

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended March 31, 2012 and 2011 and December 31, 2011**

Definitions and Conversions

The following discussion is intended to assist you in understanding JSC Gazprom Neft's financial position as of March 31, 2012 and results of operations for the three months ended March 31, 2012 and 2011 and December 31, 2011 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

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 associates. 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.

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 2012	4Q 2011	Δ, %		1Q 2012	1Q 2011	Δ, % 2012-2011
Financial results						
277,976	272,088	2.2	Revenue (RUB million)	277,976	232,019	19.8
79,262	77,312	2.5	Adjusted EBITDA* (RUB million)	79,262	71,636	10.6
730.5	699.1	4.5	RUB per boe of production	730.5	698.1	4.6
48,373	36,630	32.1	Profit attributable to Gazprom Neft (RUB million)	48,373	39,990	21.0
445.8	331.2	34.6	RUB per boe of production	445.8	389.7	14.4
Operational results						
108.51	110.59	(1.9)	Hydrocarbon production including our share in equity associates (million boe)	108.51	102.61	5.7
14.76	15.01	(1.7)	Hydrocarbon production including our share in equity associates (million toe)	14.76	13.93	5.9
92.47	94.51	(2.2)	Crude oil production including our share in equity associates (million bbl)	92.47	90.00	2.7
96.27	96.48	(0.2)	Gas production including our share in equity associates (bcf)	96.27	75.63	27.3
9.60	9.08	5.7	Production of petroleum products at own and equity associates refineries (million tonnes)	9.60	8.94	7.4

* EBITDA is a non-IFRS measure. A reconciliation of adjusted EBITDA to profit before income taxes is provided in the Appendix

1Q 2012 Highlights

- Began commercial gas production from Samburgskoye field (SeverEnergiya) in April
- Expanded retail network in northwestern region and extended G-Energy product range
- Opened refueling complex at Sheremetyevo Airport
- Signed agreement with Chevron for production of marine lubricants
- Placed RUB 10 bln Russian bond

Results for 1Q 2012 Compared with 1Q 2011

- Higher oil prices, increased refining throughput, and product mix optimization supported improved financial results, with 19.8% higher revenue driving 10.6% increase in adjusted EBITDA
- Hydrocarbon production volumes increased by 5.7% to 108.51 MMboe and gas production increased by 27.3%
- Refining throughput increased by 7.8%
- Production and manufacturing expenses were 12.5% higher as a result of a 8.4% increase in hydrocarbon production by consolidated subsidiaries, and 7.8% increase in refining throughput

Results for 1Q 2012 Compared with 4Q 2011

- Higher petroleum products sales volumes and increased refining throughput supported improved financial results, with 2.2% higher revenue and 2.5% higher adjusted EBITDA
- Hydrocarbon production volumes decreased by 1.9% due to seasonal factors
- Refining throughput increased by 5.6%

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 and purchases, sale, 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, and 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.

Operational Data and Analysis

Production Drilling

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
Consolidated subsidiaries						
479	445	7.6	Production drilling ('000 meters)	479	531	(9.8)
127	158	(19.6)	Production wells drilled	127	189	(32.8)
14.69	15.19	(3.3)	Average well flow (tonnes per day)	14.69	15.44	(4.9)
83.45	83.24	0.3	Watercut, %	83.45	84.02	(0.7)
Equity associates						
320	319	0.2	Production drilling ('000 meters)	320	380	(15.9)
75	123	(39.0)	Production wells drilled	75	114	(34.2)

- The Group has been reorienting its drilling toward horizontal wells, which are more complex than vertical wells, but deliver greater yields. As a result production drilling footage decreased 9.8% Y-o-Y and the number of production wells drilled decreased 32.8% Y-o-Y and 19.6% Q-o-Q

Production

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
			Crude oil			(MMbbl)
28.63	29.88	(4.2)	Noyabrskneftegaz	28.63	30.23	(5.3)
20.07	19.60	2.4	Yugra	20.07	17.98	11.6
2.14	2.34	(8.5)	Gazprom Neft	2.14	2.76	(22.5)
2.22	2.23	(0.4)	NIS	2.22	2.00	11.0
6.40	6.32	1.3	Others	6.40	3.76	70.2
59.46	60.37	(1.5)	Total crude oil production by consolidated subsidiaries	59.46	56.73	4.8
16.42	16.75	(2.0)	Share in Slavneft	16.42	16.34	0.5
9.48	9.79	(3.2)	Share in Tomskneft	9.48	9.46	0.2
7.11	7.60	(6.4)	Share in SPD	7.11	7.47	(4.8)
33.01	34.14	(3.3)	Total share in production of equity associates	33.01	33.27	(0.8)
92.47	94.51	(2.2)	Total crude oil production	92.47	90.00	2.7
			Gas*			(Bcf)
84.58	83.57	1.2	Gazprom Neft (own)	84.58	66.81	26.6
3.79	3.93	(3.6)	Share in Slavneft	3.79	3.72	1.9
6.62	8.36	(20.8)	Share in Tomskneft	6.62	4.70	40.9
1.28	0.62	106.5	Share in SPD	1.28	0.40	220.0
96.27	96.48	(0.2)	Total gas production	96.27	75.63	27.3
			Hydrocarbons			(MMboe)
73.56	74.30	(1.0)	Gazprom Neft (own)	73.56	67.87	8.4
17.05	17.41	(2.1)	Share in Slavneft	17.05	16.96	0.5
10.58	11.18	(5.4)	Share in Tomskneft	10.58	10.24	3.3
7.32	7.70	(4.9)	Share in SPD	7.32	7.54	(2.9)
108.51	110.59	(1.9)	Total hydrocarbon production	108.51	102.61	5.7
1.19	1.20	(0.8)	Daily hydrocarbon production (MMboepd)	1.19	1.14	4.6

* Production volume includes marketable gas plus utilized gas

- Total Group hydrocarbon production increased 5.7% Y-o-Y
- Total Group hydrocarbon production decreased 1.9% Q-o-Q due to seasonal factors
- Crude oil production by consolidated subsidiaries increased 4.8% Y-o-Y, driven by increased development activity, primarily hydrofracturing and recompletion, and the acquisition of assets in Orenburg
- Crude oil production by consolidated subsidiaries decreased 1.5% Q-o-Q
- Gas production increased by 27.3% Y-o-Y due to the acquisition of assets in Orenburg and the execution of projects to increase the utilization of associated gas

Crude Oil Purchases

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
			(MMbbl)			
11.65	8.61	35.3	Crude oil purchases in Russia*	11.65	9.49	22.8
2.07	3.49	(40.7)	Crude oil purchases internationally	2.07	1.69	22.5
13.72	12.10	13.4	Total crude oil purchases	13.72	11.18	22.7

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

- Crude oil purchases in Russia increased 35.3% Q-o-Q and 22.8% Y-o-Y as a result of the increase in refining volumes
- Crude oil purchases internationally decreased 40.7% Q-o-Q due to planned downtime at NIS refinery

Refining

1Q 2012	4Q 2011	Δ, %	(MMtonnes)	1Q 2012	1Q 2011	Δ, % 2012-2011
Refining throughput:						
4.91	4.54	8.1	Omsk	4.91	4.62	6.3
2.65	2.49	6.4	Moscow	2.65	2.57	3.1
0.41	0.60	(31.7)	Panchevo and Novi Sad	0.41	0.51	(19.6)
2.20	2.00	10.0	Share in Yaroslavl and Mozyrsky	2.20	1.73	27.2
10.17	9.63	5.6	Total refining throughput	10.17	9.43	7.8
Production of petroleum products						
2.14	1.78	20.2	Gasoline	2.14	1.98	8.1
0.09	0.10	(10.0)	Below class 2	0.09	0.10	(10.0)
0.03	0.06	(50.0)	Class 2	0.03	0.02	50.0
1.50	1.44	4.2	Class 3	1.50	1.68	(10.7)
0.52	0.18	188.9	Class 4 & 5	0.52	0.18	188.9
0.27	0.27	-	Naphtha	0.27	0.27	-
2.69	2.56	5.1	Diesel	2.69	2.91	(7.6)
0.24	0.69	(65.2)	Below class 2	0.24	1.59	(84.9)
1.08	0.53	103.8	Class 2	1.08	0.63	71.4
0.29	0.32	(9.4)	Class 3	0.29	0.04	625.0
0.54	0.56	(3.6)	Class 4	0.54	0.31	74.2
0.54	0.46	17.4	Class 5	0.54	0.34	58.8
2.29	2.26	1.3	Fuel oil	2.29	2.12	8.0
0.53	0.48	10.4	Jet fuel	0.53	0.49	8.2
1.68	1.73	(2.9)	Other	1.68	1.17	43.6
9.60	9.08	5.7	Total production	9.60	8.94	7.4

- Total refining throughput increased by 7.8% Y-o-Y due to higher utilization rates at the Company's refineries in Russia
- Output of higher quality gasoline and diesel (Classes 4,5) increased Y-o-Y driven by the trend in Russia toward higher quality motor fuel
- NIS refining throughput decreased Q-o-Q and Y-o-Y as a result of planned downtime related to production optimization
- Gasoline output increased 20.2% Q-o-Q and 8.1% Y-o-Y
- Jet fuel production increased by 10.4% Q-o-Q and 8.2% Y-o-Y as the Company expanded its sales footprint to 49 cities in 30 countries during 2011 and in March 2012 started to refuel planes at Italian airports under a long-term partnership with Eni
- Total refining throughput increased by 5.6% Q-o-Q following completion of scheduled maintenance at the Moscow and Omsk refineries that began in 4Q 2011 and start of production at Mozyrsky refinery in 1Q 2012

Products Purchases International

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	1,312	0.04	301	0.01	335.9	300.0
Diesel	5,094	0.17	4,322	0.13	17.9	30.8
Fuel oil	1,135	0.05	1,554	0.07	(27.0)	(28.6)
Jet fuel	1,478	0.05	1,620	0.05	(8.8)	(0.0)
Other	138	-	95	-	45.3	-
Total	9,157	0.31	7,892	0.26	16.0	19.2

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	1,312	0.04	309	0.01	324.6	300.0
Diesel	5,094	0.17	3,773	0.14	35.0	21.4
Fuel oil	1,135	0.05	-	-	-	-
Jet fuel	1,478	0.05	1,019	0.04	45.0	25.0
Other	138	-	140	0.01	(1.4)	(100.0)
Total	9,157	0.31	5,241	0.20	74.7	55.0

- Petroleum products purchases increased 19.2% Q-o-Q and 55.0% Y-o-Y in volume terms due to increased trading activity

Products Purchases CIS

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	63	-	1,146	0.05	(94.5)	(100.0)
Low octane gasoline	53	-	210	0.01	(74.8)	(100.0)
Naphtha	2	-	-	-	-	-
Diesel	239	0.01	1,485	0.07	(83.9)	(85.7)
Other	171	0.01	220	-	(22.3)	-
Total	528	0.02	3,061	0.13	(82.8)	(84.6)

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	63	-	226	0.01	(72.1)	(100.0)
Low octane gasoline	53	-	121	0.01	(56.2)	(100.0)
Naphtha	2	-	-	-	-	-
Diesel	239	0.01	676	0.03	(64.6)	(66.7)
Other	171	0.01	68	-	151.5	-
Total	528	0.02	1,091	0.05	(51.6)	(60.0)

- Petroleum products purchases in the CIS decreased by 84.6% Q-o-Q and 60.0% Y-o-Y in volume terms due to the startup of processing at the Mozyrsky refinery in Belarus

Products Purchases Domestic

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,809	0.22	8,091	0.36	(40.6)	(38.9)
Low octane gasoline	25	-	42	-	(40.5)	-
Naphtha	-	-	5	-	(100.0)	-
Diesel	1,160	0.04	959	0.04	21.0	-
Fuel oil	880	0.05	606	0.03	45.2	66.7
Jet fuel	1,381	0.06	1,748	0.07	(21.0)	(14.3)
Other	633	0.03	1,059	0.04	(40.2)	(25.0)
Total	8,888	0.40	12,510	0.54	(29.0)	(25.9)

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,809	0.22	6,205	0.30	(22.5)	(26.7)
Low octane gasoline	25	-	54	0.01	(53.7)	(100.0)
Diesel	1,160	0.04	3,731	0.21	(68.9)	(81.0)
Fuel oil	880	0.05	902	0.09	(2.4)	(44.4)
Jet fuel	1,381	0.06	821	0.05	68.2	20.0
Other	633	0.03	247	0.02	156.3	50.0
Total	8,888	0.40	11,960	0.68	(25.7)	(41.2)

- Petroleum products purchases declined Q-o-Q due to the Company's increased production of refined products

Products Marketing

1Q	4Q	Δ, %		1Q		Δ, %
2012	2011			2012	2011	
			Active retail stations	(units)		
1,052	1,043	0.9	In Russia	1,052	976	7.8
197	202	(2.5)	In CIS	197	187	5.3
429	425	0.9	In Eastern Europe	429	487	(11.9)
1,678	1,670	0.5	Total retail stations	1,678	1,650	1.7
			Average daily sales per retail site in Russia			
15.9	16.6	(4.1)	(tonnes per day)	15.9	11.7	36.3

- Total active site count increased by 0.5% Q-o-Q and 1.7% Y-o-Y
- Average daily sales per retail site in Russia increased 36.3% Y-o-Y as a result of the ongoing rebranding campaign, customer loyalty program, and higher demand for petroleum products in the Company's retail network
- Average daily sales per retail site in Russia decreased 4.1% Q-o-Q due to seasonal factors
- The Group expanded the size of its filling station network in the northwestern region

Results of Operations

1Q 2012	4Q 2011	Δ, %	(RUB million)	1Q 2012	1Q 2011	Δ, % 2012-2011
Revenues						
344,535	347,991	(1.0)	Sales	344,535	288,311	19.5
(66,559)	(75,903)	(12.3)	Less export duties and excise tax	(66,559)	(56,292)	18.2
277,976	272,088	2.2	Total revenue	277,976	232,019	19.8
Costs and other deductions						
(87,571)	(81,485)	7.5	Purchases of oil, gas and petroleum products	(87,571)	(65,498)	33.7
(27,042)	(30,506)	(11.4)	Production and manufacturing expenses	(27,042)	(24,042)	12.5
(14,008)	(15,035)	(6.8)	Selling, general and administrative expenses	(14,008)	(13,098)	6.9
(23,775)	(21,471)	10.7	Transportation expenses	(23,775)	(20,162)	17.9
(14,070)	(15,535)	(9.4)	Depreciation, depletion and amortization	(14,070)	(12,097)	16.3
(64,283)	(53,516)	20.1	Taxes other than income tax	(64,283)	(46,976)	36.8
(355)	(633)	(43.9)	Exploration expenses	(355)	(522)	(32.0)
(231,104)	(218,181)	5.9	Total operating expenses	(231,104)	(182,395)	26.7
237	(956)	(124.8)	Other income (expense), net	237	298	(20.5)
47,109	52,951	(11.0)	Operating profit	47,109	49,922	(5.6)
12,087	93	12,896.8	Share of profit of equity accounted investments	12,087	1,700	611.0
2,552	(857)	(397.8)	Net foreign exchange gain (loss)	2,552	3,813	(33.1)
543	586	(7.3)	Finance income	543	376	44.4
(2,338)	(2,895)	(19.2)	Finance expense	(2,338)	(3,019)	(22.6)
12,844	(3,073)	(518.0)	Total other income/expense	12,844	2,870	347.5
59,953	49,878	20.2	Profit/(loss) before income tax	59,953	52,792	13.6
(8,325)	(5,373)	54.9	Current profit tax expense	(8,325)	(12,156)	(31.5)
(1,540)	(4,578)	(66.4)	Deferred profit tax (expense) benefit	(1,540)	132	(1,266.7)
(9,865)	(9,951)	(0.9)	Total income tax expenses	(9,865)	(12,024)	(18.0)
50,088	39,927	25.4	Profit for the period	50,088	40,768	22.9
1,715	3,297	(48.0)	Less: Profit attributable to non-controlling interest	1,715	778	120.4
48,373	36,630	32.1	Profit attributable to Gazprom Neft	48,373	39,990	21.0

Revenues

1Q 2012	4Q 2011	Δ, %	(RUB million)	1Q 2012	2011	Δ, % 2012-2011
Crude oil						
39,843	45,930	(13.3)	Export	39,843	40,259	(1.0)
74,996	91,212	(17.8)	Export sales	74,996	74,167	1.1
(35,153)	(45,282)	(22.4)	Less related export duties	(35,153)	(33,908)	3.7
637	-	-	International markets	637	-	-
9,871	9,632	2.5	Export to CIS	9,871	7,892	25.1
2,914	1,883	54.8	Domestic	2,914	58	4,924.1
53,265	57,445	(7.3)	Total crude oil revenue	53,265	48,209	10.5
Gas						
1,422	1,699	(16.3)	International markets	1,422	986	44.2
4,964	3,372	47.2	Domestic	4,964	3,582	38.6
6,386	5,071	25.9	Total gas revenue	6,386	4,568	39.8
Petroleum products						
59,529	45,879	29.8	Export	59,529	53,467	11.3
85,445	68,165	25.4	Export sales	85,445	69,393	23.1
(25,916)	(22,286)	16.3	Less related export duties	(25,916)	(15,926)	62.7
14,154	18,236	(22.4)	International markets	14,154	12,896	9.8
18,200	24,561	(25.9)	Sales on international markets	18,200	17,718	2.7
(4,046)	(6,325)	(36.0)	Excise*	(4,046)	(4,822)	(16.1)
12,101	10,272	17.8	CIS	12,101	8,768	38.0
13,545	12,282	10.3	Export sales and sales in CIS	13,545	10,404	30.2
(1,444)	(2,010)	(28.2)	Less related export duties	(1,444)	(1,636)	(11.7)
126,066	128,293	(1.7)	Domestic	126,066	98,633	27.8
211,850	202,680	4.5	Total petroleum products revenue	211,850	173,764	21.9
6,475	6,892	(6.1)	Other revenue	6,475	5,478	18.2
277,976	272,088	2.2	Total revenue	277,976	232,019	19.8

* excise tax payable by NIS (calculated on revenues based on the volume of products sold)

Sales Volumes

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
(MMTonnes)			Crude oil	(MMTonnes)		
3.01	3.69	(18.4)	Export and sales on international markets	3.01	3.47	(13.3)
0.82	0.75	9.3	Export to CIS	0.82	0.67	22.4
0.25	0.18	38.9	Domestic sales	0.25	0.01	2,400.0
4.08	4.62	(11.7)	Total crude oil sales	4.08	4.15	(1.7)
2.93	2.57	14.0	Gas domestic sales (bcm)	2.93	2.37	23.6
(MMTonnes)			Petroleum products	(MMTonnes)		
3.43	2.86	19.9	Export	3.43	3.22	6.5
0.50	0.63	(20.6)	Sales on international markets	0.50	0.52	(3.8)
0.59	0.48	22.9	Export and sales in CIS	0.59	0.49	20.4
5.74	5.92	(3.0)	Domestic sales	5.74	5.43	5.7
10.26	9.89	3.7	Total petroleum products sales	10.26	9.66	6.2

Average Realized Sales Prices

1Q 2012	4Q 2011	Δ, %		1Q 2012	1Q 2011	Δ, % 2012-2011
(RUB per tonne)			Crude oil	(RUB per tonne)		
25,127	24,719	1.7	Export and sales on international markets	25,127	21,374	17.6
12,038	12,843	(6.3)	Export to CIS	12,038	11,779	2.2
(RUB per tonne)			Petroleum products	(RUB per tonne)		
24,911	23,834	4.5	Export	24,911	21,551	15.6
12,927	15,445	(16.3)	Sales on international markets	36,400	34,073	6.8
22,958	25,588	(10.3)	Export and sales in CIS	22,958	21,233	8.1
21,963	21,671	1.3	Domestic sales	21,963	18,164	20.9

- Revenue grew by 19.8% Y-o-Y due to higher prices for crude oil and petroleum products and increased sales volumes
- Revenue grew by 2.2% Q-o-Q due to increased export sales volumes of petroleum products

Crude Oil Export Sales and Sales on International Markets

- Volumes of crude oil exports and sales on international markets declined 18.4% Q-o-Q and 13.3% Y-o-Y as more crude was processed at the Company's refineries

Crude Oil Export Sales to CIS

- Revenues from crude oil export sales to the CIS increased by 25.1% Y-o-Y due to a 22.4% increase in sales volumes and a 2.2% increase in prices
- Revenues from crude oil exports to the CIS increased by 2.5% Q-o-Q due to a 9.3% increase in sales volumes offset by a 6.3% decline in prices

Petroleum Products Exports

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,326	0.08	488	0.02	376.6	300.0
Low octane gasoline	456	0.02	-	-	-	-
Naphtha	8,056	0.27	5,768	0.20	39.7	35.0
Diesel	28,053	0.95	25,159	0.85	11.5	11.8
Fuel oil	31,988	1.57	31,112	1.58	2.8	(0.6)
Jet fuel	1,495	0.05	1,630	0.05	(8.3)	0.0
Other	13,071	0.49	4,008	0.16	226.1	206.3
Total	85,445	3.43	68,165	2.86	25.4	19.9

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,326	0.08	1,278	0.05	82.0	60.0
Low octane gasoline	456	0.02	360	0.02	26.7	-
Naphtha	8,056	0.27	4,861	0.19	65.7	42.1
Diesel	28,053	0.95	37,055	1.45	(24.3)	(34.5)
Fuel oil	31,988	1.57	21,761	1.37	47.0	14.6
Jet fuel	1,495	0.05	1,129	0.04	32.4	25.0
Other	13,071	0.49	2,949	0.10	343.2	390.0
Total	85,445	3.43	69,393	3.22	23.1	6.5

- Export sales of petroleum products increased by 23.1% Y-o-Y due to a 15.6% increase in prices and an 6.5% increase in sales volumes made possible by a 7.8% increase in refining throughput

- Export sales of petroleum products increased by 25.4% Q-o-Q due to a 19.9% increase in sales volumes and 4.5% increase in sales prices

Petroleum Products Sales on International Markets

- The volume of petroleum products export sales on international markets decreased by 25.9% Q-o-Q due to weaker market conditions
- The value of petroleum products export sales on international markets increased by 2.7% Y-o-Y due to 6.8% higher prices

Petroleum Products Export and Sales in CIS

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,043	0.15	3,151	0.11	28.3	36.4
Low octane gasoline	962	0.04	1,373	0.05	(29.9)	(20.0)
Naphtha	638	0.04	363	0.02	75.8	100.0
Diesel	3,806	0.15	4,708	0.18	(19.2)	(16.7)
Fuel oil	504	0.04	387	0.03	30.2	33.3
Jet fuel	1,661	0.07	839	0.03	98.0	133.3
Other	1,931	0.10	1,461	0.06	32.2	66.7
Total	13,545	0.59	12,282	0.48	10.3	22.9

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	4,043	0.15	5,260	0.24	(23.1)	(37.5)
Low octane gasoline	962	0.04	644	0.03	49.4	33.3
Naphtha	638	0.04	560	0.03	13.9	33.3
Diesel	3,806	0.15	2,247	0.10	69.4	50.0
Fuel oil	504	0.04	-	-	-	-
Jet fuel	1,661	0.07	414	0.02	301.2	250.0
Other	1,931	0.10	1,279	0.07	51.0	42.9
Total	13,545	0.59	10,404	0.49	30.2	20.4

- The value of petroleum products export and sale in the CIS increased by 30.2% Y-o-Y due to a 20.4% increase in sales volumes
- The value of petroleum products export and sale in the CIS increased 10.3% Q-o-Q due to a 22.9% increase in sales volumes

Domestic Sales of Petroleum Products

	1Q 2012		4Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	48,386	1.88	46,414	1.47	4.2	27.9
Low octane gasoline	2,119	0.09	3,702	0.14	(42.8)	(35.7)
Naphtha	6	-	16	-	(62.5)	-
Diesel	42,851	1.75	40,755	1.79	5.1	(2.2)
Fuel oil	6,018	0.56	13,826	1.09	(56.5)	(48.6)
Jet fuel	10,925	0.48	11,438	0.50	(4.5)	(4.0)
Other	15,761	0.98	12,142	0.93	29.8	5.4
Total	126,066	5.74	128,293	5.92	(1.7)	(3.0)

	1Q 2012		1Q 2011		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	48,386	1.88	38,170	1.70	26.8	10.6
Low octane gasoline	2,119	0.09	3,819	0.18	(44.5)	(50.0)
Naphtha	6	-	-	-	-	-
Diesel	42,851	1.75	29,419	1.47	45.7	19.0
Fuel oil	6,018	0.56	9,776	0.99	(38.4)	(43.4)
Jet fuel	10,925	0.48	8,872	0.50	23.1	(4.0)
Other	15,761	0.98	8,577	0.59	83.8	66.1
Total	126,066	5.74	98,633	5.43	27.8	5.7

- Domestic sales of petroleum products increased 5.7% in volume terms Y-o-Y due to a 7.8% Y-o-Y increase in refining throughput
- Domestic sales of petroleum products declined 3.0% in volume terms Q-o-Q due to seasonal factors
- Revenues from domestic petroleum products sales increased by 27.8% Y-o-Y due to the 20.9% increase in prices and 5.7% increase in sales volumes
- Revenues from domestic petroleum products sales decreased by 1.7% Q-o-Q due to the 3.0% decline in sales volumes

Other Revenue

- Other revenue is derived primarily from sales of services such as transportation, construction, utilities, and other services
- Other revenue increased 18.2% Y-o-Y due to increases in prices and volumes
- Other revenue declined 6.1% Q-o-Q due to the sale of the oil field services business during 2011

Cost of Purchased Oil, Gas and Petroleum Products

- The cost of purchased crude oil, gas, and petroleum products increased by 33.7% Y-o-Y due to higher crude oil and petroleum products prices and larger purchased volumes. Urals prices increased by 14.2% Y-o-Y
- The cost of purchased crude oil, gas, and petroleum products increased by 7.5% Q-o-Q due to higher crude oil and petroleum products prices. Urals prices increased by 7.8% Q-o-Q

Production and Manufacturing Expenses

1Q 2012	4Q 2011	Δ, %	(RUB million)	1Q 2012	2011	Δ, % 2012-2011
11,730	13,367	(12.2)	Upstream expenses	11,730	11,124	5.4
159	180	(11.4)	<i>RUB per boe of production</i>	159	164	(2.7)
5.27	5.76	(8.5)	<i>USD\$ per boe</i>	5.27	5.60	(5.9)
7,512	7,474	0.5	Downstream expenses	7,512	7,082	6.1
6,469	6,528	(0.9)	Refining expenses at own and equity associates refineries	6,469	6,320	2.4
636	678	(6.2)	<i>RUB per tonne</i>	636	670	(5.1)
87	92	(6.2)	<i>RUB per boe</i>	87	91	(5.1)
2.87	2.96	(3.2)	<i>USD\$ per boe</i>	2.87	3.12	(8.2)
1,043	946	10.3	Lubricants manufacturing expenses	1,043	762	36.9
6,399	6,649	(3.8)	Transportation expenses to refineries	6,399	4,899	30.6
1,401	3,016	(53.5)	Other	1,401	937	49.5
27,042	30,506	(11.4)	Total	27,042	24,042	12.5

- Upstream 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 Upstream subsidiaries
- Upstream expenses increased 5.4% Y-o-Y due to inflation and an 8.4% volume increase in hydrocarbon production by consolidated subsidiaries. Average hydrocarbon extraction costs per boe decreased from RUB 164 to RUB 159, or 2.7% as a result of cost optimisation program
- Upstream expenses decreased 12.2% Q-o-Q due to a 1.0% decrease in hydrocarbon production by consolidated subsidiaries and seasonal decreases in maintenance expenses. Average hydrocarbon extraction costs per boe decreased from RUB 180 to RUB 159, or 11.4%
- Refining expenses include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor and electricity costs, and other similar costs
- Refining expenses increased 2.4% Y-o-Y due to a 7.8% increase in refining throughput. Average refining expenses per boe decreased from RUB 91 to RUB 87, or 5.1% as a result of cost optimization
- Refining expenses decreased 0.9% Q-o-Q following completion of scheduled repairs at the Omsk and Moscow refineries in 4Q 2011. Average refining expenses per boe decreased from RUB 92 to RUB 87, or 6.2%

Selling, General and Administrative Expenses

- Selling, general and administrative expenses include selling and distribution expenses, expenses related to operation of the Group retail network, wages, salaries (except 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 decreased by 6.8% Q-o-Q due to seasonal changes in sales and distribution expenses
- Selling, general and administrative expenses increased by 6.9% Y-o-Y due to business expansion, including an increase in premium sales, and inflation

Transportation Expenses

- Transportation expenses include costs to transport crude oil and petroleum products to final customers. These costs consist of pipeline transportation, sea freight, railroad, 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

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 16.3% Y-o-Y. The increases resulted from growth in depreciable assets due to the Company's capital expenditure program
- Depreciation, depletion and amortization expenses were in line Q-o-Q

Taxes Other Than Income Tax

1Q 2012	4Q 2011	Δ, %	(RUB million)	1Q 2012	2011	Δ, % 2012-2011
39,878	36,623	8.9	Mineral extraction taxes	39,878	29,794	33.8
19,793	13,299	48.8	Excise	19,793	12,690	56.0
1,683	1,578	6.7	Property tax	1,683	1,514	11.2
2,929	2,016	45.3	Other taxes	2,929	2,978	(1.6)
64,283	53,516	20.1	Total taxes other than income tax	64,283	46,976	36.8

- Mineral extraction taxes increased 33.8% Y-o-Y due to increases in tax rates introduced from January 1, 2012. The MET rate for gas extraction doubled. The MET rate for oil extraction changed in line with higher crude oil price (the Urals price increased 14.2% Y-o-Y)
- Excise taxes increased 48.8% Q-o-Q due to increases in tax rates introduced from 1 January 2012. Excise tax rate increased 31% for gasoline, 28% for naphtha, 55% for diesel and 30% for lubricants
- Excise taxes increased 56.0% Y-o-Y due to increases in tax rates and higher production volumes

Other Financial Items

- The Company's share of the profit of equity accounted investments increased Y-o-Y to RUB 12,087 million due to the adoption of the 60/66 tax system in Q4 2011 (under which export duty rates on crude oil sales decreased from 65% to 60%), which lead to increases in the domestic price of crude oil. The tax change resulted in an increase in the profit of associated entities selling crude oil domestically
- Changes in finance income reflect changes in cash and deposits in banks
- Finance expenses were lower Y-o-Y as a result of the Company's success in reducing our effective interest rate
- The Company's effective income tax rate was 16.5% for 1Q 2012, which is lower than the statutory income tax rate. The lower effective rate reflects the impact of lower income tax rates for certain of its subsidiaries under applicable regional laws

Liquidity and Capital Resources

Cash Flows

(RUB million)	1Q 2012	2011	Δ % 2012-2011
Net cash provided by operating activities	62,237	20,353	205.8
Net cash used in investing activities	(35,741)	(25,895)	38.0
Net cash provided by (used in) financing activities	4,413	(1,544)	(385.8)

Net Cash Provided by Operating Activities

- Net cash provided by operating activities increased 205.8% Y-o-Y to RUB 62,237 million from RUB 20,353 million. The increase in net cash provided by operating activities was due to the Company's higher net profit and the decrease in working capital items

Net Cash Used in Investing Activities

- Net cash used in investing activities increased 38.0% Y-o-Y to RUB 35,741 million from RUB 25,895 million due to placement of deposits and a 30.3% increase in capital expenditures

Net Cash Provided by/ Used in Financing Activities

- Net cash provided by financing activities was RUB 4,413 million compared with RUB 1,544 million used in financing activities in 1Q 2011. The change was mainly due to one-off items related to the acquisition of non-controlling interests in NIS and Sibir Energy in 1Q 2011. In 1Q 2012 such transactions were insignificant

Capital Expenditure

(RUB million)	1Q		Δ, %
	2012	2011	2012-2011
Exploration and production	17,581	14,842	18.5
Refining	7,275	2,139	240.1
Marketing and distribution	2,223	1,077	106.4
Others*	1,941	1,350	43.8
Subtotal capital expenditures	29,020	19,408	49.5
Change in advances issued and material used in capital expenditures	1,293	3,848	(66.4)
Total capital expenditures	30,313	23,256	30.3

* including capitalized borrowing costs

- Capital expenditures were 30.3% higher Y-o-Y. The increase was due to:
 - A 240.1% increase in refining capital expenditures related to construction of the isomerization plant, catalytic cracking plant and hydrotreatment plant at the Moscow refinery
 - A 106.4% increase in marketing and distribution capital expenditures due to the retail expansion campaign in Serbia and the Chelyabinsk and St. Petersburg regions in Russia

Debt and Liquidity

	2012	2011
Short-term debt	51,379	44,330
Long-term debt	164,960	176,979
Cash and cash equivalents	(58,568)	(29,435)
Short-term deposits	(11,828)	(246)
Net debt	145,943	191,628
Short-term debt/ total debt, %	23.7	20.0

- The Company has a diversified debt structure that includes pre-export financing, syndicated and bilateral loans, ruble bonds, and other instruments
- The average maturity of the Company's debt decreased by 5.2% Q-o-Q from 2.68 to 2.54 years.
- The average interest rate decreased slightly Q-o-Q to 3.34%

Financial Appendix

EBITDA Reconciliation

1Q 2012	4Q 2011	Δ, %	(RUB million)	1Q 2012	2011	Δ, % 2012-2011
50,088	39,927	25.4	Profit for the year	50,088	40,768	22.9
9,865	9,951	(0.9)	Total income tax expenses	9,865	12,024	(18.0)
2,338	2,895	(19.2)	Finance expense	2,338	3,019	(22.6)
(543)	(586)	(7.3)	Finance income	(543)	(376)	44.4
14,070	15,535	(9.4)	Depreciation, depletion and amortization	14,070	12,097	16.3
(2,552)	857	(397.8)	Net foreign exchange gain (loss)	(2,552)	(3,813)	(33.1)
(12,087)	(93)	12,896.8	less Share of profit of equity accounted investments	(12,087)	(1,700)	611.0
(237)	956	(124.8)	Other income (expense), net	(237)	(298)	(20.5)
60,942	69,442	(12.2)	EBITDA	60,942	61,721	(1.3)
18,320	7,870	132.8	Share of EBITDA in associate companies	18,320	9,915	84.8
79,262	77,312	2.5	Adjusted EBITDA	79,262	71,636	10.6

Profitability

	2012	1Q 2011	Δ, p.p. 2012-2011
Adjusted EBITDA margin, %	28.51	30.88	(2.4)
Net profit margin, %	18.02	17.24	0.8
Return on assets (ROA), %	16.32	16.17	0.2
Return on equity (ROE), %	16.46	16.25	0.2
Return on average capital employed (ROACE), %	14.73	14.42	0.3

Liquidity

	2012	1Q 2011	Δ, % 2012-2011
Current ratio	1.80	1.73	0.0
Quick ratio	0.80	0.71	0.1
Cash ratio	0.38	0.31	0.2

Leverage

	2012	1Q 2011	Δ, p.p. 2012-2011
Net debt/ Total Assets, %	13.45	17.16	(3.7)
Net debt/ Equity, %	20.11	26.21	(6.1)
Gearing, %	16.74	20.76	(4.0)
Net debt/ Market Capitalization	0.24	0.26	(0.1)
Net debt/ EBITDA	0.67	0.68	(0.0)
Total debt/ EBITDA	0.83	0.80	0.0

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;
- Changes in the exchange rate between the Russian ruble and 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 1Q 2012, the average Brent crude oil price was US\$ 118.6 per barrel, an increase of 8.5% Q-o-Q and an increase of 12.5% Y-o-Y.

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

1Q 2012	4Q 2011	Δ, %		1Q 2012	1Q 2011	Δ, % 2012-2011
			International market	(US\$/ barrel)		
118.60	109.35	8.5	Brent	118.60	105.43	12.5
117.18	108.72	7.8	Urals Spot (average Med + NWE)	117.18	102.61	14.2
				(US\$/ tonne)		
1,052.56	932.40	12.9	Premium gasoline (average NWE)	1,052.56	922.24	14.1
1,005.84	865.21	16.3	Naphtha (average Med. + NWE)	1,005.84	900.19	11.7
1,010.26	971.08	4.0	Diesel fuel (average NWE)	1,010.26	913.43	10.6
997.17	941.33	5.9	Gasoil 0.2% (average Med. + NWE)	997.17	885.74	12.6
678.45	617.24	9.9	Fuel oil 3.5% (average NWE)	678.45	550.90	23.2
			Domestic market	(RUB/ tonne)		
23,918	25,432	(6.0)	High-octane gasoline	23,918	22,924	4.3
21,987	22,948	(4.2)	Low-octane gasoline	21,987	21,029	4.6
23,293	23,280	0.1	Diesel fuel	23,293	20,092	15.9
8,918	9,165	(2.7)	Fuel oil	8,918	7,628	16.9

Sources: *Platts* (international), *Kortes* (domestic)

Ruble vs. US Dollar Exchange Rate and Inflation

The Group presentation currency is the Russian ruble. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. For the majority of the entities the functional currency is the local currency of the entity.

1Q 2012	4Q 2011		1Q 2012	1Q 2011
1.5	1.4	Change in Consumer Price Index (CPI), %	1.5	3.8
2.9	1.3	Change in Producer Price Index (PPI), %	2.9	6.9
29.33	32.20	US\$/ RUB exchange rate as of the end of the period	29.33	28.43
30.26	31.23	Average RUB/US\$ exchange rate for the period	30.26	29.27

Hydrocarbon Taxes

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
			Export customs duty			(US\$/ tonne)
400.80	403.67	(0.7)	Crude oil	400.80	343.03	16.8
264.50	266.37	(0.7)	Light petroleum products	264.50	234.33	12.9
360.70	363.27	(0.7)	High-octane gasoline and naphtha	360.70	n/a	-
264.50	266.37	(0.7)	Heavy petroleum products	264.50	151.37	74.7
			Mineral extraction tax			
5,284	4,718	12.0	Crude oil (RUB/ tonne)	5,284	4,090	29.2
n/a	237	-	Natural gas (RUB/Mcm)	n/a	237	-
509	n/a	-	Natural gas for owners of Integrated gas-supply system and its subsidiaries (RUB/Mcm)	509	n/a	-
251	n/a	-	Natural gas for other categories (RUB/Mcm)	251	n/a	-

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 + 60.0% * (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 exports 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.

Prior to October 2011 when the new 60/66/90 tax regime was introduced the top 60 percent marginal rate in the above export customs duty formula was 65 percent.

Export customs duty rate on petroleum products. The export customs duty rate on petroleum products is determined by the Government. 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 the 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_{crude} is the export customs duty rate per tonne of crude oil and K is a 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, 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
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 # 338-FZ (November 28, 2011) established the following excise rates for petroleum products with effect from January 1, 2012:

Excise rates on petroleum products (RUB/tonne)	2011	2012		2013	2014
		from January up to June	from July up to December		
Gasoline					
Class 3	5,672	7,382	7,882	9,750	10,725
Class 4	5,143	6,822	6,822	8,560	9,416
Class 5	5,143	6,822	5,143	5,143	5,657
Naphtha	6,089	7,824	7,824	9,617	10,579
Other	5,995	7,725	8,225	10,100	11,110
Diesel fuel					
Class 3	2,485	3,814	4,300	5,860	6,446
Class 4	2,247	3,562	3,562	4,934	5,427
Class 5	2,247	3,562	2,962	4,334	4,767
Other	2,753	4,098	4,300	5,860	6,446
Motor oils	4,681	6,072	6,072	7,509	8,260

Mineral extraction tax (MET) on crude oil. The mineral extraction tax rate on crude oil (R) is calculated in 2011 using the following general formula:

$R = 419 * K_c * K_v * K_z$, where

$K_c = (P-15) * D / 261$, where P is average monthly Urals oil price on the Rotterdam and Mediterranean markets (US\$/bbl) and D is the average ruble/ US dollar exchange rate.

K_v characterizes the degree of depletion of the field. Depletion is measured by N/V , where N is the accumulated production volume from the field and V is the total reserves (ABC1 + C2 reserves volume according to the state mineral reserves balance for the specific field as at 01 January, 2006). For fields with depletion between 0.8 and 1, $K_v = 3.8 - 3.5 * N / V$. Where depletion is greater than 1, K_v is 0.3. In all other cases $K_v = 1$.

K_z is a factor that decreases the tax rate for small fields. In cases where a field's initial reserves (designated by V_3 , defined as ABC1 + C2 reserves volume according to the state mineral reserves balance approved in the year proceeding the tax period) are lower than 5 MMtonnes and depletion (N/V) is less than 0.05, $K_z = 0.125 * V_3 + 0.375$

Russian federal law # 307-FZ (November 27, 2010) established base mineral extraction tax rates for crude oil in the above formula for the years 2011 to 2013 as follows:

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

Mineral extraction tax (MET) on natural gas. In 2011 the rate of mineral extraction tax for natural gas equaled 237 RUB per thousand cubic meters of natural gas. Russian federal law # 338-FZ (November 28, 2011) established mineral extraction tax rates for natural gas as follows:

	2012	2013	2014
	251*	265*	278*
MET on natural gas (RUB/ Mcm)	509	582	622

* *The lower rate of MET applies to taxpayers that do not own the central gas transportation system, and that are not more than 50% owned directly or indirectly by the owners of the central gas transportation system.*

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:

1Q 2012	4Q 2011	Δ, %		1Q 2012	2011	Δ, % 2012-2011
			Crude oil	(RUB per tonne)		
			Export			
1,533.19	1,479.62	3.6	Pipeline	1,533.19	1,405.55	9.1
			CIS			
1,064.24	1,246.61	(14.6)	Pipeline	1,064.24	1,156.82	(8.0)
			Transportation to Refineries			
477.00	460.00	3.7	ONPZ	477.00	448.00	6.5
922.00	758.00	21.6	MNPZ	922.00	657.00	40.3
620.00	939.00	(34.0)	YaNPZ	620.00	885.00	(29.9)
			Petroleum products			
			Export from ONPZ			
2,186.07	2,292.94	(4.7)	Gasoline	2,186.07	2,041.85	7.1
3,478.73	3,236.84	7.5	Fuel oil	3,478.73	3,181.80	9.3
3,093.26	2,393.04	29.3	Diesel fuel	3,093.26	2,466.55	25.4
			Export from MNPZ			
1,562.01	1,443.44	8.2	Gasoline	1,562.01	1,486.81	5.1
1,474.96	1,357.40	8.7	Fuel oil	1,474.96	1,469.63	0.4
1,646.53	1,212.36	35.8	Diesel fuel	1,646.53	1,461.04	12.7
			Export from YaNPZ			
1,526.00	1,307.99	16.7	Gasoline	1,526.00	1,525.74	0.0
1,459.97	1,373.43	6.3	Fuel oil	1,459.97	1,371.19	6.5
1,282.11	1,218.30	5.2	Diesel fuel	1,282.11	1,276.96	0.4

In the first quarter of 2012 the Company exported 66.9% of its total volume of crude through the port of Primorsk (48.8% in 1Q2011); 19.1% was exported through Druzhba (20.0% in 1Q2011), principally to Germany and the Czech Republic; 7.3% was exported through the port of Novorossiysk (4.0% in 1Q2011) and 6.7% through the port of Tuapse (10.0% in 1Q2011); in the first quarter of 2012 there were no exports through the ESPO pipeline or the port of Kozmino (17.2% in 1Q2011). Exports of crude to CIS countries in the first quarter of 2012 were: 64.3% to Belarus (82.1% in 1Q2011) and 35.7% to Kazakhstan (17.9% in 1Q2011).

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