

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended March 31, 2011 and 2010**

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## Definitions and Conversions

The following discussion is intended to assist you in understanding of JSC Gazprom Neft's financial position as of March 31, 2011 and results of operations for the three months ended March 31, 2011 and 2010 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with accounting principles generally accepted in the United States of America.

Such terms as "Gazprom Neft", "Company" and "Group" in their different forms in this report represent JSC Gazprom Neft and its consolidated subsidiaries and equity affiliates. 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 are made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") are 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.

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## 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 contained 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.

## Key Financial and Operating Data

1Q 2011	4Q 2010	Δ, %		1Q 2011	2010	Δ, % 2011-2010
9,865	9,063	8.8	Revenue (US\$ million)	9,865	7,296	35.2
1,872	1,149	62.9	Income before income taxes (US\$ million)	1,872	1,027	82.3
2,467	2,079	18.7	Adjusted EBITDA <sup>1</sup> (US\$ million)	2,467	1,586	55.5
24.2	20.6	17.6	\$ per boe of production	24.2	16.8	44.5
1,437	782	83.8	Net income attributable to Gazprom Neft (US\$ million)	1,437	754	90.6
14.1	7.7	82.1	\$ per boe of production	14.1	8.0	77.0
621	1,073	(42.1)	Net cash provided by operating activities (US\$ million)	621	881	(29.5)
6.1	10.6	(42.6)	\$ per boe of production	6.1	9.3	(34.5)
101.89	100.98	0.9	Hydrocarbon production including our share in equity affiliates (millions of boe)	101.89	94.65	7.6
90.00	92.57	(2.8)	Crude oil production including our share in equity affiliates (millions bbl)	90.00	89.60	0.4
71.29	50.41	41.4	Marketable gas production including our share in equity affiliates (bcf)	71.29	30.29	135.4
8.95	9.41	(4.9)	Production of petroleum products at own and equity affiliates refineries (millions of tonnes)	8.95	8.38	6.8

<sup>1</sup> EBITDA is a non-GAAP measure. A reconciliation of adjusted EBITDA to income before income taxes is provided in the Appendix

### First quarter 2011 highlights

- Consolidation of 100% of Sibir Energy
- Cenomanian gas production at full scale
- Commissioned the second phase of Priobskaya gas power plant
- Sale of Muravlenkovskaya Transportnaya Kompaniya as the first step toward oilfield services spin-off
- Introduced new high-performance 95 octane gasoline under "G-Drive" brand in St. Petersburg area
- Began producing Euro 4 gasoline and diesel at Moscow Refinery in January
- Began producing Euro 4 gasoline at Omsk Refinery in March
- 30 bln Ruble bond issue and reduction in Sberbank loan interest rate
- Increased NIS shareholding to 56.15%

### Results for 1Q 2011 compared with 1Q 2010

- Higher oil prices in 1Q 2011 supported improved financial results, with a 35.2% growth in revenue driving a 55.5% rise in adjusted EBITDA and 90.6% growth in net income
- Hydrocarbon production volumes increased by 7.6%: crude production increased by 0.4%, marketable gas production increased by 135.4%, pushing overall hydrocarbon production to 101.89 MMboe
- Refining throughput increased by 5.2%
- A 2.1% appreciation in the value of the ruble against the US dollar as well as a 7.6% growth in hydrocarbon production resulted in an increase in the Company's operating expenses
- Due to debt portfolio optimization interest expenses remained at 1Q 2010 level

## Results for 1Q 2011 compared with 4Q 2010

- Higher oil prices supported improved results with an 8.8% growth in revenue driving a 18.7% rise in adjusted EBITDA
- Operating income for the quarter increased by 19.6% to US\$ 1,706 million
- Reported net income attributable to Gazprom Neft shareholders was US\$ 1,437 million compared to US\$ 980 million (excluding a US\$ 198 million provision for a Federal Antimonopoly Service fine) in 4Q 2010, an increase of 46.6%
- Hydrocarbon production volumes increased by 0.9%: crude production decreased by 2.8%; marketable gas production increased by 41.4%
- Refining throughput decreased by 6.0%

## 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 gas.
- Refining, marketing and distribution – which includes refining of crude oil, purchases, sales and transportation of crude oil and refined petroleum products.

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 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 the 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.

## Changes to Corporate Structure

### **Equatorial Guinea**

In the beginning of 2011, Equatorial Guinea's Ministry of Industry and Energy and GEPetrol confirmed our working program and budget for 2011.

In early February 2011, we completed 3D seismic exploration in block T, and 300 square kilometers of total seismic study. As a result, the obligations under the PSA have been completely fulfilled. The seismic data is currently being analyzed and interpreted in conjunction with historical geological data from blocks T and U. We have registered our 100% subsidiary Gazprom Neft Equatorial in Equatorial Guinea in accordance with the terms of the PSA. All rights and obligations of the project will soon be transferred to this entity.

### **Sibir Energy (Sibir)**

On February 14, 2011 the Board of Directors of Sibir Energy adopted a resolution to reduce the Company's share capital by 86.25 million shares (22.39%). The Central Fuel Company, an affiliate to the Moscow Government, withdrew from its participation in Sibir Energy in exchange for compensation of US\$ 740 million. With effect from February 15, 2011 the Company has a 100% interest in Sibir and our effective interest in the Moscow refinery increased from 69.02% to 77.72%.

## Naftna Industrija Srbije (NIS)

On March 18, 2011 the Company finalized its offer made in January to buy out the free float shares in NIS. A maximum 19.12% of the NIS equity was available for purchase, of which 8.4 million shares amounting to 5.15% of NIS authorized share capital were submitted for purchase. Based on the previously announced offer price the Company paid US\$ 58 million to acquire these shares, increasing our interest in NIS from 51% to 56.15%.

### Operational Data and Analysis

#### Production Drilling

1Q 2011	4Q 2010	Δ, %		1Q 2011	2010	Δ, % 2011-2010
<b>Consolidated subsidiaries</b>						
531	665	(20.2)	Production drilling ('000 meters)	531	439	20.9
188	192	(2.1)	Production wells drilled	188	143	31.5
15.40	15.92	(3.3)	Average well flow (tonnes per day)	15.40	16.21	(5.0)
84.02	82.44	1.9	Watercut, %	84.02	82.15	2.3
<b>Equity affiliates</b>						
380	454	(16.2)	Production drilling ('000 meters)	380	256	48.5
114	135	(15.6)	Production wells drilled	114	65	75.4

- The number of new wells drilled at consolidated subsidiaries decreased by 2.1% Q-o-Q to 188 wells due to reduced development activity at the Priobskoye field and seasonal factors
- The number of new wells drilled at equity affiliates decreased by 15.6% Q-o-Q to 114 wells

## Production

1Q 2011	4Q 2010	Δ, %		1Q 2011	1Q 2010	Δ, % 2011-2010
			<b>Crude oil</b>	<b>(MMbbl)</b>		
30.23	31.39	(3.7)	Noyabrskneftegaz	30.23	32.32	(6.5)
17.98	17.95	0.2	Yugra	17.98	16.55	8.6
2.76	2.74	0.7	Gazprom Neft	2.76	2.82	(2.1)
2.00	2.01	(0.5)	NIS	2.00	1.60	25.0
3.76	4.00	(6.0)	Others	3.76	2.67	40.8
<b>56.73</b>	<b>58.09</b>	<b>(2.3)</b>	<b>Total crude oil production by consolidated subsidiaries</b>	<b>56.73</b>	<b>55.96</b>	<b>1.4</b>
16.34	16.88	(3.2)	Share in Slavneft	16.34	16.70	(2.2)
9.46	9.80	(3.5)	Share in Tomskneft	9.46	9.54	(0.8)
7.47	7.80	(4.2)	Share in SPD	7.47	7.40	0.9
<b>33.27</b>	<b>34.48</b>	<b>(3.5)</b>	<b>Total share in production of equity affiliates</b>	<b>33.27</b>	<b>33.64</b>	<b>(1.1)</b>
<b>90.00</b>	<b>92.57</b>	<b>(2.8)</b>	<b>Total crude oil production</b>	<b>90.00</b>	<b>89.60</b>	<b>0.4</b>
			<b>Gas</b>	<b>(Bcf)</b>		
64.23	41.05	56.5	Gazprom Neft (own)	64.23	22.15	190.0
2.87	2.97	(3.4)	Share in Slavneft	2.87	2.94	(2.4)
4.19	6.39	(34.4)	Share in Tomskneft	4.19	5.20	(19.4)
<b>71.29</b>	<b>50.41</b>	<b>41.4</b>	<b>Total gas production</b>	<b>71.29</b>	<b>30.29</b>	<b>135.4</b>
			<b>Hydrocarbons</b>	<b>(MMboe)</b>		
67.44	64.93	3.9	Gazprom Neft (own)	67.44	59.65	13.1
16.82	17.38	(3.2)	Share in Slavneft	16.82	17.19	(2.2)
10.16	10.87	(6.5)	Share in Tomskneft	10.16	10.41	(2.4)
7.47	7.80	(4.2)	Share in SPD	7.47	7.40	0.9
<b>101.89</b>	<b>100.98</b>	<b>0.9</b>	<b>Total hydrocarbon production</b>	<b>101.89</b>	<b>94.65</b>	<b>7.6</b>
<b>1.13</b>	<b>1.10</b>	<b>3.1</b>	<b>Daily hydrocarbon production (kboepd)</b>	<b>1.13</b>	<b>1.05</b>	<b>7.6</b>

- Total Group hydrocarbon production increased 0.9% Q-o-Q and 7.6% Y-o-Y
- Crude oil production by consolidated subsidiaries decreased 2.3% Q-o-Q and increased 1.4% Y-o-Y, driven by the following:
  - Increased development activity, with the number of new wells and hydrofracturings being the main contributors
  - Different numbers of days in the quarters (-2 days Q-o-Q)
  - Consolidation of STS-Service LLC for the full quarter in 2011 vs. two months in 2010
- Crude oil production by equity affiliates decreased by 3.5% Q-o-Q and 1.1% Y-o-Y, driven by the following:
  - Reserve depletion and decreased development activity, primarily at Slavneft
  - Different numbers of days in the quarters (-2 days Q-o-Q)
- Gas production grew by 41.4% Q-o-Q and 135.4% Y-o-Y due to the startup of Cenomanian gas production at the Muravlenkovskoye and Novogodneye fields in 4Q 2010
  - Tomskneft Q-o-Q and Y-o-Y gas production decreased due to Luginetskaya gas compressor station maintenance; operations will resume at the end of May, 2011

## Crude Oil Purchases

1Q 2011	4Q 2010	Δ, %	(MMbbl)	1Q 2011	2010	Δ, % 2011-2010
10.10	12.37	(18.4)	Crude oil purchases in Russia	10.10	7.12	41.9
1.69	3.33	(49.2)	Crude oil purchases internationally	1.69	4.85	(65.2)
<b>11.79</b>	<b>15.70</b>	<b>(24.9)</b>	<b>Total crude oil purchases</b>	<b>11.79</b>	<b>11.97</b>	<b>(1.5)</b>

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

- Crude oil purchases decreased 24.9% Q-o-Q and 1.5% Y-o-Y driven by a decline in NIS refining throughput and seasonal factors

## Refining

1Q 2011	4Q 2010	Δ, %	(MMtonnes)	1Q 2011	2010	Δ, % 2011-2010
<b>Refining throughput:</b>						
4.62	4.75	(2.7)	Omsk	4.62	4.50	2.7
2.57	2.74	(6.2)	Moscow	2.57	2.13	20.7
0.51	0.65	(21.5)	Panchevo and Novi Sad	0.51	0.66	(22.7)
1.74	1.90	(8.4)	Share in Yaroslavl	1.74	1.68	3.6
<b>9.44</b>	<b>10.04</b>	<b>(6.0)</b>	<b>Total refining throughput</b>	<b>9.44</b>	<b>8.97</b>	<b>5.2</b>
<b>Production of petroleum products</b>						
1.99	1.95	2.1	Gasoline	1.99	1.75	13.7
0.33	0.34	(2.9)	Below class 2	0.33	0.25	32.0
0.02	0.79	(97.5)	Class 2	0.02	0.87	(97.7)
1.46	0.82	78.0	Class 3	1.46	0.63	131.7
0.18	-	-	Class 4 & 5	0.18	-	-
0.27	0.30	(10.0)	Naphtha	0.27	0.46	(41.3)
2.92	3.08	(5.4)	Diesel	2.92	2.78	5.0
1.59	1.65	(3.6)	Below class 2	1.59	1.53	4.1
0.63	0.78	(19.4)	Class 2	0.63	0.69	(9.5)
0.04	0.26	(83.7)	Class 3	0.04	0.21	(80.1)
0.31	-	-	Class 4	0.31	-	-
0.34	0.39	(12.5)	Class 5	0.34	0.34	(0.1)
2.12	2.35	(9.8)	Fuel oil	2.12	1.96	8.2
0.49	0.52	(5.8)	Jet fuel	0.49	0.49	-
1.16	1.21	(4.1)	Other	1.16	0.94	23.4
<b>8.95</b>	<b>9.41</b>	<b>(4.9)</b>	<b>Total production</b>	<b>8.95</b>	<b>8.38</b>	<b>6.8</b>

Total refining throughput decreased 6.0% Q-o-Q and increased 5.2% Y-o-Y due to the following:

- Seasonal factors due to harsh weather conditions in the north-west region and resulting logistical issues, planned NIS throughput reduction and the difference in the length of quarters (-2 days Q-o-Q)
- Increased access to Moscow refinery's capacity following the Sibir Energy acquisition (Y-o-Y)

- Output of gasoline increased 2.1% Q-o-Q and 13.7% Y-o-Y due to the following:
  - Began producing Class 3 gasoline (s<150ppm) at Omsk and Yaroslavl Refineries to comply with government regulations in January, 2011
  - Began producing Class 4 gasoline at Moscow Refinery in January, 2011
  - Began producing Class 4 gasoline (Super EURO-98) at Omsk Refinery in February, 2011
- Production of high-value jet fuel declined 5.8% Q-o-Q due to decrease in refinery throughput, but remained at the same level Y-o-Y
- Output of diesel declined 5.4% Q-o-Q due to decrease in refinery throughput and increased 5.0% Y-o-Y due to the following:
  - Began producing Class 4 diesel at Moscow Refinery in January, 2011
  - Began producing Class 4 diesel at Yaroslavl Refinery in February, 2011

### Products Purchases on International Markets

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	11	0.01	13	0.02	(15.4)	(50.0)
Diesel	129	0.14	-	-	-	-
Fuel oil	-	-	18	0.04	(100.0)	(100.0)
Jet fuel	35	0.04	10	0.01	250.0	300.0
Other	13	0.01	-	-	-	-
<b>Total</b>	<b>188</b>	<b>0.20</b>	<b>41</b>	<b>0.07</b>	<b>358.5</b>	<b>185.7</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	11	0.01	39	0.05	(71.8)	(80.0)
Diesel	129	0.14	54	0.07	138.9	100.0
Jet fuel	35	0.04	26	0.03	34.6	33.3
Other	13	0.01	-	-	-	-
<b>Total</b>	<b>188</b>	<b>0.20</b>	<b>119</b>	<b>0.15</b>	<b>58.0</b>	<b>33.3</b>

### Products Purchases (CIS)

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	8	0.01	4	0.01	100.0	-
Low octane gasoline	4	0.01	1	0.01	300.0	100.0
Diesel	23	0.03	7	0.01	228.6	200.0
Other	2	0.01	1	0.01	100.0	-
<b>Total</b>	<b>37</b>	<b>0.06</b>	<b>13</b>	<b>0.04</b>	<b>184.6</b>	<b>71.4</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	8	0.01	11	0.01	(27.3)	-
Low octane gasoline	4	0.01	4	0.01	-	-
Diesel	23	0.03	21	0.03	9.5	-
Other	2	0.01	-	-	-	-
<b>Total</b>	<b>37</b>	<b>0.06</b>	<b>36</b>	<b>0.05</b>	<b>2.8</b>	<b>20.0</b>



## Products Purchases (domestic)

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	213	0.30	5	0.01	4,160.0	2,900.0
Low octane gasoline	2	0.01	-	-	-	-
Diesel	129	0.21	35	0.06	268.6	250.0
Fuel oil	31	0.09	21	0.08	47.6	12.5
Jet fuel	27	0.05	12	0.02	125.0	150.0
Other	8	0.02	11	0.03	(27.3)	(33.3)
<b>Total</b>	<b>410</b>	<b>0.68</b>	<b>84</b>	<b>0.20</b>	<b>388.1</b>	<b>240.0</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	213	0.30	91	0.14	134.1	114.3
Low octane gasoline	2	0.01	5	0.01	(60.0)	-
Diesel	129	0.21	98	0.21	31.6	-
Fuel oil	31	0.09	31	0.11	-	(18.2)
Jet fuel	27	0.05	16	0.03	68.8	66.7
Other	8	0.02	34	0.03	(76.5)	(33.3)
<b>Total</b>	<b>410</b>	<b>0.68</b>	<b>275</b>	<b>0.53</b>	<b>49.1</b>	<b>28.3</b>

## Products Marketing

1Q	4Q	Δ, %		1Q	Δ, %	
2011	2010			2011		2010
			<b>Active retail stations</b>		<b>(units)</b>	
976	947	3.1	In Russia	976	934	4.5
187	181	3.3	In CIS	187	160	16.9
487	468	4.1	In Eastern Europe	487	471	3.4
<b>1,650</b>	<b>1,596</b>	<b>3.4</b>	<b>Total retail stations</b>	<b>1,650</b>	<b>1,565</b>	<b>5.4</b>
			<b>Average daily sales per retail site in Russia</b>			
<b>11.7</b>	<b>11.1</b>	<b>5.1</b>	<b>(tonnes per day)</b>	<b>11.7</b>	<b>9.0</b>	<b>30.0</b>

- Overall site count grew by 3.4% Q-o-Q and 5.4% Y-o-Y as we expanded our retail footprint in Russia, CIS and Eastern Europe
- Average daily sales per retail site in Russia grew by 5.1% Q-o-Q and 30.0% Y-o-Y as a result of the ongoing rebranding campaign

## Results of Operations

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	2010	Δ, % 2011-2010
<b>Revenues</b>						
9,676	8,903	8.7	Refined products and oil and gas sales	9,676	7,117	36.0
189	160	18.1	Other	189	179	5.6
9,865	9,063	8.8	Total	9,865	7,296	35.2
<b>Costs and other deductions</b>						
2,224	2,134	4.2	Cost of purchased oil, gas and petroleum products	2,224	1,538	44.6
578	589	(1.9)	Operating expenses	578	455	27.0
456	449	1.6	Selling, general and administrative expenses	456	360	26.7
800	769	4.0	Transportation expenses	800	687	16.4
424	414	2.4	Depreciation, depletion and amortization	424	352	20.5
1,766	1,702	3.8	Export duties	1,766	1,584	11.5
1,772	1,430	23.9	Taxes other than income tax	1,772	1,207	46.8
22	37	(40.5)	Exploration expenses	22	23	(4.3)
117	112	4	Cost of other sales	117	86	36.0
8,159	7,636	6.8	Total	8,159	6,292	29.7
1,706	1,427	19.6	Operating income	1,706	1,004	69.9
<b>Other income / (expense)</b>						
41	64	(35.9)	Share in income of equity affiliates	41	79	(48.1)
9	-	-	Gain on investment	9	-	-
32	21	52.4	Interest income	32	19	68.4
(93)	(76)	22.4	Interest expense	(93)	(92)	1.1
11	(217)	(105.1)	Other income / (expense), net	11	(30)	(136.7)
166	(70)	(337.1)	Foreign exchange gain/ (loss), net	166	47	253.2
166	(278)	(159.7)	Total	166	23	621.7
1,872	1,149	62.9	<b>Income before income taxes</b>	1,872	1,027	82.3
416	242	71.9	Provision for income taxes	416	204	103.9
3	(15)	(120.0)	Deferred income tax expense / (benefit)	3	(25)	(112.0)
419	227	84.6	Total	419	179	134.1
1,453	922	57.6	Net income	1,453	848	71.3
(16)	(140)	(88.6)	<i>Less: Net income attributable to non-controlling interest</i>	(16)	(94)	(83.0)
1,437	782	83.8	<b>Net income attributable to Gazprom Neft</b>	1,437	754	90.6

## Revenues

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	1Q 2010	Δ, % 2011-2010
<b>Crude oil</b>						
2,535	2,361	7.4	Export and sales on international markets	2,535	2,108	20.3
271	334	(18.9)	Export to CIS	271	242	12.0
1	1	-	Domestic sales	1	-	-
<b>2,807</b>	<b>2,696</b>	<b>4.1</b>	<b>Total crude oil sales</b>	<b>2,807</b>	<b>2,350</b>	<b>19.4</b>
<b>Gas</b>						
34	44	(22.7)	Sales on international markets	34	18	88.9
123	63	95.2	Domestic sales	123	79	55.7
<b>157</b>	<b>107</b>	<b>46.7</b>	<b>Total gas sales</b>	<b>157</b>	<b>97</b>	<b>61.9</b>
<b>Petroleum products</b>						
2,373	2,080	14.1	Export	2,373	1,804	31.5
606	710	(14.6)	Sales on international markets	606	510	18.8
356	326	9.2	Export and sales in CIS	356	212	67.9
3,377	2,984	13.2	Domestic sales	3,377	2,144	57.5
<b>6,712</b>	<b>6,100</b>	<b>10.0</b>	<b>Total petroleum products sales</b>	<b>6,712</b>	<b>4,670</b>	<b>43.7</b>
<b>189</b>	<b>160</b>	<b>18.1</b>	<b>Other sales</b>	<b>189</b>	<b>179</b>	<b>5.6</b>
<b>9,865</b>	<b>9,063</b>	<b>8.8</b>	<b>Total sales</b>	<b>9,865</b>	<b>7,296</b>	<b>35.2</b>

## Sales Volumes

1Q 2011	4Q 2010	Δ, %		1Q 2011	1Q 2010	Δ, % 2011-2010
<b>Crude oil</b>						
<b>(MMTonnes)</b>						
3.47	3.89	(10.8)	Export and sales on international markets	3.47	3.90	(11.0)
0.67	0.72	(6.9)	Export to CIS	0.67	0.71	(5.6)
0.01	0.01	-	Domestic sales	0.01	-	-
<b>4.15</b>	<b>4.62</b>	<b>(10.2)</b>	<b>Total crude oil sales</b>	<b>4.15</b>	<b>4.61</b>	<b>(10.0)</b>
<b>2.37</b>	<b>1.55</b>	<b>52.9</b>	<b>Gas domestic sales (bcm)</b>	<b>2.37</b>	<b>1.62</b>	<b>46.3</b>
<b>Petroleum products</b>						
<b>(MMTonnes)</b>						
3.22	3.36	(4.2)	Export	3.22	3.17	1.6
0.52	0.66	(21.2)	Sales on international markets	0.52	0.55	(5.5)
0.49	0.44	11.4	Export and sales in CIS	0.49	0.36	36.1
5.43	5.45	(0.4)	Domestic sales	5.43	4.39	23.7
<b>9.66</b>	<b>9.91</b>	<b>(2.5)</b>	<b>Total petroleum products sales</b>	<b>9.66</b>	<b>8.47</b>	<b>14.0</b>

### Realized Average Sales Prices

1Q 2011	4Q 2010	Δ, %		1Q 2011	1Q 2010	Δ, % 2011-2010
			<b>Crude oil</b>	<b>(US\$ per tonne)</b>		
730.55	606.94	20.4	Export and sales on international markets	730.55	540.51	35.2
404.48	463.89	(12.8)	Export to CIS	404.48	340.85	18.7
			<b>Petroleum products</b>	<b>(US\$ per tonne)</b>		
736.96	619.05	19.0	Export	736.96	569.09	29.5
1,165.38	1,075.76	8.3	Sales on international markets	1,165.38	927.27	25.7
726.53	740.91	(1.9)	Export and sales in CIS	726.53	588.89	23.4
621.92	547.52	13.6	Domestic sales	621.92	488.38	27.3

- The 8.8% growth in revenues Q-o-Q was attributable to higher prices, partially offset by lower sales volumes
- Revenue grew by 35.2% Y-o-Y mainly due to higher prices for crude oil and petroleum products and increased production and sales volumes

### Crude Oil Export Sales and Sales on International Markets

- Revenues from crude oil exports and sales on international markets increased by 7.4% Q-o-Q due to higher prices (+20.4%), offset by a 10.8% decline in sales volumes.
- Revenues from crude oil exports and sales on international markets increased by 20.3% Y-o-Y due to a 35.2% increase in prices, partly offset by an 11.0% decrease in sales volumes.

### Crude Oil Export Sales to CIS

- Revenues from crude oil exports to CIS decreased by 18.9% Q-o-Q due to lower sales prices (-12.8%) and a 6.9% decrease in sales volumes.
- Crude oil export sales to CIS increased by 12.0% Y-o-Y due to an 18.7% increase in prices, partially offset by a 5.6% decrease in sales volumes.

### Petroleum Products Exports

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	44	0.05	62	0.09	(29.0)	(44.4)
Low octane gasoline	12	0.02	3	0.01	300.0	300.0
Naphtha	162	0.19	296	0.43	(45.3)	(55.8)
Diesel	1,267	1.45	903	1.45	40.3	-
Fuel oil	744	1.37	424	0.99	75.5	38.4
Jet fuel	39	0.04	35	0.05	-	-
Other	105	0.10	81	0.16	29.6	(35.5)
<b>Total</b>	<b>2,373</b>	<b>3.22</b>	<b>1,804</b>	<b>3.17</b>	<b>31.5</b>	<b>1.6</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	44	0.05	2	0.01	2,100.0	900.0
Low octane gasoline	12	0.02	11	0.02	9.1	-
Naphtha	162	0.19	258	0.35	(37.2)	(45.7)
Diesel	1,267	1.45	954	1.30	32.8	11.5
Fuel oil	744	1.37	706	1.54	5.4	(11.0)
Jet fuel	39	0.04	61	0.08	-	-
Other	105	0.10	88	0.06	19.3	53.8
<b>Total</b>	<b>2,373</b>	<b>3.22</b>	<b>2,080</b>	<b>3.36</b>	<b>14.1</b>	<b>(4.2)</b>

- Revenues from export sales of petroleum products increased by 14.1% Q-o-Q due to a 19.0% growth in prices that was partially offset by a 4.2% decrease in sales volumes. The decrease in volumes was driven by the 6.0% decrease in refineries throughput.
- Revenues from export sales of petroleum products increased by 31.5% Y-o-Y due to a 29.5% growth in prices as well as 1.6% increase in sales volumes. The increase in volumes was driven by 5.2% increase in refineries throughput.

#### Petroleum Products Sales on International Markets

- Revenues from export sales of petroleum products on international markets decreased by 14.6% Q-o-Q due to lower sale volumes (21.2% decline), partially offset by 8.3% higher prices.
- Revenues from export sales of petroleum products on international markets increased by 18.8% Y-o-Y due to 25.7% higher prices, partially offset by a 5.5% decrease in sale volumes.
- The decrease in volumes resulted from a planned reduction in NIS throughput

#### Petroleum Products Export and Sales in CIS

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	180	0.24	82	0.10	119.5	140.0
Low octane gasoline	22	0.03	13	0.02	69.2	50.0
Naphtha	21	0.03	2	0.01	950.0	200.0
Diesel	75	0.10	39	0.07	92.3	42.9
Jet fuel	14	0.02	46	0.10	(69.6)	(80.0)
Other	44	0.07	30	0.06	46.7	16.7
<b>Total</b>	<b>356</b>	<b>0.49</b>	<b>212</b>	<b>0.36</b>	<b>67.9</b>	<b>36.1</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	180	0.24	152	0.19	18.4	26.3
Low octane gasoline	22	0.03	24	0.04	(8.3)	(25.0)
Naphtha	21	0.03	13	0.02	61.5	50.0
Diesel	75	0.10	68	0.11	10.3	(9.1)
Jet fuel	14	0.02	22	0.04	(36.4)	(50.0)
Other	44	0.07	47	0.04	(6.4)	-
<b>Total</b>	<b>356</b>	<b>0.49</b>	<b>326</b>	<b>0.44</b>	<b>9.2</b>	<b>11.4</b>

- Revenues from export and sales of petroleum products in CIS increased 9.2% Q-o-Q due to an 11.4% increase in sales volumes, partially offset by a 1.9% decline in prices. The decline in prices was due to the ending of duties on product exports to Belorussia and Kirgiziya
- Revenues from export and sales of petroleum products in CIS increased by 67.9% Y-o-Y due to a 23.4% increase in sales prices and a 36.1% increase in sales volumes

### Domestic Sales of Petroleum Products

	1Q 2011		1Q 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	1,307	1.70	808	1.15	61.8	47.8
Low octane gasoline	131	0.18	91	0.15	44.0	20.0
Diesel	1,024	1.47	601	1.20	70.4	22.5
Fuel oil	335	0.99	294	1.05	13.9	(5.7)
Jet fuel	303	0.50	168	0.37	80.4	35.1
Other	277	0.59	182	0.47	52.2	25.5
<b>Total</b>	<b>3,377</b>	<b>5.43</b>	<b>2,144</b>	<b>4.39</b>	<b>57.5</b>	<b>23.7</b>

	1Q 2011		4Q2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	1,307	1.70	1,169	1.55	11.8	9.7
Low octane gasoline	131	0.18	139	0.25	(5.8)	(28.0)
Diesel	1,024	1.47	885	1.55	15.7	(5.2)
Fuel oil	335	0.99	323	0.95	3.7	4.2
Jet fuel	303	0.50	249	0.47	21.7	6.4
Other	277	0.59	219	0.68	26.5	(13.2)
<b>Total</b>	<b>3,377</b>	<b>5.43</b>	<b>2,984</b>	<b>5.45</b>	<b>13.2</b>	<b>(0.4)</b>

- Revenues from domestic petroleum products sales increased by 13.2% Q-o-Q due to a 13.6% growth in prices, partially offset by a 0.4% decrease in sales volumes.
- Revenues from domestic petroleum products sales increased by 57.5% Y-o-Y due to a 27.3% increase in prices and a 23.7% increase in sales volumes.

### Other Sales

- Other revenues consist primarily of sales of services such as processing services, transportation, construction, utilities and other services.
- Other sales increased 18.1% Q-o-Q and 5.6% 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 increased by 4.2% Q-o-Q due higher crude oil and petroleum products prices, partially offset by lower purchased volumes
- The cost of purchased crude oil, gas and petroleum products increased by 44.6% Y-o-Y due to higher crude oil and petroleum products prices and larger purchased volumes

### Extraction and Refining Expenses

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	1Q 2010	Δ, % 2011-2010
347	353	(1.7)	Hydrocarbon extraction expenses	347	265	30.9
231	236	(2.1)	Refining expenses at own and equity affiliates refineries	231	190	21.6
<b>578</b>	<b>589</b>	<b>(1.9)</b>	<b>Total</b>	<b>578</b>	<b>455</b>	<b>27.0</b>

- 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.
- Extraction costs increased 30.9% Y-o-Y due to a 2.1% appreciation in the ruble relative to the US dollar, 23.6% PPI inflation, and a 13.1% increase in hydrocarbon production volumes. Average hydrocarbon extraction costs per barrel of oil equivalent increased from US\$ 4.44 to US\$ 5.15, or 16.0%
- Extraction costs decreased 1.7% Q-o-Q despite a 4.9% appreciation in the ruble relative to the US dollar, 6.9% PPI inflation and 3.9% higher hydrocarbon production volumes. Average hydrocarbon extraction costs per barrel of oil equivalent decreased from US\$ 5.44 to US\$ 5.15, or 5.3%
- Refining expenses at own refineries include expenditures related to raw materials and supplies, maintenance and repairs of productive equipment, labor costs and electricity costs and other similar costs at our refinery' subsidiaries.
- Refining expenses increased 21.6% Y-o-Y due to a 5.2% increase in refining volumes, 2.1% appreciation in the ruble relative to the US dollar, and higher tariffs of natural monopolies. Average refining expenses per barrel increased from US\$ 2.89 to US\$ 3.34, or 15.5%
- Refining expenses decreased 2.1% Q-o-Q due to a 6.0% decline in refining volumes, partially offset by a 4.9% appreciation in the ruble relative to the US dollar, and inflation. Average refining expenses per barrel increased from US\$ 3.21 to US\$ 3.34, or 4.1%

### 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, charity, allowances for doubtful accounts and other expenses.
- Selling, general and administrative expenses increased 26.7% Y-o-Y and 1.6% Q-o-Q due to appreciation of the ruble relative to the US dollar, higher sales volumes, and inflation

### 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 Q-o-Q and Y-o-Y reflect higher transportation tariffs and increased sales volumes as well as an appreciation 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.
- Increase in depreciation, depletion and amortization expenses was 20.5% and 2.4% higher Y-o-Y and Q-o-Q, respectively. The increase was a result of the growth in depreciable assets due to the Company's capital expenditure program

### Export Duties and Taxes Other Than Income Tax

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	2010	Δ, % 2011-2010
1,157	1,151	0.5	Export customs duties for crude oil	1,157	1,061	9.0
609	551	10.5	Export customs duties for petroleum products	609	523	16.4
<b>1,766</b>	<b>1,702</b>	<b>3.8</b>	<b>Total export customs duties</b>	<b>1,766</b>	<b>1,584</b>	<b>11.5</b>

- Export customs duties for crude oil increased 9.0% Y-o-Y and 0.5% Q-o-Q due to higher crude oil prices, offset by a decrease in export sales volumes and the cancellation of crude oil export duty for Belorussia
- Export customs duties for petroleum products increased 16.4% Y-o-Y and 10.5% Q-o-Q due to higher export customs duties for crude oil, partially offset by the ending of petroleum products export duties for Belorussia and Kirgiziya

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	2010	Δ, % 2011-2010
1,020	855	19.3	Mineral extraction taxes	1,020	697	46.3
599	454	31.9	Excise	599	387	54.8
52	49	6.1	Property tax	52	42	23.8
101	72	40.3	Other taxes	101	81	24.7
<b>1,772</b>	<b>1,430</b>	<b>23.9</b>	<b>Total taxes other than income tax</b>	<b>1,772</b>	<b>1,207</b>	<b>46.8</b>

- Mineral extraction taxes increased 46.3% Y-o-Y and 19.3% Q-o-Q due to higher crude prices and changes in production volumes. The average Urals price increased 36.2% Y-o-Y and 20.4% Q-o-Q.
- Excise taxes increased 54.8% Y-o-Y due to higher production volumes of refined products at the Company's refineries and higher excise tax rates
- Excise taxes increased 31.9% Q-o-Q due to an increase in excise tax rates, offset by a decrease in production volumes of refined products
- The increase in excise tax rates is due to Russian federal law # 306-FZ (November 27, 2010) that increased excise rates on petroleum products effective from January 1, 2011

### Other financial items

- Changes in interest income reflect changes in cash and deposits in banks
- Interest expenses were higher Q-o-Q due to a higher total debt, offset by a lower effective interest rate.
- Interest expenses were at the same level Y-o-Y as a result of the Company's success in reducing its effective interest rate.
- The Company's effective income tax rate was 22.4% for 1Q 2011, consistent with statutory income tax rates



## Liquidity and Capital Resources

### Cash

(in US\$ million)	1Q		Δ %
	2011	2010	2011-2010
Net cash provided by operating activities	621	881	(29.5)
Net cash used in investing activities	(1,575)	(673)	134.0
Net cash provided by/ (used in) financing activities	747	(282)	(364.9)

### Net Cash Provided by Operating Activities

- Net cash provided by operating activities decreased 29.5% to US\$ 621 million from US\$ 881 million in 1Q 2010. The decrease in net cash provided by operating activities was due to an increase in working capital

### Net Cash Used in Investing Activities

- Net cash used in investing activities increased 134.0% to US\$ 1,575 million from US\$ 673 million in 1Q 2010 due to a higher level of M&A activities (acquisition of additional interest in Sibir Energy and NIS) and a 0.7% increase in capital expenditures

### Net Cash Provided by/ (Used in) Financing Activities

- Net cash provided by financing activities was US\$ 747 million compared with net cash used of US\$ 282 million in 1Q 2010. The change was mainly due to an increase in net loan proceeds over repayments of US\$ 959 million and reduced dividend payments of US\$ 70 million

### Capital Expenditure

1Q	4Q	Δ, %	(in US\$ million)	1Q		Δ, %
2011	2010			2011	2010	2011-2010
495	632	(21.7)	Exploration and production	495	484	2.3
75	145	(48.3)	Refining	75	75	-
26	140	(81.4)	Marketing and distribution	26	42	(38.1)
16	23	(30.4)	Others	16	7	128.6
<b>612</b>	<b>940</b>	<b>(34.9)</b>	<b>Total capital expenditures</b>	<b>612</b>	<b>608</b>	<b>0.7</b>

Capital expenditures were 0.7% higher Y-o-Y. The increase was due to the following:

- 2.3% higher capital expenditures in exploration and production due to a 20.9% increase in production drilling, 2.1% appreciation in the value of ruble against the US dollar, and cost inflation, partially offset by lower investments in the Cenomanian gas project and reduced capex for infrastructure and other development projects
- Stable refining capital expenditures in line with projects schedule
- 38.1% decrease in marketing and distribution capital expenditures due to completion of major part of retail stations rebranding campaign

Capital expenditures were 34.9% lower Q-o-Q. The decrease was due to the following:

- 21.7% lower capital expenditures in exploration and production due to a 20.2% decrease in production drilling and other seasonal factors, partially offset by a 4.9% appreciation in the value of the ruble against the US dollar and cost inflation
- 48.3% lower refining capital expenditures due to finalization of Isomerisation unit at Omsk refinery in 4Q 2010

- A 81.4% decrease in marketing and distribution capital expenditures due to completion of major part of retail stations rebranding campaign

### **Debt and Liquidity**

	2011	2010
Short-term debt	1,949	1,694
Long-term debt	5,887	4,942
Cash and cash equivalents	(948)	(1,146)
Short-term deposits	(91)	(109)
<b>Net debt</b>	<b>6,797</b>	<b>5,381</b>
Short-term debt/ total debt, %	24.9	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 14.7% Q-to-Q. The average interest rate decreased from 3.96% in 4Q 2010 to 3.93% in 1Q 2011
- The majority of the Company's debt is denominated or hedged in US dollars
- The increase in debt during 1Q 2011 was primarily due to borrowings related to the acquisitions of 5.15% in NIS and 22.39% in Sibir
- In 1Q 2011 the Company confirmed its investment grade from Moody's Baa3 with stable outlook

## Financial Appendix

### EBITDA Reconciliation

1Q 2011	4Q 2010	Δ, %	(in US\$ million)	1Q 2011	2010	Δ, % 2011-2010
2,467	2,079	18.7	<b>Adjusted EBITDA</b>	2,467	1,586	55.5
(337)	(238)	41.6	The Company's share in EBITDA of equity affiliates	(337)	(230)	46.5
9	-	-	Gain on investment	9	-	-
41	64	(35.9)	Share in income of equity affiliates	41	79	(48.1)
166	(70)	(337.1)	Foreign exchange gain/ (loss), net	166	47	253.2
11	(217)	(105.1)	Other income / (expense), net	11	(30)	(136.7)
(93)	(76)	22.4	Interest expense	(93)	(92)	1.1
32	21	52.4	Interest income	32	19	68.4
(424)	(414)	2.4	Depreciation, depletion and amortization	(424)	(352)	20.5
1,872	1,149	62.9	<i>Income before income taxes</i>	1,872	1,027	82.3

### Financial Ratios

#### Profitability

	2011	1Q 2010	Δ, p.p. 2011-2010
Adjusted EBITDA margin, %	25.01	21.74	3.3
Net income margin, %	14.57	10.33	4.2
Return on assets (ROA), %	11.84	13.01	(1.2)
Return on equity (ROE), %	18.73	19.97	(1.2)
Return on average capital employed (ROACE), %	16.80	15.60	1.2

#### Liquidity

	2011	1Q 2010	Δ, % 2011-2010
Current ratio	1.64	1.14	0.4
Quick ratio	0.91	0.62	0.5
Cash ratio	0.24	0.15	0.6

#### Leverage

	2011	1Q 2010	Δ, p.p. 2011-2010
Net debt/ Total Assets, %	20.17	17.84	2.3
Net debt/ Equity, %	32.10	28.05	4.0
Gearing, %	24.30	21.91	2.4
			Δ, %
Net debt/ Market Capitalization	26.66	21.94	0.2
Net debt/ EBITDA	0.98	0.99	-
Total debt/ EBITDA	1.11	1.14	-

## 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 of 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 2010 average Brent crude oil price increased by 28.9% vs. 2009 to US\$ 79.50 per barrel. In 1Q 2011, the average Brent crude oil price increased to US\$ 105.43 per barrel, an increase of 38.1% Y-o-Y and 21.9% Q-o-Q.

Petroleum product prices in international and Russian markets are primarily determined by the level of 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.

1Q 2011	4Q 2010	Δ, %		1Q 2011	4Q 2010	Δ, % 2011-2010
<b>International market</b>				<b>(in US\$ per barrel)</b>		
105.43	86.46	21.9	Brent	105.43	76.36	38.1
102.61	85.23	20.4	Urals Spot (average Med + NWE)	102.61	75.36	36.2
				<b>(in US\$ per tonne)</b>		
922.24	787.88	17.1	Premium gasoline (average NWE)	922.24	726.31	27.0
900.19	785.11	14.7	Naphtha (average Med. + NWE)	900.19	700.52	28.5
913.43	757.11	20.6	Diesel fuel (average NWE)	913.43	646.44	41.3
885.74	732.53	20.9	Gasoil 0.2% (average Med. + NWE)	885.74	634.14	39.7
550.90	460.20	19.7	Fuel oil 3.5% (average NWE)	550.90	436.85	26.1
<b>Domestic market</b>				<b>(in US\$ per tonne)</b>		
784.10	733.42	6.9	High-octane gasoline	784.10	657.67	19.2
718.44	588.92	22.0	Low-octane gasoline	718.44	538.69	33.4
686.44	572.01	20.0	Diesel fuel	686.44	486.08	41.2
260.62	261.41	(0.3)	Fuel oil	260.62	237.37	9.8

Sources: Platts (international), Kortes (domestic)

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

The management of the Company has determined the US Dollar is the functional and reporting currency of the Company as the majority of its revenues, debt and trade liabilities are either priced, incurred, payable or otherwise measured in the 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 ruble - US dollar exchange rate the Company is engaged in using derivative instruments. Refer to Note 17 to Consolidated Financial Statements.

1Q 2011	4Q 2010		1Q 2011	1Q 2010
3.8	2.6	Change in Consumer Price Index (CPI), %	3.8	3.2
6.9	8.5	Change in Producer Price Index (PPI), %	6.9	2.7
28.43	30.48	US dollar / Ruble exchange rate as of the end of the period	28.43	29.36
29.27	30.71	Average Ruble/US\$ exchange rate for the period	29.27	29.89
11.9	2.3	Real appreciation (depreciation) of the Ruble against the US\$, %	11.9	6.3
4.9	(0.3)	Change of the average invert exchange rate (RUB / US\$), %	2.1	13.5

### Taxation

1Q 2011	4Q 2010	Δ, %		1Q 2011	1Q 2010	Δ, % 2011-2010
			<b>Export customs duty</b>	(US\$ per tonne)		
343.03	286.97	19.5	Crude oil	343.03	264.00	29.9
234.33	205.63	14.0	Light and middle distillates	234.33	190.03	23.3
151.37	110.77	36.7	Fuel oil	151.37	102.37	47.9
			<b>Mineral extraction tax</b>			
4,090	3,453	18.4	Crude oil (RUB per tonne)	4,090	2,877	42.1
19	15	24.3	Crude oil (US\$ per barrel)	19	13	45.2
237	147	61.2	Natural gas (RUB per 1,000 cm)	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 (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 per 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, Tadjikistan, Kirgызstan) 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. In January 2010, the duty reduction for crude oil exported to Belorussia was abolished.

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 on crude oil exported to Belorussia. Since January 1, 2011, export of crude oil to Belorussia has been exempt from customs duty since January 1, 2011.

**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, Tadjikistan, Kirgызstan) are not subject to export duties.

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

**Excise on petroleum products.** In Russia the responsibility to pay excise duties on petroleum products in Russia is imposed on producers of refined products (except naphtha). 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 (Rubles/tonne)	2011	2012	2013
Gasoline			
Euro 3	5,672	7,382	9,151
Euro 4, 5	5,143	6,822	8,560
Naphtha	6,089	7,824	9,617
Other	5,995	7,725	9,511
Diesel fuel			
Euro 3	2,485	3,814	5,199
Euro 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 (Ruble/tonne)	419	446	470

Depleted oil assets, defined as oil assets are those 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 standart MET formula is multiplied by the coefficient C which is calculated as follows:  $C = -3.5 * N/V + 3.8$ . Thus every marginal percentage of depletion in excess of 80% reduces MET payable by 3.5%.

**Natural gas mineral extraction tax rate.** 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) changed mineral extraction tax rates charged on crude oil and natural gas production:

	2011	2012	2013
Natural gas (Ruble per thousand of cubic meters)	237	251	265

### Transportation of Crude Oil and Petroleum Products

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 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:

1Q 2011	4Q 2010	Δ, %		1Q 2011	1Q 2010	Δ, % 2011-2010
			<b>Crude oil</b>	<b>(RUB per tonne)</b>		
			Export			
1,405.55	1,282.57	9.6	Pipeline	1,405.55	1,210.82	16.1
			CIS			
1,156.82	1,012.46	14.3	Pipeline	1,156.82	891.87	29.7
			Transportation to Refineries			
457.37	432.21	5.8	ONPZ	457.37	406.13	12.6
1,013.27	1,018.35	(0.5)	MNPZ	1,013.27	916.01	10.6
966.56	883.63	9.4	YaNPZ	966.56	869.27	11.2
			<b>Petroleum products</b>			
			Export from ONPZ			
2,041.85	1,945.67	4.9	Gasoline	2,041.85	2,026.71	0.7
3,181.80	3,024.13	5.2	Fuel oil	3,181.80	3,132.06	1.6
2,466.55	2,458.16	0.3	Diesel fuel	2,466.55	2,321.68	6.2
			Export from MNPZ			
1,486.81	1,780.28	(16.5)	Gasoline	1,486.81	1,605.02	(7.4)
1,469.63	1,434.51	2.4	Fuel oil	1,469.63	1,267.81	15.9
1,461.04	1,418.63	3.0	Diesel fuel	1,461.04	1,333.79	9.5
			Export from YaNPZ			
1,525.74	1,607.52	(5.1)	Gasoline	1,525.74	1,724.96	(11.5)
1,371.19	1,278.75	7.2	Fuel oil	1,371.19	1,269.62	8.0
1,276.96	974.39	31.1	Diesel fuel	1,276.96	869.63	46.8

In the first quarter of 2011 the Company exported 48.8% of its total volume of crude through the port of Primorsk (49.1% in 1Q2010); 20.0% was exported through Druzhba (25.5% in 1Q2010), principally to Germany and the Czech Republic; 4.0% was exported through the port of Novorossiysk (8.6% in 1Q2010) and 10% through the port of Tuapse (8.1% in 1Q2010); 17.2% was exported through the ESPO pipeline and the port of Kozmino (8.7% in 1Q2010). Exports of crude to CIS counties in the first quarter of 2011 were: 82.1% to Belarus (70.7% in 1Q2010) and 17.9% to Kazakhstan (29.3% in 1Q2010).

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