	251	324	318	613
Adjusted EBITDA	1,501	3,204	2,459	5,413

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)	Six Months Ended	
	June 30	
	2009	2008
Net cash provided by operating activities	1,665	2,424
Net cash used in investing activities	(3,364)	(2,023)
Net cash provided by (used in) financing activities	1,174	102

Net Cash Provided by Operating Activities

In the first half of 2009 net cash provided by operating activities was US\$ 1,665 million as compared to US\$ 2,424 million in the same period of 2008. The decrease of US\$ 759 million or 31% in net cash provided by operating activities is due to the following:

- a decrease in net income of US\$ 2,074 million;
- net change in working capital of US\$ 1,472 million;
- a gain from the acquisition of Sibir of US\$ 470 million, which was partially offset by a decrease in income from equity affiliates of US\$ 212 million.

Net Cash Used in Investing Activities

In the first half of 2009 net cash used in investing activities was US\$ 3,364 million compared to US\$ 2,023 million in the same period of 2008 (or 66% increase). The increase of US\$ 1,342 million in the net cash used in investing activities was mainly due to acquisition of Sibir Energy and NIS.

Net Cash Provided by (Used in) Financing Activities

In the first half of 2009 net cash provided by financing activities was US\$ 1,174 million as compared to US\$ 102 million for the same period of 2008. An increase was mainly due to increase in net loans proceeds over repayments by US\$ 1,218 million in the first half of 2009 compared to the same period of 2008.

Capital Expenditures

The following table represents the Company's capital expenditures:

(in US\$ million)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Exploration and production	399	721	764	1,460
Refining	204	42	276	62
Marketing and distribution	114	42	158	65
Total capital expenditures	717	806	1,198	1,588

In the second quarter and first half of 2009 the Company's capital expenditures decreased by 11% and 25% to US\$ 717 million and US\$ 1,198 million as compared to the corresponding periods of 2008. The decrease was primarily driven by the exploration and production decrease, which was partially offset by the increase in refining and marketing and distribution.

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, has also led to bank failures and bank rescues. While the Russian government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, such circumstances could affect the ability of the Company 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 is unable to reliably determine the effects on the Company's future financial position, results of operations or cash flows as a result of the ongoing crisis. Management believes the Company's current and long-term investment and capital expenditures program can be funded through cash generated from existing operations. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future.

Credit ratings

Standard & Poor's Ratings Services

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

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

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

Moody's Investors Service

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

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

Debt obligations

As of June 30, 2009 The Company's long-term debt was US\$ 3,453 million as compared to US\$ 3,080 million as of December 31, 2008. An increase of US\$ 373 million or 12% was mainly due to increase in net loans proceeds over repayments in the first half of 2009.

The following table shows maturities of long-term loans as of March 31, 2009 (in US\$ million):

<u>Year due</u>	<u>Amount due</u>
2010	\$ 1,278
2011	1,256
2012	581
2013	219
2014 and further	119
	<u>\$ 3,453</u>