Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended March 31, 2010 and 2009

Forward-Looking Statements

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

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

The following discussion is intended to assist you in understanding of JSC Gazprom Neft's financial position as of March 31, 2010 and results of operations for the three-months ended March 31, 2010 and 2009 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with accounting principles generally accepted in the United States of America.

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

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

Key Financial and Operational Results

	For the three months ended March 31		
	2010	2009	Change, %
Revenues (US$ million)	7,296	4,242	72.0
EBITDA (US$ million)	1,586	958	65.6
Hydrocarbon production including our share of equity investees (millions of boe)	94.63	85.91	10.2
Refining throughput at own and equity investee refineries (millions of tonnes)	8.96	7.38	21.4

Operating Segments

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

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

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

The Company's operating segments are interdependent; a portion of the revenues of one segment forms a part of the costs of the other segment. In particular, JSC Gazprom Neft, as a holding company, buys crude oil from its production subsidiaries, part of which is processed at the Company's and other downstream facilities; the remaining portion of crude output is primarily exported through a wholly owned export trading company. The refined petroleum products are distributed in the international and domestic markets through the Company's own marketing subsidiaries. In most cases it is difficult to assess market prices for crude oil in the domestic market due to the significant intragroup turnover within the vertically integrated oil companies. The prices set for intragroup purchases of crude oil reflect a combination of market factors such as global crude pricing environment, transportation, crude processing costs, capital investment requirements as well as other factors. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations. For this reason, we do not analyze our segments separately. Refer to Note 20 to the Interim Condensed Consolidated Financial Statements for operating segments financial data.

Changes in the Company's Structure

2009/2010

Malka Oil

On February 4, 2010 the Company completed the acquisition of 100% of the share capital of OOO STS-Service, 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 Zapadno-Luginetskoye field (currently under development), Nizhneluginetskoye and a part of Shinginskoye field. C1+C2 category reserves comprise 11.5 mln tonnes, and there are 11 prospective structures within the area. Along with the prospective structures, these fields are located in the immediate neighborhood of Shinginskoye field developed by the Company's subsidiary, Gazpromneft-Vostok LLC, which will integrate OOO STS-Service into its own structure.

Sibir Energy (Sibir)

In the period from April 23, 2009, being the date of the Company's first acquisition of shares in Sibir Energy plc ("Sibir "), until June 23, 2009, the Company invested £1,057 million (approximately US$ 1,659 million) to acquire 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%.

Sibir Energy plc is a vertically integrated energy company with exploration and production operations in Western Siberia and refining and marketing in the City of Moscow and the Moscow region. Sibir's primary upstream assets include JSC Magma Oil Company (95% Sibir owned) and a 50% interest in Salym Petroleum Development (a joint venture with Royal Dutch Shell). Sibir's total current production is over 80,000 barrels of oil per day. Sibir also holds a 38.63% stake in the Moscow Oil Refinery ("Moscow Refinery"), which is jointly managed with Gazprom Neft, and a network of 134 retail stations in the City of Moscow and the Moscow region through JSC Moscow Fueling Company and JSC Mosnefteproduct.

Naftna Industrija Srbije (NIS)

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

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

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

Main Macroeconomic Factors Affecting Results of Operations

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

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

Changes in Market Prices of Crude Oil and Petroleum Products

The prices for crude oil and petroleum products in the international and Russian markets are the primary factor affecting the Company's results of operations. In the first quarter of 2010 average Brent crude oil price increased by 71.8% to $76.36 per barrel from $44.46 per barrel for the same period of 2009. In the beginning of 2009 Brent crude oil price was declining up to the minimum of $39 per barrel on February 18 followed by steadily increase starting from end of March up to the maximum of $80 per barrel on December 1. Growing crude pricing environment in 2009 was following recovery on global markets fueled by massive liquidity injections provided by world largest central banks as well as other measures by governments. Crude prices were also supported by the reduced supply flows from OPEC members effective from January 1, 2009.

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

	For the three months ended March 31		Change %
	2010	2009	
International market	(in US$ per barrel)		
Brent	76.36	44.46	71.8
Urals Spot (average Med. + NWE)	75.36	43.69	72.5
	(in US$ per tonne)		
Premium gasoline (average NWE)	726.31	409.96	77.2
Naphtha (average Med. + NWE)	700.52	374.99	86.8
Diesel fuel (average NWE)	646.44	439.03	47.2
Gasoil 0.2% (average Med. + NWE)	634.14	402.37	57.6
Fuel oil 3.5% (average NWE)	436.85	223.79	95.2
Domestic market	(in US$ per barrel)		
High-octane gasoline	657.67	438.34	50.0
Low-octane gasoline	538.69	343.55	56.8
Diesel fuel	486.08	395.68	22.8
Fuel oil	237.37	120.75	96.6

Source: Platts (international market) and Kortes (domestic market)

Ruble vs. US Dollar Exchange Rate and Inflation

A substantial part of the Company's revenues from sales of crude oil and petroleum products is denominated in US Dollars, while most of the expenses are settled in Russian Rubles. Accordingly, any Ruble appreciation to the US Dollar negatively affects the results of the Company's operations, though this is partially offset by Ruble denominated revenue from sales in Russia. In the first quarter of 2010 Ruble appreciated against the US Dollar in nominal terms, which negatively affected the Company's margins. 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 17 to the Interim Condensed Consolidated Financial Statements.

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

	For the three months ended March 31	
	2010	2009
Consumer Price Index (CPI), %	3.2	5.4
Producer Price Index (PPI), %	2.7	4.4
Ruble/US dollar exchange rate as of the end of the period	29.36	34.01
Average Ruble/US dollar exchange rate for the period	29.89	33.93
Real appreciation (depreciation) of the Ruble against the US dollar, %	6.3	(9.0)
Nominal period average appreciation (depreciation) of the Ruble against the US dollar, %	13.5	(28.5)

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

Taxation

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

	For the three months ended March 31		Change %
	2010	2009	
Export customs duty			
Crude oil (US$ per tonne)	263.54	112.13	135.0
Crude oil (US$ per barrel)	35.95	15.30	135.0
Light and middle distillates products (US$ per tonne)	189.88	87.88	116.1
Fuel oil (US$ per tonne)	102.28	47.33	116.1
Mineral extraction tax			
Crude oil (RUR per tonne)	2,879.93	1,542.89	86.7
Crude oil (US$ per barrel)	13.14	6.20	111.9
Natural gas (RUR per 1,000 cm)	147.00	147.00	-

Crude oil export customs duty rate. 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 (monitoring period). The rate is effective on the first day of the coming month after the monitoring period.

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

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

In the first quarter 2010 the export customs duty on crude oil raised by 135.0% to US$ 35.95 per barrel compared to the same period of 2009. The growth was associated with an increase of Urals prices, which grew by 72.5% to US$ 75.36 per barrel in the first quarter 2010 compared to US$ 43.69 per barrel as compared to the same period of 2009.

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

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

Depleted oil assets are subject to lower MET. Depleted oil assets are those that have depletion rate exceeding 80%. Depletion rate is calculated by dividing accumulated production volume from oil filed (N) by the field's total reserves (V, where V is ABC1 + C2 reserves volume as per Russian classification). Should the field's depletion rate exceed 80% general MET formula is multiplied by coefficient C, which is calculated as follows: C = -3.5 * N/V + 3.8. Thus every marginal percent of depletion in the excess of 80% reduces MET payable by 3.5%.

In the first quarter of 2010 mineral extraction tax rate on crude oil increased by 111.9% to US$ 13.14 per barrel compared to the same period of 2009. The growth was driven by an increase in Urals prices by 72.5% to US$ 75.36 per barrel in the first quarter 2010 compared to US$ 43.69 in the same period of 2009.

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

<u>Transportation of Crude Oil and Petroleum Products</u>

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

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

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

The Company exports SILCO through Tuapse, where the delivery is made through a special pipeline for this type of crude oil. In the first quarter of 2010 the Company shipped 49% of crude oil for export through the Baltic Sea ports (mainly Primorsk); 25.5% of crude oil was exported through Transneft's Druzhba pipeline (mainly to Germany, Czech Republic and Poland); 16.8% of crude oil shipped from various Black Sea ports Novorossiysk and Tuapse; 8.7% of crude oil was exported through the recently launched East Siberia – Pacific Ocean pipeline system (VSTO) from Pacific port Kozmino.

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

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

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

Production of Crude Oil, Gas and Petroleum Products

Crude Oil Production

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

The Company's major crude oil production entities are JSC Gazpromneft-Noyabrskneftegaz (Noyabrskneftegaz), Gazpromneft-Khantos LLC (Khantos) and Gazpromneft-Vostok LLC (Vostok). Two new operators Gazpromneft-Yamal LLC (Yamal) and Gazpromneft-Angara LLC (Angara) conduct exploration and development of JSC Gazprom's oil fields (the Company's parent company) and the Company's new crude oil fields in the Eastern Siberia.

Noyabrskneftegaz, the Company's major production unit (41% of the Company's total proved reserves under PRMS classification), operates about 30 fields in the Yamal-Nenetsky and Khanti-Mansiysky autonomous districts and produces about 60% of Company's consolidated production volume.

Khantos is developing Zimnee field in the Khanti-Mansiysky autonomous district and Tumen region. It also provides operating services to Sibneft-Yugra LLC ("Sibneft-Yugra"). Sibneft-Yugra holds production licenses for two fields: Priobskoye and Palyanovskoye in the Khanti-Mansiysky autonomous district. Priobskoye field is one of the Company's largest and most promising oil field, which account for 46% of the Company's total proved reserves under PRMS classification. Full-scale development of Priobskoe was launched in 2004. By the end of March 2010 the field was already producing about 31% of the Company's consolidated production volume.

Vostok operates Archinskoye, Shinginskoye and Urmanskoye fields in Tomsk and Zapadno-Krapivinskoye in Omsk region. All these fields form a new production center with a yearly increase in crude oil output that constitutes for about 5% of the Company's consolidated production. Following acquisition of assets of Malka oil in February 2010, Vostok will be an operator for its fields.

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

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

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

Following the acquisition of Sibir the Company simultaneously gained control over it's production subsidiary Magma and 50.0% share in Salym Petroleum Development (an upstream joint venture between Royal Dutch Shell and Sibir).

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

(millions of barrels)	For the three months ended March 31 2010	2009	Change %
Crude oil produced by consolidated subsidiaries	55.96	53.92	3.8
Company's share in production of equity investees	33.64	27.31	23.2
Total crude oil production	89.60	81.23	10.3

In the first quarter of 2010 the Company's production of crude oil including share in equity investees increased by 10.3% to 89.60 million barrels (12.14 million tonnes) compared to the corresponding period of 2009. The increase was due to the acquisition of 50% interest in Salym Petroleum Development ("SPD") in June 2009.

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

(millions of barrels)	For the three months ended March 31 2010	2009	Change %
Crude oil purchases in Russia*	7.17	7.19	(0.3)
Crude oil purchases internationally	4.88	3.54	37.9
Total crude oil purchases	12.05	10.73	12.3

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

In the first quarter of 2010 the Company increased the volumes of crude oil purchased by 12.3% to 12.05 million barrels (1.64 million tonnes) compared to the corresponding period of 2009 as a result of trading activities expansion.

Gas Production

In the first quarter of 2010 the Company produced 0.85 billions of cubic meters of associated and natural gas (including share in production of equity investees), an increase of 7.6%, compared to 0.79 billions of cubic meters in the same period of 2009. This increase relates to the Company's program for the utilization of associated gas, which is described below and to recent acquisitions during 2009.

In February 2008, Gazprom Neft adopted a medium term program for the utilization of associated gas with the goal of increasing its efficient use, mitigating environmental and tax risks and increasing revenues from the sale of additional volumes of associated gas and its refined products. In particular, the program provides for the construction of associated gas transportation facilities from the Shinginskoye, Yuzhno-Priobskoye oil fields, commissioning of the Phase Two of Yuzhno-Priobskaya gas turbine power plant (GTPP) and implementation of the unified automated data management system for collection of associated petroleum gas data on the oilfields of the Company.

Production of Petroleum Products

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

(millions of tonnes)	For the three months ended March 31 2010	2009	Change %
Production of petroleum products at the Company's refineries in Russia	6.29	4.10	53.4
Production of petroleum products at the Company's refineries internationally	0.58	0.46	26.1
Production of petroleum products at equity refineries	1.58	2.33	(32.2)
Total production of petroleum products	8.45	6.89	22.6
Petroleum products purchases in Russia and CIS	0.27	0.29	(6.9)
Petroleum products purchases internationally	0.08	0.18	(55.6)
Total petroleum products purchases	0.35	0.47	(25.5)

In the first quarter of 2010 and 2009 the Company produced 8.45 million tonnes and 6.89 million tonnes, respectively. The increase of 22.6% in the corresponding periods was primarily due the Company's modernization program and recent acquisitions during 2009.

The Company processes domestic crude oil into refined products primarily at its Omsk Refinery, Moscow Refinery and Yaroslavl Refinery. Gazprom Neft owns the Omsk Refinery and has access to the Yaroslavl Refinery in proportion of its equity interest. As a result of the acquisition of 54.71% interest in Sibir the Company also obtained control over Moscow Refinery, having increased its effective share in Moscow Refinery from 38.63% to 59.75%.

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

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

The Company's petroleum products are distributed within Russia and CIS primarily through 25 subsidiaries. Most of these subsidiaries are retail distribution companies engaged in wholesale distribution or operate in the gas station retail markets. CJSC Gazprom Neft Aero, Gazpromneft Smazochny Materialy LLC and Gazprom Neft Marine Bunker LLC specialize in the sale of particular petroleum products.

At the end of the first quarter of 2010, we owned within Russia and CIS 956 retail stations, operating under different brands. The Sibir and NIS acquisitions added a further 612 stations. In the middle of 2009, we launched a program to consolidate and rebrand all our stations on the domestic market under the brand of "Gazprom Neft". A scale project of establishing a unified network of filling stations involves modernization of over 1000 filling stations in 14 territorial subjects of the Russian Federation within 2009 – 2012. It is anticipated that the investments into the complex filling stations rebranding program will make about RUR 7 bln within the next three years.

The launch of the project was preceded by a complex of preliminary works including unification of management and organizational principles at all territorial sales outlets of Gazprom Neft. There are several standard design formats developed for Gazprom Neft branded filling stations in accordance with the size and functional interpretation of the outlet. This is not just about new signs, but retraining service personnel, adding services, installing a computer network, etc. The impact on our bottom line will be growth in volumes per location and also margin expansion as we roll the rebranding out over the next few years.

Results of Operations

The following table represents the Company's results of operations for the three months ended March 31, 2010 and 2009:

(in US$ million)	**2009**	**2008**
Revenues		
Refined products and oil and gas sales	7,117	4,131
Other	179	111
Total	7,296	4,242
Costs and other deductions		
Crude oil, petroleum and other products purchased	1,624	819
Operating expenses	460	377
Selling, general and administrative expenses	360	271
Transportation expenses	601	447
Depreciation, depletion and amortization	352	337
Export duties	1,584	640
Taxes other than income taxes	1,207	673
Exploration expenses	19	43
Cost of other sales	85	82
Total	6,292	3,689
Operating income	1,004	553
Other income (expense)		
Income from equity affiliates	20	52
Interest income	19	22
Interest expense	(94)	(49)
Other expense, net	(30)	(23)
Foreign exchange gain (loss), net	49	(166)
Total	(36)	(164)
Income before provision for income taxes	968	389
Provision for income taxes	204	98
Deferred income tax benefit	(25)	(47)
Total	179	51
Net income	789	338
Less: Net income attributable to non-controlling interest	(62)	(3)
Net income attributable to Gazprom Neft	**727**	**335**

Revenues

The following table analyses revenues for the periods indicated:

(in US$ million)	For the three months ended March 31 2010	2009	Change %
Crude oil			
Export and sales on international markets	2,108	1,253	68.2
Export to CIS	242	159	52.2
Domestic sales	-	33	-
Total crude oil sales	2,350	1,445	62.6
Gas	**79**	**32**	**146.9**
Petroleum products			
Export and sales on international markets	2,332	1,295	80.1
Export and sales in CIS	212	151	40.4
Domestic sales	2,144	1,208	77.5
Total petroleum products sales	4,688	2,654	76.6
Other sales	**179**	**111**	**61.3**
Total sales	**7,296**	**4,242**	**72.0**

Sales Volumes

The following table analyses sales volumes for the periods indicated:

	For the three months ended March 31 2010	2009	Change %
Crude oil (millions of barrels)			
Export and sales on international markets	28.59	29.83	(4.2)
Export to CIS	5.20	6.01	(13.5)
Domestic sales	-	1.61	-
Crude oil (millions of tonnes)			
Export and sales on international markets	3.90	4.07	(4.2)
Export to CIS	0.71	0.82	(13.4)
Domestic sales	-	0.22	-
Total crude oil sales	4.61	5.11	(9.8)
Gas (bcm)	**1.68**	**1.04**	**61.5**
Petroleum products (millions of tonnes)			
Export and sales on international markets	3.65	3.06	19.2
Export and sales to CIS	0.43	0.44	(3.5)
Domestic sales	4.46	3.64	22.6
Total petroleum products sales	**8.54**	**7.15**	**19.6**

Realized Average Sales Prices.

The following table analyses the Company's average prices for the periods indicated:

	For the three months ended March 31 2010	2009	Change %
Crude oil (US$ per barrel)			
Export	73.73	42.00	75.5
CIS	46.54	26.46	75.9
Domestic	-	20.50	-
Crude oil (US$ per tonne)			
Export	540.51	307.86	75.6
CIS	340.85	193.90	75.8
Domestic	-	150.00	-
Petroleum products (US$ per tonne)			
Export	638.45	422.71	51.0
CIS	493.92	339.58	45.5
Domestic	480.65	332.12	44.7

In the first quarter of 2010 the Company's revenues increased by 72.0% to US$ 7,296 million compared to US$ 4,242 million in the same period of 2009. The increase in revenues was primarily due to the growth in market prices.

The changes in revenues were primarily due to the following:

- an increase in crude oil and petroleum products production;
- an increase in sales volumes of crude oil and petroleum products.
- an increase in average prices.

Crude Oil Export Sales

In the first quarter of 2010 crude oil export revenues increased by 68.2% to US$ 2,108 million compared to US$ 1,253 million in the same period of 2009. The increase was driven by a growth in sales prices (75.5%) partially decreased by a reduction in the relative volumes of crude oil (-4.2%). The growth in sales prices was due to increase in Urals prices (72.5%).

Crude Oil Sales to CIS

In the first quarter of 2010 the Company's revenues from CIS crude oil sales increased by 52.2% to US$ 242 million compared to US$ 159 million in the same period of 2009. The increase was due to growth in sales prices by 75.9% caused by raised world prices.

Petroleum Products Export Sales

In the first quarter of 2010 the Company's revenues from export petroleum product sales increased by 80.1% to US$ 2,332 million compared to US$ 1,295 million in the same period of 2009. The increase was primarily a result of a growth in sales prices by 51.0% and in sales volumes by 19.2% for the periods indicated, respectively. The increase in sales volumes was attributable to the Company's recent acquisition of Sibir. The price change was attributable to the increase in Urals price by 72.5%.

Petroleum Products Sales to CIS

In the first quarter of 2010 our revenues from CIS petroleum product sales were US$ 212 million compared to US$ 151 million in the same period of 2009, an increase of US$ 61 million or 40.4%. The increase was primarily due to a growth in sales prices by 45.5% with not significant decrease in the relative volumes of 3.5%. The price growth was attributable to the general raised sales prices.

Petroleum Products Domestic Sales

In the first quarter of 2010 the Company's revenues from domestic petroleum product sales increased by 77.5% to US$ 2,144 million compared to US$ 1,208 million in the same period of 2009. This increase was primarily due to a growth in sales prices by 44.7% and in relative volumes by 22.6%. The growth in volumes was primarily due to the Company' acquisitions of Sibir.

Other Sales

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

Other sales were US$ 179 million in the first quarter of 2010 that is higher by 61.3% compared to the same period of 2009 (111 US$ million) due to increase in prices and volumes.

Costs and Other Deductions

Crude Oil, Petroleum and Other Products Purchased

In the first quarter of 2010 cost of purchased crude oil, gas and petroleum products increased by 98.3% to US$ 1,624 million compared to the same period of 2009. This increase was primarily due to a growth in crude oil and petroleum products prices and recent acquisition of 2009 Sibir.

Operating Expenses

The following table comprises operating expenses for the periods indicated:

(in US$ million)	For the three months ended March 31 2010	2009	Change %
Hydrocarbon extraction expenses	270	235	14.9
Refining expenses at own refineries	127	77	64.9
Refining expenses at equity investee refineries	63	65	(3.1)
Total operating expenses	460	377	22.0

Hydrocarbon Extraction Expenses

Our hydrocarbon extraction expenses include expenditures related to raw materials and supplies, maintenance and repairs of extraction equipment, labor costs, fuel and electricity costs, activities to enhance oil recovery and other similar costs at our extraction subsidiaries.

In the first quarter of 2010 the Company's extraction expenses increased by 14.9% to US$ 270 million compared to US$ 235 million in the same period of 2009. This was primarily due to Ruble appreciation in nominal terms and the Company' acquisition of Sibir and NIS during 2009. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US$ 4.12 to US$ 4.53, or by 10.0% compared to the corresponding period of 2009.

Refining Expenses at Own Refineries

In the first quarter of 2010 the Company's refining expenses at our own refineries increased by US$ 50 million, or 64.9%, compared to the same period of 2009. The increase relates to the acquisition of NIS and obtaining control over Moscow Refinery, which became the Company's subsidiary. The Company's average refining expenses per barrel at own refineries increased from US$ 2.14 to US$ 2.38 or by 11.2% for the periods indicated.

Refining Expenses at Equity Investee Refineries

In the first quarter of 2010 the Company's refining expenses at equity investee refineries decreased by 3.1% compared to the same period of 2009. As mentioned above the Moscow Refinery became the Company's subsidiary from June 2009 and its expenses were included as Refining Expenses at Own Refineries together with relative volumes for that period. The Company's average refining expenses per barrel at equity investee refineries increased from US$ 3.59 to US$ 5.12 per barrel, or by 42.6% in the periods indicated.

Selling, General and Administrative Expenses

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

In the first quarter of 2010 the Company's selling, general and administrative expenses increased by 32.8% to US$ 360 million compared to the corresponding period of 2009. The growth was due the increase in trading activities and recent acquisitions of 2009.

Transportation Expenses

Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling and other transportation costs.

In the first quarter of 2010 our transportation expenses increased by 34.5% to US$ 601 million compared to the corresponding period of 2009. This was primarily due to increase in transportation tariffs in Russia and recent acquisitions of Sibir during the periods indicated.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses include depletion of oil and gas producing assets and depreciation of other fixed assets.

In the first quarter of 2010 our depreciation, depletion and amortization expenses increased by 4.5% to US$ 352 million compared to the corresponding period of 2009. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program.

Export Duties

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

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

	For the three months ended March 31		
(in US$ million)	2010	2009	Change %
Export customs duties for crude oil	1,061	459	131.2
Export customs duties for petroleum products	523	181	189.0
Total export customs duties	1,584	640	147.5

In the first quarter of 2010 export customs duties increased by 147.5% to US$ 1,584 million compared to the same period of 2009. The growth was due to an increase in rates because of raised Urals crude oil prices by 72.5%.

Taxes Other Than Income Taxes

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

	For the three months ended March 31		
(in US$ million)	2010	2009	Change %
Mineral extraction taxes	697	332	109.9
Excise	387	287	34.8
Property tax	42	26	61.5
Other taxes	81	28	189.3
Total taxes other than income tax	1,207	673	79.3

In the first quarter of 2010 taxes other than income tax increased by 79.3% to US$ 1,207 million compared to the same period of 2009 primarily due to a increase in mineral extraction tax rate by 111.9% caused by raised Urals crude oil prices by 72.5%. Excise tax increased for the periods indicated by 34.8% due to increase in petroleum products production by 22.6% in the periods indicated that is mostly due to acquisition of Sibir in 2009.

Income from Equity Affiliates

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

In the first quarter of 2010 income from equity affiliates decreased by 61.5% to US$ 20 million compared to the same period of 2009 due to a amortization of fair value recognized at acquisition of Salym Petroleum Development attributable to Sibir acquisition in amount of US$ 63 million.

Interest Income

In the first quarter of 2010 and 2009 interest income was in approximately the same level. Minor decrease of 13.6% relates to lower level of placed deposits during the first quarter of 2010.

Interest Expense

In the first quarter of 2010 interest expense increased by 91.8% to US$ 94 million compared to the the same period of 2009. The growth was mainly due to an increase in outstanding loans compared to the corresponding period of 2009 and Sibir acquisition.

Income Tax Expenses

In the first quarter of 2010 and 2009 effective income tax rate was 18.5% and 13.1% which reflects some adjustments made due to foreign currency losses incurred in the first quarter of 2009.

Reconciliation of Adjusted EBITDA (Earnings before Interest, Income Tax, Depreciation and Amortization) to Income before Provision for Income Taxes

	For the three months ended March 31	
(in US$ million)	**2010**	**2009**
Adjusted EBITDA	$ 1,586	$ 958
The Company's share in EBITDA of equity affiliates	(230)	(68)
Share in income of equity affiliates	20	52
Foreign exchange gain (loss), net	49	(166)
Other expenses, net	(30)	(23)
Interest expense	(94)	(49)
Interest income	19	22
Depreciation, depletion and amortization	(352)	(337)
Income before income taxes	$ 968	$ 389

EBITDA represents earnings before interest, income tax, depreciation and amortization. EBITDA is a supplemental non-GAAP financial measure used by management, as well as industry analysts, to evaluate operations. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is not used by management as an alternative to net income as an indicator of the Company's operating performance, as an alternative to any other measure of performance in conformity with US GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. EBITDA does not have a standardized meaning prescribed by US GAAP.

Liquidity and Capital Resources

<u>Cash Flows</u>

	For the three months ended March 31		
(in US$ million)	2010	2009	Change %
Net cash provided by operating activities	881	654	34.7
Net cash used in investing activities	(673)	(1,307)	(48.5)
Net cash (used in) provided by financing activities	(282)	351	(180.3)

Net Cash Provided by Operating Activities

In the first quarter of 2010 net cash provided by operating activities was US$ 881 million as compared to US$ 654 million in the same period of 2009. The increase of US$ 227 million or 34.7% in net cash provided by operating activities is due to the following:

- an increase in income before tax of US$ 579 million;
- a decrease in working capital of US$ 290 million;
- an increase in income taxes of US$ 128 million.

Net Cash Used in Investing Activities

In the first quarter of 2010 net cash used in investing activities was US$ 673 million compared to US$ 1,307 million in the same period of 2009 (48.5% decrease). The decrease of US$ 634 million in the net cash used in investing activities was mainly due to the Company' acquisition of NIS in February 2009.

Net Cash (Used in) Provided by Financing Activities

In the first quarter of 2010 net cash used in financing activities was US$ 282 million as compared to net cash provided by financing activities in amount of US$ 351 million for the same period of 2009. A decrease was mainly due to decrease in net loans proceeds over repayments by US$ 566 million supported by an increase in dividend payments of US$ 67 million in the first quarter of 2010 compared to the same period of 2009.

Capital Expenditures

The following table represents the Company's capital expenditures:

	For the three months ended March 31		
(in US$ million)	2010	2009	Change %
Exploration and production	444	362	22.7
Refining	75	72	4.2
Marketing and distribution	42	43	(2.3)
Others	7	4	75.0
Total capital expenditures	568	481	18.1

In the first quarter of 2010 the Company's capital expenditures increased by 18.1% to US$ 568 million as compared to the corresponding period of 2009. The increase was primarily driven by the exploration and production increase by 22.7% to US$ 444 million due to expanding of oil and gas activities.

Debt obligations

As of March 31, 2010 the Company's long-term debt was US$ 5,576 million as compared to US$ 5,628 million as of December 31, 2009.

The following table shows maturities of long-term loans as of March 31, 2010 (in US$ million):

Year due	Amount due
2011	$ 1,928
2012	1,551
2013	1,804
2014	182
2015 and further	111
	$ 5,576