





























	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	104	0.11	63	0.09	65.1	22.2
Low octane gasoline	28	0.03	3	0.01	833.3	500.0
Naphtha	757	0.80	873	1.29	(13.3)	(38.0)
Diesel	3,515	3.81	2,225	3.43	58.0	11.1
Fuel oil	2,761	4.57	1,499	3.54	84.2	29.1
Jet fuel	105	0.10	120	0.17	(12.5)	(41.2)
Other	363	0.35	253	0.43	43.5	(17.6)
<b>Total</b>	<b>7,633</b>	<b>9.77</b>	<b>5,036</b>	<b>8.95</b>	<b>51.6</b>	<b>9.2</b>

- Revenues from export sales of petroleum products decreased by 1.7% Q-o-Q due to a 4.4% decrease in sales prices, partially offset by a 2.8% increase in sales volumes due to a 7.7% increase in refining throughput
- Revenues from export sales of petroleum products increased by 51.6% Y-o-Y due to a 38.8% increase in prices and an 9.2% increase in sales volumes due to a 10.8% increase in refining throughput

#### Petroleum Products Sales on International Markets

- Revenues from export sales of petroleum products on international markets increased by 1.5% Q-o-Q due to a 6.5% increase in sales volumes, partially offset by a 4.6% decline in prices
- Revenues from export sales of petroleum products on international markets increased by 23.7% Y-o-Y due to 34.0% higher prices, partially offset by a 7.7% decrease in sales volumes

#### Petroleum Products Export and Sales in CIS

	3Q 2011		2Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	110	0.04	142	0.18	(22.5)	(77.8)
Low octane gasoline	56	0.12	28	0.03	100.0	300.0
Naphtha	27	0.03	25	0.03	8.0	-
Diesel	144	0.18	107	0.12	34.6	50.0
Fuel oil	17	0.05	2	0.00	750.0	4,900.0
Jet fuel	17	0.02	34	0.04	(50.0)	(50.0)
Other	72	0.11	68	0.13	5.9	(15.4)
<b>Total</b>	<b>443</b>	<b>0.55</b>	<b>406</b>	<b>0.53</b>	<b>9.1</b>	<b>3.8</b>

	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	432	0.46	336	0.43	28.6	7.0
Low octane gasoline	106	0.18	55	0.08	92.7	125.0
Naphtha	73	0.09	2	0.01	3,550.0	800.0
Diesel	326	0.40	196	0.31	66.3	29.0
Fuel oil	19	0.05	-	-	-	-
Jet fuel	65	0.08	92	0.18	(29.3)	(55.6)
Other	184	0.31	139	0.29	32.4	6.9
<b>Total</b>	<b>1,205</b>	<b>1.57</b>	<b>820</b>	<b>1.30</b>	<b>47.0</b>	<b>20.8</b>

- Revenues from the export and sale of petroleum products in the CIS increased 9.1% Q-o-Q due to a 5.1% increase in prices and a 3.8% increase in sales volumes
- Revenues from the export and sale of petroleum products in the CIS increased by 47.0% Y-o-Y due to a 21.7% increase in prices and a 20.8% increase in sales volumes
- Petroleum products export sales volumes in the CIS increased 3.8% Q-o-Q and 20.8% Y-o-Y due to a 7.7% Q-o-Q and 10.8% Y-o-Y increase in refining throughput

### Domestic Sales of Petroleum Products

	3Q 2011		2Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	1,806	2.08	1,564	1.86	15.5	11.8
Low octane gasoline	167	0.21	160	0.21	4.4	(0.0)
Diesel	1,310	1.81	1,152	1.59	13.7	13.8
Fuel oil	390	0.83	330	0.81	18.2	2.5
Jet fuel	563	0.82	462	0.68	21.9	20.6
Other	541	1.11	422	0.93	28.2	19.4
<b>Total</b>	<b>4,777</b>	<b>6.86</b>	<b>4,090</b>	<b>6.08</b>	<b>16.8</b>	<b>12.8</b>

	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	4,677	5.64	2,837	3.89	64.9	45.0
Low octane gasoline	458	0.60	374	0.62	22.5	(3.2)
Diesel	3,486	4.87	2,232	4.51	56.2	8.0
Fuel oil	1,055	2.63	758	2.54	39.2	3.5
Jet fuel	1,328	2.00	784	1.63	69.4	22.7
Other	1,240	2.63	721	1.90	72.0	38.4
<b>Total</b>	<b>12,244</b>	<b>18.37</b>	<b>7,706</b>	<b>15.09</b>	<b>58.9</b>	<b>21.7</b>

- Revenues from domestic petroleum products sales increased by 16.8% Q-o-Q due to a 12.8% increase in sales volumes and 3.5% increase in prices
- Revenues from domestic petroleum products sales increased by 58.9% Y-o-Y due to a 30.5% increase in prices and 21.7% increase in sales volumes
- Petroleum products domestic sales volumes increased 12.8% Q-o-Q and 21.7% Y-o-Y due to a 7.7% Q-o-Q and 10.8% Y-o-Y increase in refining throughput

### Other Sales

- Other sales consist primarily of sales of services such as transportation, construction, utilities, and other services
- Other sales increased 0.8% Q-o-Q and 19.9% Y-o-Y due to increases in prices and volumes

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

- The cost of purchased crude oil, gas and petroleum products decreased by 6.4% Q-o-Q due to lower crude oil and petroleum products prices. Urals prices decreased by 2.0% Q-o-Q
- The cost of purchased crude oil, gas and petroleum products increased by 53.0% Y-o-Y due to higher crude oil and petroleum products prices and larger purchased volumes. Urals prices increased by 43.9% Y-o-Y

### Extraction and Refining Expenses

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
389	394	(1.3)	Hydrocarbon extraction expenses	1,130	921	22.7
5.72	5.79	(1.2)	\$ per boe of production	5.55	5.03	10.3
220	221	(0.5)	Refining expenses at own and equity affiliates refineries	672	601	11.8
19.80	21.41	(7.5)	\$ per tonne	21.77	21.56	1.0
2.70	2.92	(7.5)	\$ per boe	2.97	2.94	1.0
<b>609</b>	<b>615</b>	<b>(1.0)</b>	<b>Total</b>	<b>1,802</b>	<b>1,522</b>	<b>18.4</b>

- Hydrocarbon extraction expenses include expenditures for 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
- Extraction costs decreased 1.3% Q-o-Q due to a 4.0% depreciation in the ruble relative to the US dollar, partially offset by 2.9% PPI inflation. Average hydrocarbon extraction costs per barrel of oil equivalent decreased from US\$ 5.79 to US\$ 5.72, or 1.2%
- Extraction costs increased 22.7% Y-o-Y due to a 5.2% appreciation in the ruble relative to the US dollar, 10.7% PPI inflation, and a 7.1% volume increase. Average hydrocarbon extraction costs per barrel of oil equivalent increased from US\$ 5.03 to US\$ 5.55, or 10.3%
- Refining expenses at our own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor and electricity costs, and other similar costs
- Refining expenses decreased 0.5% Q-o-Q due to a 4.0% depreciation in the ruble relative to the US dollar and lower fuel and electricity costs at the Omsk and Moscow refineries, partially offset by a 7.7% increase in refining throughput and inflation. Average refining expenses per barrel decreased from US\$ 2.92 to US\$ 2.70, or 7.5%
- Refining expenses increased 11.8% Y-o-Y due to a 10.8% increase in refining volumes, 5.2% appreciation in the ruble relative to the US dollar, and higher transportation tariffs. Average refining expenses per barrel increased from US\$ 2.94 to US\$ 2.97, or 1.0%

### Selling, General and Administrative Expenses

- Selling, general and administrative expenses include general business expenses, wages, salaries (except for wages and salaries at our production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charitable giving, allowances for doubtful accounts, and other expenses
- Selling, general and administrative expenses increased by 2.5% Q-o-Q due to increases in consulting fees and other administrative expenses
- Selling, general and administrative expenses increased by 5.2% Y-o-Y due to 5.2% appreciation Y-o-Y of the ruble relative to the US dollar

### Transportation Expenses

- Transportation expenses include costs to transport crude oil to refineries and crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railway, shipping, handling, and other transportation costs
- Higher transportation expenses for most products Y-o-Y reflect higher transportation tariffs and increased sales volumes as well as appreciation of the ruble relative to the US dollar
- Transportation expenses decreased Q-o-Q mainly due to 4.0% depreciation of the ruble relative to the US dollar



### Depreciation, Depletion and Amortization

- Depreciation, depletion and amortization expenses include depletion of oil and gas producing assets and depreciation of other fixed assets
- Depreciation, depletion and amortization expenses increased by 4.0% Q-o-Q and 20.7% Y-o-Y. The increases resulted from growth in depreciable assets due to the Company's capital expenditure program

### Export Duties and Taxes Other Than Income Tax

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
1,193	1,359	(12.2)	Export customs duties for crude oil	3,709	3,480	6.6
799	745	7.2	Export customs duties for petroleum products	2,153	1,449	48.6
<b>1,992</b>	<b>2,104</b>	<b>(5.3)</b>	<b>Total export customs duties</b>	<b>5,862</b>	<b>4,929</b>	<b>18.9</b>

- Export customs duties for crude oil decreased 12.2% Q-o-Q due to lower export customs duties for crude oil as a result of a 2.0% decline in Urals prices and lower sales volumes
- Export customs duties for crude oil increased 6.6% Y-o-Y due to higher export customs duties for crude oil as a result of a 43.9% growth in Urals prices, partially offset by lower sales volumes
- Export customs duties for petroleum products increased 7.2% Q-o-Q and 48.6% Y-o-Y due to higher export customs duty rates, partially offset by the ending of petroleum products export duties for Belorussia and Kirgizia

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
1,189	1,172	1.5	Mineral extraction taxes	3,381	2,196	54.0
841	777	8.2	Excise	2,217	1,289	72.0
53	54	(1.9)	Property tax	159	128	24.2
84	110	(23.6)	Other taxes	295	197	49.7
<b>2,167</b>	<b>2,113</b>	<b>2.6</b>	<b>Total taxes other than income tax</b>	<b>6,052</b>	<b>3,810</b>	<b>58.8</b>

- Mineral extraction taxes increased 54.0% Y-o-Y due to higher crude prices and changes in production volumes. The average Urals price increased 43.9% Y-o-Y
- Excise taxes increased 8.2% Q-o-Q and 72.0% Y-o-Y due to higher production volumes of refined products at the Company's refineries and higher excise tax rates after January 1, 2011, from which date excise tax rates on petroleum products were increased under Russian federal law # 306-FZ (November 27, 2010)

### Other financial items

- Changes in interest income reflect changes in cash and deposits in banks
- Interest expenses were lower Y-o-Y as a result of success in reducing our effective interest rate
- The Company's effective income tax rate was 21.0% for 9M 2011, consistent with statutory income tax rates

## Liquidity and Capital Resources

### Cash Flows

(in US\$ million)	9M		Δ %
	2011	2010	2011-2010
Net cash provided by operating activities	4,942	4,319	14.4
Net cash used in investing activities	(3,797)	(3,008)	26.2
Net cash used in financing activities	(809)	(958)	(15.6)

### Net Cash Provided by Operating Activities

- Net cash provided by operating activities increased 14.4% to US\$ 4,942 million from US\$ 4,319 million in 9M 2010. The increase in net cash provided by operating activities was due to the Company's higher net income, partially offset by an increase in working capital

### Net Cash Used in Investing Activities

- Net cash used in investing activities increased 26.2% to US\$ 3,797 million from US\$ 3,008 million in 9M 2010 due to a higher level of M&A activities and a 10.8% increase in capital expenditures

### Net Cash Used in Financing Activities

- Net cash used in financing activities was US\$ 809 million compared with US\$ 958 million for 9M 2010. The change was mainly due to an increase in net loan proceeds over repayments of US\$ 628 million, partially offset by a US\$ 479 million increase in dividend payments

### Capital Expenditure

3Q	2Q	Δ, %	(in US\$ million)	9M		Δ, %
2011	2011			2011	2010	2011-2010
597	631	(5.4)	Exploration and production	1,723	1,798	(4.2)
303	191	58.6	Refining	569	328	73.5
190	67	183.6	Marketing and distribution	283	187	51.3
21	4	425.0	Others	41	48	(14.6)
<b>1,111</b>	<b>893</b>	<b>24.4</b>	<b>Total capital expenditures</b>	<b>2,616</b>	<b>2,361</b>	<b>10.8</b>

- Capital expenditures of US\$ 1,111 in 3Q 2011 were 24.4% higher Q-o-Q. The increase was due to:
  - A 58.6% increase in refining capital expenditures due to the ongoing modernization program at the Company's refineries
  - A 183.6% increase in marketing and distribution capital expenditures due to seasonal factors, implementation of the service station rebranding program in the Moscow region (integration of Sibir Energy retail assets doubled the Company's presence in the Moscow region), and acquisition of 21 filling stations in the Krasnodar region
  - Partially offsetting these increases was a 5.4% reduction in capital expenditures for exploration and production due to a 12.5% decrease in production drilling as a result of geological and engineering operations optimization and a 4.0% depreciation in the value of the ruble against the US dollar, somewhat offset by cost inflation

- Capital expenditures were 10.8% higher Y-o-Y. The increase was due to:
  - 73.5% higher capital expenditures in refining due to the ongoing modernization program at the Company's refineries. The Omsk Refinery is currently constructing a catalytic cracking hydrotreatment plant with a capacity of 1.2 million tonnes per year and a new diesel fuel hydrotreatment unit with a capacity of 3 million tonnes per year. These units will produce Class 4 and Class 5 motor fuels to comply with Russian government regulations
  - 51.3% higher capital expenditures in marketing and distribution due to the retail rebranding campaign
  - Partially offsetting these increases was a 4.2% reduction in capital expenditures for exploration and production due to a 7.0% decrease in production drilling as a result of geological and engineering operations optimization, partially offset by a 5.2% appreciation of the ruble against the US dollar and cost inflation

### **Debt and Liquidity**

	2011	2010
Short-term debt	1,328	1,694
Long-term debt	5,277	4,942
Cash and cash equivalents	(1,459)	(1,146)
Short-term deposits	(10)	(109)
<b>Net debt</b>	<b>5,136</b>	<b>5,381</b>
Short-term debt/ total debt, %	20.1	25.5

- The Company has a well-diversified debt structure that includes pre-export financing, syndicated and bilateral loans, ruble bonds, and other instruments
- Due to successful refinancing efforts and a balanced borrowing policy, the average maturity of the Company's debt increased by 7.28% Q-o-Q from 2.59 to 2.78 years. The average interest rate decreased from 3.93% to 3.42%
- In April 2011 the Company reduced the interest rate on its US\$ 1.5 billion syndicated loan from Libor +2.1% to Libor +1.6% and in August 2011 issued secondary 6.1 bln ruble bond series 04.

## Financial Appendix

### EBITDA Reconciliation

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
2,759	2,478	11.3	<b>Adjusted EBITDA</b>	7,704	5,147	49.7
(266)	(361)	(26.3)	The Company's share in EBITDA of equity affiliates	(964)	(711)	35.6
12	64	-	Gain on investment	85	9	-
68	87	(21.8)	Share in income of equity affiliates	196	165	18.8
(299)	(106)	182.1	Foreign exchange (loss) / gain, net	(239)	48	(597.9)
(90)	(22)	309.1	Other expense, net	(101)	(92)	9.8
(81)	(76)	6.6	Interest expense	(250)	(260)	(3.8)
32	26	23.1	Interest income	90	27	233.3
(525)	(505)	4.0	Depreciation, depletion and amortization	(1,454)	(1,205)	20.7
1,610	1,585	1.6	<i>Income before income taxes</i>	5,067	3,128	62.0

### Financial Ratios

#### Profitability

	9M 2011	2010	Δ, p.p. 2011-2010
Adjusted EBITDA margin, %	23.41	21.71	1.7
Net income margin, %	13.44	9.70	3.7
Return on assets (ROA), %	16.61	9.81	6.8
Return on equity (ROE), %	25.10	15.48	9.6
Return on average capital employed (ROACE), %	21.25	15.02	6.2

#### Liquidity

	9M 2011	2010	Δ, % 2011-2010
Current ratio	1.88	1.45	0.3
Quick ratio	1.06	0.86	0.2
Cash ratio	0.39	0.33	0.2

#### Leverage

	9M 2011	2010	Δ, p.p. 2011-2010
Net debt/ Total Assets, %	14.82	15.18	(0.4)
Net debt/ Equity, %	22.15	23.23	(1.1)
Gearing, %	18.13	18.85	(0.7)
			Δ, %
Net debt/ Market Capitalization	30.93	25.14	0.2
Net debt/ EBITDA	0.60	0.79	(0.2)
Total debt/ EBITDA	0.77	0.99	(0.2)

## Supplementary Information

### Main Macroeconomic Factors Affecting Results of Operations

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

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

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

The prices for crude oil and petroleum products on international and Russian markets are the primary factor affecting the Company's results of operations. In 3Q 2011, the average Brent crude oil price was US\$ 113.41 per barrel, a decrease of 3.1% Q-o-Q and in 9M 2011 the average Brent crude oil price was US\$ 111.89 per barrel, an increase of 45.1% Y-o-Y.

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

3Q 2011	2Q 2011	Δ, %		9M 2011	2010	Δ, % 2011-2010
<b>International market</b>				<b>(US\$/ barrel)</b>		
113.41	117.04	(3.1)	Brent	111.89	77.14	45.1
111.48	113.74	(2.0)	Urals Spot (average Med + NWE)	109.23	75.92	43.9
				<b>(US\$/ tonne)</b>		
1026.87	1057.82	(2.9)	Premium gasoline (average NWE)	1001.68	717.44	39.6
944.95	976.54	(3.2)	Naphtha (average Med. + NWE)	940.03	677.44	38.8
967.55	984.36	(1.7)	Diesel fuel (average NWE)	954.78	666.81	43.2
945.05	955.78	(1.1)	Gasoil 0.2% (average Med. + NWE)	928.60	652.38	42.3
623.98	617.64	1.0	Fuel oil 3.5% (average NWE)	597.47	428.03	39.6
<b>Domestic market</b>				<b>(US\$/ tonne)</b>		
886.52	875.79	1.2	High-octane gasoline	849.66	708.86	19.9
770.36	784.00	(1.7)	Low-octane gasoline	758.36	562.48	34.8
697.84	702.78	(0.7)	Diesel fuel	696.65	485.40	43.5
327.71	302.73	8.3	Fuel oil	297.35	247.12	20.3

Sources: Platts (international), Kortes (domestic)

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

The management of the Company has determined that the US Dollar is the functional and reporting currency of the Company as the majority of its revenues, debt, and trade liabilities are either priced, incurred, payable, or otherwise measured in US dollars. Accordingly, any ruble appreciation (depreciation) against the US dollar affects the results of the Company's operations. In order to mitigate the effects of fluctuation in the ruble - US dollar exchange rate the Company is engaged in using derivative instruments.

3Q 2011	2Q 2011		9M 2011	9M 2010
(0.3)	1.2	Change in Consumer Price Index (CPI), %	4.7	6.2
2.9	0.8	Change in Producer Price Index (PPI), %	10.7	8.2
31.88	28.08	US\$/ RUB exchange rate as of the end of the period	31.88	30.40
29.16	27.99	Average RUB/US\$ exchange rate for the period	28.76	30.25
(12.2)	2.5	Real appreciation (depreciation) of the RUB against the US\$, %	0.1	5.7
(4.0)	4.6	Change of the average invert exchange rate (RUB / US\$), %	5.2	7.4

### Taxation

3Q 2011	2Q 2011	Δ, %		9M 2011	9M 2010	Δ, % 2011-2010
			<b>Export customs duty</b>	(US\$/ tonne)		
442.47	446.50	(0.9)	Crude oil	410.67	268.49	53.0
296.43	299.17	(0.9)	Light and middle distillates	276.64	193.12	43.2
206.60	208.50	(0.9)	Fuel oil	188.82	104.03	81.5
			<b>Mineral extraction tax</b>			
4,547	4,466	1.8	Crude oil (RUB/ tonne)	4,368	2,948	48.1
21	22	(2.3)	Crude oil (US\$/ barrel)	21	13	55.8
237	237	-	Natural gas (RUB/ Mcm)	237	147	61.2

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

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

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

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

Since January 12, 2007, pursuant to the intergovernmental agreement «On regulatory measures for trade and economic cooperation in the sphere of oil and oil products exports», a limited volume of crude exported from Russia to Belorussia has been exempt from export duty. The amount is the amount that the Russian Ministry of Energy establishes as required for Belorussia domestic consumption.

In January 2011 the Government of the Russian Federation and Belorussia agreed to use a special formula for the price of crude oil exported to Belorussia. Since January 1, 2011 export of crude oil to Belorussia has been exempt from customs duty.

From October 2011 under the new 60/66 tax regime the 65 percent rate in the formula for the export custom duty rate is changed to 60 percent.

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

Before February 1, 2011 export customs duty on light and middle distillates products was calculated using the following formula:  $0.438 * (\text{Price} * 7.3 - 109.5)$ , where Price is the average Urals price in US dollars per barrel. Export customs duty on dark petroleum products was calculated using the following formula:  $0.236 * (\text{Price} * 7.3 - 109.5)$ .

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

	2011	2012	2013
Light and middle distillates	0.67	0.64	0.60
Fuel oil	0.47	0.53	0.60

In May 2011 a protective duty for gasoline exports amounting to 90% of the crude oil export duty was introduced in order to stabilize the Russian domestic market. An equivalent measure was introduced for naphtha exports in June 2011.

In August 2011 the Resolution of the Russian Government # 1155 (December 27, 2010) was amended. From October 2011 the coefficient K for each type of petroleum product is established according to the following table:

	From October 10, 2011 until December 31, 2014	From January 1, 2015
Light and middle distillates	0.66	0.66
Fuel oil	0.66	1.00
Gasoline	0.90	0.90

**Excise on petroleum products.** In Russia, excise duties are paid by the producers of refined products. In other countries where the Group operates, excise duties are paid either by producers or retailers depending on local legislation.

Russian federal law # 306-FZ (November 27, 2010) established the following excise rates for petroleum products with effect from January 1, 2011:

Excise rates on petroleum products (RUB/tonne)	2011	2012	2013
Gasoline			
Class 3	5,672	7,382	9,151
Class 4, 5	5,143	6,822	8,560
Naphtha	6,089	7,824	9,617
Other	5,995	7,725	9,511
Diesel fuel			
Class 3	2,485	3,814	5,199
Class 4, 5	2,247	3,562	4,934
Other	2,753	4,098	5,500
Motor oils	4,681	6,072	7,509

**Mineral extraction tax (MET) on crude oil.** From January 1, 2007 the mineral extraction tax rate on crude oil (R) was calculated using the following general formula:  $R = 419 * (P - 9) * D/261$ , where P is the average monthly Urals oil price on the Rotterdam and Mediterranean markets (US\$/bbl) and D is the average ruble /US dollar exchange rate. On January 1, 2009 the formula was amended to incorporate a higher threshold oil price:  $R = 419 * (P - 15) * D/261$ . Russian federal law #307FZ (November 27, 2010) set new mineral extraction tax rates for crude oil as follows:

	2011	2012	2013
MET on crude oil (RUB/tonne)	419	446	470

Depleted oil assets, defined as oil assets that have a depletion rate exceeding 80%, are subject to lower MET. The depletion rate is calculated by dividing accumulated production volume from the oil field (N) by the field's total reserves (V, where V is ABC1 + C2 reserves volume using the Russian classification). For fields with a depletion rate exceeding 80% the standard MET formula is multiplied by the coefficient C which is calculated as follows:  $C = -3.5 * N/V + 3.8$ .

**Mineral extraction tax (MET) on natural gas.** The rate of mineral extraction tax for natural gas has remained stable in ruble terms since January 1, 2006 and equals 147.00 rubles per thousand cubic meters of natural gas. Associated gas is not subject to MET.

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

Russian federal law # 307-FZ (November 27, 2010) established new mineral extraction tax rates for natural gas as follows:

	2011	2012	2013
MET on natural gas (RUB/ Mcm)	237	251	265



## Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by the state authorities to ensure a balance of interests of the state and all participants in the transportation process. Transportation tariffs for 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 the owners of transportation infrastructure, other macroeconomic factors, and the compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are to be revised by FTS at least annually, and comprise a dispatch tariff, loading, transshipment, pumping, and other tariffs.

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

3Q	2Q			9M		Δ, %
2011	2011	Δ, %		2011	2010	2011-2010
			<b>Crude oil</b>	<b>(rubles per tonne)</b>		
			Export			
1,398.27	1,413.66	(1.1)	Pipeline	1,405.82	1,271.05	10.6
			CIS			
1,238.08	1,228.13	0.8	Pipeline	1,207.68	988.85	22.1
			Transportation to Refineries			
421.00	442.34	(4.8)	ONPZ	440.24	410.82	7.2
1,131.00	1,123.33	0.7	MNPZ	1,089.20	921.20	18.2
302.00	438.67	(31.2)	YaNPZ	569.08	853.06	(33.3)
			<b>Petroleum products</b>			
			Export from ONPZ			
2,044.02	2,044.02	(0.0)	Gasoline	2,043.30	1,970.19	3.7
3,236.84	3,241.66	(0.1)	Fuel oil	3,220.10	3,040.03	5.9
2,860.99	2,593.67	10.3	Diesel fuel	2,640.41	2,611.96	1.1
			Export from MNPZ			
-	-	-	Gasoline	495.60	1,498.94	(66.9)
1,263.86	1,272.06	(0.6)	Fuel oil	1,335.18	1,239.11	7.8
1,509.81	1,492.91	1.1	Diesel fuel	1,487.92	1,343.00	10.8
			Export from YaNPZ			
1,289.98	1,507.19	(14.4)	Gasoline	1,440.97	1,729.82	(16.7)
1,358.44	1,371.19	(0.9)	Fuel oil	1,366.94	1,266.42	7.9
1,218.30	1,218.30	-	Diesel fuel	1,237.85	911.74	35.8

In the third quarter of 2011 the Company exported 49.2% of its total crude export volume through the port of Primorsk (48.9% in 9M 2011 compared with 48.4% in 9M 2010); 20.0% was exported through the Druzhba pipeline (19.8% in 9M 2011 compared with 23.9% in 9M 2010), principally to Germany and the Czech Republic; 9.1% was exported through the port of Novorossiysk (4.1% in 9M 2011 compared with 5.1% in 9M 2010); 2.8% was exported through the port of Tuapse (8.6% in 9M 2011 compared with 10.5% in 9M 2010); and 18.9% was exported through the ESPO pipeline and the port of Kozmino (18.6% in 9M 2011 compared with 12.1% in 9M 2010). Exports of crude to CIS countries in the third quarter of 2011 were: 91.5% to Belarus (88.4% in 9M 2011 compared with 73.2% in 9M 2010) and 8.5% to Kazakhstan (11.6% in 9M 2011 compared with 26.8% in 9M 2010).

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This document may contain forecasts that merely reflect the expectations of the Company's management. Such terms as "anticipate", "believe", "expect", "forecast", "intend", "plan", "project", "seek", "should", along with similar or analogous expressions, are used to identify such forecasts. These predictions evidently involve risks and uncertainties, whether foreseen or not by the Company. Therefore, the future results of operations may differ from current expectations, and readers must not base their expectations exclusively on the information presented herein.