

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended December 31 and September 30, 2010  
and the full years ended December 31, 2010, 2009 and 2008**

## Definitions and Conversions

The following discussion is intended to assist you in understanding of JSC Gazprom Neft's financial position as of December 31, 2010 and results of operations for the three months ended December 31 and September 30, 2010 and the full years ended December 31, 2010, 2009 and 2008 and should be read in conjunction with the 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 equity affiliates. 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 7.3 barrels per tonne. Translations of cubic meters to cubic feet are made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") are 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.

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## 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 contained 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.

## Summary of 2010 and Fourth Quarter Highlights

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, % 2010-2009	2009-2008
9,063	8,387	8.1	Revenue (US\$ million)	32,772	24,166	33,870	35.6	(28.7)
1,149	1,181	(2.7)	Income before income taxes	4,277	3,897	6,161	9.8	(36.7)
2,079	2,011	3.4	Adjusted EBITDA <sup>1</sup> (US\$ million)	7,226	5,977	8,610	20.9	(30.6)
20.6	20.5	0.5	\$ per boe of production	18.5	16.2	23.8	14.2	(31.9)
Net income attributable to Gazprom								
782	865	(9.6)	Neft (US\$ million)	3,148	3,013	4,658	4.5	(35.3)
0.2	0.2	(9.6)	\$ per common share	0.7	0.6	1.0	4.5	(35.1)
7.7	8.8	(12.1)	\$ per boe of production	8.1	8.2	12.9	(1.3)	(36.5)
Net cash provided by operating activities (US\$ million)								
1,073	1,955	(45.1)		5,392	3,475	5,483	55.2	(36.6)
10.6	19.9	(46.6)	\$ per boe of production	13.8	9.4	15.2	46.6	(37.8)

<sup>1</sup> EBITDA is a non-GAAP measure. A reconciliation of adjusted EBITDA to income before income taxes is provided in the Appendix

## 2010 Highlights

- Hydrocarbon production increased 5.9% and refinery throughput 13.3% from 2009
- Acquired 25.5% stake in SeverEnergy
- Signed PSA with Equatorial Guinea and service agreement to develop Iraq's Badra oil field
- Started construction of new mild hydrocracker and diesel hydrotreater complex at Pancevo in Serbia (NIS)
- Declared project leader for field development at Junin-6 in Venezuela
- Reached investment decision to establish Messoyakhaneftegas JV with TNK-BP
- Penetrated Kazakh retail market through network acquisition
- Rebranded 921 retail stations (including 455 partly rebranded stations)
- Launched G-Family lubricants brand

## Fourth Quarter 2010 Highlights

- Launched Cenomanian gas production at the Muravlenkovskoye and Novogodneye fields
- Streamed isomerization (Isomalk-2), polymer-asphalt binder and bitumen emulsion production units at Omsk Refinery
- Introduced new high-performance 95 octane gasoline under "G-Drive" brand in St. Petersburg area

## Key Financial and Operating Data

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	Δ, % 2009-2008
9,063	8,387	8.1	Revenue (US\$ million)	32,772	24,166	33,870	35.6	(28.7)
2,079	2,011	3.4	Adjusted EBITDA <sup>1</sup> (US\$ million)	7,226	5,977	8,610	20.9	(30.6)
782	865	(9.6)	Net income attributable to Gazprom Neft (US\$ million)	3,148	3,013	4,658	4.5	(35.3)
100.98	98.17	2.9	Hydrocarbon production including our share in equity affiliates (millions of boe)	389.57	367.94	361.07	5.9	1.9
92.57	93.29	(0.8)	Crude oil production including our share in equity affiliates (millions bbl)	366.13	349.35	342.97	4.8	1.9
50.41	29.31	72.0	Marketable gas production including our share in equity affiliates (bcf)	140.53	111.42	108.65	26.1	2.5
9.43	9.67	(2.5)	Production of petroleum products at own and equity affiliates refineries (millions of tonnes)	35.66	31.51	26.74	13.2	17.8

<sup>1</sup> EBITDA is a non-GAAP measure. A reconciliation of adjusted EBITDA to income before income taxes is provided in the Appendix

## Results for 2010 compared with 2009

- Higher oil prices in 2010 supported improved financial results, with a 35.6% growth in revenue driving a 20.9% rise in adjusted EBITDA and 4.5% growth in net income
- Production volumes increased compared with the previous year: crude production grew by 4.8% and marketable gas production by 26.1%, pushing overall hydrocarbon production to 390 MMboe
- A 4.4% appreciation in the value of the ruble against the US dollar resulted in an increase in the Company's operating expenses
- Interest expenses were lower due to lower effective interest rates as a result of our ongoing optimization of the debt portfolio
- After adjusting for one-time items, 2010 net income attributable to Gazprom Neft shareholders was US\$ 3,346 million, an increase of 24.6% over 2009. These one-time items were:
  - For 2010: US\$ 198 million provision for a Federal Antimonopoly Service fine
  - For 2009: US\$ 470 million gain on investment relating to the acquisition of Sibir Energy offset by US\$ 142 million loss relating to the sale of Sibneft-Chukotka LLC
- On a reported basis, 2010 net income attributable to Gazprom Neft shareholders was US\$ 3,148 million, an increase of 4.5% from \$3,013 million in 2009

## Results for 4Q 2010 compared with 3Q 2010

- Higher oil prices supported improved results with an 8.1% growth in revenue driving a 3.4% rise in adjusted EBITDA.
- Total hydrocarbon production increased 2.9% compared with 3Q
- Higher prices were somewhat offset by higher export duties and Mineral Extraction Taxes
- Operating income for the quarter increased 12.1% to US\$ 1,427 million, compared with US\$ 1,273 million in 3Q
- Interest expenses were lower due to lower effective interest rates
- Reported net income attributable to Gazprom Neft shareholders was US\$ 782 million (including a US\$ 198 million provision for a Federal Antimonopoly Service fine). Excluding that one-off item, net income was US\$ 980 million, an increase of 13.3% compared with US\$ 865 million in 3Q 2010.

## Operating Segments

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

- Exploration and production – 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's operating segments are interdependent; a portion of the revenues of one segment forms a part of the costs of the other segment. 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 the 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.

## Changes to Corporate Structure

### **SeverEnergy**

In November 2010 Yamal Rasvitie LLC (a joint venture between the Company and JSC Novatek) acquired a 51% equity interest in SeverEnergy LLC (SeverEnergy) from JSC Gazprom for US\$ 1.9 billion. The Company's share of the purchase price was US\$ 898 million. SeverEnergy through subsidiaries is developing the Samburgskoye and Evo-Yakhinskoye fields and other small oil and gas fields with proved reserves over 1.7 billion boe under PRMS classification.

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

In the period from April 23, 2009, the date of the Company's first acquisition of shares in Sibir Energy plc ("Sibir"), through February 14, 2011, the Company invested approximately US\$ 3.2 billion to acquire 100% of the ordinary shares of Sibir. Following the acquisition of Sibir the Company increased its interest in Moscow Refinery from 38.86% to 77.72%.

Sibir's primary upstream assets include JSC Magma Oil Company (95% Sibir owned) and a 50% interest in Salym Petroleum Development (a joint venture with Royal Dutch Shell). Sibir's total current production is over 80,000 barrels of oil per day. Sibir also holds a 38.86% stake in the 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 a 51% interest in the Serbian oil company NIS for total consideration of €400 million. Separately, under the purchase agreement Gazprom Neft is obliged to invest €547 million in the NIS upgrade program by 2012. As part of the upgrade, measures will be taken to improve the quality of produced oil products to meet European standards (Euro-5).

On January 31, 2011 the Company submitted an offer to buy out the free float shares in NIS (a maximum 19.12% of the NIS equity is available for purchase). The offer price is similar to the one at which the Company acquired NIS shares in 2009.

## **Malka Oil**

On February 4, 2010 the Company completed the acquisition of 100% of the share capital of STS-Service LLC, a company previously owned by Malka Oil AB, for a cash consideration of 820 million Swedish Kroner (US\$ 114 million).

STS-Service owns Block 87 in the Tomsk Region comprising the Zapadno-Luginetskoye field (currently under development), the Nizhneluginetskoye field and a part of the Shinginskoye field. C1+C2 category reserves comprise 11.5 million tonnes, and there are 11 prospective structures within the area. The fields are located in the immediate neighborhood of the Shinginskoye field developed by the Company's subsidiary - Gazpromneft-Vostok LLC, which will integrate STS-Service LLC into its structure.

## **Iraq**

In January 2010, Gazprom Neft as part of a consortium of state oil companies that includes Kogas (Korea), Petronas (Malaysia) and TPAO (Turkey) signed a contract with the Government of Iraq to develop the Badra oil field with estimated geological reserves of more than 2 billion barrels of crude oil. Gazprom Neft's participation in the project as an operator is 30%, and the shares of the partners are: Kogas - 22,5%, Petronas - 15%, TPAO - 7,5%, the Iraqi Government represented by Oil Exploration Company (OEC- Iraq) has a 25% stake.

The development of the Badra field is expected to start in 2013 and production is scheduled to continue for 20 years with the possibility of a five-year extension. Peak production is expected to be reached in 2016 at 8.5 million tonnes annually.

## **Venezuela**

In June 2009, Gazprom Neft acquired a 20% stake in "NNK" (National Oil Company), which was created for the implementation of oil projects in Latin America by five major Russian oil companies holding equal stakes: Gazprom Neft, Rosneft, LUKOIL, TNK-BP and Surgutneftegaz. In September 2009 the Government of the Russian Federation and the Government of the Bolivarian Republic of Venezuela signed an intergovernmental agreement on cooperation in the implementation of joint strategic projects.

Under this agreement, in April 2010, NNK and Venezolana de Petroleo, SA (CVP) a subsidiary of the state oil company of Venezuela (PDVSA) registered a joint venture "Petromiranda" for the further exploration and subsequent development of the Junin-6 field, located in the heavy oil basin of the Orinoco river in Venezuela. Gazprom Neft will act as leader of NNK to coordinate and manage Junin-6 project. Under the first stage of the project (2011-2013), it is planned to obtain all the necessary approvals, organize a tender for service operations and undertake an ecological assessment of the block.

## **Equatorial Guinea**

A Production Sharing Agreement (PSA) for two offshore exploration blocks has been signed between Gazprom Neft, the Ministry of Mines, Industry and Energy of Equatorial Guinea, and GEPetrol, the national oil company of Equatorial Guinea. Gazprom Neft will be the operator. Forecast recoverable reserves within the two blocks may amount to about 110 million tonnes.

The initial exploration stage of the project is planned to start in 2011 and last for about four - five years. The Company expects to conduct additional three-dimensional (3D) seismic studies on one of the two offshore blocks, and reprocess and interpret historical seismic data from the both blocks. Decisions on drilling exploratory wells will be made based on the results of these seismic studies.

## 2011 Outlook

- Crude oil production to increase to 56.8 million boe
- Refining throughput to increase to 38.4 million tonnes
- Retail product sale via premium channels to increase to 12.8 million tones
- Capital expenditures expected to be around US\$ 3.8 billion
- Acquisition and integration of Orenburg fields
- Achieve test production at Novoportovskoe field
- Continue upgrade program at all refineries
- Sanction new high-performance 95 octane gasoline under “G-Drive”

## Operational Data and Analysis

### Exploration Drilling and Discoveries

	2010	2009	2008	2010-2009	Δ, % 2009-2008
<b>Consolidated subsidiaries</b>					
Exploration drilling ('000 meters)	64	38	66	67.8	(42.5)
Exploration wells drilled	19	13	21	46.2	(38.1)
New fields discovered	1	3	1	-	-
New reservoirs discovered	17	6	28	-	-
<b>Equity affiliates</b>					
Exploration drilling ('000 meters)	76	25	62	203.2	(59.4)
Exploration wells drilled	15	9	23	66.7	(60.9)
New reservoirs discovered	27	3	10	-	-

- In response to the higher oil price environment the Company doubled its overall rate of exploration activity (consolidated subsidiaries and equity affiliates)
- Discovered one new field and 44 new reservoirs (consolidated subsidiaries and equity affiliates)
- Drilling success rate of 89.5% at consolidated subsidiaries and 86.7% success rate at equity affiliates

## Oil and Gas Reserves

The following table shows the Company's reserves for the periods indicated:

(MMboe)	Share in equity investees					Total
	Gazprom Neft	Slavneft	Tomskneft	SPD	SeverEnergy	
<i>Proved Reserves (December 31, 2008)</i>	4,847	1,369	592	-	-	6,808
Production	(237)	(72)	(45)	(14)	-	(368)
Revision of previous estimates	362	192	154	-	-	708
Purchases of minerals in place	17	-	-	297	-	314
<i>Proved Reserves (December 31, 2009)</i>	4,989	1,489	701	283	-	7,462
Production	(249)	(69)	(42)	(30)	-	(390)
Revision of previous estimates	539	(494)	(43)	(3)	-	(1)
Purchases of minerals in place	-	-	-	-	455	455
<i>Proved Reserves (December 31, 2010)</i>	5,279	926	616	250	455	7,526
Total group probable reserves	2,598	1,460	382	121	965	5,526
Total group possible reserves	2,120	1,349	232	57	917	4,675

\* Total reflects 49.9% ownership of Slavneft, 50% of Tomskneft and Salym Petroleum Development and 25.5% of SeverEnergy

- The Company's proved reserves as of December 31, 2010 totaled 5,279 million barrels of oil equivalent (MMboe), including 4,663 million barrels of crude oil and 3.7 trillion cubic feet of gas
- Including the shares of equity investees, proved reserves were 7,526 million MMboe, including 6,441 million barrels of crude oil and 6.5 trillion cubic feet of gas as of December 31, 2010
- Reserve estimates are made by independent reservoir engineers DeGolyer and MacNaughton on the basis of the standards of the Society of Petroleum Engineers (SPE) Petroleum Reserves Management System (PRMS)
- The PRMS reserves figures provided in the table differ from those reported in the supplementary information on oil and gas activities included with our consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the US Securities and Exchange Commission (SEC), which require the use of a 12-month average of the first day of the month price for each month within the reporting period. The PRMS reserves in the above table use management's best estimate of future crude oil and natural gas prices

## Production Drilling

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	2009-2008
<b>Consolidated subsidiaries</b>								
665	765	(13.1)	Production drilling ('000 meters)	2,610	2,259	2,033	15.5	11.1
192	220	(12.7)	Production wells drilled	746	667	611	11.8	9.2
15.92	16.03	(0.7)	Average well flow (tonnes per day)	15.92	16.34	16.93	(2.6)	(3.5)
82.44	82.17	0.3	Watercut, %	82.44	82.11	81.94	0.4	0.2
<b>Equity affiliates</b>								
454	531	(14.5)	Production drilling ('000 meters)	1,623	1,151	1,082	41.0	6.4
135	124	8.9	Production wells drilled	407	333	308	22.2	8.1



- The Company increased production drilling in response to the recovery of oil prices in late 2009 and 2010
- The number of new wells drilled at consolidated subsidiaries increased by 11.8% to 746 wells due to active development at the Priobskoye field
- The number of new wells drilled at equity affiliates increased by 22.2% to 407 wells

## Production

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	2009-2008
			<b>Crude oil</b>	<b>(MMbbl)</b>				
31.39	32.71	(4.0)	Noyabrskneftegaz	129.12	138.05	154.27	(6.5)	(10.5)
17.95	17.63	1.8	Yugra	69.25	60.82	54.13	13.9	12.4
2.74	2.77	(1.1)	Gazprom Neft	11.10	12.97	15.38	(14.4)	(15.7)
2.01	1.85	8.6	NIS	7.17	5.14	-	39.5	-
4.00	3.91	2.3	Others	13.56	7.95	4.81	70.6	65.3
<b>58.09</b>	<b>58.87</b>	<b>(1.3)</b>	<b>Total crude oil production by consolidated subsidiaries</b>	<b>230.20</b>	<b>224.93</b>	<b>228.59</b>	<b>2.3</b>	<b>(1.6)</b>
16.88	16.90	(0.1)	Share in Slavneft	67.33	69.35	71.94	(2.9)	(3.6)
9.80	9.79	0.1	Share in Tomskneft	38.72	40.73	42.44	(4.9)	(4.0)
7.80	7.73	0.9	Share in SPD	29.88	14.34	-	108.4	-
<b>34.48</b>	<b>34.42</b>	<b>0.2</b>	<b>Total share in production of equity affiliates</b>	<b>135.93</b>	<b>124.42</b>	<b>114.38</b>	<b>9.3</b>	<b>8.8</b>
<b>92.57</b>	<b>93.29</b>	<b>(0.8)</b>	<b>Total crude oil production</b>	<b>366.13</b>	<b>349.35</b>	<b>342.97</b>	<b>4.8</b>	<b>1.9</b>
			<b>Gas</b>	<b>(Bcf)</b>				
41.05	21.90	87.4	Gazprom Neft (own)	107.93	73.22	67.87	47.4	7.9
2.97	2.84	4.6	Share in Slavneft	11.91	13.25	13.10	(10.1)	1.1
6.39	4.57	39.8	Share in Tomskneft	20.69	24.95	27.68	(17.1)	(9.9)
<b>50.41</b>	<b>29.31</b>	<b>72.0</b>	<b>Total gas production</b>	<b>140.53</b>	<b>111.42</b>	<b>108.65</b>	<b>26.1</b>	<b>2.5</b>
			<b>Hydrocarbons</b>	<b>(MMboe)</b>				
64.93	62.52	3.9	Gazprom Neft (own)	248.19	237.14	239.90	4.7	(1.2)
17.38	17.37	0.1	Share in Slavneft	69.32	71.56	74.12	(3.1)	(3.5)
10.87	10.55	3.0	Share in Tomskneft	42.18	44.90	47.05	(6.1)	(4.6)
7.80	7.73	0.9	Share in SPD	29.88	14.34	-	108.4	-
<b>100.98</b>	<b>98.17</b>	<b>2.9</b>	<b>Total hydrocarbon production</b>	<b>389.57</b>	<b>367.94</b>	<b>361.07</b>	<b>5.9</b>	<b>1.9</b>
<b>1.10</b>	<b>1.07</b>	<b>2.9</b>	<b>Daily crude oil production (kboepd)</b>	<b>1.07</b>	<b>1.01</b>	<b>0.99</b>	<b>5.9</b>	<b>1.9</b>

- Crude oil production grew by 4.8% in 2010, driven by the following:
  - Increased crude oil production at the Priobskoye field (Yugra) due to an increase in drilling and hydraulic fracturing
  - Full-year consolidation of Salym Petroleum Development (SPD)
- Gas production grew by 26.1% in 2010 due to the startup of Cenomanian gas production at the Muravlenkovskoye and Novogodneye fields in 4Q 2010
  - Gas production increased 72.0% in 4Q 2010
- Total Group hydrocarbon production increased 2.9% Q-o-Q and 5.9% Y-o-Y

## Crude Oil Purchases

4th quarter	3rd quarter	Δ, %	(MMbbl)	2010	2009	2008	2010-2009	Δ, %	2009-2008
12.37	9.22	34.2	Crude oil purchases in Russia	38.62	24.76	11.95	56.0		107.2
3.33	6.58	(49.4)	Crude oil purchases internationally	17.42	16.11	15.18	8.1		6.1
<b>15.70</b>	<b>15.80</b>	<b>(0.6)</b>	<b>Total crude oil purchases</b>	<b>56.04</b>	<b>40.87</b>	<b>27.13</b>	<b>37.1</b>		<b>50.6</b>

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

- In 2010 and 2009 the Company increased its purchases of crude oil by 37.1% and 50.6% in volume terms as a result of trading activities expansion.

## Refining

4th quarter	3rd quarter	Δ, %	(MMtonnes)	2010	2009	2008	2010-2009	Δ, %	2009-2008
<b>Refining throughput:</b>									
4.75	5.07	(6.3)	Omsk	18.98	18.43	18.37	3.0		0.3
2.74	2.39	14.6	Moscow	8.91	5.78	3.27	54.2		76.8
0.65	0.83	(21.7)	Panchevo and Novi Sad	2.85	2.39	-	19.2		-
1.90	1.93	(1.6)	Share in Yaroslavl	7.15	6.83	6.75	4.7		1.2
<b>10.04</b>	<b>10.22</b>	<b>(1.8)</b>	<b>Total refining throughput</b>	<b>37.89</b>	<b>33.43</b>	<b>28.39</b>	<b>13.3</b>		<b>17.8</b>
<b>Production of petroleum products</b>									
1.73	1.71	1.2	High octane gasoline	6.40	5.68	4.33	12.7		31.2
0.22	0.26	(15.4)	Low octane gasoline	0.86	0.95	1.14	(9.5)		(16.7)
0.30	0.44	(31.8)	Naphtha	1.63	2.12	1.91	(23.1)		11.0
3.10	3.05	1.6	Diesel	11.47	9.94	9.01	15.4		10.3
2.35	1.81	29.8	Fuel oil	7.80	6.01	5.75	29.8		4.5
0.52	0.78	(33.3)	Jet fuel	2.44	2.11	1.81	15.6		16.6
1.21	1.62	(25.3)	Other	5.06	4.70	2.79	7.7		68.5
<b>9.43</b>	<b>9.67</b>	<b>(2.5)</b>	<b>Total production</b>	<b>35.66</b>	<b>31.51</b>	<b>26.74</b>	<b>13.2</b>		<b>17.8</b>

- Total refining throughput increased 13.3% in 2010 with increases at all the Group's refining assets
  - Most notably, throughput at the Moscow refinery increased 54.2% Y-o-Y as the Group increased its equity access following the Sibir Energy acquisition
- Output of high octane gasoline increased 12.7% as a result of higher demand for premium product and product line optimization
- Production of high-value jet fuel grew by 15.6%, boosting the Company's leadership position in the Russian aviation fuel market
- Output of Euro 4 standard diesel increased 15.4% due to ongoing refinery modernization

## Products Purchases

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	203	0.28	217	0.44	(6.5)	(36.4)
Low octane gasoline	63	0.10	47	0.10	34.0	2.0
Naphtha	109	0.16	25	0.06	336.0	166.7
Diesel	380	0.71	323	0.79	17.6	(10.1)
Fuel oil	113	0.37	85	0.36	32.9	2.8
Jet fuel	115	0.20	70	0.18	64.7	11.1
Other	79	0.32	35	0.13	125.7	146.2
<b>Total</b>	<b>1,062</b>	<b>2.14</b>	<b>802</b>	<b>2.06</b>	<b>32.4</b>	<b>4.0</b>

	2009		2008		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	217	0.44	239	0.30	(9.2)	46.7
Low octane gasoline	47	0.10	67	0.10	(29.9)	-
Naphtha	25	0.06	32	0.04	(21.9)	50.0
Diesel	323	0.79	994	1.19	(67.5)	(33.6)
Fuel oil	85	0.36	287	0.83	(70.4)	(56.6)
Jet fuel	70	0.18	179	0.28	(61.0)	(35.7)
Other	35	0.13	67	0.09	(47.8)	44.4
<b>Total</b>	<b>802</b>	<b>2.06</b>	<b>1,865</b>	<b>2.83</b>	<b>(57.0)</b>	<b>(27.2)</b>

## Products Marketing

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	2009-2008
			<b>Active retail stations</b>					
							<b>(units)</b>	
947	926	2.3	In Russia	947	921	763	2.8	20.7
181	172	5.2	In CIS	181	152	102	19.1	49.0
468	470	(0.4)	In Eastern Europe	468	473	-	(1.1)	-
<b>1,596</b>	<b>1,568</b>	<b>1.8</b>	<b>Total retail stations</b>	<b>1,596</b>	<b>1,546</b>	<b>865</b>	<b>3.2</b>	<b>78.7</b>
			<b>Average daily sales per retail site in Russia (tonnes per day)</b>					
<b>11.10</b>	<b>10.80</b>	<b>2.8</b>		<b>10.10</b>	<b>9.10</b>	<b>9.40</b>	<b>11.0</b>	<b>(3.2)</b>

- Overall sitecount grew by 3.2% as retail footprint expanded in Russia and CIS following the acquisition of a retail chain in Kazakhstan and organic development in Russia

## Results of Operations

4th quarter	3rd quarter	Δ, %	(in US\$ million)	2010	2009	2008	Δ, % 2010- 2009	2009- 2008
<b>Revenues</b>								
8,903	8,213	8.4	Refined products and oil and gas sales	32,044	23,648	33,205	35.5	(28.8)
160	174	(8.0)	Other	728	518	665	40.5	(22.1)
9,063	8,387	8.1	Total	32,772	24,166	33,870	35.6	(28.7)
<b>Costs and other deductions</b>								
2,134	1,999	6.8	Cost of purchased oil, gas and petroleum products	7,459	5,335	8,022	39.8	(33.5)
589	550	7.1	Operating expenses	2,111	1,883	2,015	12.1	(6.6)
449	414	8.5	Selling, general and administrative expenses	1,649	1,280	1,046	28.8	22.4
769	705	9.1	Transportation expenses	2,886	2,262	2,046	27.6	10.6
414	463	(10.6)	Depreciation, depletion and amortization	1,619	1,475	1,309	9.8	12.7
1,702	1,566	8.7	Export duties	6,631	3,948	7,328	68.0	(46.1)
1,430	1,313	8.9	Taxes other than income tax	5,240	3,982	5,353	31.6	(25.6)
37	11	236.4	Exploration expenses	91	147	193	(38.1)	(23.8)
112	93	20.4	Cost of other sales	428	283	309	51.2	(8.4)
-	-	-	Loss on sale of assets, net	-	142	-	-	-
7,636	7,114	7.3	Total	28,114	20,737	27,621	35.6	(24.9)
1,427	1,273	12.1	Operating income	4,658	3,429	6,249	35.8	(45.1)
<b>Other (expense)/ income</b>								
64	35	82.9	Share in income of equity affiliates	229	212	407	8.0	(47.9)
-	9	(100.0)	Gain on investment	9	470	-	(98.1)	-
21	7	200.0	Interest income	48	108	100	(55.6)	8.0
(76)	(71)	7.0	Interest expense	(336)	(369)	(167)	(8.9)	121.0
(217)	(40)	442.5	Other (expense)/ income, net	(309)	(1)	89	30,800.0	(101.1)
(70)	(32)	118.8	Foreign exchange (loss)/ gain, net	(22)	48	(517)	(145.8)	(109.3)
(278)	(92)	202.2	Total	(381)	468	(88)	(181.4)	(631.8)
1,149	1,181	(2.7)	<b>Income before income taxes</b>	4,277	3,897	6,161	9.8	(36.7)
242	279	(13.3)	Provision for income taxes	884	804	1,425	10.0	(43.6)
(15)	(5)	200.0	Deferred income tax (benefit)/ expense	(40)	12	39	(433.3)	(69.2)
227	274	(17.2)	Total	844	816	1,464	3.4	(44.3)
922	907	1.7	Net income	3,433	3,081	4,697	11.4	(34.4)
<b>Less: Net income attributable to non-controlling interest</b>								
(140)	(42)	233.3	Net income attributable to Gazprom Neft	(285)	(68)	(39.0)	319.1	74.4
782	865	(9.6)		3,148	3,013	4,658	4.5	(35.3)

## Revenues

4th quarter	3rd quarter	Δ, %	(in US\$ million)	2010	2009	2008	Δ, % 2010-2009 2009-2008	
<b>Crude oil</b>								
2,361	2,098	12.5	Export and sales on international markets	8,941	6,749	11,349	32.5	(40.5)
334	315	6.0	Export to CIS	1,252	990	1,410	26.5	(29.8)
1	1	-	Domestic sales	2	52	297	(96.2)	(82.5)
<b>2,696</b>	<b>2,414</b>	<b>11.7</b>	<b>Total crude oil sales</b>	<b>10,195</b>	<b>7,791</b>	<b>13,056</b>	<b>30.9</b>	<b>(40.3)</b>
<b>Gas</b>								
44	30	46.7	Export and sales on international markets	117	68	-	72.1	-
63	22	186.4	Domestic sales	190	107	148	77.6	(27.7)
107	52	105.8	<b>Total gas sales</b>	307	175	148	75.4	18.2
<b>Petroleum products</b>								
2,080	1,655	25.7	Export	7,115	5,149	8,381	38.2	(38.6)
710	754	(5.8)	Sales on international markets	2,590	2,095	-	23.6	-
326	329	(0.9)	Export and sales in CIS	1,147	907	1,288	26.5	(29.6)
2,984	3,009	(0.8)	Domestic sales	10,690	7,531	10,332	41.9	(27.1)
<b>6,100</b>	<b>5,747</b>	<b>6.1</b>	<b>Total petroleum products sales</b>	<b>21,542</b>	<b>15,682</b>	<b>20,001</b>	<b>37.4</b>	<b>(21.6)</b>
<b>160</b>	<b>174</b>	<b>(8.0)</b>	<b>Other sales</b>	<b>728</b>	<b>518</b>	<b>665</b>	<b>40.5</b>	<b>(22.1)</b>
<b>9,063</b>	<b>8,387</b>	<b>8.1</b>	<b>Total sales</b>	<b>32,772</b>	<b>24,166</b>	<b>33,870</b>	<b>35.6</b>	<b>(28.7)</b>

## Sales Volumes

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, % 2010-2009 2009-2008	
<b>Crude oil (MMTonnes)</b>								
3.89	3.86	0.8	Export and sales on international markets	15.94	15.57	16.30	2.4	(4.5)
0.72	0.72	-	Export to CIS	3.02	3.32	3.30	(9.0)	0.6
0.01	-	-	Domestic sales	0.01	0.52	0.90	(98.1)	(42.2)
<b>4.62</b>	<b>4.58</b>	<b>0.9</b>	<b>Total crude oil sales</b>	<b>18.97</b>	<b>19.41</b>	<b>20.50</b>	<b>(2.3)</b>	<b>(5.3)</b>
<b>1.55</b>	<b>0.83</b>	<b>86.7</b>	<b>Gas domestic sales (bcm)</b>	<b>4.88</b>	<b>3.43</b>	<b>3.70</b>	<b>42.3</b>	<b>(7.3)</b>
<b>Petroleum products (MMTonnes)</b>								
3.36	3.02	11.3	Export	12.31	11.36	11.40	8.4	(0.4)
0.66	0.77	(14.3)	Sales on international markets	2.61	2.29	-	14.0	-
0.44	0.48	(8.3)	Export and sales in CIS	1.74	1.90	1.79	(8.4)	6.1
5.45	5.72	(4.7)	Domestic sales	20.54	17.43	15.64	17.8	11.4
<b>9.91</b>	<b>9.99</b>	<b>(0.8)</b>	<b>Total petroleum products sales</b>	<b>37.20</b>	<b>32.98</b>	<b>28.83</b>	<b>12.8</b>	<b>14.4</b>

### Realized Average Sales Prices

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	Δ, % 2009-2008
			<b>Crude oil</b>	<b>(US\$ per tonne)</b>				
606.94	543.52	11.7	Export and sales on international markets	560.92	433.46	696.3	29.4	(37.7)
463.89	437.50	6.0	Export to CIS	414.57	298.19	427.3	39.0	(30.2)
			<b>Petroleum products</b>	<b>(US\$ per tonne)</b>				
619.05	548.01	13.0	Export	577.99	453.26	735.2	27.5	(38.3)
1,075.76	979.22	9.9	Sales on international markets	992.34	914.85	-	8.5	-
740.91	685.42	8.1	Export and sales in CIS	659.20	477.37	719.6	38.1	(33.7)
547.52	526.05	4.1	Domestic sales	520.45	432.07	660.6	20.5	(34.6)

- 35.6% growth in 2010 revenues vs. 2009 was attributable to the higher prices and increase in production and sales volumes
- Revenue grew by 8.1% in 4Q 2010 compared with 3Q 2010 mainly due to higher prices for crude oil and petroleum products

### Crude Oil Export Sales

- Crude oil export revenues increased 32.5% in 2010 vs. 2009 due to 29.4% growth in sales prices as well as 2.4% increase in sales volumes.
- Crude oil export revenues decreased 40.5% in 2009 vs. 2008 due to lower sales prices (37.7% decline) as well as 4.5% decrease in sales volumes.

### Crude Oil Export Sales to CIS

- Crude oil export sales to CIS increased 26.5% in 2010 vs. 2009 due to 39.0% growth in sales prices, which was partly compensated by 9.0% decrease in sales volumes.
- Crude oil export sales to CIS revenues decreased 29.8% in 2009 vs. 2008 due to lower sales prices (30.2% decline), which was partly offset by 0.6% increase in sales volumes.

### Petroleum Products Exports

	2010		2009		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	65	0.09	224	0.45	(71.0)	(80.0)
Low octane gasoline	14	0.02	20	0.04	(30.0)	(50.0)
Naphtha	1,131	1.64	873	1.70	29.6	(3.5)
Diesel	3,179	4.73	2,477	4.93	28.3	(4.1)
Fuel oil	2,205	5.08	1,249	3.61	76.5	40.7
Jet fuel	181	0.25	13	0.02	-	-
Other	340	0.50	293	0.61	16.0	(18.0)
<b>Total</b>	<b>7,115</b>	<b>12.31</b>	<b>5,149</b>	<b>11.36</b>	<b>38.2</b>	<b>8.4</b>

	2009		2008		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	224	0.45	415	0.54	(46.0)	(16.7)
Low octane gasoline	20	0.04	67	0.09	(70.1)	(55.6)
Naphtha	873	1.70	1,565	1.87	(44.2)	(9.1)
Diesel	2,477	4.93	4,520	4.97	(45.2)	(0.8)
Fuel oil	1,249	3.61	1,528	3.54	(18.3)	2.0
Jet fuel	13	0.02	-	-	-	-
Other	293	0.61	286	0.39	2.4	56.4
<b>Total</b>	<b>5,149</b>	<b>11.36</b>	<b>8,381</b>	<b>11.40</b>	<b>(38.6)</b>	<b>(0.4)</b>

	2009		2008		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	224	0.45	415	0.54	(46.0)	(16.7)
Low octane gasoline	20	0.04	67	0.09	(70.1)	(55.6)
Naphtha	873	1.70	1,565	1.87	(44.2)	(9.1)
Diesel	2,477	4.93	4,520	4.97	(45.2)	(0.8)
Fuel oil	1,249	3.61	1,528	3.54	(18.3)	2.0
Jet fuel	13	0.02	-	-	-	-
Other	293	0.61	286	0.39	2.4	56.4
<b>Total</b>	<b>5,149</b>	<b>11.36</b>	<b>8,381</b>	<b>11.40</b>	<b>(38.6)</b>	<b>(0.4)</b>

- In 2010 revenues from export sales of petroleum products increased 38.2% compare to 2009 due to 8.4% increase in sales volumes as well as 27.5% growth in sales prices. The increase in volumes was driven by 13.3% increase in refinery throughput.
- In 2009 revenues from export sales of petroleum products decreased 38.6% compared to 2008 due to 38.3% decline in sales prices as well as 0.4% decrease in sales volumes.

#### **Petroleum Products Sales on International Markets**

- In 2010 revenues from export sales of petroleum products on international markets increased 23.6% compared to 2009 due to 14.0% increase in sales volumes as well as 8.5% growth in sales prices.

### Petroleum Products Export and Sales in

	2010		2009		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	488	0.62	366	0.60	33.3	3.3
Low octane gasoline	79	0.12	61	0.12	29.5	0.0
Naphtha	15	0.03	86	0.23	(82.6)	(87.0)
Diesel	264	0.42	109	0.22	142.2	90.9
Fuel oil	1	-	5	0.02	(80.0)	(100.0)
Jet fuel	114	0.22	166	0.44	(31.3)	(50.0)
Other	186	0.33	114	0.27	63.2	22.2
<b>Total</b>	<b>1,147</b>	<b>1.74</b>	<b>907</b>	<b>1.90</b>	<b>26.5</b>	<b>(8.4)</b>

	2009		2008		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	366	0.60	357	0.41	2.5	46.3
Low octane gasoline	61	0.12	144	0.15	(57.6)	(20.0)
Naphtha	86	0.23	21	0.04	309.5	475.0
Diesel	109	0.22	247	0.30	(55.9)	(26.7)
Fuel oil	5	0.02	32	0.10	(84.4)	(80.0)
Jet fuel	166	0.44	300	0.37	(44.7)	18.9
Other	114	0.27	187	0.42	(39.0)	-
<b>Total</b>	<b>907</b>	<b>1.90</b>	<b>1,288</b>	<b>1.79</b>	<b>(29.6)</b>	<b>6.1</b>

- In 2010 revenues from export and sales of petroleum products in CIS increased 26.5% vs. 2009 due to 38.1% growth in sales prices partly compensated by 8.4% decrease in sales volumes.
- In 2009 revenues from export and sales of petroleum products in CIS decreased 29.6% vs. 2008 due to 33.7% decline in sales prices partly compensated by 6.1% increase in sales volumes.

### Domestic Sales of Petroleum Products

	2010		2009		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	4,006	5.44	2,772	4.51	44.5	20.6
Low octane gasoline	513	0.87	449	0.84	14.3	3.6
Diesel	3,117	6.06	2,050	4.73	52.0	28.1
Fuel oil	1,081	3.49	750	3.26	44.1	7.1
Jet fuel	1,033	2.10	774	1.88	33.5	11.7
Other	940	2.58	736	2.21	27.7	16.7
<b>Total</b>	<b>10,690</b>	<b>20.54</b>	<b>7,531</b>	<b>17.43</b>	<b>41.9</b>	<b>17.8</b>

	2009		2008		Change, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	2,772	4.51	3,114	3.61	(11.0)	24.9
Low octane gasoline	449	0.84	722	0.97	(37.8)	(13.4)
Diesel	2,050	4.73	3,661	4.72	(44.0)	0.2
Fuel oil	750	3.26	733	2.91	2.3	12.0
Jet fuel	774	1.88	1,372	1.62	(43.6)	16.0
Other	736	2.21	730	1.81	0.8	22.1
<b>Total</b>	<b>7,531</b>	<b>17.43</b>	<b>10,332</b>	<b>15.64</b>	<b>(27.1)</b>	<b>11.4</b>



- In 2010 domestic petroleum products revenues increased 41.9% vs. 2009 due to 17.8% increase in sales volumes as well as 20.5% growth in sales prices. The increase in volumes was driven by 13.3% increase in refinery throughput.
- In 2009 domestic petroleum products revenues decreased 27.1% compared to 2008 due to 34.6% decline in sales prices partly compensated by 11.4% increase in sales volumes.

#### Other Sales

- Other revenues consist primarily of sales of services such as processing services, transportation, construction, utilities and other services.
- In 2010 other sales increased by 40.5% due to increase in prices and volumes
- Other sales decreased by 22.1% in 2009 vs. 2008 due to lower prices and volumes

#### Cost of Purchased Oil, Gas and Petroleum Products

- Cost of purchased crude oil, gas and petroleum products increased 39.8% in 2010 vs. 2009 due to growth in crude oil and petroleum products prices as well as volumes
- Cost of purchased crude oil, gas and petroleum products decreased 33.5% in 2009 compared to 2008 due to lower crude oil and petroleum products prices partly compensated by increase volumes as a result of the Company's acquisitions

#### Extraction and Refining Expenses

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, %	
							2010-2009	2009-2008
353	313	12.8	Hydrocarbon extraction expenses	1,236	1,217	1,371	1.6	(11.2)
236	237	(0.4)	Refining expenses at own and equity affiliates refineries	875	666	644	31.4	3.4
<b>589</b>	<b>550</b>	<b>7.1</b>	<b>Total</b>	<b>2,111</b>	<b>1,883</b>	<b>2,015</b>	<b>12.1</b>	<b>(6.6)</b>

- Extraction costs increased slightly in 2010 due to a 4.4% appreciation in the ruble relative to the US dollar and 4.7% higher hydrocarbon production volumes
- Average hydrocarbon extraction costs per barrel of oil equivalent decreased from US\$ 5.13 to US\$ 4.98, or 2.9%
- Refining expenses increased 31.4% due to planned turnarounds at Omsk and Moscow in mid 2010 and organic and non-organic growth in refining volumes across at all refineries
- Average refining expenses per barrel increased from US\$ 2.71 to US\$ 3.15, or 16.3% in 2010 compared to 2009

#### Selling, General and Administrative Expenses

- Selling, general and administrative expenses include general business expenses, wages, salaries (except for wages and salaries at our production and refining subsidiaries), social benefits, insurance, banking commissions, legal fees, consulting and audit services, charity, allowances for doubtful accounts and other expenses.
- Selling, general and administrative expenses in 2010 increased 28.8% due to appreciation of the ruble relative to the US dollar, higher sales volumes and inflation
- In 2009 the Company's selling, general and administrative expenses increased 22.4% to US\$ 1,280 million as compared to 2008. The growth was due the expanded activities and the Company's acquisitions.

### Transportation Expenses

- Transportation expenses include costs to transport crude oil to refineries and crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling and other transportation costs.
- Higher transportation expenses for most products in 2010 reflects higher transportation tariffs and appreciation of the ruble relative to the US dollar as well as the Company's acquisitions
- Higher transportation expenses in 2009 compared to 2008 reflect higher transportation tariffs in Russia and volume increases due to the acquisitions of Sibir and NIS

### Depreciation, Depletion and Amortization

- Depreciation, depletion and amortization expenses include depletion of oil and gas producing assets and depreciation of other fixed assets.
- 2010 depreciation, depletion and amortization expenses were 9.8% higher than in 2009. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program
- 2009 depreciation, depletion and amortization expenses were 12.7% higher than in 2008. The increase was a result of the growth in depreciable assets due to acquisitions and capital expenditures

### Export Duties and Taxes Other Than Income Tax

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, %	
							2010-2009	2009-2008
1,151	1,087	5.9	Export customs duties for crude oil	4,631	2,790	5,316	66.0	(47.5)
551	479	15.0	Export customs duties for petroleum products	2,000	1,158	2,012	72.7	(42.4)
<b>1,702</b>	<b>1,566</b>	<b>8.7</b>	<b>Total export customs duties</b>	<b>6,631</b>	<b>3,948</b>	<b>7,328</b>	<b>68.0</b>	<b>(46.1)</b>

- Export customs duties increased in 2010 due to increase in export volumes of crude oil and petroleum products and higher crude oil prices, which resulted in 68.0% increase in export customs duty compared to 2009
- Export customs duties decreased in 2009 compared to 2008 due to lower crude oil prices and changes in the duty formula

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, %	
							2010-2009	2009-2008
855	747	14.5	Mineral extraction taxes	3,051	2,215	4,202	37.7	(47.3)
454	470	(3.4)	Excise	1,743	1,412	828	23.4	70.5
49	48	2.1	Property tax	177	123	107	43.9	15.0
72	48	50.0	Other taxes	269	232	216	15.9	7.4
<b>1,430</b>	<b>1,313</b>	<b>8.9</b>	<b>Total taxes other than income tax</b>	<b>5,240</b>	<b>3,982</b>	<b>5,353</b>	<b>31.6</b>	<b>(25.6)</b>

- Mineral extraction taxes increased in 2010 due to higher crude prices, which are used to calculate the tax rate, and a 2.3% increase in crude production volumes
- Mineral extraction taxes decreased in 2009 due to lower crude prices and adjustments made to the tax formula
- Excise taxes increased in 2010 due to higher production volumes of refined products at the Company's refineries and a 10.0% increase in the excise tax rate
- Excise taxes increased in 2009 due to higher production volumes of refined products at the Company's refineries, including the effect of gaining control of the Moscow refinery

### Other financial items

- Changes in income from equity affiliates broadly reflected changes in crude prices
- Changes in interest income reflect changes in cash and deposits in banks
- Interest expenses were lower as a result of the Company's success in reducing its effective interest rate
- The Company's effective income tax rate in 2010 was at 19.7%, consistent with statutory income tax rates

### Liquidity and Capital Resources

#### Cash

(in US\$ million)	2010	2009	2008	Δ %	
				2010-2009	2009-2008
Net cash provided by operating activities	5,392	3,475	5,483	55.2	(36.6)
Net cash used in investing activities	(4,852)	(4,880)	(3,502)	(0.6)	39.3
Net cash (used in)/ provided by financing activities	(309)	185	(566)	(267.0)	(132.7)

#### Net Cash Provided by Operating Activities

- In 2010 net cash provided by operating activities increased 55.2% to US\$ 5,392 million from US\$ 3,475 million in 2009. The increase was due to an increase in operating income as well as improved working capital management
- In 2009 net cash provided by operating activities decreased 36.6% or by US\$ 2,008 million compared to 2008 due to the decrease in crude oil and product prices and increases in working capital

#### Net Cash Used in Investing Activities

- In 2010 net cash used in investing activities decreased 0.6% to US\$ 4,852 million from US\$ 4,880 million in 2009 mainly due to a lower level of M&A activities (US\$ 658 million less than in 2009) offset by a 26.6% increase in capital expenditures
- In 2009 net cash used in investing activities increased 39.3% or by US\$ 1,378 million compared to 2008 due to the Company's acquisition of Sibir and NIS offset by a 22.5% decrease in capital expenditures

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

- In 2010 financing activities used US\$ 309 million in net cash, compared with providing US\$ 185 million in 2009. The change was mainly due to a decrease in net loan proceeds minus repayments by US\$ 703 million, which was partly offset by reduced dividend payments of US\$ 209 million
- In 2009 financing activities provided US\$ 185 million in net cash compared with using US\$ 566 million in 2008. The change was due to a higher level of net loans proceeds minus repayments by US\$ 851 million, which was partly offset by increased dividends payments of US\$ 145 million

#### Capital Expenditure

4th quarter	3rd quarter	Δ, %	(in US\$ million)	2010	2009	2008	Δ, %	
							2010-2009	2009-2008
605	712	(15.0)	Exploration and production	2,351	2,000	2,979	17.6	(32.9)
121	122	(0.8)	Refining	414	306	189	35.3	61.9
129	83	55.4	Marketing and distribution	304	180	159	69.0	13.1
62	74	(16.2)	NIS	161	67	-	140.3	-
23	27	(14.8)	Others	71	54	39	30.4	39.6
<b>940</b>	<b>1,018</b>	<b>(7.7)</b>	<b>Total capital expenditures</b>	<b>3,301</b>	<b>2,607</b>	<b>3,366</b>	<b>26.6</b>	<b>(22.5)</b>

2010 capital expenditures were 26.6% higher than in 2009. The increase was due to the following:

- 17.6% higher capital expenditures in exploration and production due to 11.8% increase in the number of production wells drilled, 4.4% appreciation in the value of ruble against the US dollar and cost inflation
- 35.3% higher refining capital expenditures due to the modernization program at the Company's refineries
- 69.0% increase in marketing and distribution capital expenditures due to the service station rebranding program

2009 capital expenditures were 22.5% lower than in 2008. The decrease was due to the following:

- 32.9% lower capital expenditures in exploration and production due to 21.6% depreciation in the value of the ruble against the US dollar as well as contract price renegotiations with E&P contractors, which partially compensated for the increase in volumes
- 61.9% higher refining capital expenditures due to the modernization program at the Company's refineries
- 13.1% higher marketing and distribution capital expenditures due to the service station rebranding program

### Debt and Liquidity

	2010	2009	2008
Short-term debt	1,694	2,148	2,085
Long-term debt	4,942	4,162	1,608
Cash and cash equivalents	(1,146)	(868)	(2,075)
<b>Net debt</b>	<b>5,490</b>	<b>5,442</b>	<b>1,618</b>
Net debt/ EBITDA	0.76	0.91	0.19
Short-term debt/ total debt, %	25.5	34.0	56.5

- 55.2% increase in cash flow from operating activities used to fund capital expenditures and M&A activities
- The Company has a well-diversified debt structure that includes pre-export financing, syndicated and bilateral loans, ruble bonds and other instruments
- Due to successful refinancing efforts and a balanced borrowing policy, the average maturity of the Company's debt increased by 22.5% in 2010 compared with 2009. The average interest rate decreased by 1.15 percentage points to 3.96%
- The majority of the Company's debt is denominated or hedged in US dollars
- The increase in debt during 2009 was primarily due to borrowings related to the acquisitions of NIS and Sibir
- In 2010 the Company confirmed its investment grades from both rating agencies: S&P BBB- and Moody's Baa3 with stable outlook
- The Company's financing policy requires that the ratio of net debt to EBITDA should not exceed 1.5x and that the company pay a minimum dividend payment equal to 15% of US GAAP net income

## Financial Appendix

### EBITDA Reconciliation

4th quarter	3rd quarter	Δ, %	(in US\$ million)	2010	2009	2008	Δ, %	
							2010-2009	2009-2008
2,079	2,011	3.4	<b>Adjusted EBITDA</b>	7,226	5,977	8,610	20.9	(30.6)
(238)	(275)	(13.5)	The Company's share in EBITDA of equity affiliates	(949)	(931)	(1,052)	1.9	(11.5)
-	9	(100.0)	Gain on investment	9	470	-	(98.1)	-
64	35	82.9	Share in income of equity affiliates	229	212	407	8.0	(47.9)
(70)	(32)	118.8	Foreign exchange (loss)/ gain, net	(22)	48	(517)	(145.8)	(109.3)
(217)	(40)	442.5	Other (expense)/ income, net	(309)	(143)	89	116.1	(260.7)
(76)	(71)	7.0	Interest expense	(336)	(369)	(167)	(8.9)	121.0
21	7	200.0	Interest income	48	108	100	(55.6)	8.0
(414)	(463)	(10.6)	Depreciation, depletion and amortization	(1,619)	(1,475)	(1,309)	9.8	12.7
1,149	1,181	(2.7)	<b>Income before income taxes</b>	4,277	3,897	6,161	9.7	(36.7)

### Financial Ratios

#### Profitability

	2010	2009	2008	Δ, p.p.	
				2010-2009	2009-2008
Adjusted EBITDA margin, %	22.05	24.73	25.42	(2.7)	(0.7)
Net income margin, %	10.48	12.75	13.87	(2.3)	(1.1)
Return on assets, %	11.08	12.29	25.51	(1.2)	(13.2)
Return on equity, %	17.40	18.81	38.29	(1.4)	(19.5)
Return on average capital employed, %	15.93	14.92	36.20	1.0	(21.3)

#### Efficiency

	2010	2009	2008	Δ, %	
				2010-2009	2009-2008
Trade accounts receivable turnover, days	19	20	11	(0.0)	0.8
Inventory turnover, days	47	47	27	0.0	0.7

#### Liquidity

	2010	2009	2008	Δ, %	
				2010-2009	2009-2008
Current ratio	1.46	1.17	1.42	0.2	(0.2)
Quick ratio	0.81	0.68	1.02	0.2	(0.3)
Cash ratio	0.28	0.18	0.56	0.6	(0.7)

**Leverage**

	2010	2009	2008	2010-2009	2009-2008
					Δ, p.p.
Net debt/ Total Assets, %	17.12	18.19	8.01	(0.1)	1.3
Net debt/ Equity, %	26.40	29.17	11.48	(0.1)	1.5
Gearing, %	20.88	22.58	10.29	(0.1)	1.2
					Δ, %
Net debt/ Market Capitalization	27.51	21.21	16.00	0.3	0.3
Net debt/ EBITDA	0.76	0.59	0.25	0.3	1.4
Total debt/ EBITDA	0.90	0.84	0.41	0.1	1.0

## Supplementary Information

### Main Macroeconomic Factors Affecting Results of Operations

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

- Changes in market prices of crude oil and petroleum products;
- Russian ruble exchange rate versus the US dollar and inflation;
- Taxation;
- Changes in transportation tariffs of crude oil and petroleum products.

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

The prices for crude oil and petroleum products on international and Russian markets are the primary factor affecting the Company's results of operations. In 2010 average Brent crude oil price increased by 28.9% vs. 2009 to US\$ 79.50 per barrel. We expect prices to remain stable in 2011.

Petroleum product prices in international and Russian markets are primarily determined by the level of world prices for crude oil, the supply and demand for petroleum products and competition in different markets. Price dynamics are different for different types of petroleum products.

4th quarter	3rd quarter	Δ, %		2010	2009	2008	Δ, %	
			<b>International market</b>	(in US\$ per barrel)				
86.46	76.86	12.5	Brent	79.50	61.67	97.26	28.9	(36.6)
85.23	75.57	12.8	Urals Spot (average Med + NWE)	78.28	61.22	94.79	27.9	(35.4)
				(in US\$ per tonne)				
787.88	694.35	13.5	Premium gasoline (average NWE)	735.26	578.99	841.55	27.0	(31.2)
785.11	649.04	21.0	Naphtha (average Med. + NWE)	704.68	527.28	779.84	33.6	(32.4)
757.11	668.52	13.3	Diesel fuel (average NWE)	689.65	536.98	948.49	28.4	(43.4)
732.53	651.99	12.4	Gasoil 0.2% (average Med. + NWE)	672.65	512.67	903.81	31.2	(43.3)
460.20	419.77	9.6	Fuel oil 3.5% (average NWE)	436.17	341.66	452.55	27.7	(24.5)
			<b>Domestic market</b>	(in US\$ per tonne)				
733.42	743.21	(1.3)	High-octane gasoline	715.05	600.06	1,023.15	19.2	(41.4)
588.92	572.51	2.9	Low-octane gasoline	569.15	494.07	803.38	15.2	(38.5)
572.01	484.83	18.0	Diesel fuel	507.28	419.88	880.67	20.8	(52.3)
261.41	251.33	4.0	Fuel oil	250.73	204.38	329.05	22.7	(37.9)

Sources: Platts (international), Kortes (domestic)

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

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, debt and trade liabilities are either priced, incurred, payable or otherwise measured in the US dollars. Accordingly, any ruble appreciation (depreciation) against the US dollar affects the results of the Company's operations. In order to mitigate the effects of fluctuation in ruble - US dollar exchange rate the Company is engaged in using derivative instruments. Refer to Note 18 to Consolidated Financial Statements.

4th quarter	3rd quarter		2010	2009	2008
2.6	1.8	Consumer Price Index (CPI), %	8.8	8.8	13.3
8.5	2.7	Producer Price Index (PPI), %	16.7	13.9	(7.0)
30.48	30.40	US dollar / Ruble exchange rate as of the end of the period	30.48	30.24	29.38
30.71	30.62	Average Ruble/US\$ exchange rate for the period	30.37	31.72	24.86
2.3	4.5	Real appreciation (depreciation) of the Ruble against the US\$, %	7.9	5.7	(5.3)
(0.3)	(1.2)	Change of the average invert exchange rate (RUB / US\$), %	4.4	(21.6)	2.9

### Taxation

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	Δ, %	2009-2008
			<b>Export customs duty</b>						
									(US\$ per tonne)
286.97	260.03	10.4	Crude oil	273.61	179.93	355.08	52.1		(49.3)
205.63	187.23	9.8	Light and middle distillates	196.66	133.54	251.53	47.3		(46.9)
110.77	100.87	9.8	Fuel oil	105.94	71.92	135.51	47.3		(46.9)
			<b>Excise on petroleum products</b>						(RUB per tonne)
4,290	4,290	-	Naphtha	4,290	3,900	3,900	10.0		-
3,992	3,992	-	High-octane gasoline	3,992	3,629	3,629	10.0		-
2,923	2,923	-	Low-octane gasoline	2,923	2,657	2,657	10.0		-
1,188	1,188	-	Diesel fuel	1,188	1,080	1,080	10.0		-
3,246	3,246	-	Motor oils	3,246	2,951	2,951	10.0		-
			<b>Mineral extraction tax</b>						
3,453	2,989	15.5	Crude oil (RUB per tonne)	3,074	2,299	3,329	33.7		(30.9)
15.34	13.32	15.2	Crude oil (US\$ per barrel)	13.81	9.89	18.27	39.6		(45.9)
147	147	-	Natural gas (RUB per 1,000 cm)	147	147	147	-		-

**Crude oil export customs duty rate.** The export customs duty rate per tonne of crude oil is established on a monthly basis by the Government of the Russian Federation. The actual rate is based on the average Urals price in the period from the 15th calendar day of the prior month to the 14th calendar day of the current (the 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)

Crude oil exports to those CIS countries that are Customs Union members (Kazakhstan, Tadjikistan, Kirgyzstan) are not subject to export duties. Before 2010 crude export to Belorussia were subject to a reduced export duty rate defined by a special multiple coefficient. The following coefficients were set for the years 2007-2009: 2007 - 0.293, 2008 - 0.335, 2009 - 0.356.

Starting from January 2010, there is no duty reduction for crude oil exported to Belorussia. On January 12, 2007 pursuant to the intergovernmental agreement «On regulatory measures for trade and economic cooperation in the sphere of oil and oil products exports» a limited volume of crude exported from Russia to Belorussia became exempt from export duty. This amount is the amount that the Russian Ministry of Energy establishes as required for Belorussia domestic consumption.

In January 2011 the Government of the Russian Federation and Belorussia agreed to use a special formula for the price on crude oil exported to Belorussia. Export of crude oil to Belorussia is not subject to export customs duty since January 1, 2011.

**Export customs duty rate on petroleum products.** The export customs duty rate on petroleum products is determined by the Government based on crude oil prices on international markets and is set separately for light and middle distillates and for fuel oil. Petroleum products exported to those CIS countries that are Customs Union members (Kazakhstan, Tadjikistan, Kirgyzstan) are not subject to export duties.

Export customs duty on light and middle distillates products is calculated using the following formula:  $0.438 * (\text{Price} * 7.3 - 109.5)$ , where Price is the average Urals price in the US dollar per barrel. Export customs duty on dark petroleum products is calculated using the following formula:  $0.236 * (\text{Price} * 7.3 - 109.5)$ .

Resolution of the Russian Government # 1155 (December 27, 2010) changed export customs duty rates charged on petroleum products. From February 1, 2011 the export customs duty rate on petroleum products is calculated using the following formula:  $R = K * P$ , where R - export customs duty rate per tonne of crude oil, K - coefficient depending on the type of petroleum product according to the following table:

	2011	2012	2013
Light and middle distillates	0,67	0,64	0,60
Fuel oil	0,47	0,53	0,60

**Excise on petroleum products.** The responsibility to pay excise duties on petroleum products in Russia is imposed on producers of refined product (except naphtha). In other countries where the Group operates, excise duties are paid either by producers or retailers depending on local legislation.

Russian federal law # 306-FZ (November 27, 2010) changed excise rates charged on petroleum products effective from January 1, 2011 (Rubles per tonne):

	2011	2012	2013
Gasoline			
Euro 3	5,672	7,382	9,151
Euro 4, 5	5,143	6,822	8,560
Naphtha	6,089	7,824	9,617
Other	5,995	7,725	9,511
Diesel fuel			
Euro 3	2,485	3,814	5,199
Euro 4, 5	2,247	3,562	4,934
Other	2,753	4,098	5,500
Motor oils	4,681	6,072	7,509

**Mineral extraction tax (MET).** Starting from January 1, 2007 the 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 average ruble /US dollar exchange rate. On January 1, 2009 the formula was amended to incorporate a 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 a depletion rate exceeding 80%. The depletion rate is calculated by dividing accumulated production volume from the oil field (N) by the field's total reserves (V, where V is ABC1 + C2 reserves volume using the Russian classification). For fields with a depletion rate exceeding 80%, the general MET formula is multiplied by the coefficient C, which is calculated as follows:  $C = -3.5 * N/V + 3.8$ . Thus every marginal percentage of depletion in excess of 80% reduces MET payable by 3.5%.

**Natural gas mineral extraction tax rate.** The rate of mineral extraction tax for natural gas has remained stable in Ruble terms since January 1, 2006 and equals 147.00 Rubles per thousand cubic meters of natural gas. Associated gas is not subject to MET.

The Company started producing natural gas in the fourth quarter 2010. Estimated natural gas production volume for 2011 is 4 billion cubic meters.

Russian federal law # 307-FZ (November 27, 2010) changed mineral extraction tax rates charged on crude oil and natural gas production:

	2011	2012	2013
Crude oil (Ruble per tonne)	419	446	470
Natural gas (Ruble per thousand of cubic meters)	237	251	265

### Transportation of Crude Oil and Petroleum Products

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 following table shows tariffs for the major transportation routes used by the Company:

4th quarter	3rd quarter	Δ, %		2010	2009	2008	2010-2009	Δ, % 2009-2008
			<b>Crude oil</b>	<b>(RUB per tonne)</b>				
			Export					
1,282.57	1,333.34	(3.8)	Pipeline	1,245.61	937.19	753.17	32.9	24.4
			CIS					
1,012.46	1,110.51	(8.8)	Pipeline	973.36	749.33	629.79	29.9	19.0
			Transportation to Refineries					
432.21	416.69	3.7	ONPZ	414.14	351.51	282.39	17.8	24.5
1,018.35	945.70	7.7	MNPZ	832.79	629.22	504.05	32.4	24.8
883.63	881.40	0.3	YaNPZ	860.18	705.57	574.97	21.9	22.7
			<b>Petroleum products</b>					
			Export from ONPZ					
1,945.67	1,939.08	0.3	Gasoline	1,965.91	1,718.86	1,680.04	14.4	2.3
3,024.13	2,994.02	1.0	Fuel oil	3,037.08	2,717.20	-	11.8	-
2,458.16	2,800.49	(12.2)	Diesel fuel	2,527.73	2,056.74	1,941.52	22.9	5.9
			Export from MNPZ					
1,780.28	1,452.73	22.5	Gasoline	1,602.30	1,263.82	1,107.70	26.8	14.1
1,434.51	1,212.13	18.3	Fuel oil	1,686.39	1,075.39	994.40	56.8	8.1
1,418.63	1,420.65	(0.1)	Diesel fuel	1,343.00	1,347.11	1,124.56	(0.3)	19.8
			Export from YaNPZ					
1,607.52	1,676.40	(4.1)	Gasoline	1,729.82	1,574.17	1,258.19	9.9	25.1
1,278.75	1,269.62	0.7	Fuel oil	1,266.42	1,130.93	1,022.82	12.0	10.6
974.39	932.80	4.5	Diesel fuel	911.74	1,005.33	820.96	(9.3)	22.5

In 2010 the Company shipped 48.0% (45.2% in 2009) of crude oil for export through the Baltic Sea port of Primorsk; 24.9 % of crude oil was exported through Transneft's Druzhba pipeline (20.4% in 2009) mainly to Germany, Czech Republic and the Polish port of Gdansk; 3.7% of crude oil was shipped from the Black Sea port of Novorossiysk (18.8 % in 2009) and 9.7% from the Black Sea port of Tuapse (7.8 % in 2009); 13.7 % of crude oil was exported through the recently launched East Siberia - Pacific Ocean pipeline system (ESPO) from the Pacific port of Kozmino. In 2009, the balance of crude oil was exported to China via transit pipeline through Kazakhstan 5.1% and shipped from the Black Sea port of Yuzhny (2.7%).

[www.gazprom-neft.com](http://www.gazprom-neft.com)  
 Contacts: JSC Gazprom Neft  
 Investor Relations Department | E-mail: [ir@gazprom-neft.ru](mailto:ir@gazprom-neft.ru)  
 Address: 125 A, Profsoyuznaya Street, Moscow 117647, Russia  
 Phone: +7 495 662 75 48

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