Management's discussion and analysis of financial condition and results of operations

The following discussion is intended to assist you in understanding JSC Gazprom Neft's results and present financial condition for the three and six months ended June 30, 2008 and 2007 and should be read in conjunction with our Interim Condensed Consolidated Financial Statements and notes, which were prepared in accordance with accounting principles generally accepted in the United States of America.

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

Tonnes of crude oil produced, crude oil purchased as well as other operational indicators expressed in barrels are translated into barrels using a conversion rate of 7.33 barrels per tonne. 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 meters into BOE at the rate of 6.28 thousand cubic meters per BOE.

Forward-looking statements

This discussion contains forward-looking statements concerning the financial condition, results of operations and businesses of Gazprom Neft. 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, including (without limitation): (a) price fluctuations in crude oil and natural 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.

All forward-looking statements contained in this discussion are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of this discussion. Neither Gazprom Neft nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information.

Overview

JSC Gazprom Neft and its subsidiaries (the "Company") is a vertically integrated oil company operating principally in the Russian Federation. The Company's activities include the exploration, production and development of oil and gas fields, the production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company engages in the exploration, development and production of oil and gas reserves principally through fields located in the Yamal-Nenetsky and Khanti-Mansiysky autonomous districts of Western Siberia, Omsk and Tomsk regions and Chukotka.

Gazprom Neft owns 49.9% of JSC Slavneft ("Slavneft") and 50.0% of JSC Tomskneft VNK ("Tomskneft"), which develop oil and gas reserves in the Urals and Siberian federal district. The Company accounts for Slavneft and Tomskneft as equity investees and purchases their related production in proportion to Company's share in each investee.

Gazprom Neft's primary oil refinery is JSC Omsk Refinery ("Omsk Refinery") in Southwestern Siberia. Omsk Refinery is Russia's second largest refinery, and is also among the most technologically advanced in the country. The Company has a 50.0% interest in Moscow NPZ Holdings B.V., which hold 77% stake in JSC Moscow Refinery ("Moscow Refinery"). Also the Company has access to JSC Yaroslavl Refinery ("Yaroslavl Refinery"), which is owned by Slavneft. Accordingly, the Company has access to both refinery capacities in proportion to its equity interest in each refinery. The Company's crude oil is processed at these refineries based on tolling agreements.

Gazprom Neft distributes its refined petroleum products within Russia and CIS primarily through its own subsidiaries and associated companies. Export trade is conducted through a wholly owned subsidiary Gazprom Neft Trading GmbH, which operates as a trader for the Company's crude oil and refined petroleum products export sales.

Key financial and operating results

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
Revenues (US$ million)	9,811	5,102	92.3	17,677	9,243	91.2
EBITDA (US$ million)	3,093	1,813	70.6	5,119	2,932	74.6
Net income (US$ million)	2,196	1,190	84.5	3,607	1,862	93.7
Crude oil production including our share of equity investees (millions of barrels)	84.5	79.1	6.8	166.7	158.3	5.3
Refining throughput (millions of tonnes)	7.1	6.4	10.9	13.7	12.9	6.2

Operating segments

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

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

Both segments are dependent on each other; a portion of the revenues of one segment forms a part on the costs of the other. 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 refinery and other refineries; the remaining production is exported through a wholly owned export trading company. The refined petroleum products are then distributed on the international or domestic markets through the Company's own marketing subsidiaries and associated companies. In most cases it is difficult to determine 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 reflects a combination of market factors such as international crude oil prices, transportation costs, the cost of refining crude oil, capital investment requirements of the individual upstream subsidiaries and other factors. Accordingly, the results of operation 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 financial data by operating segments in Note 12 to the Interim Condensed Consolidated Financial Statements.

Acquisitions and changes in the Group structure

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. The purchase price was based on the fair value of Tomskneft as determined by an independent appraiser. As part of this transaction, the Company and Rosneft agreed to jointly manage the business operations of Tomskneft and to each purchase their respective share of Tomskneft's annual production.

During 2007 the Company acquired three companies: Pechora Neftegaz LLC, NGP Ortjagynskoe LLC and JSC Ravninnoe, which are strategically important to the Group as these companies have reserves of crude oil and gas in traditional areas of Company's production operations.

In January 2008, an inter-government agreement was signed between the Russian Federation and the Republic of Serbia. The agreement includes certain aspects of cooperation in oil and gas industry. One of the part of this agreement assumes the purchase 51% stake in the Serbian oil company Naftna Industrija Srbije (''NIS'') by the Company. During 2008 the agreement was ratified by the Serbian parliament. The Company expects the transaction to be completed by the end of 2008. NIS is a joint-stock company engaged in the exploration, production, refining, distribution and marketing of crude oil and oil products as well as in the exploration and production of natural gas.

During 2008 Gazprom Neft and MNGK registered a joint venture - Moscow NPZ Holdings B.V. ("JV") in the Netherlands, into which both parties contributed their respective interests in Moscow Refinery. As a result the venture controls 77% of Moscow Refinery. The Company and MNGK agreed to jointly manage Moscow Refinery and make all decisions on an equal basis.

Gazprom Neft is a party to the construction project for the Burgas-Alexandroupolis oil pipeline, which is intended to be routed through the territories of Bulgaria and Greece. The expected length of the pipeline is 280-290 km, depending on the exact route of the pipeline, which has not yet been approved. The pipeline's initial capacity is expected to be 35 million tonnes of crude oil per year and could potentially increase to 50 million tonnes per year. Preliminary estimates indicate the cost of constructing the pipeline will be approximately US$ 1.2 billion. The pipeline is designed to comprise an oil terminal in Burgas (Bulgaria) and Alexandroupolis (Greece) and a trunk pipeline connecting these terminals with oil pumping stations, oil storage tanks and other related facilities. The pipeline is expected to provide a route for crude oil transportation from the ports of the Black Sea to the markets of Europe, the USA and Asian-Pacific countries. Russia's 51% interest in the project is managed by Truboprovodny Konsortsium Burgas-Alexandroupolis LLC, of which 33.33% is owned by Rosneft, 33.34% is owned by Transneft and 33.33% is owned by Gazprom Neft. The Government of Greece and Bulgaria hold the remaining stake in equal proportions. In January 2008, a shareholders agreement of the Russian-Greek-Bulgarian company was signed. In February 2008, a new company, Trans-Balkan Pipeline B.V., was registered in the Netherlands. The current project phase is developing a feasibility study and obtaining all the necessary approvals in Bulgaria and Greece.

In September 2007 Gazprom Neft formed a new company – CJSC Gazprom Neft-Nefteservice (Nefteservice) – to manage its existing oil service companies. At present, the Company manages ten service companies, which provide a wide range of services, such as development and survey work, drilling, well-workover, geophysical services, construction of drilling rigs, transportation and others.

Main macroeconomic factors affecting results of operation

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

- Changes in market prices of crude oil, gas and petroleum products;
- Real Russian Ruble ("RR") appreciation vs. the US Dollar ("USD") and inflation;
- Taxation; and
- Transportation of crude oil and petroleum products

Changes in market prices of crude oil, gas and petroleum products

The prices of crude oil and petroleum products in the international and in Russian markets are the primary driver of the Company's results of operation. We do not use derivative instruments in our trade operations. Accordingly, market crude oil prices are the main driver of the Company's Revenues.

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 June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
International market			(in US$ per barrel)			
Brent	121.18	68.76	76.2	109.05	63.22	72.5
Urals Spot (average Med. + NWE)	117.35	65.17	80.1	105.35	59.69	76.5
			(in US$ per tonne)			
Premium gasoline (average NWE)	1,052.77	743.40	41.6	948.22	648.51	46.2
Regular gasoline (average NWE)	1,058.57	733.22	44.4	949.55	640.66	48.2
Naphtha (average Med. + NWE)	979.00	658.40	48.7	905.93	599.55	51.1
Diesel fuel (average NWE)	1,186.70	627.15	89.2	1,043.97	584.24	78.7
Gasoil 0.2% (average Med. + NWE)	1,134.27	605.01	87.5	1,001.51	561.71	78.3
Fuel oil 3.5% (average NWE)	528.33	307.03	72.1	482.65	272.34	77.2
Domestic market						
High-octane gasoline	1,109.30	798.74	38.9	1,031.06	761.49	35.4
Low-octane gasoline	938.35	643.76	45.8	857.99	596.39	43.9
Diesel fuel	1,022.49	588.30	73.8	935.88	559.80	67.2
Fuel oil	384.03	203.75	88.5	343.56	162.19	111.8

Source: Platts (International market) and Kortes (Domestic market)

In the second quarter of 2008 the Brent average price was US$ 121.18 per barrel, which is 76.2% higher than the corresponding period of 2007. The average Urals price grew by 80.1% to US$ 117.35 per barrel as compared to the second quarter of 2007. In the first half of 2008 the Brent average price increased by 72.5% to US$ 109.05 per barrel compared to the same period of 2007. Average Urals price grew by 76,5% to US$ 105.35 per barrel as compared to the first half of 2007.

Real ruble appreciation vs. USD and inflation

A substantial part of Company's revenues from sales of crude oil and petroleum products is denominated in US Dollars, while most of the expenses are settled in Russian rubles. Accordingly, any real ruble appreciation versus the US Dollar negatively affects the results of the Company's operations, though this fact is partially offset by an increased Ruble denominated Revenue from sales in Russia. In order to mitigate the effects of fluctuation in the Ruble – US Dollar exchange rate, in April 2008 the Company began using foreign currency derivative instruments to manage this risk. Refer to additional information in Note 9 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 June 30		For the six months ended June 30	
	2008	2007	2008	2007
Ruble inflation (CPI), %	3.90	2.20	8.70	5.70
Ruble/USD dollar exchange rate at the end of the period	23.46	25.82	23.46	25.82
Average Ruble/USD dollar exchange rate for the period	23.63	25.86	23.94	26.08
Real appreciation of the ruble against the US dollar, %	1.95	1.50	8.45	3.90

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

Taxation

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

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
Export customs duty						
Crude oil (US$ per tonne)	359.22	171.97	110.1	336.56	175.48	91.8
Crude oil (US$ per barrel)	49.01	23.32	110.2	45.92	23.94	92.8
Light and middle distillates products (US$ per tonne)	254.29	127.52	99.4	238.43	130.55	82.6
Fuel oil (US$ per tonne)	137.02	68.67	99.5	128.81	70.30	83.2
Mineral extraction tax						
Crude oil (RUR per tonne)	4,097.38	2,338.66	75.2	3,701.90	2,122.00	74.5
Crude oil (US$ per barrel)	23.66	12.34	91.7	21.09	11.10	90.0
Natural gas (RUR per 1000 cm)	147.00	147.00	-	147.00	147.00	-

Crude oil extraction tax rate. Since January 1, 2007 the rate of mineral extraction tax for crude oil (R) is determined based on the formula R = 419 * (P – 9) * D/261 where P - is the average monthly Urals oil price on Rotterdam and Mediterranean markets (US$/bbl) and D - is the RUR/US$ average exchange rate for the month.

In case the depletion, which is determined as the accumulated volume of crude produced from the field (N) divided by the total volume of reserves (V = A + B + C1 + C2, as determined by Russian Resources Classification), equals or exceeds 80%, there is a special ratio (C) added to the formula (419 * (P – 9) * D/261* C), where C = -3.5 * N/V + 3.8. This adjustment provides a reduction of the tax payable in accordance with the formula provided above by 3.5% for every 1% of depletion over 80%.

In the second quarter and in the first half of 2008 the mineral extraction tax for crude oil increased by 91.7% and 90.0% to US$ 23.66 per barrel and US$ 21.09 per barrel, respectively, compared to the corresponding periods of 2007. The increase in both comparative periods was driven by higher prices for crude oil. Thus, Urals prices grew by 80.1% and 76.5% compared to the second quarter and the first half of 2007.

Natural gas 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.

Crude oil export duty rate. Export custom duty rate per tonne of crude oil is enacted by the Government of Russian Federation based on the average Urals price for the last monitoring period. The monitoring period comprises two months starting from November 1, 2001. The rate is effective of the first day of the second month after the monitoring period. The Government determines the export custom duty rate, which is dependent on the average Urals price for the monitoring period according to the following table:

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)

The export customs duty for crude oil increased by 110.2% and 92.8% in the second quarter and in the first half of 2008 to US$ 49.01 per barrel and US$ 45.92 per barrel, respectively, compared to the corresponding periods of 2007. The increase in both comparative periods was associated with higher Urals prices.

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

Transportation of crude oil and petroleum products

Gazprom Neft transports its crude oil for export primarily through Russia's state-owned pipeline system, which is operated by JSC Transneft ("Transneft"). Access to this pipeline system in accordance with Russian legislation is regulated by the Russian Ministry of Industry and Energy. Capacity of 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 that detail the precise volumes of oil that each oil producer can pump 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 owned export infrastructure of oil producing companies.

Most of the oil produced by the Company is classified as ''Siberian Light'' crude or "SILCO" and has sub-average density (34.20 degrees API or 830-850 kg/cm) and sub-average sulfur content (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 at 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 half year ended June 30, 2008, the Company's sales of SILCO through Tuapse accounted for 7.9% of total export sales.

In the first half of 2008 the Company shipped 47% of crude oil for export through Baltic Sea ports (mainly Primorsk); 26% of crude oil were exported through Transneft's Druzhba pipeline (mainly to Germany, Poland and Slovakia); 24% of crude oil shipped from various Black Sea ports Novorossiysk, Tuapse and the Ukrainian port Yuzhniy and 2% of crude oil were exported to China via transit pipeline through Kazakhstan.

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

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

Production of crude oil, gas and petroleum products

Crude oil production

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

The Company's crude oil production activity has been primarily undertaken by three of its operating subsidiaries, JSC Gazpromneft-Noyabrskneftegaz (Noyabrskneftegaz), Gazpromneft-Khantos LLC (Khantos) and Gazpromneft-Vostok LLC (Vostok). During 2007 the Company created two new operating subsidiaries: Gazpromneft-Yamal LLC (Yamal) for exploration and development of JSC Gazprom's oil fields (the Company's primarily shareholder) and Gazpromneft-Angara LLC (Angara) for exploration and development of Company's new oil fields in Eastern Siberia.

Noyabrskneftegaz, the primary Gazprom Neft production subsidiary, operates about 30 fields in the Yamal-Nenetsky and Khanti-Mansiysky autonomous area, which account for 67% of the Company's total proved reserves based on SPE classification. Additionally, it provides operating services to other Company's production subsidiaries such as JSC Meretoyakhaneftegaz ("Meretoyakhaneftegaz"), Sibneft-Chukotka LLC ("Sibneft-Chukotka") and recently acquired subsidiaries: Pechora Neftegaz LLC, NGP Ortjagynskoe LLC and JSC Ravninnoe. Meretoyahaneftegaz, of which the Company owns a 67% interest, has a license for the Meretoyakhinskoye field in the north of the Noyabrsk region.

Khantos produces crude oil from Zimnee fields in the Khanti-Mansiysky autonomous district and Tyumen region and provides operating services for Sibneft-Yugra LLC ("Sibneft-Yugra"). Sibneft-Yugra, of which the Company owns a 99% interest, has 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 prospective oil fields. Its active development began in 2004 and just two years later, in 2007, the field already produced over 20% of the Company's total production excluding share in equity investees. Priobskoye field is a key asset with a strategic role in the further Company development and is scheduled to become the main source of the Company's oil production growth in the long run.

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

Slavneft, which Gazprom Neft and TNK-BP own on an equal interest, develops reserves in the Urals federal district and conducts exploration in the Siberian Federal district.

Tomskneft in which Gazprom Neft and Rosneft own an equal interest holds licenses for the development of fields in Tomsk Region and Khanty-Mansiysky autonomous district.

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

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(millions of barrels)	2008	2007		2008	2007	
Crude oil produced by consolidated subsidiaries	56.5	59.9	(5.7)	113.9	119.9	(5.0)
Company's share in production of equity investees	28.0	19.2	45.8	52.8	38.4	37.5
Total crude oil production	84.5	79.1	6.8	166.7	158.3	5.3

In the second quarter and in the first half of 2008 Company's crude oil production decreased by 5.7% and 5.0% to 56.5 million barrels (7.7 million tonnes) and 113.9 million barrels (15.5 million tonnes), respectively, compared to the corresponding periods of 2007. The decrease in both comparative periods was resulted primarily from a decrease in output at Noyabrskneftegaz, which was partially offset by an increase in production of certain new fields such as Priobskoye and certain fields in Tomsk and Omsk regions.

In the second quarter and in the first half of 2008 Company's production including share in equity investee increased by 6.8% and 5.3% to 84.5 million barrels (11.5 million tonnes) and 166.7 million barrels (22.7 million tonnes), respectively, compared to the same periods of 2007. The increase was primarily due to the acquisition of our 50% interest in Tomskneft in December 2007.

The following table comprises crude oil purchases for the period indicated:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(millions of barrels)	2008	2007		2008	2007	
Crude oil purchases in Russia*	4.2	4.1	2.4	6.7	6.7	-
Crude oil purchases internationally	4.4	-	-	8.9	-	-
Total crude oil purchases	8.6	4.1	109.8	15.6	6.7	132.8

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

The increase in volumes of crude oil purchased in Russia and internationally was primarily due to the expansion in Company's marketing activities.

Gas production

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

(billions of cubic meters – bcm)	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
Gas produced by consolidated subsidiaries	0.6	0.4	50.0	1.1	0.8	37.5
Company's share in production of equity investees	0.3	0.1	200.0	0.5	0.2	150.0
Total gas production	0.9	0.5	80.0	1.6	1.0	60.0
Gas purchased in Russia*	0.3	0.1	200.0	0.7	0.2	250.0

* Gas purchases in Russia exclude purchases from Company's equity investees Slavneft and Tomskneft.

In the second quarter and in the first half of 2008 the Company produced 0.6 and 1.1 bcm of gas available for sale with an increase of 50.0% and 37.5%, respectively, compared to the corresponding periods of 2007. This increase relates to the Company's program for the utilization of associated gas, which is described below.

Including gas production of equity investees the Company's production grew by 80.0% and 60.0% in the second quarter and in the first half of 2008, respectively, compared to the same periods of 2007. The increase was attributed to the acquisition of our 50% interest in Tomskneft in December 2007.

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 18 billion Rubles to implement this program during the period from 2008 through 2010. In particular, the program provides for the construction of associated gas transportation facilities from the Ety-Purovskoye, Meretoyakhinskoye, Severo-Yangtinskoye, Chatylkinskoye, Kholmistoye, Yuzhno-Udmurtskoye, Ravninnoye, Vorgenskoye, Urmanskoye and Shinginskoye fields.

Production of petroleum products

The following table sets forth Company's petroleum products production for the period indicated:

(millions of tones)	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
Production of petroleum products at the Company's refinery	4.6	3.8	21.1	8.5	7.6	11.8
Production of petroleum products at third party refineries	2.1	2.3	(8.7)	4.4	4.6	(4.3)
Total production of petroleum products	6.7	6.1	9.8	12.9	12.2	5.7
Petroleum products purchases in Russia	0.3	-	-	0.5	0.1	400.0
Petroleum products purchases internationally	0.4	0.2	100.0	1.1	0.5	120.0
Total petroleum products purchases	0.7	0.2	250.0	1.6	0.6	166.7

In the second quarter and in the first half of 2008 the Company increased the volumes of refined petroleum products by 9.8% and 5.7%, respectively, compared to the corresponding period of 2007. This increase was associated with the result of Omsk refinery modernization program.

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 Moscow Refinery in proportion of its equity interest. Yaroslavl Refinery is owned by Slavneft, in which Gazprom Neft owns a 49.9% interest. Gazprom Neft has access to Yaroslavl's refining capacity in proportion to its equity interest. Gazprom Neft owns both the crude oil processed at these oil refineries and the products produced from refining, and pays each refinery a fee for their processing services.

The Company primarily markets its own crude oil through Gazprom Neft Trading GmbH, its export-trading subsidiary. Gazprom Neft does not currently sell significant volumes of crude oil in Russia.

Gazprom Neft distributes its petroleum products in Russia primarily through 19 subsidiaries and associated companies. Sixteen of these are retail distribution companies engage in wholesale distribution, providing petroleum oil products for Rosreserv and operate in the gas station retail markets. Three of them specialize on particular petroleum products (Gazprom Neft Aero LLC, Gazpromneft Smazochny materialy LLC and Gazprom Neft Marine Bunker LLC). Gazprom Neft distributes its refined products in central Asia through three subsidiaries: Gazpromneft Asia LLC in Kyrgyzstan; Gazpromneft—Tajikistan LLC; and Gazpromneft—Kazakhstan LLC.

Results of operation

The following table represents the Company's results of operations for the three and six months periods ended June 30, 2008 and 2007:

(in US$ million)	For the three months ended June 30 2008	2007	Change %	For the six months ended June 30 2008	2007	Change %
Revenues						
Refined products and oil and gas sales	9,632	4,930	95.4	17,314	8,999	92.4
Other	179	172	4.1	363	244	48.8
Total	9,811	5,102	92.3	17,677	9,243	91.2
Costs and other deductions						
Crude oil, petroleum and other products purchased	2,375	836	184.1	4,470	1,424	213.9
Operating expenses	527	462	14.1	995	944	5.4
Selling, general and administrative expenses	275	227	21.1	458	431	6.3
Transportation expenses	434	267	62.5	824	545	51.2
Depreciation, depletion and amortization	316	275	14.9	572	508	12.6
Export duties	1,748	736	137.5	3,279	1,572	108.6
Taxes other than income taxes	1,378	745	85.0	2,494	1,395	78.8
Exploration expenses	58	30	93.3	101	68	48.5
Cost of other sales	136	133	2.3	256	154	66.2
Total	7,247	3,711	95.3	13,449	7,041	91.0
Operating income	2,564	1,391	84.3	4,228	2,202	92.0
Other income (expense)						
Income from equity affiliates	213	147	44.9	319	222	43.7
Interest income	16	20	(20.0)	24	41	(41.5)
Interest expense	(38)	(25)	52.0	(78)	(44)	77.3
Other income (expense), net	133	(4)	(3,425.0)	151	(12)	(1,358.3)
Foreign exchange (loss) gain, net	(3)	4	(175.0)	54	23	134.8
Minority interest	(28)	-	-	(28)	-	-
Total	293	142	106.3	442	230	92.2
Income before provision for income taxes	2,857	1,533	86.4	4,670	2,432	92.0
Provision for income taxes	677	381	77.7	1,047	633	65.4
Deferred income tax (benefit) expense	(16)	(38)	(57.9)	16	(63)	(125.4)
Total	661	343	92.7	1,063	570	86.5
Net income	2,196	1,190	84.5	3,607	1,862	93.7

Revenues

The following table analyses revenues breakdown for the period indicated:

(in US$ million)	For the three months ended June 30 2008	2007	Change %	For the six months ended June 30 2008	2007	Change %
Crude oil						
Export	3,733	1,724	116.5	6,682	3,041	119.7
CIS	420	192	118.8	644	322	100.0
Domestic	94	93	1.1	203	161	26.1
Total crude oil sales	4,247	2,009	111.4	7,529	3,524	113.6
Gas	40	10	300.0	78	22	254.5
Petroleum products						
Export	2,113	1,474	43.4	4,410	2,866	53.9
CIS	291	202	44.1	523	375	39.5
Domestic	2,941	1,235	138.1	4,774	2,212	115.8
Total petroleum products sales	5,345	2,911	83.6	9,707	5,453	78.0
Other sales	179	172	4.1	363	244	48.8
Total sales	9,811	5,102	92.3	17,677	9,243	91.2

Sales volumes

The following table analyses sales volumes for the period indicated:

	For the three months ended June 30 2008	2007	Change %	For the six months ended June 30 2008	2007	Change %
Crude oil (millions of barrels)						
Export	32.2	29.3	9.9	64.5	56.4	14.4
CIS	6.6	5.1	29.4	11.7	9.5	23.2
Domestic	1.5	2.2	(31.8)	3.7	4.4	(15.9)
Crude oil (millions of tonnes)						
Export	4.4	4.0	10.0	8.8	7.7	14.3
CIS	0.9	0.7	28.6	1.6	1.3	23.1
Domestic	0.2	0.3	(33.3)	0.5	0.6	(16.7)
Total crude oil sales	5.5	5.0	10.0	10.9	9.6	13.5
Gas (bcm)	0.9	0.6	50.0	1.8	1.1	63.6
Petroleum products (millions of tonnes)						
Export	2.5	2.7	(7.4)	5.7	5.9	(3.4)
CIS	0.3	0.5	(40.0)	0.7	1.0	(30.0)
Domestic	4.2	3.1	35.5	7.7	6.0	28.3
Total petroleum products sales	7.0	6.3	11.1	14.1	12.9	9.3

Realized average sales prices.

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

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
	2008	2007		2008	2007	
Crude oil (US$ per barrel)						
Export	115.93	58.84	97.0	103.60	53.92	92.1
CIS	63.64	37.65	69.0	55.04	33.90	62.4
Domestic	62.67	42.27	48.3	54.87	36.60	49.9
Crude oil (USD per tonne)						
Export	848.41	431.00	96.8	759.32	394.94	92.3
CIS	466.67	274.29	70.1	402.50	247.69	62.5
Domestic	470.00	310.00	51.6	406.00	268.33	51.3
Gas (US$ per bcm)	44.44	16.67	166.6	43.33	20.00	116.7
Petroleum products (USD per tonne)						
Export	845.20	545.93	54.8	773.68	485.76	59.3
CIS	970.00	404.00	140.1	747.14	375.00	99.2
Domestic*	700.24	398.39	75.8	620.00	368.67	68.2

* All domestic prices exclude excise tax

Revenues increased by 92.3% and 91.2% in the second quarter and in the first half of 2008, respectively, to US$ 9,811 million and US$ 17,677 million compared to the corresponding period of 2007. The growth in revenues was primarily due to the following:

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

Sales of crude oil

In the second quarter and in the first half of 2008 our revenues from crude oil export sales increased by 116.5% and 119.7% to US$ 3,733 million and US$ 6,682 million, respectively, compared to the corresponding periods of 2007. The increase in revenues was due to an increase in volumes of crude oil sales, accompanied by an increase in average prices. The growth in volumes was due to a 9.9% and 14.4% increase in crude oil export sales in the second quarter and in the first half of 2008, respectively. The price increase was attributable to the general growth of world prices; in particular, the average price for Urals crude oil increased by 80.1% and 76.5% in the second quarter and in the first half of 2008, respectively.

Revenues from crude oil sales to the CIS increased by 118.8% and 100.0% in the second quarter and in the first half of 2008, respectively, compared to the same periods of 2007. The increase was due to an increase in volumes of crude oil sales, accompanied by an increase in average prices. The growth in volumes was due to a 29.4% and 23.2% increase in crude oil sales to the CIS in the period indicated. The price increase was attributable to the general growth of world prices; in particular, the average price per barrel increased by 69.0% and 62.4% in the second quarter and in the first half of 2008, respectively.

The decrease in domestic crude oil sales volumes was caused by an increase in the relative volume of crude oil that the Company sent to the export and CIS markets.

Sales of petroleum products

In the second quarter and in the first half of 2008 Company's revenues from petroleum products export sales increased by 43.4% and 53.9% to US$ 2,113 million and US$ 4,410 million, respectively, compared to the corresponding periods of 2007. The increase was due to the growth of world prices; in particular, the average price for petroleum products grew by 54.8% and 59.3% in the second quarter and in the first half of 2008, respectively.

Revenues from petroleum products sales to CIS increased by 44.1% and 39.5% in the second quarter and in the first half of 2008, respectively, compared to the same periods of 2007. The growth was attributable to the increase in world prices, as the average price increased by 140.1% and 99.2% in the second quarter and in the first half of 2008, respectively.

Revenues from petroleum products sales on the domestic market increased by 138.1% and 115.8% to US$ 2,941 million and US$ 4,774 million in the second quarter and in the first half of 2008, respectively, compared to the same periods of the previous year. The growth was due to an increase in volumes of petroleum products sales, accompanied by an increase in average prices. Thus, the volumes of petroleum products sales increased by 35.5% and 28.3% for the period indicated. The price increase was attributable to the general growth of world prices; in particular, the average realized prices for petroleum products increased by 75.8% and 68.2% in the second quarter and in the first half of 2008.

Other sales

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

Other sales were US$ 179 million and US$ 363 million in the second quarter and in the first half of 2008, that is 4.1% and 48.8% higher compared to the same periods of 2007. The increase was a result of the growth in other sales and services provided to third parties in Russia.

Cost and other deductions

Crude oil, petroleum and other products purchased

Cost of purchased crude oil, gas and petroleum products increased by 184.1% and 213.9% in the second quarter and in the first half of 2008 to US$ 2,375 million and US$ 4,470 million, respectively, compared to the corresponding periods of 2007. The increase was primarily due to the acquisition of our 50% interest in Tomskneft, which resulted in a 45.8% increase in purchased crude oil (8.8 million barrels) for the second quarter and a 37.5% increase in purchased crude oil (14.4 million barrels) for the first half of 2008.

Operating expenses

The following table comprises operating expenses for the period indicated:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(in US$ million)	2008	2007		2008	2007	
Hydrocarbon extraction expenses	370	327	13.1	683	674	1.3
Refining expenses at own refinery	82	63	30.2	160	124	29.0
Refining expenses at equity investees refineries	75	72	4.2	152	146	4.1
Total operating expenses	527	462	14.1	995	944	5.4

The main drivers of the Company's operating expenses are the growth of hydrocarbon extraction expenses and refining costs at own and equity investees refineries. The main negative driving factor for the Company's costs growth is the real Ruble appreciation against USD, as they are settled in Russian Rubles and expressed in USD. In the period since June 30, 2007 till June 30, 2008 the Real Ruble appreciation in Russia was 19.6% that pushed our Ruble denominated costs up. The effective cost control policy that the Company holds helped us to hold the level of operating costs growth for the three months and six months periods ending June 30, 2008 compared to the respective periods ending June 30, 2007 at 14.1% and 5.4% to US$ 527 million and US$ 995 million respectively.

Hydrocarbon extraction expenses

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

In the second quarter of 2008, the Company's extraction expenses increased by 13.1%, compared to the second quarter of 2007. The increase resulted from the effect of the real ruble appreciation against the US dollar, increased expenses for energy supply, overhauls, materials and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US$5.24 to US$6.14, or by 17.2%, compared to the second quarter of 2007.

In the first half of 2008, the Company's extraction expenses increased by 1.3%, compared to the first half of 2007. The increase resulted from the effect of the real ruble appreciation against the US dollar, increased expenses for energy supply, overhauls, materials and labor. The Company's average hydrocarbon extraction cost per barrel of oil equivalent increased from US$5.40 to US$5.65, or by 4.6%, compared to the first half of 2007.

Own refining expenses

In the second quarter of 2008 Company's refining expenses at our own refinery increased by US$ 19 million, or 30.2%, compared to the same period of 2007. This resulted primarily from increased expenses for power supply, the effect of the real ruble appreciation against the US dollar and an increase in production volumes of 21.1% in the second quarter of 2008. Company's average refining expenses per barrel at own refinery increased from US$2.15 to US$2.28 per barrel of oil refined, or by 6.0%, compared to the second quarter of 2007.

In the first half of 2008 Company's refining expenses at own refinery increased by US$ 36 million, or 29.0%, compared to the same period of 2007. This resulted primarily from increased expenses for power supply, the effect of the real ruble appreciation against the US dollar and an increase in production volumes of 11.8% in the same period of 2008. Company's average refining expenses per barrel at own refinery increased from US$2.12 to US$2.40 per barrel of oil refined, or by 13.2%, compared to the first half of 2007.

Refining expenses at equity investees refineries

In the second quarter of 2008 Company's refining expenses at equity investees refineries increased by US$ 3 million, or 4.2%, compared to the same period of 2007. This resulted primarily from increased cost of processing services. Company's average refining expenses per barrel at equity investees refineries increased from US$4.09 to US$4.66 per barrel of oil refined, or by 13.9%, compared to the second quarter of 2007.

In the first half of 2008 Company's refining expenses at equity investees refineries increased by US$ 6 million, or 4.1%, compared to the same period of 2007. This resulted primarily from increased cost of processing services. Company's average refining expenses per barrel at equity investees refineries increased from US$4.07 to US$4.51 per barrel of oil refined, or by 10.8%, compared to the first half of 2007.

Selling, general and administrative expenses

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

In the second quarter and in the first half of 2008 our selling, general and administrative expenses increased by 21.1% and 6.3% to US$ 275 million and US$ 458 million, respectively, compared to the corresponding period of 2007. This growth was due to an increase in salaries expenses and real ruble appreciation.

Transportation expenses

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

In the second quarter and in the first half of 2008 our transportation expenses increased by 62.5% and 51.2% to US$ 434 million and US$ 824 million, respectively, compared to the corresponding periods of 2007. This growth was due to an increase in transportation tariffs, volumes of crude oil and petroleum products transported.

Depreciation, depletion and amortization

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

In the second quarter of 2008 our depreciation, depletion and amortization expense was US$ 316 million compared to US$ 275 million in the second quarter of 2007, an increase of US$ 41 million, or 14.9%. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program.

In the first half of 2008 our depreciation, depletion and amortization expense was US$ 572 million compared to US$ 508 million in the corresponding period of 2007, an increase of US$ 64 million, or 12.6%. The increase was a result of the Company's capital expenditure program, acquisitions and significant increase in depreciable assets.

Export duties

Export customs duties include crude oil and petroleum product export customs duties.

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

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(in US$ million)	2008	2007		2008	2007	
Export customs duties for crude oil	1,374	494	178.1	2,516	1,040	141.9
Export customs duties for petroleum products	374	242	54.5	763	532	43.4
Total export customs duties	1,748	736	137.5	3,279	1,572	108.6

In the second quarter of 2008 export customs duties increased by US$ 1,012 million or 137.5% compared to the same period of 2007 due to increased export custom duty rates for crude oil per barrel by 110.2%, for light and middle distillates products by 99.5%, for fuel oil by 99.4% and the increase of 9.9% in crude oil export volumes, which was partially offset by a decrease of 7.4% in sales volumes of petroleum products.

In the first half of 2008 export customs duties increased by 108.6% to US$ 3,279 million from US$ 1,572 million for the corresponding period of 2007 due to increased export custom duty rates for crude oil per barrel by 92.8%, for light and middle distillates products by 82.7%, for fuel oil by 83.2% and the increase of 14.4% in crude oil export volumes, which was partially offset by a decrease of 3.4% in sales volumes of petroleum products.

Taxes other than income taxes

The following table set forth Company's taxes other than income taxes for the period indicated.

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(in US$ million)	2008	2007		2008	2007	
Mineral extraction taxes	1,330	723	84.0	2,396	1,313	82.5
Property tax	26	21	23.8	50	40	25.0
Other taxes	22	1	2,100.0	48	42	14.3
Total taxes other than income tax	1,378	745	85.0	2,494	1,395	78.8

In the second quarter and in the first half of 2008 taxes other than income tax increased by 85.0% and 78.8% to US$ 1,378 million and US$ 2,494 million, respectively, compared to the corresponding periods of 2007. This increase was a result of the growth in a tax rate of mineral extraction tax for crude oil per barrel by 91.7% and 90.0% in the periods indicated.

Exploratory expenses

Exploration expenses include seismic, geophysical and exploratory drilling costs (including costs associated with stratigraphic test wells). Exploration drilling costs are temporarily capitalized pending determination of whether proved oil and gas reserves have been found proved reserves, which justify further commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses in the period when a determination is made that such costs have not resulted in additional proved oil and gas reserves.

In the second quarter and in the first half of 2008 our exploratory increased by 93.3% and 48.5% to US$ 58 million and US$ 101 million, respectively, compared to the corresponding period of 2007. The growth was due to increased volume of exploration services in order to expend the Company's reserve base.

Cost of other sales

Cost of other sales increased by 2.3% and 66.2% in the second quarter and in the first half of 2008, respectively, compared to the same periods of 2007. The increase was primarily due to a result of the growth in other sales and services provided.

Income from equity affiliates

The Company accounts its investments in Slavneft, Tomskneft and Moscow refinery via equity method. These companies are primarily engaged in crude oil exploration, production and refining in domestic market.

In the second quarter and in the first half of 2008 income from equity affiliates grew by 44.9% and 43.7% to US$ 213 million and US$ 319 million, respectively, compared to the corresponding periods of 2007. The growth was primarily attributable to the acquisition of 50% interest in Tomskneft.

Interest income

In the second quarter and in the first half of 2008 interest income decreased by 20.0% and 41.5% to US$ 16 million and US$ 24 million, respectively, compared to the same periods of 2007. This was due to a decrease in cash and short-term deposits placed in banks during the related periods of 2007 and 2008.

Interest expense

In the second quarter and in the first half of 2008 interest expense grew by 52.0% and 77.3% to US$ 38 million and US$ 78 million, respectively, compared to the corresponding periods of 2007. The increase was attributable to obtaining US$ 2.2 billion syndicated loan during the second half 2007.

Income tax expenses

In the second quarter and in the first half of 2008 effective income tax rate was 23.1% and 22.8% respectively, which is slightly lower than a statutory tax rate in Russia. This is due to non deductible permanent differences during the periods indicated.

Reconciliation of Net income to EBITDA (Earnings before interest, income tax, depreciation and amortization)

	For the three months ended June 30		For the six months ended June 30	
(in US$ million)	2008	2007	2008	2007
Net income	2,196	1,190	3,607	1,862
Add back:				
Minority interest	28	-	28	-
Income tax expense	661	343	1,063	570
Depreciation and amortization	316	275	572	508
Interest income	(16)	(20)	(24)	(41)
Interest expense	38	25	78	44
Other income and expenses	(133)	4	(151)	12
Foreign exchange (loss) gain, net	3	(4)	(54)	(23)
EBITDA	3,093	1,813	5,119	2,932

EBITDA represents net income 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 a 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 Flow

	For the six months ended June 30		Change %
(in US$ million)	2008	2007	
Net cash provided by operating activities	2,450	2,301	6.5
Net cash used in investing activities	(1,993)	(783)	154.5
Net cash provided by financing activities	85	881	(90.4)

Net cash provided by operating activities

In the first half of 2008 net cash provided by operating activities was US$ 2,450 million as compared to US$ 2,301 million for the same period of 2007. Reasons for US$ 149 million, or 6.5% increase in net cash provided by operating activities is due to the following:

- the growth of net income by 93.7% or by US$ 1,745 million due to an increase in world prices for crude oil;
- the increase in accounts payable and accrued liabilities by US$ 249 million due to growth in purchases of crude oil, petroleum and other products;
- the increase in income and other taxes payable by US$ 272 million caused by changes in Russian tax legislation for VAT and an increase in the rate of mineral extraction tax for crude oil by 74.5%;
- a significant increase in accounts receivables of US$ 1,387 million due to the growth in sales volumes and market prices for crude oil and petroleum products; and
- the increase in inventory of US$ 461 million was a result of the increase in balances of purchased crude oil and petroleum products due to the growth in market prices.

Net cash used in investing activities

In the first half of 2008 net cash used in investing activities was US$ 1,993 million against US$ 783 million in the first half of 2007. The increase of US$ 1,210 million or 154.5% in the cash used in investing activities consisted primarily of:

- A significant increase in capital expenditures of US$ 661 million was due to continuing effort to maintain the Company's production on existing fields and development of the related infrastructure;
- A significant increase in loans issued and short term investments of US$ 396 million was a result of an increase in cash deposits with original maturities in excess of 90 days placed in banks as of June 30, 2008.

Net cash provided by financing activities

In the first half of 2008 net cash proceeds from financing activities was US$ 85 million as compared to US$ 881 million for the same period of 2007. A decrease of cash movements provided by financing activities was primarily due to a decrease in short-term loans proceeds received along with scheduled repayments of existing obligations. During the first half of 2007 the Company obtained a series of short-term promissory notes amounting to US$ 2,208 million which were repaid in September and October 2007.

Capital expenditures

The following table represents Company's capital expenditures:

	For the three months ended June 30		Change %	For the six months ended June 30		Change %
(in US$ million)	2008	2007		2008	2007	
Exploration and production	721	439	64.2	1,460	813	79.6
Refining	42	17	147.1	62	56	10.7
Marketing and distribution	14	21	(33.3)	37	29	27.6
Total capital expenditures	777	477	62.9	1,559	898	73.6

In the second quarter and in the first half of 2008 Company's capital expenditures increased by 62.9% and 73.6% to US$ 777 million and US$ 1,559 million, respectively, as compared to the corresponding periods of 2007. The growth was primarily driven by the exploration and production activities, which increased by 64.2% and 79.6% in the second quarter and in the first half of 2008 compared to the same periods of 2007. The increase in refining segment was a result of the modernization program launched at Omsk Refinery.

Credit rating

Standard & Poor's Ratings Services

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

The upgrade reflects Gazprom Neft's strengthening stand-alone credit quality because of a more diversified business profile and still-robust financials. It also reflects greater clarity about Gazprom Neft's financial policy and about the commitment of Gazprom Neft's 76% parent, JSC Gazprom (BBB/Stable/--), to expand its oil activities.

The stable outlook reflects S&P expectation that Gazprom Neft will maintain strong financial metrics given the continuing high oil price environment.

An equalization of the ratings on Gazprom Neft with those on Gazprom could arise if Gazprom exercises its option to buy the 20% stake in Gazprom Neft from ENI (potentially in 2008-2009); if the company's strategic importance to Gazprom is further strengthened or Gazprom Neft's operational and financial integration within the Gazprom group increases; or if there is parental support for future acquisitions, either directly or through dividend reductions.

Rating downside could emerge from sizeable debt-financed acquisitions if these are not offset by parental support.

Moody's Investors Service

On 4 July, 2008 Moody's Investors Service upgraded the senior unsecured ratings of Gazprom Neft JSC ("Gazprom Neft"), including the rating of Gazprom Neft's senior unsecured 10.75% USD500 million notes due 01/2009, to Baa3 from Ba1. As part of the upgrade of the ratings into investment grade, the Ba1 Corporate Family Rating and Probability of Default Rating have been withdrawn.

The upgrade of Gazprom Neft is a reflection of (1) its strong financial metrics, high operating and capital efficiency when compared to Russian as well as international peers, (2) minimal reliance on financial support from its main shareholder Gazprom, while benefiting from being part of a larger and powerful group, (3) currently favorable oil price environment that is expected to prevail in the medium term, (4) the company's substantial oil and gas reserves base and its limited exposure to re-investment risks giving high reserves replacement ratio and relatively low 3-year all sources finding & development (F&D) costs.

The upgrade is also supported by Gazprom Neft's improved corporate and business risk profile, strengthened by the establishment of the long- and medium- term strategy, which provides a clear guidance into the company's operational targets, as well as solidified relationship with its main shareholder, Gazprom.

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

Debt obligations

As of June 30, 2008 long-term debt (including a current portion) was US$ 3,127 million as compared to US$ 3,181 as of December, 31 2007. The decrease is caused by partial repayment of a US$ 2.2 billion syndicated loan from Calyon, ABN-AMRO, Commerzbank and Citibank obtained in September. The increase was due to the first US$ 500 million tranche of a US$ 1.0 billion syndicated loan obtained from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank in June 2008.

The following table shows maturities of long-term loans as of June 30, 2008 (in US$ million):

Year due	Amount due
2009	1,581
2010	876
2011	357
2012	154
2013	159
	3,127

In July 2008 the Company obtained the second US$ 500 million tranche of a US$1.0 billion syndicated loan from BBVA Bank, BTMU Bank, Barclays Capital, Sumitomo Mutsui Banking Corporation and WestLB Bank.