JSC Gazprom Neft

Interim Condensed Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009
and for the three and nine months ended September 30, 2010 and 2009

JSC Gazprom Neft

Interim Condensed Consolidated Financial Statements

As of September 30, 2010 and December 31, 2009
and for the three and nine months ended September 30, 2010 and 2009

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
White Square Office Center
10 Butyrsky Val
Moscow, Russia, 125047
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

Report of Independent Auditors

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

We have reviewed the accompanying interim condensed consolidated balance sheet of JSC Gazprom Neft and its subsidiaries (the "Company") as of September 30, 2010, and the related interim condensed consolidated statements of income for each of the three and nine month periods ended September 30, 2010 and 2009 and the interim condensed consolidated statement of changes in shareholders' equity and of cash flows for the nine month periods ended September 30, 2010 and 2009. These interim condensed consolidated financial statements are the responsibility of the Company's management.

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

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

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2009, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated March 3, 2010 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

November 2, 2010

JSC Gazprom Neft
Interim Condensed Consolidated Balance Sheets
As of September 30, 2010 and December 31, 2009 (Unaudited) **Currency – US$ millions**

	Notes	September 30, 2010	December 31, 2009
Assets			
Current assets:			
Cash and cash equivalents	4	$ 1,174	$ 868
Short-term investments		184	45
Short-term loans receivable		244	108
Accounts receivable, net	5	2,602	2,930
Inventories	6	1,870	1,737
Assets held for sale	7	142	-
Other current assets, net	8	843	1,226
Total current assets		**7,059**	**6,914**
Long-term investments and loans receivable	9	6,080	6,972
Property, plant and equipment, net	10	15,335	14,276
Goodwill and other intangible assets	11	1,280	1,317
Other non-current assets		509	309
Non-current deferred income tax assets		149	124
Total assets		**$ 30,412**	**$ 29,912**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term debt	12	$ 263	$ 682
Accounts payable and accrued liabilities	13	1,887	2,434
Income and other taxes payable	14	839	694
Dividends payable		456	416
Liabilities associated with assets held for sale	7	115	-
Current portion of long-term debt	15	1,316	1,466
Total current liabilities		**4,876**	**5,692**
Long-term debt	15	4,212	4,162
Asset retirement obligations	16	409	367
Other long-term liabilities		322	279
Deferred income tax liabilities		716	755
Total liabilities		**10,535**	**11,255**
Equity:			
Common stock (authorized, issued and outstanding: 4,741,299,639 shares, 0.0016 Ruble par value)		2	2
Additional paid-in-capital		502	573
Retained earnings		17,441	15,621
Less: Common stock held in treasury, at cost (23,359,582 shares as of September 30, 2010)		(45)	(45)
Total shareholders' equity		**17,900**	**16,151**
Non-controling interest		1,977	2,506
Total equity		**19,877**	**18,657**
Total liabilities and shareholders' equity		**$ 30,412**	**$ 29,912**

A. V. Dyukov
Chief Executive Officer
JSC Gazprom Neft

V. V. Yakovlev
Chief Financial Officer
JSC Gazprom Neft

`	Note	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Revenues					
Refined products and oil and gas sales		$ 8 213	$ 6 960	$ 23 141	$ 16 237
Other		174	127	568	361
Total	21	**8 387**	**7 087**	**23 709**	**16 598**
Costs and other deductions					
Cost of purchased oil, gas, petroleum products		1 999	1 752	5 325	3 609
Operating expenses		550	586	1 522	1 355
Selling, general and administrative expenses		414	281	1 200	875
Transportation expenses		705	541	2 117	1 596
Depreciation, depletion and amortization		463	408	1 205	1 115
Export duties		1 566	1 189	4 929	2 540
Taxes other than income tax	14	1 313	1 165	3 810	2 693
Exploration expenses		11	14	54	77
Cost of other sales		93	91	316	245
Total		**7 114**	**6 027**	**20 478**	**14 105**
Operating income		**1 273**	**1 060**	**3 231**	**2 493**
Other income (expense)					
Share in income of equity affiliates	9	35	116	165	215
Gain on investment		5	-	5	470
Gain on sale of investments		4	-	4	-
Interest income		7	49	27	116
Interest expense		(71)	(123)	(260)	(265)
Other expense, net		(40)	(47)	(92)	(104)
Foreign exchange (loss) gain, net		(32)	73	48	81
Total		**(92)**	**68**	**(103)**	**513**
Income before income taxes		**1 181**	**1 128**	**3 128**	**3 006**
Provision for income taxes		279	287	642	621
Deferred income tax expense (benefit)		(5)	(21)	(25)	(29)
Total		**274**	**266**	**617**	**592**
Net income		**$ 907**	**$ 862**	**$ 2 511**	**$ 2 414**
Less: Net income attributable to non-controlling interest		(42)	(16)	(145)	(38)
Net income attributable to Gazprom Neft		**$ 865**	**$ 846**	**$ 2 366**	**$ 2 376**
Basic and Diluted Net income per Common Share attributable to Gazprom Neft (US$ per share)		0,18	0,18	0,50	0,50
Weighted-average number of common shares outstanding Basic and Diluted (millions)		4 718	4 718	4 718	4 718

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

For the nine months ended September 30, 2010 and 2009 (Unaudited) Currency – US$ millions

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Non-controlling Interest	Total Equity
Balance as of December 31, 2009	**$ 2**	**$ 573**	**$ 15 621**	**$ (45)**	**$ 16 151**	**$ 2 506**	**$ 18 657**
Net income for the period	-	-	2 366	-	2 366	145	2 511
Common stock dividends	-	-	(546)	-	(546)	-	(546)
Changes in non-controlling interest	-	(71)	-	-	(71)	(674)	(745)
Balance as of September 30, 2010	**$ 2**	**$ 502**	**$ 17 441**	**$ (45)**	**$ 17 900**	**$ 1 977**	**$ 19 877**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Non-controlling Interest	Total Equity
Balance as of December 31, 2008	**$ 2**	**$ 573**	**$ 13 431**	**$ (45)**	**$ 13 961**	**$ 139**	**$ 14 100**
Net income for the period	-	-	2 376	-	2 376	38	2 414
Common stock dividends	-	-	(823)	-	(823)	-	(823)
Changes in non-controlling interest	-	-	-	-	-	2 371	2 371
Balance as of September 30, 2009	**$ 2**	**$ 573**	**$ 14 984**	**$ (45)**	**$ 15 514**	**$ 2 548**	**$ 18 062**

Interim Condensed Consolidated Statements of Cash Flows (in millions of US Dollars)

	For the nine months ended September 30, 2010	**For the nine months ended September 30, 2009**
Operating activities		
Net income	$ 2 511	$ 2 414
Reconciliation of net income to net cash provided by operating activities:		
Share in income of equity affiliates, net of dividends received	33	(89)
Gain on investment	(5)	(470)
Deferred income tax benefit	(25)	(29)
Depreciation, depletion and amortization	1 205	1 115
Asset retirement obligation accretion expense, net of spending on existing obligations	19	21
Allowance for doubtful accounts	(14)	(93)
Allowance for inventory obsolescence	21	(17)
Loss (gain) on disposal of property, plant and equipment	2	(7)
Gain on disposal of investments	(4)	-
Changes in assets and liabilities, net of acquisitions:	-	-
Accounts receivable	309	(783)
Inventories	(151)	(98)
Other current assets	133	134
Other non-current assets	(100)	(113)
Accounts payable, accrued and other long-term liabilities	250	132
Income and other taxes payable	135	295
Net cash provided by operating activities	**4 319**	**2 412**
Investing activities		
Purchase of investments, net of cash acquired (Note 3)	(673)	(2 147)
Acquisition of short-term investments	(142)	(359)
Proceeds from sales of short-term investments	4	240
Loan issued	(220)	(203)
Loan proceeds received	169	176
Proceeds from disposals of property, plant and equipment	9	10
Proceeds from sales of investments	206	-
Capital expenditures	(2 361)	(1 783)
Net cash used in investing activities	**(3 008)**	**(4 066)**
Financing activities		
Short and long-term loan proceeds received	2 217	4 157
Short and long-term loans repaid	(2 638)	(2 909)
Dividends paid	(537)	(746)
Net cash (used in) / provided by financing activities	**(958)**	**502**
Effect of foreign exchange on cash and cash equivalents	**(46)**	**58**
Increase / (decrease) in cash and cash equivalents	307	(1 094)
Cash and cash equivalents as of the beginning of the period	868	2 075
Cash and cash equivalents as of the end of the period per the balance sheet	**$ 1 175**	**$ 981**
Supplemental disclosures of cash flows information		
Cash paid for interest, net of amount capitalized	241	200
Cash paid for income taxes	533	262

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

1. General

Description of Business

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

OAO Siberian Oil Company (''Sibneft") was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. In October 2005 OAO Gazprom ("Gazprom") completed its acquisition of a 75.68% stake in Sibneft which became a subsidiary of Gazprom. On May 30, 2006 Sibneft was renamed "JSC Gazprom Neft". In April 2009, Gazprom acquired an additional 20.00% interest in the Company and increased its interest to 95.68%.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The interim condensed consolidated financial statements are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies and do not include all disclosures necessarily required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2009 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2009 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements and notes thereto reflect all known adjustments of a normal and recurring nature necessary to fairly state the Company's financial position, results of operations and cash flows for the interim periods. Subsequent events occurring after September 30, 2010 were evaluated through November 2, 2010, the date these financial statements were available to be issued.

The results for the nine months ended September 30, 2010 are not necessarily indicative of the results expected for the full year.

Management Estimates

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

Foreign Currency Translation

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

The official rates of exchange of the Ruble to the US Dollar as of September 30, 2010 and December 31, 2009 were 31.40 Rubles and 30.24 Rubles per US $1.00, respectively.

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

Principles of Consolidation

The accompanying interim condensed consolidated financial statements include the accounts of majority-owned subsidiaries where no minority shareholder or group of minority shareholders exercise a majority of the substantive participating rights, and variable interest entities for which the Company is determined to be the primary beneficiary. Investments in entities that the Company does not control, but has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method. Accordingly, the Company's share of net earnings from these companies is included in the interim condensed consolidated statements of income as share in income from equity affiliates. All other investments are recorded at cost and adjusted for impairment, as appropriate.

Business Combinations

From January 1, 2009, the Company accounts for its business combinations according to FASB ASC 805, *Business Combinations*, and FASB ASC 810, *Consolidation*. The Company applies the acquisition method of accounting and recognizes the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions.

Goodwill and Other Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired. The excess of the fair value of net assets acquired over acquisition cost represents negative goodwill which is recognized as a gain in the interim condensed consolidated statement of income during the period of the acquisition.

In accordance with FASB ASC 350, *Intangibles – "Goodwill and Other"*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested for impairment at least on an annual basis. An impairment loss is recognized when the carrying value of goodwill exceeds its fair value. Impairment testing is a two-step process. The first step compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, no impairment is recognized. Otherwise, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss resulting from the excess of the reporting unit's carrying value over its fair value. The loss recognized cannot exceed the carrying amount of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or the period set by legislation.

Non-Controlling Interest

Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any non-controlling equity investment in the former subsidiary will be initially measured at fair value. In addition ownership interests in the company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the interim condensed consolidated balance sheet. The amount of consolidated net income attributable to the parent and the non-controlling interests are both presented on the face of the interim condensed consolidated statement of income.

Cash and Cash Equivalents

Cash represents cash on hand and in bank accounts including accrued interest, which can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be convertible to a certain cash amount and mature within three months or less from the date of purchase. They are recognized based on the cost of acquisition plus accrued interest, which approximates fair value.

Loans and Accounts Receivable

Loans and accounts receivable are stated at net realizable value. Allowances are provided for estimated losses and for doubtful debts based on estimation of uncollectible amounts. Estimation is made based on aging of the receivable, past history of settlements with the debtor and existing economic conditions. Estimates of allowances require the exercise of judgment and the use of assumptions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of weighted average cost or market value. Market value should not exceed net realizable value (i.e. estimated selling price less reasonable predictable costs of completion and disposal), and should not be less than net realizable value reduced by an allowance for an estimated normal profit margin. Costs include both direct and indirect expenditures and charges incurred in bringing an item or product to its existing condition and location.

Oil and Gas Properties

In accordance with FASB ASC 932, *"Extractive Activities - Oil and Gas"*, oil and gas acquisition, exploration and development costs are recognized under the successful efforts method.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration costs include:

- Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

Exploration drilling costs are capitalized until it is determined that the well has proved oil and gas reserves and the reserves found are sufficient to justify its development. The field is a cost centre. If proved reserves are not found, the capitalized drilling costs are charged to exploration expenses incurred in the period when it is determined that such cost would not bring additional proved oil and gas reserves.

Other exploration costs are charged to expense when incurred.

Development costs, which are capitalized within property plant and equipment, include expenditures incurred to:

- Gain access to and prepare well locations for drilling;
- Drill and equip development wells and service wells;
- Acquire, construct, and install production facilities; and
- Provide improved recovery systems.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation. The cost of maintenance, repairs and replacement of minor items of property is charged to expense, renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are recorded in the interim condensed consolidated statements of income.

Depreciation, Depletion and Amortization

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on the proved reserves and proved developed reserves, respectively. Acquisition costs of unproved properties are not amortized. These costs are reclassified as proved properties when the relevant reserve reclassification is made.

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Income Taxes

Russian legislation does not contain the concept of a "consolidated tax payer" and, accordingly, the Company is not subject to taxation on a consolidated basis. Current income taxes are provided on taxable profit of each subsidiary as determined under mostly the Russian Federation Tax Code at a rate of 20% after adjustments for certain items which are not deductible for taxation purposes. Subsidiaries operating in countries other than the Russian Federation are chargeable to income at the applicable statutory rate in the country in which they operate.

Deferred income tax assets and liabilities are recognized in the accompanying interim condensed consolidated financial statements in the amounts determined by the Company using the liability method in accordance with FASB ASC 740 *"Income Taxes"*. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the interim condensed consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. A valuation allowance for deferred tax asset is recorded when management believes, that it is more likely than not, that this tax asset will not be realized in the future.

Derivative Instruments

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

Derivative instruments are recorded at fair value in either other assets or liabilities on the interim condensed consolidated balance sheet. Realized and unrealized gains and losses are presented in the interim condensed consolidated statements of income on a net basis. These transactions are not accounted for as hedges pursuant to FASB ASC 815 *"Derivatives and Hedging"*.

Stock-Based Compensation

In accordance with ASC 718-30 *"Compensation – Stock Compensation, Awards Classified as Liabilities"*, the Company accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognized in respect of SARs in the income statement is adjusted accordingly. Expenses are recognized over the vesting period.

Recognition of Revenues

Revenues from the sales of crude oil, petroleum products, gas and all other products are recognized when deliveries of products to final customers are made, title passes to the customer, collection is reasonably assured and sales price to final customers is fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales are recognized when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company is responsible for transportation, duties and taxes on those sales.

Other revenues consist primarily of sales of services such as processing services, transportation, construction, utilities and other services 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.

Buy/Sell Transactions

The Company accounts for buy/sell transactions in accordance with FASB ASC 845-10-15 *"Non-monetary Transactions"* which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, should be combined and considered as a single arrangement. The Company accounts for matching buy/sell arrangements entered into as exchanges of inventory.

Accounting Standards Adopted

Effective January 1, 2010 the Company adopted provisions related to accounting for transfers of financial assets (Topic 820). These provisions require that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The provisions also require additional disclosures about any transfers of financial assets and a transferor's continuing involvement with transferred financial assets. Adoption did not have an effect on the Company's interim condensed consolidated financial statements.

Effective January 1, 2010 the Company adopted provisions related to how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated (Topic 810). The provisions also require additional disclosures about a reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. Adoption did not have an effect on the Company's interim condensed consolidated financial statements.

In January 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-06 Fair Value Measurements and Disclosures (Topic 820). The new provisions require that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Furthermore in reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The amendments also clarify the existing disclosures as to the requirement for management of a reporting entity to use judgment in determining the appropriate classes of assets and liabilities. The new provisions also require a reporting entity to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. The provisions are effective for annual and interim reporting periods beginning after December 15, 2010, except for the requirement to provide the Level 3 disclosure. This requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Adoption of the first part of the update did not have an effect on the Company's interim condensed consolidated financial statements.

In January 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-02 Consolidation (Topic 810). The Update addresses implementation issues related to the changes in ownership provisions in the Consolidation – Overall Subtopic 810-10 of the FASB codification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this Update expand the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of Subtopic 810-10. The provisions are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted Statement 160. Adoption did not have an effect on the Company's interim condensed consolidated financial statements.

Recently Issued Accounting Standards

In April 2010 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards updated 2010-13 Compensation (Topic 718). This Update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendment is effective for interim or annual periods beginning on or after December 15, 2010 and should be applied on a prospective basis. The management does not believe the adoption will have a significant impact on the Company's financial position, results of operations and cash flows.

In July 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses that amends Topic 310, Receivables, of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide the following additional disclosures about its financing receivables: 1) credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; 2) the aging of past due financing receivables at the end of the reporting period by class of financing receivables; 3) the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses ; 4) the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; 5) significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company will initially adopt ASU 2010-20 as of the end of annual reporting period ending December 31, 2010. The management does not believe the adoption will have a significant impact on the Company's consolidated financial position and results of operations.

Reclassifications

Certain reclassifications have been made to previously reported amounts to conform to the current year's presentation; such reclassifications have no effect on net income, net cash flow or shareholders' equity.

(in millions of US Dollars)

3. Business Combinations

Acquisition of Naftna Industrije Sjrbije

On February 3, 2009, the Company acquired a 51% interest in Serbia's Naftna Industrija Srbije (NIS) for € 400 million (US$ 521 million). As part of the purchase agreement the Company pledged to invest € 547 million (approximately US$ 712 million) to rebuild and upgrade NIS's refining facilities by 2012. NIS is one of the largest vertically integrated oil companies in central Europe, operating two oil refineries in Pancevo and Novi Sad, Serbia with a total processing capacity of 7.2 million tonnes per year. NIS also has crude oil and gas production of approximately 6.3 million barrels of oil equivalent per year from its oil and gas exploration and production operations in Serbia, holds a minority share in a PSA in Angola and operates a network of retail stations throughout Serbia.

The following table summarizes the consideration transferred to acquire NIS, as well as the fair value of the non-controlling interest as of the acquisition date:

Cash	521
Fair value of the non-controlling interest in NIS	501
Total fair value	1,022

The Company previously finalized the assessment of the estimated fair values of the assets and liabilities acquired. There were no changes compared to the estimated fair values disclosed as of December 31, 2009.

The following table summarizes the finalized estimates of fair value of the assets and liabilities acquired as of February 3, 2009.

	As of the acquisition date
Cash and cash equivalents	$ 22
Accounts receivable, net	198
Inventories	235
Other current assets	53
Intangible assets	150
Property, plant and equipment	1,485
Other non-current assets	4
Total assets acquired	**$ 2,147**
Short term loans and current portion of long-term debt	$ (645)
Other current liabilities	(307)
Long-term debt	(186)
Other non-current liabilities	(336)
Total liabilities assumed	**$ (1,474)**
Total identifiable assets acquired and liabilities assumed	**$ 673**
Consideration paid	**$ (1,022)**
Goodwill	**349**

The primary reasons for the acquisition and the principal factors contributing to goodwill are the potential for deliveries of the Company's own crude oil to the NIS refineries and the expected increase in refining throughput and improvement of product mix, which will allow for future increases in refined product sales to the export market. All of the goodwill has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes.

(in millions of US Dollars)

The fair value of the non-controlling interest of US$ 501 million was estimated by applying the income approach as there are no market comparatives. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined by the Business Combinations Topic of the Codification. The fair value estimate is based on discount rates between 15.2% and 17.3%, financial forecasts prepared in nominal US Dollars and publicly available macroeconomic and industry information.

Acquisition of Sibir Energy

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$ 1,662 million) to acquire 54.71% 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%. The Company previously accounted for its 38.63% interest in Moscow Refinery as an equity method investment.

Sibir is a vertically integrated oil company operating in the Russian Federation. 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 upstream assets are located in Khanti-Mansiysky Autonomous Region and comprise annual production interest of over 80,000 barrels of oil per day (bopd). Sibir also holds a 38.63% stake in JSC 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.

The following table summarizes the consideration transferred to acquire Sibir, including the fair value of the non-controlling interests in both Sibir and Moscow Refinery at the acquisition date as well as the fair value of the Company's pre-existing interest in Moscow Refinery at the acquisition date:

Cash paid	$	1,662
Fair value of the non-controlling interest in Sibir		1,015
Fair value of the non-controlling interest in Moscow Refinery		839
Fair value of the Company's investment in Moscow Refinery held before the business combination		806
Total fair value	$	**4,322**

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of June 23, 2009:

		As of the acquisition date
Cash and cash equivalents	$	181
Accounts receivable, net		461
Inventories		60
Other current assets		246
Intangible assets		618
Property, plant and equipment		2,421
Other non-current assets		1,621
Total assets acquired	**$**	**5,608**
Short-term and current portion of long-term debt	$	(233)
Other current liabilities		(460)
Long-term debt		(174)
Other non-current liabilities		(559)
Total liabilities assumed	**$**	**(1,426)**
Total identifiable assets acquired and liabilities assumed	**$**	**4,182**
Consideration transferred	**$**	**(4,322)**
Goodwill		**140**

(in millions of US Dollars)

The purchase price allocation was finalized in the three month period ended June 30, 2010. The main changes to fair value estimates compared to those disclosed as of December 31, 2009 related to revisions to the estimated fair value of accounts receivable previously fully provided in the initial purchase price allocation but in respect of which partial recovery was made in the period.

As a result of the Company obtaining control over Moscow Refinery, the Company's previously held 38.63% interest was re-measured to fair value at the date of acquisition, resulting in a gain of US$ 470 million. This has been recognized in the line item "Gain on investment" in the interim condensed consolidated statement of income for the nine months ended September 30, 2009.

The fair values of the non-controlling interests in Sibir and Moscow Refinery of US$ 1,015 million and US$ 839 million respectively were estimated by applying an income approach as there are no market comparatives. The fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements as defined by the Business Combinations Topic of the Codification. The fair value estimates are based on discount rates between 10.8% and 13.6%, financial forecasts prepared in nominal US Dollars and publicly available macroeconomic and industry information.

The goodwill recognized as a result of the business combination is attributable to the Company's ability to increase the delivery of its own crude to the Moscow Refinery and the expected increase in refining throughput and improved flexibility of product sales which will increase access to various product sales channels and result in higher net back prices. All of the goodwill arising on the business combination has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes.

Acquisition of Orton Oil Limited

On July 21, 2009 the Company acquired 100% of Orton Oil Limited ("Orton"), an un-listed investment and financing company registered in Cyprus. The purchase consideration comprised $109 million in cash. The only asset held by Orton is a 50% investment in Bennfield Limited ("Bennfield") which, in turn, holds a 25.66% interest in Sibir.

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of July 21, 2009.

	As of the acquisition date
Other current assets	$ 206
Long-term Investment	741
Total assets acquired	**$ 947**
Other non-current liabilities	(872)
Total liabilities assumed	**(872)**
Total identifiable assets acquired and liabilities assumed	**$ 75**
Consideration paid	**$ (109)**
Goodwill	**34**

The primary reasons for the acquisition and the principal factors contributing to goodwill relate to the Company's ability to increase its influence on Sibir. All of the goodwill has been assigned to the Company's Refining and Marketing Segment. The goodwill is not deductible for tax purposes. The purchase price allocation is now finalized.

(in millions of US Dollars)

Acquisition of STS Service

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 820,000,000 Swedish Kroner (approximately US$ 114 million). STS-Service owns Block 87 in the Tomsk Region comprising Zapadno-Luginetskoye field (currently under development), Nizhneluginetskoye and a part of Shinginskoye field. C1+C2 category reserves comprise 11.5 mln tons, and there are 11 prospective structures within the area.

The following table summarizes the estimates of fair value of the assets and liabilities acquired as of February 4, 2010.

		As of the acquisition date
Current assets		3
Property, plant and equipment		125
Total assets acquired	**$**	**128**
Current liabilities		(10)
Non-current liabilities		(4)
Total liabilities assumed	**$**	**(14)**
Total identifiable assets acquired and liabilities assumed	**$**	**114**
Consideration transferred	**$**	**(114)**
Goodwill		**-**

The primary reasons for the acquisition are that these fields are located in the immediate vicinity of Shinginskoye field developed by the Company's subsidiary, Gazpromneft-Vostok LLC, which will integrate these operations. The purchase price allocation is now finalized.

Acquisition of Bennfield

On May 18, 2010 the Company acquired the remaining 50% stake in Bennfield Limited ("Bennfield") for a consideration of US$ 741 million of which US$ 525 million was paid in cash and US$ 216 million related to the forgiveness of a loan between the Company and the former holder of the shares acquired. The acquisition increased the Company's share in Bennfield to 100%. Bennfield is an un-listed investment and financing company registered in Isle of Man. The only asset held by Bennfield is a 25.66% interest in Sibir.

The company has accounted for the acquisition of the additional interest in Sibir gained in the Bennfield acquisition as an acquisition of non-controlling interest where control is maintained. The difference between the fair value of the non-controlling interest acquired and its carrying value at the date of acquisition of $75 million has been recognized in equity and is included within additional paid-in-capital.

Sale of interest in Sibir to Moscow Cenrtal Fuel Company

On July 19, 2010 the Company sold a 3.02% interest in Sibir to the Moscow Central Fuel Company, a company owned by the Moscow Government. The consideration received was US$ 101 million. Under the terms of the agreement Moscow Central Fuel Company has the option to acquire an additional 2.69% subject to certain conditions precedent. Control of Sibir is maintained by the Company following the transaction. Certain of the conditions precedent have not yet been satisfied and therefore the option is currently not effective.

Following the acquisition of Bennfield and the subsequent sale of the interest in Sibir to the Moscow Central Fuel Company the Company has increased its interest in Sibir from 54.71% to 77.35%. In addition, the Company's effective interest in Moscow refinery has increased from 59.75% to 68.50%. These transactions have resulted in a net decrease of US$ 71 million in additional paid-in-capital.

(in millions of US Dollars)

4. Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2010 and December 31, 2009 comprise the following:

	2010	2009
Cash in bank – Rubles	$ 266	$ 119
Cash in bank – foreign currency	410	172
Bank deposits and other cash equivalents	488	455
Cash on hand	10	122
Total cash and cash equivalents	$ 1 174	$ 868

As of September 30, 2010 and December 31, 2009 the majority of bank deposits are held in Russian Ruble and US Dollars, respectively. Bank deposits represent deposits with original maturities of less than three months.

5. Accounts Receivable, net

Accounts receivable as of September 30, 2010 and December 31, 2009 comprise the following:

	2010	2009
Trade receivables	$ 1,791	$ 1,772
Value added tax receivable	657	974
Related party receivables	67	44
Other receivables	519	586
Less allowance for doubtful accounts	(432)	(446)
Total accounts receivable	$ 2,602	$ 2,930

Trade receivables represent amounts due from customers in the ordinary course of business, denominated primarily in US Dollars, and are short-term in nature. Other receivables consist of taxes receivable and other miscellaneous receivables.

6. Inventories

Inventories as of September 30, 2010 and December 31, 2009 consist of the following:

	2010	2009
Crude oil	$ 388	$ 259
Petroleum products	688	618
Materials and supplies	672	777
Other	122	83
Total inventories	$ 1 870	$ 1 737

7. Assets held for sale

In April 2010, the Company's management approved the decision to sell the Company's oil field services business. The oil field services business of the Group consists of one holding company Gazpromneft-Nefteservice LLC and nine subsidiaries. In July 2010 the Company started the marketing stage of the process and as a result, the assets of oil field services entities and liabilities associated with these assets were classified as held for sale for the purposes of these interim condensed consolidated financial statements.

(in millions of US Dollars)

The following table summarizes the financial information of oil field services business as of September 30, 2010:

	2010
Assets held for sale	$ 142
Cash and cash equivalents	1
Accounts receivable, net	23
Other current assets	23
Property, plant and equipment, net	94
Other intangible assets	1
Liabilities associated with assets held for sale	115
Accounts payable and accrued liabilities	88
Income and other taxes	23
Deferred income tax liabilities	4

8. Other Current Assets, net

Other current assets as of September 30, 2010 and December 31, 2009 consist of the following:

	2010	2009
Prepaid customs duties	$ 305	$ 411
Advances paid	396	530
Prepaid expenses	35	45
Other assets	107	240
Total other current assets	$ 843	$ 1 226

9. Long-Term Investments and Loans Receivable

Long-Term Investments

None of the companies listed below are publicly traded in Russia and due to the nature of the financial markets it is not possible to obtain current market price for these investments. The significant equity and other long-term investments as of September 30, 2010 and December 31, 2009 are summarized below:

	Ownership Percentage	Net book value as of	
Investments in equity affiliates:	September 30, 2010	September 30, 2010	December 31, 2009
JSC Slavneft	49.9	$ 2 854	$ 2 792
JSC Tomskneft VNK	50.0	1 317	1 470
Salym Petroleum Development N.V.	50.0	1 263	1 205
Total investments in equity affiliates		$ 5 434	$ 5 467
Total long-term investments, at cost		355	1 097
Long-term loans receivable		291	408
Total long-term investments		$ 6 080	$ 6 972

(in millions of US Dollars)

As of December 31, 2009 total long-term investments at cost includes the Company's investment in Bennfield, acquired as part of the acquisition of Orton in 2009 (Note 3 "Business Combinations").

The Company's share in income of equity affiliates including share in non-controlling interest consists of the following for the three and nine months ended September 30:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Equity affiliates:				
JSC Slavneft	$ 41	$ 63	$ 67	$ 91
JSC Tomskneft VNK	(37)	24	40	88
JSC Moscow Oil Refinery*	-	-	-	5
Salym Petroleum Development N.V.	31	29	58	31
Total share of income in equity affiliates	$ 35	$ 116	$ 165	$ 215

* As a result of the acquisition of Sibir on June 23, 2009 the Company gained control of JSC Moscow Oil Refinery and, accordingly, JSC Moscow Oil Refinery is now consolidated within these financial statements (Note 3 "Business Combinations").

The Company's investment in JSC Slavneft and various minority stakes in Slavneft subsidiaries ("Slavneft") are held through a series of off-shore entities and an investment trust. During 2005, the Company and TNK-BP agreed to jointly manage the production and the refineries of the Slavneft group with each party purchasing its share of production, refer also to Note 20 "Related Party Transactions".

The following table summarizes the financial information of Slavneft as of September 30, 2010 and December 31, 2009 and for the nine months ended September 30, 2010 and 2009:

	2010	2009
Current assets	$ 882	$ 1 011
Long-term assets	6 849	6 508
Total liabilities	2 185	1 901
Revenues	3 274	2 937
Net income including non-controlling interest	134	182

In December 2007 the Company acquired a 50% equity interest in JSC Tomskneft VNK ("Tomskneft") and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft ("Rosneft"). As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

The following table summarizes the financial information of Tomskneft as of September 30, 2010 and December 31, 2009 and for the nine months ended September 30, 2010 and 2009:

	2010	2009
Current assets	$ 520	$ 858
Long-term assets	3 462	3 595
Total liabilities	2 025	2 180
Revenues	1 899	1 578
Net income	80	176

(in millions of US Dollars)

As part of the acquisition of Sibir (Note 3 "Business Combinations") the Company acquired a 50.0% equity interest in Salym Petroleum Development N.V. ("Salym"). Salym is owned 50.0% by Sibir and 50.0% by Shell Salym Development B.V., a member of the Royal Dutch/Shell group of companies. The operations of Salym relate to the development of the Salym group of oil fields located in the Khanti-Mansiysky autonomous region of the Russian Federation.

The following table summarizes the financial information of Salym as of September 30, 2010 and December 31, 2009. Revenue and net income are shown for the nine months ended September 30, 2010.

	2010	2009
Current assets	$ 324	$ 272
Long-term assets	915	964
Total liabilities	948	980
Revenues	1 101	430
Net income	116	62

Long-Term Loans Receivable

Long-term loans receivable of US$ 291 million and US$ 408 million are mostly due from related parties as of September 30, 2010 and December 31, 2009, respectively. These loans bear interest at rates ranging from nil to 15.0%. The fair value of these loans is approximately US$ 258 million and US$ 318 million as of September 30, 2010 and December 31, 2009 assuming an average discount rate of 8.32% and 9.0% for the periods ended September 30, 2010 and December 31, 2009, respectively (CBR interbank refinancing rate).

10. Property, Plant and Equipment

As of September 30, 2010 property, plant and equipment comprise the following:

	Cost	Accumulated DD&A	Net book value
Exploration and production	$ 21 267	$ (11 041)	$ 10 226
Refining	4 551	(1 881)	2 670
Marketing and distribution	1 653	(580)	1 073
Other	116	(30)	86
Assets under construction	1 280	-	1 280
Total	$ 28 867	$ (13 532)	$ 15 335
Comparative balance as of December 31, 2009	$ 27 409	$ (13 133)	$ 14 276

11. Goodwill and intangible assets

Changes in the carrying value of goodwill for the period ended September 30, 2010 by reportable segment are as follows:

	Exploration and Production	Refining, Marketing and Distribution	Total
Balance as of December 31, 2009	-	$ 523	$ 523
Changes in fair value of assets and liabilities acquired	-	-	-
Balance as of September 30, 2010	-	$ 523	$ 523

(in millions of US Dollars)

The goodwill balance of US$ 523 million as of September 30, 2010 relates to acquisitions of NIS, Sibir Energy and Orton Oil for which goodwill in the amount of US$ 349 million, US$ 140 million and US$ 34 million , was recognized, respectively. The goodwill recognized for these acquisitions was assigned to the respective downstream assets acquired. The Company assessed the carrying value of goodwill related to each acquisition for impairment as of December 31, 2009. No impairment was recognized as of December 31, 2009.

Other intangible assets as of September 30, 2010 and December 31, 2009 comprise the following:

	2010	2009
Licenses	$ 35	$ 16
Software	160	160
Land rights	548	571
Other intangible assets	14	47
Total other intangible assets	$ 757	$ 794

Land rights relate to the right to use land plots at the Moscow Refinery location and certain other retail and wholesale sites in Moscow and the Moscow region where the Company owns and operates refining and other assets.

12. Short-Term Debt

As of September 30, 2010 and December 31, 2009 the Company has short-term loans outstanding as follows:

	2010	2009
Banks	$ 52	$ 251
Related parties	207	428
Other	4	3
Total short-term loans	$ 263	$ 682

As of September 30, 2010 short-term loans were provided by international and Russian banks for funding of working capital and consisted of unsecured facilities.

As of September 30, 2010, the Company has US$ 52 million in short-term loans from a number of European and Russian banks (US$ 251 million as of December 31, 2009), primarily repayable in US Dollars. These loans bear interest rates fluctuating from LIBOR / EURIBOR plus margin of 1.1 to fixed rate of 5.5%.

As of September 30, 2010 the Company has several interest-free loans from Tomskneft in the amount of US$ 181 million (US$ 289 million as of December 31, 2009), repayable in Rubles which mature between October 2010 - August 2011. Tomskneft is a related party to the Company.

As of September 30, 2010 weighted average interest rates related to the short-term loans in foreign currency and in Rubles were 4.8% and 0%, respectively. As of December 31, 2009 weighted average interest rates related to the short-term loans in foreign currency and Rubles were 4.4% and 0%, respectively.

(in millions of US Dollars)

13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of September 30, 2010 and December 31, 2009 comprise the following:

	2010	2009
Trade accounts payable	$ 1 161	$ 943
Advances received from customers	235	287
Related party accounts payable	154	101
Accrued interest	62	46
Other payables	275	1 057
Total accounts payable	$ 1 887	$ 2 434

14. Income and Other Taxes Payable

Income and other taxes payable as of September 30, 2010 and December 31, 2009 comprise the following:

	2010	2009
Mineral extraction tax	$ 270	$ 224
Value added tax	217	198
Excise tax	111	127
Income tax	151	62
Property tax	39	44
Other taxes	51	39
Total income and other taxes payable	$ 839	$ 694

Taxes other than income tax expense for the three and nine months ended September 30, 2010 and 2009 comprise the following:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Mineral extraction tax	$ 747	$ 619	$ 2 196	$ 1 455
Excise tax	470	433	1 289	992
Property tax	48	26	128	82
Other taxes	48	87	197	164
Total taxes other than income tax expense	$ 1 313	$ 1 165	$ 3 810	$ 2 693

15. Long-Term Debt

As of September 30, 2010 and December 31, 2009 the Company has long-term outstanding loans as follows:

	2010	2009
Bonds	$ 1 250	$ 595
Bank loans outstanding	4 150	4 900
Other borrowings	128	133
Less current portion of long- term debt	(1 316)	(1 466)
Total long-term debt	$ 4 212	$ 4 162

Bank loans are primarily comprised of loan facilities in US Dollars from major foreign banks and their affiliates.
On April 21, 2009, the Company placed ten-year Ruble Bonds (04 series) with the total par value of RUR 10 billion (US$ 329 million all current as of September 30, 2010 and US$ 331 million as of December 31, 2009). The bonds bear interest of 16.7% per year with a 2 year put option and have semi-annual coupon payments.

On July 21, 2009, the Company placed seven-year Ruble Bonds (03 series) with the total par value of RUR 8 billion (US$ 263 million as of September 30, 2010 and US$ 264 million as of December 31, 2009). The bonds bear interest of 14.75% per year with 3 year put option and have semi-annual coupon payments.

On April 13, 2010, the Company placed three-year Ruble Bonds (05 and 06 series) with the total par value of RUR 20 billion (US$ 658 million as of September 30, 2010). The bonds bear interest of 7.15% per year with 3 year put option and have semi-annual coupon payments.

During 2007 the Company obtained a US$ 2.2 billion syndicated loan from Calyon, ABN-AMRO, Commerzbank and Citibank maturing in September 2010, bearing a floating interest rate of LIBOR plus 0.75%. The loan was fully repaid during 2010. As of December 31, 2009 the amount outstanding under the loan was US$ 600 million (all current).

During 2008 the Company obtained a US$ 1 billion syndicated loan in two tranches from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank. The first tranche in the amount of US$ 315 million bears a floating interest rate of LIBOR plus 1.5% and matures in May 2011. The second tranche in amount of US$ 685 million bears a floating interest rate of LIBOR plus 1.75% and matures in May 2013. As of September 30, 2010 the Company has US$ 895 million outstanding under the syndicated loan (including current portion of US$ 526 million). As of December 31, 2009 the amount outstanding under the loan was US$ 1 billion (including current portion of US$ 158 million).

During 2008 the Company was granted a credit line from the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) for a total of US$ 750 million repayable in US Dollars bearing an interest rate of LIBOR plus 5.0% which matures in September 2011. The loan was fully repaid during 2010. As of December 31, 2009 the amount outstanding under the credit line was US$ 750 million (including current portion of US$ 150 million as of December 31, 2009).

During 2009 the Company obtained several loans from Sberbank for a total of US$ 857 million repayable in US Dollars bearing an interest rate of 8.46% which mature in September 2012. As of September 30, 2010 the Company has US$ 623 million outstanding under the loans (including current portion of US$ 312 million). As of December 31, 2009 the amount outstanding under the loan was US$ 857 million (including current portion of US$ 312 million).

During 2009 the Company obtained a loan from a Club of banks (The Bank of Tokyo-Mitsubishi UFJ, Raiffeisenbank, Nordea Bank, UniCredit Bank and Societe Generale) in the amount of US$ 500 million repayable in US Dollars. This loan bears a floating interest rate of LIBOR plus 2.65% and matures in September 2013. As of September 30, 2010 and December 31, 2009 the Company has US$ 500 million outstanding under the loan (all non-current as of September 30, 2010 and including current portion of US$ 111 million as of December 31, 2009, respectively).

During 2009 the Company obtained a loan from Russian Commercial Bank in the amount of US$ 624 million repayable in US Dollars. This loan bears a fixed interest rate of 6.50% and matures in December 2012. As of September 30, 2010 and December 31, 2009 the Company has US$ 624 million outstanding under the loan (all non-current).

In February 2010 the Company obtained a loan from Nordea Bank in the amount of US$ 100 million repayable in US Dollars (all non-current as of September 30, 2010). This loan bears a floating interest rate of LIBOR plus 3.15% and matures in February 2014.

(in millions of US Dollars)

In March 2010 the Company obtained a loan from Raiffeisenbank in the amount of US$ 100 million repayable in US Dollars (all non-current as of September 30, 2010). This loan bears a floating interest rate of LIBOR plus 2.75% and matures in March 2013.

In June 2010 the Company obtained a loan from Credit Agricole CIB in the amount of US$ 250 million repayable in US Dollars (all non-current as of September 30, 2010). This loan bears a floating interest rate of LIBOR plus 2.15% and matures in June 2013.

In July 2010 the Company completed the Senior Syndication under the five-year Pre-Export Finance Facility for the amount of up to US$ 1.5 billion. The Bank of Tokyo-Mitsubishi UFJ, Natixis SA and Société Générale were appointed as Initial Mandated Lead Arrangers and Bookrunners. The facility bears an interest of LIBOR plus 2.1% and matures in July 2015. As of September 30, 2010 the Company has US$ 550 million outstanding under the loan (all non-current).

During 2009 – 2010 the Company obtained a loan in a number of tranches from Bank of Moscow (Serbia) in the amount of US$ 100 million repayable in US Dollars. This loan bears an interest rate of 6.55% and matures in October 2012. As of September 30, 2010 the Company has US$ 100 million outstanding under the loan (all non-current). As of December 31, 2009 the amount outstanding under the loan was US$ 50 million (all non-current).

As of September 30, 2010 the Company has US$ 408 million in long term loans from a number of banks (including current portion of US$ 122). These loans bear interest rates fluctuating from LIBOR/EURIBOR plus 0.5% to fixed interest rate of 6.75%. As of December 31, 2009 the amount outstanding under the loans was US$ 519 million (including current portion of US$ 108 million). Interest rate under the loans varied from LIBOR / EURIBOR plus 3.2% to fixed interest rate of 6.6%.

The loan agreements contain financial covenants that require the Company's ratios of Consolidated EBITDA to Consolidated Interest Payable, Consolidated Indebtedness to Consolidated Tangible Net Worth and Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of September 30, 2010 and December 31, 2009, respectively.

Maturities of long-term loans as of September 30, 2010 are as follows:

Year due	Amount due
2011	$ 1 316
2012	1 172
2013	2 547
2014	248
2015 and further	245
	$ 5 528

16. Asset Retirement Obligations

The following table summarizes the activity of the Company’s asset retirement obligations:

	2010	2009
Beginning balance as of January 1	$ 367	$ 330
Change in estimate	13	(1)
New obligations incurred	10	11
Spending on existing obligations	-	(1)
Accretion expense	19	28
Ending balance as of September 30, 2010 / December 31, 2009	$ 409	$ 367

17. Cash-settled Stock Appreciation Rights

On January 12, 2010 the Board approved the implementation of a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Company and is designed to reward management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Company's market capitalization. The plan is open to selected management provided certain service conditions are met. The awards are fair valued at each reporting date and are settled in cash at the conclusion of the vesting period which expires on December 31, 2011. The awards are subject to certain market and service conditions that determine the amount that may ultimately be paid to eligible employees. The expense recognized is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Company's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognized in the period the change occurs subject to the vesting period.

In the interim condensed consolidated income statement for the period ended September 30, 2010, the Company recognized compensation expense, net of the deferred tax benefit, of US$24 million related to the SAR plan. This expense is included within selling, general and administrative expenses.

18. Fair Value of Financial Instruments

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market situation. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated.

The net carrying values of cash and cash equivalents, short-term investments, short-term loans receivable, accounts receivable and payable approximate their fair values because of the short maturities of these instruments.

As discussed in Note 9 "Long term investments and loans receivable", the Company has investments mostly in certain Russian and CIS companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. Management believes the carrying values of short-term and long-term debt are not materially different from their fair values.

The Fair Value Measurement and Disclosure Topic of the Codification establishes a formal fair value hierarchy based on the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

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

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

(in millions of US Dollars)

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

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

The Company uses derivative financial instruments to manage its exposure to changes in foreign currency exchange rates. A majority of Company's revenues are received in US Dollars, a growth or a decline in the value of the US Dollar against the Russian Ruble impacts the Company's operating results and cash flows. These transactions are not accounted for as hedges pursuant to the Fair Value Measurements and Disclosures Topic of the Codification.

The Company does not purchase, hold or sell derivative financial instruments unless it has an existing asset or obligation or anticipates a future activity that is likely to occur that will result in an exposure to foreign exchange risk. The Company does not enter into any derivative instruments for speculative purposes. As of September 30, 2010 and December 31, 2009 the Company has outstanding currency exchange derivative contracts for a total notional value of US$ 1,312 million and US$ 616 million respectively.

The following table presents the fair values and corresponding balance sheet captions of the Company's derivative instruments as of September 30 , 2010 and December 31, 2009:

	2010	**2009**
Assets		
Other current assets	$ 98	$ 13
Other non-current assets	102	121
Total assets	$ 200	$ 134

During the three and nine months ended September 30, 2010 the Company recognized US$ 9 million and US$ 66 million, respectively, in unrealized gain in foreign exchange gain, net in the interim condensed consolidated statement of income.

During the three and nine months ended September 30, 2009 the Company recognized US$ 72 million and US$ 94 million, respectively, in unrealized gain in foreign exchange gain, net in the interim condensed consolidated statement of income.

19. Commitments and Contingencies

Taxes

During 2008, the Tax Authorities completed reviews over the operations of the Company and its subsidiaries for the year ended December 31, 2006. There were no significant findings as a result of these reviews.

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, including the allocation of tax payments to the Federal and Regional budgets, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for the preceding three calendar years. Under certain circumstances reviews by tax authorities may cover longer periods. The years 2007, 2008 and 2009 are currently open for review. Management believes it has adequately provided for any probable losses that might arise from these matters.

Operating Environment

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

Although the financial crisis appears to have eased in 2010, 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 or a worsening in the 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 (Refer to Note 21 Subsequent Events).

Environmental Matters

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

20. Related Party Transactions

JSC Moscow Oil Refinery (Moscow Refinery)

For nine months ended September 30, 2009 the Company processed crude oil based on processing agreements for a total amount of US$ 34 million and purchased oil products from Moscow Refinery for a total amount of US$ 1 million. Such transactions were in the ordinary course of business and on terms available to other suppliers.

(in millions of US Dollars)

Following the acquisition of Sibir on September 23, 2009, the results of operations, cash flows and financial position of Moscow Refinery is consolidated in the interim condensed consolidated financial statements.

Slavneft Group (Slavneft)

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

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Processing fees	$ 70	$ 60	$ 193	$ 158
Crude, gas and oil products purchased	432	526	1,383	1,258
Crude and oil products sales	208	91	797	193

As of September 30, 2010 the Company has US$ 60 million in payables to Slavneft and US$ 30 million in receivables from Slavneft. As of December 31, 2009 the Company had US$ 77 million in payables to Slavneft and US$ 21 million in receivables from Slavneft.

Gazprom Group (Gazprom)

The Company conducted numerous transactions with Gazprom, its primary shareholder, or its subsidiaries. The information on transactions with Gazprom for the three and nine months ended September 30 is presented below:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Crude, gas and oil products purchased	-	54	-	59
Crude and oil products sales	1	71	18	101

As of September 30, 2010 the Company has US$ 13 million in payables to Gazprom and US$ 32 million in receivables from Gazprom. As of December 31, 2009 the Company had US$ 7 million in payables to Gazprom and US$ 17 million in receivables from Gazprom.

The Company has cash in Gazprombank of US$ 56 million and US 30 million as September 30, 2010 and as of December 31,2009, respectively.

Tomskneft Group (Tomskneft)

The Company conducted numerous transactions with Tomskneft and its subsidiaries. The information on transactions with Tomskneft for the three and nine months ended September 30 is presented below:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Crude, gas and oil products purchased	285	309	825	700

(in millions of US Dollars)

As of September 30, 2010 the Company has US$ 14 million in payables to Tomskneft and US$ 5 million in receivables from Tomskneft. As of December 31, 2009 the Company had US$ 16 million in payables to Tomskneft and US$ 5 million in receivables from Tomskneft.

Salym Petroleum Development (SPD)

Since September 23, 2009 (the date of acquisition of Sibir Energy), the Company conducts transactions with Salym Petroleum development (SPD). For the three and nine months ended September 30, 2010, the Company purchased crude from SPD amounting to US$ 213 million and US$ 616 million, respectively (US$ 251 million for the nine months ended September 30, 2009). As of September 30, 2010 the Company has US$ 67 million in payables to SPD. As of December 31, 2009 the Company had US$ 1 million in payables to SPD and US$ 1 million in receivables from SPD.

21. Segment Information

Presented below is information about the Company's operating segments for the three and nine months ended September 30, 2010 and 2009. The Company determined its operating segments based on differences in the nature of their operations considering the regular review by the chief operating decision maker to make decisions about resources to be allocated and to assess performance of the Company.

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

Adjusted EBITDA represents the Company's EBITDA and its share in equity affiliates' EBITDA. Management believes that adjusted 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 represents earnings before interest, income tax, depreciation and amortization. EBITDA (Earnings Before Interest, Income Tax, Depreciation and Amortization) is a supplemental non-GAAP financial measure used by management to evaluate operations.

Operating Segments for the three months ended September 30, 2010 are presented below:

	Exploration and Production	**Refining, Marketing and Distribution**	**Elimination**	**Consolidated**
Revenues from external customers	$ 44	$ 8 343	-	$ 8 387
Inter-segment revenues	1 839	183	(2 022)	-
Total	1 883	8 526	(2 022)	8 387
Adjusted EBITDA	813	1 198	-	2 011
Capital expenditures	759	259	-	1 018
Depreciation, depletion and amortization	359	104	-	463
Income tax expense	65	209	-	274

(in millions of US Dollars)

Operating Segments for the three months ended September 30, 2009 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 30	$ 7 057	-	$ 7 087
Inter-segment revenues	1 576	2	(1 578)	-
Total	1 606	7 059	(1 578)	7 087
Adjusted EBITDA	933	877	-	1 810
Capital expenditures	455	129	-	584
Depreciation, depletion and amortization	328	80	-	408
Income tax expense	41	225	-	266

Operating Segments for the nine months ended September 30, 2010 and as of September 30, 2010 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 114	$ 23 595	-	$ 23 709
Inter-segment revenues	5 103	253	(5 356)	-
Total	5 217	23 848	(5 356)	23 709
Adjusted EBITDA	2 124	3 023	-	5 147
Capital expenditures	1 798	563	-	2 361
Depreciation, depletion and amortization	927	278	-	1 205
Income tax expense	130	487	-	617
Segment assets as of September 30, 2010	18 177	22 152	(9 917)	30 412

Operating Segments for the nine months ended September 30, 2009 and as of December 31, 2009 are presented below:

	Exploration and Production	Refining, Marketing and Distribution	Elimination	Consolidated
Revenues from external customers	$ 76	$ 16 522	-	$ 16 598
Inter-segment revenues	4 479	32	(4 511)	-
Total	4 555	16 554	(4 511)	16 598
Adjusted EBITDA	2 482	1 787	-	4 269
Capital expenditures	1 371	412	-	1 783
Depreciation, depletion and amortization	948	167	-	1 115
Income tax expense	57	535	-	592
Segment assets as of December 31, 2009	17 237	22 706	(10 031)	29 912

(in millions of US Dollars)

Adjusted EBITDA for the three and nine months ended September 30 is reconciled below:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine-months ended September 30, 2010	For the nine-months ended September 30, 2009
Adjusted EBITDA	$ 2,011	$ 1,810	$ 5,147	$ 4,269
The Company's share in EBITDA of equity affiliates	(275)	(342)	(711)	(661)
Gain on investment	5	-	5	470
Gain on sale of investment	4	-	4	-
Share in income of equity affiliates	35	116	165	215
Foreign exchange (loss) / gain, net	(32)	73	48	81
Other expenses, net	(40)	(47)	(92)	(104)
Interest expense	(71)	(123)	(260)	(265)
Interest income	7	49	27	116
Depreciation, depletion and amortization	(463)	(408)	(1,205)	(1,115)
Income before income taxes	$ 1,181	$ 1,128	$ 3,128	$ 3,006

For the three and nine months ended September 30, 2010 and 2009 the Company had one customer which accounted for approximately 12.1%, 14.9%, 14.8% and 17.8% of the Company's sales, respectively. Management does not believe the Company is reliant on any particular customer.

The geographical segmentation of the Company's revenue for the three and nine months ended September 30 is presented below:

	For the three-months ended September 30, 2010	For the three-months ended September 30, 2009	For the nine-months ended September 30, 2010	For the nine-months ended September 30, 2009
Export	$ 4,478	$ 4,560	$ 13,445	$ 9,574
Domestic	3,188	2,774	8,349	5,548
CIS	721	692	1,915	1,476
Total revenues from external customers	$ 8,387	$ 8,026	$ 23,709	$ 16,598

The Company's long-lived assets are mostly located in the Russian Federation.