Management's Discussion and Analysis of Financial Condition and Results of Operations for 2009, 2008 and 2007

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 December 31, 2009 and results of operations for the years ended December 31, 2009, 2008 and 2007 and should be read in conjunction with the Consolidated Financial Statements and notes thereto, which were prepared in accordance with accounting principles generally accepted in the United States of America.

Such terms as "Gazprom Neft", "Company" and "Group" in their different forms in this report represent JSC Gazprom Neft and its consolidated subsidiaries and 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

				Change, %	
	2009	2008	2007	2009-2008	2008-2007
Revenues (US$ million)	24,166	33,870	22,768	(28.7)	48.8
EBITDA (US$ million)	5,977	8,610	6,601	(30.6)	30.4
Hydrocarbon production including our share of equity investees (millions of boe)	369.8	360.9	332.7	2.5	8.5
Refining throughput at own and equity investee refineries (millions of tonnes)	33.4	28.5	26.2	17.2	8.8

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 Consolidated Financial Statements for operating segments financial data.

Changes in the Company's Structure

2009/2010

Malka Oil

On February 18, 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 (approximately US$ 113 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.

2008/2007

Tomskneft

In December 2007 the Company acquired a 50% equity interest in Tomskneft and its subsidiaries from a subsidiary of OJSC Oil Company Rosneft for US$ 3,567 million. As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and purchase their respective share of Tomskneft's annual production.

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 2009 average Brent crude oil price plummeted by 36.6% to $61.67 per barrel from $97.26 barrel a year ago.

At the same time within the course of 2009 Brent crude oil price has been steadily increasing from its minimal values in the beginning of the year ($39 per barrel on February 18) to $80 per barrel on December 1. In 2009 Brent crude price averaged at $61.67 per barrel and as of year end it stood at $77.67 per barrel. 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:

				Change %	
	2009	2008	2007	2009-2008	2008-2007
International market	(in US$ per barrel)				
Brent	61.67	97.26	72.34	(36.6)	34.4
Urals Spot (average Med. + NWE)	61.22	94.79	69.23	(35.4)	36.9
	(in US$ per tonne)				
Premium gasoline (average NWE)	578.99	841.55	697.41	(31.2)	20.7
Naphtha (average Med. + NWE)	527.28	779.84	662.27	(32.4)	17.8
Diesel fuel (average NWE)	536.98	948.49	667.70	(43.4)	42.1
Gasoil 0.2% (average Med. + NWE)	512.67	903.81	640.69	(43.3)	41.1
Fuel oil 3.5% (average NWE)	341.66	452.55	330.76	(24.5)	36.8
Domestic market					
High-octane gasoline	600.06	1,023.15	835.47	(41.4)	22.5
Low-octane gasoline	494.07	803.38	656.82	(38.5)	22.3
Diesel fuel	419.88	880.67	617.92	(52.3)	42.5
Fuel oil	204.38	329.05	219.45	(37.9)	49.9

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 2009 Ruble depreciated against the US Dollar in nominal terms, which positively 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 16 to the Consolidated Financial Statements.

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

	2009	2008	2007
Consumer Price Index (CPI), %	8.8	13.3	11.9
Producer Price Index (PPI), %	13.9	(7.0)	25.1
Ruble/US dollar exchange rate as of the end of the period	30.24	29.38	24.55
Average Ruble/US dollar exchange rate for the period	31.72	24.86	25.58
Real appreciation (depreciation) of the Ruble against the US dollar, %	5.7	(5.3)	20.0
Nominal period average appreciation (depreciation) of the Ruble against the US dollar, %	(21.6)	2.9	6.3

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:

				Change %	
	2009	2008	2007	2009-2008	2008-2007
Export customs duty					
Crude oil (US$ per tonne)	179.93	355.08	206.70	(49.3)	71.8
Crude oil (US$ per barrel)	24.55	48.44	28.20	(49.3)	71.8
Light and middle distillates products (US$ per tonne)	133.54	251.53	151.59	(46.9)	65.9
Fuel oil (US$ per tonne)	71.92	135.51	81.64	(46.9)	66.0
Mineral extraction tax					
Crude oil (RUR per tonne)	2,299.00	3,329.09	2,472.69	(30.9)	34.6
Crude oil (US$ per barrel)	9.89	18.27	13.19	(45.9)	38.5
Natural gas (RUR per 1,000 cm)	147.00	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 in the month to the 14th calendar day of the following month (monitoring period). The rate is effective on the first day of the coming month after the monitoring period.

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

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

In 2009 the export customs duty on crude oil declined by 49.3% to US$ 24.55 per barrel compared to 2008. The reduction was associated with the decline of Urals prices, which decreased by 35.4% to US$ 61.22 per barrel in 2009 compared to US$ 94.79 per barrel in 2008.

In 2008 the export customs duty on crude oil increased by 71.8% to US$ 48.44 per barrel from US$ 28.20 per barrel in 2007. The increase was due to the growth of Urals prices, which increased by 36.9% to US$ 94.79 per barrel in 2008 compared to US$ 69.23 per barrel in 2007.

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 2009 mineral extraction tax rate on crude oil decreased by 45.9% to US$ 9.89 per barrel compared to 2008. The decrease was driven by the declining Urals prices, which decreased by 35.4% to US$ 61.22 per barrel in 2009 compared to US$ 94.79 per barrel in 2008.

In 2008 mineral extraction tax rate on crude oil increased by 38.5% to US$ 18.27 per barrel primarily due to a 36.9% increase in average crude oil prices as compared to the corresponding period of 2007.

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 2009 the Company shipped 45% of crude oil for export through the Baltic Sea ports (mainly Primorsk); 21% of crude oil was exported through Transneft's Druzhba pipeline (mainly to Germany, Poland and Slovakia); 29% of crude oil shipped from various Black Sea ports Novorossiysk, Tuapse and the Ukrainian port Yuzhniy and 5% of crude oil was exported to China via transit pipeline through Kazakhstan.

Transportation of refined products in Russia is performed by means of railway transport and the pipeline system of OJSC 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.

Resource Base

According to the independent reservoir engineers, DeGolyer and MacNaughton on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System ("PRMS") as of December 31, 2009 the Company had 4,989 millions of barrel of oil equivalent (BOE), including proved crude oil reserves of 4,610 millions of barrel and proved gas reserves of 2.3 trillion cubic feet.

The Company's proved reserves including equity investees were 7,462 millions of BOE, including proved crude oil reserves of 6,883 millions of barrel and proved gas reserves of 3.5 trillion cubic feet.

The PRMS reserves above differ from those reported in the supplementary information on oil and gas activities included with our consolidated financial statements. Oil and gas reserves included in this supplementary information are prepared using definitions provided by the US Securities and Exchange Commission (SEC), which require the use of a 12-month average of the first day of the month price for each month within the reporting period. The PRMS reserves above use management's best estimate of future crude oil and natural gas prices.

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

(millions barrels of oil equivalent (BOE)	December 31, 2009	December 31, 2008
Total Proved (consolidated subsidiaries)		
Beginning of year	4,847	4,945
Production	(247)	(248)
Purchases of minerals in place	15	-
Revision of previous estimates	374	150
End of year	4,989	4,847
Total Proved (company's share of equity method investees)		
Beginning of year	1,961	1,961
Production	(132)	(109)
Purchases of minerals in place	268	-
Revision of previous estimates	376	109
End of year	2,473	1,961
Total consolidated and equity interests in proved reserves - end of year	**7,462**	**6,808**
Total consolidated and equity interests in probable reserves - end of year	**4,069**	**4,927**
Total consolidated and equity interests in possible reserves - end of year	**1,850**	**1,856**

* 49.9% of Slavneft's reserves and 50% of Tomskneft and Salym Petroleum Development's reserves

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

Noyabrskneftegaz, 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 62% 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 2009 the field was already producing about 27% 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 total 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:

				Change %	
(millions of barrels)	2009	2008	2007	2009-2008	2008-2007
Crude oil produced by consolidated subsidiaries	224.8	228.6	243.2	(1.7)	(6.0)
Company's share in production of equity investees	123.8	113.5	76.6	9.1	48.2
Total crude oil production	348.6	342.1	319.8	1.9	7.0

In 2009 and in 2009 the Company's production of crude oil including share in equity investees increased by 1.9% and by 7.0% to 348.6 million barrels (47.7 million tonnes) and to 342.1 million barrels (46.3 million tonnes) compared to the corresponding periods, respectively. The increase was due to the acquisition of 50% interest in Salym Petroleum Development ("SPD") in June 2009 and due to the acquisition of 50% interest in Tomskneft in December 2007. Company's crude oil production includes our share in equity investees' production which increase by 9.1% in 2009 compared to 2008 and by 48.2% in 2008 compared to 2007.

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

				Change %	
(millions of barrels)	2009	2008	2007	2009-2008	2008-2007
Crude oil purchases in Russia and CIS*	24.9	12.0	16.3	107.5	(26.4)
Crude oil purchases internationally	16.2	15.3	3.9	5.9	292.3
Total crude oil purchases	41.1	27.3	20.2	50.5	35.1

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

In 2009 and 2008 the Company increased the volumes of crude oil purchased by 50.5% and 35.1% to 41.1 million barrels (5.6 million tonnes) and 27.3 million barrels (3.7 million tonnes) compared to the corresponding periods, respectively, as a result of trading activities expansion.

Gas Production

In 2009 the Company produced 3.6 billions of cubic meters of associated and natural gas (including share in production of equity investees), an increase of 12.5%, compared to 3.2 billions of cubic meters in 2008. This increase relates to the Company's program for the utilization of associated gas, which is described below and recent acquisitions during 2009.

In 2008 the Company produced 3.2 billions of cubic meters of associated and natural gas with an increase of 22.2% compared to 2007. This increase relates to the Company's program for the utilization of associated gas, which is described below.

In February 2008, Gazprom Neft adopted a medium term program for the utilization of associated gas with the goal of increasing its efficient use, mitigating environmental and tax risks and increasing revenues from the sale of additional volumes of associated gas and its refined products. The Company plans to invest Rubles 2.1 billion (approximately US$ 69 million) to implement this program during 2010. 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:

				Change %	
(millions of tonnes)	2009	2008	2007	2009-2008	2008-2007
Production of petroleum products at the Company's refineries	21.5	17.3	15.5	24.3	11.6
Production of petroleum products internationally	2.2	-	-	-	-
Production of petroleum products at equity refineries	7.9	9.5	9.2	(16.8)	3.3
Total production of petroleum products	31.6	26.8	24.7	17.9	8.5
Petroleum products purchases in Russia	1.0	1.1	0.3	(9.1)	266.7
Petroleum products purchases internationally	1.2	1.7	1.6	(29.4)	6.3
Total petroleum products purchases	2.2	2.8	1.9	(21.4)	47.4

In 2009 and 2008 the Company produced 31.6 million tonnes and 26.8 million tonnes (including share in production of equity investees), respectively. The increase of 17.9% and 8.5% in 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.

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. Gazprom Neft Aero JSC, Gazpromneft Smazochny Materialy LLC and Gazprom Neft Marine Bunker LLC specialize in the sale of particular petroleum products.

NIS Distribution division operates the largest network of crude oil storages and 475 oil and gas retail stations and is a leading supplier of oil products on the Serbian market. NIS produces about 80% of all domestically consumed oil products.

At the beginning of 2009, we owned 944 retail stations, operating under different brands. The Sibir and NIS acquisitions added a further 618 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 years ended December 31, 2009, 2008 and 2007:

(in US$ million)	2009	2008	2007
Revenues			
Refined products and oil and gas sales	23,648	33,205	22,248
Other	518	665	520
Total	24,166	33,870	22,768
Costs and other deductions			
Crude oil, petroleum and other products purchased	5,636	8,296	3,928
Operating expenses	1,862	2,015	1,941
Selling, general and administrative expenses	1,280	1,046	854
Transportation expenses	1,982	1,810	1,279
Depreciation, depletion and amortization	1,475	1,309	929
Export duties	3,948	7,328	4,372
Taxes other than income taxes	3,982	5,353	4,107
Exploration expenses	147	193	184
Cost of other sales	283	271	275
Loss on sale of assets, net	142	-	-
Total	20,737	27,621	17,869
Operating income	3,429	6,249	4,899
Other income (expense)			
Income from equity affiliates	212	407	408
Gain from Sibir Energy acquisition	470	-	-
Interest income	108	100	94
Interest expense	(369)	(167)	(149)
Other (expense) income, net	(3)	89	45
Foreign exchange (loss) gain, net	50	(517)	161
Total	468	(88)	559
Income before provision for income taxes	3,897	6,161	5,458
Provision for income taxes	804	1,425	1,342
Deferred income tax expense (benefit)	12	39	(27)
Total	816	1,464	1,315
Net income	3,081	4,697	4,143
Less: Net income attributable to non-controlling interest	(68)	(39)	-
Net income attributable to Gazprom Neft	**3,013**	**4,658**	**4,143**

Revenues

The following table analyses revenues for the periods indicated:

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Crude oil					
Export and sales on international markets	6,749	11,349	7,498	(40.5)	51.4
Export to CIS	990	1,410	874	(29.8)	61.3
Domestic sales	52	297	486	(82.5)	(38.9)
Total crude oil sales	7,791	13,056	8,858	(40.3)	47.4
Gas	**107**	**148**	**44**	**(27.7)**	**236.4**
Petroleum products					
Export and sales on international markets	7,373	8,390	6,403	(12.1)	31.0
Export and sales to CIS	1,080	1,304	850	(17.2)	53.4
Domestic sales	7,297	10,307	6,093	(29.2)	69.2
Total petroleum products sales	15,750	20,001	13,346	(21.3)	49.9
Other sales	**518**	**665**	**520**	**(22.1)**	**27.9**
Total sales	**24,166**	**33,870**	**22,768**	**(28.7)**	**48.8**

Sales Volumes

The following table analyses sales volumes for the periods indicated:

				Change %	
	2009	2008	2007	2009-2008	2008-2007
Crude oil (millions of barrels)					
Export and sales on international markets	114.3	119.5	110.7	(3.7)	7.9
Export to CIS	24.2	24.2	18.3	-	32.2
Domestic sales	1.8	6.6	11.7	(72.7)	(43.6)
Crude oil (millions of tonnes)					
Export and sales on international markets	15.6	16.3	15.1	(3.7)	7.9
Export to CIS	3.3	3.3	2.5	-	32.0
Domestic sales	0.3	0.9	1.6	(72.2)	(43.8)
Total crude oil sales	19.3	20.5	19.2	(6.1)	6.8
Gas (bcm)	**3.7**	**3.7**	**2.2**	**-**	**68.2**
Petroleum products (millions of tonnes)					
Export and sales on international markets	13.9	11.4	11.4	21.9	-
Export and sales to CIS	2.3	1.9	1.9	21.1	-
Domestic sales	17.6	15.7	13.4	12.1	17.2
Total petroleum products sales	**33.8**	**29.0**	**26.7**	**16.6**	**8.6**

Realized Average Sales Prices.

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

				Change %	
	2009	2008	2007	2009-2008	2008-2007
Crude oil (US$ per barrel)					
Export	59.05	94.97	67.73	(38.3)	40.2
CIS	40.91	58.26	47.76	(29.8)	22.0
Domestic	28.89	45.00	41.54	(35.8)	8.3
Crude oil (US$ per tonne)					
Export	432.63	696.26	496.56	(38.3)	40.2
CIS	300.00	427.27	349.60	(29.8)	22.2
Domestic	208.00	330.00	303.75	(37.0)	8.6
Petroleum products (US$ per tonne)					
Export	530.43	735.96	561.67	(27.9)	31.0
CIS	469.57	686.32	447.37	(31.6)	53.4
Domestic	414.60	656.50	454.70	(36.8)	44.4

In 2009 the Company's revenues decreased by 28.7% to US$ 24,166 million compared to US$ 33,870 million in 2008. The decrease in revenues was primarily due to a significant decrease in market prices.

During 2008 the Company's revenues increased by 48.8% to US$ 33,870 million compared to US$ 22,768 million in 2007.

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 2009 crude oil export revenues decreased by 40.5% to US$ 6,749 million compared to US$ 11,349 million in 2008. The decrease was driven by a significant decline in sales prices (-38.3%) as well as a reduction in the relative volumes of crude oil (-3.7%). The decline in sales prices was due to decrease in Urals prices (-35.4%).

In 2008 our revenues from export crude oil sales increased by 51.4% to US$ 11,349 million compared to US$ 7,498 million in 2007. This growth was primarily due to an increase in sales prices by 40.3% and a 7.9% increase in sales volumes. The price increase was attributable to the growth in Urals price by 36.9%. The growth in volumes was primarily due to the acquisition of our 50% interest in Tomskneft in December 2007.

Crude Oil Sales to CIS

In 2009 the Company's revenues from CIS crude oil sales decreased by 29.8% to US$ 990 million compared to US$ 1,410 million in 2008. The decrease was primarily due to reduction in sales prices by 29.8%. The decline in sales prices was due to decrease in world prices.

In 2008 the Company's revenues from CIS crude oil sales increased by 61.3% to US$ 1,410 million compared to US$ 874 million in 2007. This growth was primarily due to an increase in sales prices by 22.0% and a 32.2% increase in sales volumes. The price increase was driven by the general growth in world prices. Increase in sales volumes was primarily due to the acquisition of our 50% interest in Tomskneft in December 2007.

Crude Oil Domestic Sales

In 2009 our revenues from domestic crude oil sales decreased by 82.5% to US$ 52 million compared to US$ 297 million in 2008. This was primarily a result of a significant decrease in sales prices by 35.8% and a 72.7% decrease in sales volumes. The decline in sales prices was due to decrease in Urals prices (-35.4%).

In 2008 our revenues from domestic crude oil sales decreased by 38.9% to US$ 297 million compared to US$ 486 million in 2007. The decrease in domestic crude oil sales was caused by an increase in the relative volume of crude oil that the Company sent to the export and CIS markets.

Petroleum Products Export Sales

In 2009 the Company's revenues from export petroleum product sales decreased by 12.1% to US$ 7,373 million compared to US$ 8,390 million in 2008. The decrease was primarily a result of a decline in sales prices by 27.9%, which was partially offset by a 21.9% increase in sales volumes. The increase in sales volumes was attributable to the Company's recent acquisitions of NIS and Sibir. The price reduction was attributable to the decrease in Urals price by 35.4%.

In 2008 the Company's revenues from export petroleum product sales increased by 31.0% to US$ 8,390 million compared to US$ 6,403 million in 2007. This growth was primarily a result of an increase in sales prices by 31.0%. The price increase was driven by the general growth in world prices.

Petroleum Products Sales to CIS

In 2009 our revenues from CIS petroleum product sales were US$ 1,080 million compared to US$ 1,304 million in 2008, a decrease of US$ 224 million or 17.2%. The decrease was primarily due to a reduction in sales prices by 31.6%, which was offset by 21.1% increase in the relative volumes. The increase in sales volumes was attributable to the Company's recent acquisitions of Sibir. The price decrease was attributable to the general reduction in sales prices.

In 2008 our revenues from CIS petroleum product sales increased by 53.4% to US$ 1,304 million compared to US$ 850 million in 2007. This growth was primarily due to an increase in sales prices by 53.4%.

Petroleum Products Domestic Sales

In 2009 the Company's revenues from domestic petroleum product sales decreased by 29.2% to US$ 7,297 million compared to US$ 10,307 million in 2008. This decrease was primarily due to a decrease in sales prices by 36.8%, which was offset by a 12.1% increase in sales volumes. The growth in volumes was primarily due to the Company' acquisitions of Sibir.

In 2008 the Company's revenues from domestic petroleum product sales increased by 69.2% to US$ 10,307 million compared to US$ 6,093 million in 2007. This growth was primarily due to an increase in sales prices by 44.4% and a 17.2% increase in sales volumes. The price increase was driven by the general growth in world prices.

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$ 518 million in 2009 that is lower by 22.1% compared to 2008 (665 US$ million in 2008 which is 27.9% higher than in 2007) due to the fall (increase) in prices and volumes.

Costs and Other Deductions

Crude Oil, Petroleum and Other Products Purchased

In 2009 cost of purchased crude oil, gas and petroleum products decreased by 32.1% to US$ 5,636 million compared to 2008. This decrease was primarily due to a significant decline in crude oil and petroleum products prices.

In 2008 cost of purchased crude oil, gas and petroleum products increased by 111.2% to US$ 8,296 million compared to US$ 3,928 million in 2007. The growth was primarily due to the acquisition of our 50% interest in Tomskneft, which resulted in an increase in crude oil purchases in the domestic market by 42.7% (32.5 million barrels) in 2008.

Operating Expenses

The following table comprises operating expenses for the periods indicated:

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Hydrocarbon extraction expenses	1,203	1,371	1,368	(12.3)	0.2
Refining expenses at own refineries	410	310	282	32.3	9.9
Refining expenses at equity investee refineries	249	334	291	(25.4)	14.8
Total operating expenses	1,862	2,015	1,941	(7.6)	3.8

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 2009 the Company's extraction expenses decreased by 12.3% to US$ 1,203 million compared to US$ 1,371 million in 2008. This was primarily due to Ruble depreciation to the US Dollar and the Company' acquisitions of Sibir and NIS during 2009. The Company's average hydrocarbon extraction cost per barrel of oil equivalent decreased from US$ 5.68 to US$ 5.03, or by 11.4% compared to 2008.

In 2008 the Company's extraction expenses increased by 0.2% to US$ 1,371 million compared to US$ 1,368 million in 2007. This was primarily due to an increase in expenses for energy supply, workovers, materials and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US$ 5.39 to US$ 5.68, or by 5.4% compared to 2007.

Refining Expenses at Own Refineries

In 2009 the Company's refining expenses at our own refineries increased by US$ 100 million, or 32.3%, compared to 2008. 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 decreased from US$ 2.30 to US$ 2.23 or by 3.0% in 2009 compared to 2008.

In 2008 the Company's refining expenses at our own refineries increased by US$ 28 million, or 9.9%, compared to 2007. This resulted primarily from increase in expenses for electricity costs due to inflation and a 11.5% increase in the refinery throughout. The Company's average refining expenses per barrel at own refineries decreased from US$ 2.33 to US$ 2.30 or by 1.3% in 2008 due to an increase in the volumes of petroleum products produced.

Refining Expenses at Equity Investee Refineries

In 2009 the Company's refining expenses at equity investee refineries decreased by US$ 85 million, or 25.4%, compared to 2008. 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 decreased from US$ 4.51 to US$ 4.10 per barrel, or by 9.1%, compared to 2008.

In 2008 the Company's refining expenses at equity investee refineries increased by US$ 43 million, or 14.8%, compared to 2007. This resulted primarily from increased cost of processing services due to higher electricity costs. The Company's average refining expenses per barrel at equity investee refineries increased from US$ 4.09 to US$ 4.51 per barrel, or by 10.3%, compared to 2007.

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 20098 and 2008 the Company's selling, general and administrative expenses increased by 22.4% and 22.5% to US$ 1,280 million and US$ 1,046 million compared to the corresponding periods. The growth was due the Company's M&A activities during the periods and an increase in trading activities.

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 2009 and 2008 our transportation expenses increased by 9.5% and 41.5% to US$ 1,982 million and US$ 1,810 million, compared to the corresponding periods. This was primarily due to increase in transportation tariffs in Russia and recent acquisitions of Sibir and NIS during the periods.

Depreciation, Depletion and Amortization

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

In 2009 and 2008 our depreciation, depletion and amortization expenses increased by 12.7% and 40.9% to US$ 1,475 million and US$ 1,309 million, respectively, compared to the corresponding periods. 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:

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Export customs duties for crude oil	2,790	5,316	3,093	(47.5)	71.9
Export customs duties for petroleum products	1,158	2,012	1,279	(42.4)	57.3
Total export customs duties	3,948	7,328	4,372	(46.1)	67.6

In 2009 export customs duties decreased by 46.1% to US$ 3,948 million compared to 2008. The reduction was due to a decrease in rates because of crude oil prices decline. The decline was reflected by decrease in export customs duty for crude oil by 47.5% and for petroleum products by 42.4%. The decrease in export customs duty was attributable to the decline in Urals price by 35.4%.

In 2008 export customs duties increased by 67.6% to US$ 7,328 million compared to US$ 4,372 million in 2007. The growth was due to an increase in export customs duty for crude oil by 71.9% and for petroleum products by 57.3%. The increase in export customs duty was attributable to the growth in Urals price by 36.9% and an increase in export and CIS volumes of crude oil by 7.9% and 32.2% due to the acquisition of 50% interest in Tomskneft.

Taxes Other Than Income Taxes

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

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Mineral extraction taxes	2,215	4,202	3,139	(47.3)	33.9
Excise	1,412	828	681	70.5	21.6
Property tax	123	107	87	15.0	23.0
Other taxes	232	216	200	7.4	8.0
Total taxes other than income tax	3,982	5,353	4,107	(25.6)	30.3

In 2009 taxes other than income tax decreased by 25.6% to US$ 3,982 million compared to 2008 primarily due to a decrease in mineral extraction taxes, which was partially offset by an increase in excise tax. The increase in excise tax was driven by an increase in refined production volumes at the Company's refineries by 17.9%.

In 2008 taxes other than income tax increased by 30.3% to US$ 5,353 million compared to US$ 4,107 million in 2007. This growth was a result of the increase in mineral extraction tax rate on crude oil by 33.9% and excise tax caused by increase in volumes of production of petroleum products by 8.5%.

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 2009 income from equity affiliates decreased by 47.9% to US$ 212 million compared to the same period of 2008 due to a decrease in crude oil prices decline. In 2008 income from equity affiliates states approximately at the same level as in 2007.

Interest Income

In 2009 and 2008 interest income increased by 8.0% and 6.4% to US$ 108 million and US$ 100 million, respectively, compared to the corresponding periods. This was due to an increase in cash and deposits placed in banks during the related periods.

Interest Expense

In 2009 interest expense increased by 121.0% to US$ 369 million compared to 2008. The growth was mainly due to an increase in outstanding loans compared to the corresponding periods of 2008 and due to higher interest rates applied to the loans received in 2009 compared to 2008.

In 2008 interest expense increased by 12.1% to US$ 167 million compared to US$ 149 million in 2007. The increase was attributable to obtaining a US$ 1 billion syndicated loan in May and July of 2008.

Income Tax Expenses

In 2009, 2008 and 2007 effective income tax rate was 20.9%, 23.8% and 24.1%, which state at a statutory level for the respective years.

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

(in US$ million)	**2009**	**2008**	**2007**
Adjusted EBITDA	**$ 5,977**	**$ 8,610**	**$ 6,601**
The Company's share in EBITDA of equity affiliates	(931)	(1,052)	(773)
Gain from acquisition of Sibir Energy	470	-	-
Share in income of equity affiliates	212	407	408
Foreign exchange gain (loss), net	50	(517)	161
Other (expense) income, net	(3)	89	45
Loss on sale of assets, net	(142)	-	-
Interest expense	(369)	(167)	(149)
Interest income	108	100	94
Depreciation, depletion and amortization	(1,475)	(1,309)	(929)
Income before income taxes	**$ 3,897**	**$ 6,161**	**$ 5,458**

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

Liquidity and Capital Resources

Cash Flows

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Net cash provided by operating activities	3,474	5,483	5,316	(36.6)	3.1
Net cash used in investing activities	(4,879)	(3,502)	(5 636)	39.3	(37.9)
Net cash provided by (used in) financing activities	185	(566)	(320)	(132.7)	76.9

Net Cash Provided by Operating Activities

In 2009 net cash provided by operating activities was US$ 3,474 million as compared to US$ 5,483 million in the same period of 2008. The decrease of US$ 2,009 million or 36.6% in net cash provided by operating activities is due to the following:

- a decrease in income before tax of US$ 2,264 million;
- an increase in working capital of US$ 399 million;
- a decrease in income taxes of US$ 648 million.

In 2008 net cash provided by operating activities was US$ 5,483 million as compared to US$ 5,316 million in the same period of 2007. The increase of US$ 167 million or 3.1% in net cash provided by operating activities is due to the following:

- an increase in income before tax of US$ 703 million;
- an increase in working capital of US$ 977 million;
- an increase in income taxes of US$ 149 million.

Net Cash Used in Investing Activities

In 2009 net cash used in investing activities was US$ 4,879 million compared to US$ 3,502 million in 2008 (39.3% increase). The increase of US$ 1,377 million in the net cash used in investing activities was mainly due to the Company' acquisitions of NIS and Sibir during 2009.

In 2008 net cash used in investing activities was US$ 3,502 million compared to US$ 5,636 million in 2007 (or 37.9% decrease). These changes in the net cash used in investing activities were due to acquisition of 50% interest in Tomskneft in December 2007 and due to an increase of capital expenditures by US$ 1,154 million in 2008 compared to 2007, which was due to the necessity to maintain the Company's production on existing fields and development of the related infrastructure.

Net Cash Provided by (Used in) Financing Activities

In 2009 net cash provided by financing activities was US$ 185 million as compared to US$ 566 million of cash used in financing activities for the same period of 2008. An increase was mainly due to increase in net loans proceeds over repayments by US$ 851 million, which was partially offset by an increase in dividend payments of US$ 145 million in 2009 compared to the same period of 2008.

In 2008 net cash used in financing activities was US$ 566 million as compared to US$ 320 million of net cash used in financing activities for the same period of 2007. The increase of US$ 246 million or 76.9% was due to net loans repayments over proceeds by US$ 1,480 million, which was partially offset by a decrease in dividend payments of US$ 1,279 million in 2008 compared to the same period of 2007.

Capital Expenditures

The following table represents the Company's capital expenditures:

				Change %	
(in US$ million)	2009	2008	2007	2009-2008	2008-2007
Exploration and production	2,021	2,979	2,045	(32.2)	45.7
Refining	334	189	107	76.7	76.6
Marketing and distribution	188	159	60	18.2	165.0
Others	64	39	-	64.1	-
Total capital expenditures	2,607	3,366	2,212	(22.5)	52.2

In 2009 the Company's capital expenditures decreased by 22.5% to US$ 2,607 million as compared to the corresponding periods of 2008. The decrease was primarily driven by the exploration and production decrease, which was partially offset by the increase in refining and marketing and distribution. Exploration and production decreased by 32.2% to US$ 2,021 million due to the Ruble depreciation and cost cutting efforts, refining – increased by 76.7% to US$ 334 million compared to 2008. The increase was due to a result of the modernization program launched at the Omsk Refinery and consolidation on Moscow Refinery during the period June 23, 2009 through December 31, 2009.

In 2008 the Company's capital expenditures increased by 52.2% to US$ 3,366 million as compared to US$ 2,212 million in 2007. The growth was primarily driven by the exploration and production and refining activities. Exploration and production increased by 45.7% to US$ 2,979 million due to the rapid development of Priobskoe oilfield, refining - by 76.6% to US$ 189 million in 2008 compared to 2007. The increase in refining segment was a result of the modernization program launched at the Omsk Refinery.

Debt obligations

As of December 31, 2009 the Company's long-term debt was US$ 5,628 million as compared to US$ 3,080 million as of December 31, 2008. An increase of US$ 2,548 million or 82.7% was mainly due to the acquisition of NIS and Sibir during 2009.

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

Year due	Amount due
2010	$ 1,466
2011	2,167
2012	1,747
2013	131
2014 and further	117
	$ 5,628