

**Management's Discussion and Analysis of Financial Condition and Results  
of Operations for the three months ended September 30 and June 30, 2011 and the nine months  
ended September 30, 2011 and 2010**



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## Definitions and Conversions

The following discussion is intended to assist you in understanding JSC Gazprom Neft's financial position as of September 30, 2011 and results of operations for the three months ended September 30 and June 30, 2011 and the nine months ended September 30, 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

3Q	2Q			9M		Δ, %
2011	2011	Δ, %		2011	2010	2011-2010
11,567	11,476	0.8	Revenue (US\$ million)	32,908	23,709	38.8
2,759	2,478	11.3	Adjusted EBITDA <sup>1</sup> (US\$ million)	7,704	5,147	49.7
26.6	24.0	10.5	\$ per boe of production	24.9	17.8	39.8
			Adjusted net income attributable to Gazprom Neft (US\$ million)	4,393	2,300	91.0
1,809	1,386	30.5	\$ per boe of production	14.2	8.0	78.4
17.4	13.4	29.6				
			Net cash provided by operating activities (US\$ million)	4,942	4,319	14.4
2,430	1,891	28.5	\$ per boe of production	16.0	15.0	6.9
23.4	18.3	27.6				
			Hydrocarbon production including our share in equity affiliates (millions of boe)	308.94	288.59	7.1
103.91	103.14	0.7				
			Crude oil production including our share in equity affiliates (millions bbl)	273.67	273.56	0.0
92.66	91.01	1.8				
			Marketable gas production including our share in equity affiliates (bcf)	211.48	90.12	134.7
67.42	72.77	(7.4)				
			Production of petroleum products at own and equity affiliates refineries (millions of tonnes)	29.26	26.19	11.7
10.57	9.75	8.4				

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

<sup>2</sup> Adjusted net income attributable to Gazprom Neft excludes changes in fair value of derivatives

## 9M 2011 highlights

- Created new production cluster in Orenburg based on eastern part of Orenburg oil field (transferred from Gazprom) and acquisition of two oil fields - Kapitonovskoye and Tsarichanskoye
- Consolidated 100% of Sibir Energy
- Increased NIS shareholding to 56.15%
- Confirmed feasibility of year-round oil export by sea from Novoportovskoe via the Gulf of Ob
- Commissioned isomerization unit at Yaroslavl Refinery
- Began producing Class 4 gasoline and diesel in January at Moscow Refinery
- Began producing Class 4 gasoline in March and Class 5 gasoline in June at Omsk Refinery
- Issued 30 bln ruble bond and reduced interest rate on Sberbank loan
- Acquired 21 retail sites in Krasnodar region

## Results for 9M 2011 compared with 9M 2010

- Higher oil prices, increased refining throughput, and product mix optimization supported improved financial results, with 38.8% higher revenue driving 49.7% increase in adjusted EBITDA
- Hydrocarbon production volumes increased by 7.1% to 308.94 MMboe and marketable gas production increased by 134.7%
- Refining throughput increased by 10.8%
- After adjusting for one-time items, 9M 2011 net income attributable to Gazprom Neft shareholders was US\$ 4,393 million, an increase of 91.0% over 9M 2010. These one-time items were:
  - For 9M 2011: US\$ 518 million unrealized loss on changes in fair value of derivatives
  - For 9M 2010: US\$ 66 million unrealized gain on changes in fair value of derivatives

- Operating expenses were 18.4% higher as a result of a 7.1% growth in hydrocarbon production by consolidated subsidiaries, and 10.8% increase in refining throughput

#### **Results for 3Q 2011 compared with 2Q 2011**

- Higher retail petroleum products sales volumes in the domestic market (+12.8%) and increased refining throughput supported improved financial results, with 0.8% higher revenue driving a 11.3% increase in adjusted EBITDA and 30.5% increase in adjusted net income
- Hydrocarbon production volumes increased by 0.7% and refining throughput by 7.7%
- After adjusting for one-time items, 3Q 2011 net income attributable to Gazprom Neft shareholders was US\$ 1,809 million, an increase of 30.5% over 2Q 2011. These one-time items were:
  - For 3Q 2011: US\$ 538 million unrealized loss on changes in fair value of derivatives
  - For 2Q 2011: US\$ 219 million unrealized loss on changes in fair value of derivatives
- Reported net income attributable to Gazprom Neft shareholders was US\$ 1,271 million compared with US\$ 1,167 million in 2Q 2011, an increase of 8.9%

#### **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**

##### **Orenburg assets**

Between August and November 2011, the Company acquired a 61.8% stake in Gazprom Neft Orenburg JSC, which holds the license for the eastern part of the Orenburg Field and two additional oil fields, Kapitonovskoye and Tsarichanskoye, which together create a new production cluster in the Orenburg region with an estimated reserve base of 184 million boe.

##### **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 of 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 the 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

3Q	2Q			9M		
2011	2011	Δ, %		2011	2010	Δ, %
						2011-2010
<b>Consolidated subsidiaries</b>						
596	681	(12.5)	Production drilling ('000 meters)	1,809	1,945	(7.0)
211	176	19.9	Production wells drilled	575	554	3.8
15.13	15.24	(0.7)	Average well flow (tonnes per day)	15.26	16.10	(5.2)
83.53	83.74	(0.3)	Watercut, %	83.76	82.09	2.0
<b>Equity affiliates</b>						
461	451	2.2	Production drilling ('000 meters)	1,291	1,169	10.5
123	127	(3.1)	Production wells drilled	364	272	33.8

- The number of new wells drilled at consolidated subsidiaries increased by 19.9% Q-o-Q to 211 wells due to a seasonal increase in development activity at the Priobskoye field
- The number of new wells drilled at equity affiliates decreased by 3.1% Q-o-Q to 123 wells

## Production

3Q 2011	2Q 2011	Δ, %		9M 2011	2010	Δ, % 2011-2010
			<b>Crude oil</b>	<b>(MMbbl)</b>		
30.04	30.11	(0.2)	Noyabrskneftegaz	90.38	97.73	(7.5)
19.01	18.51	2.7	Yugra	55.50	51.30	8.2
2.63	2.69	(2.2)	Gazprom Neft	8.08	8.36	(3.3)
2.08	2.05	1.5	NIS	6.13	5.16	18.8
4.51	3.90	15.6	Others	12.17	9.56	27.3
<b>58.27</b>	<b>57.26</b>	<b>1.8</b>	<b>Total crude oil production by consolidated subsidiaries</b>	<b>172.26</b>	<b>172.11</b>	<b>0.1</b>
16.75	16.48	1.6	Share in Slavneft	49.57	50.45	(1.7)
9.80	9.60	2.1	Share in Tomskneft	28.86	28.92	(0.2)
7.84	7.67	2.2	Share in SPD	22.98	22.08	4.1
<b>34.39</b>	<b>33.75</b>	<b>1.9</b>	<b>Total share in production of equity affiliates</b>	<b>101.41</b>	<b>101.45</b>	<b>(0.0)</b>
<b>92.66</b>	<b>91.01</b>	<b>1.8</b>	<b>Total crude oil production</b>	<b>273.67</b>	<b>273.56</b>	<b>0.0</b>
			<b>Gas</b>	<b>(Bcf)</b>		
58.24	64.61	(9.9)	Gazprom Neft (own)	187.08	66.88	179.7
2.73	2.92	(6.5)	Share in Slavneft	8.52	8.94	(4.7)
6.45	5.24	23.1	Share in Tomskneft	15.88	14.30	11.0
<b>67.42</b>	<b>72.77</b>	<b>(7.4)</b>	<b>Total gas production</b>	<b>211.48</b>	<b>90.12</b>	<b>134.7</b>
			<b>Hydrocarbons</b>	<b>(MMboe)</b>		
67.98	68.03	(0.1)	Gazprom Neft (own)	203.45	183.26	11.0
17.21	16.97	1.4	Share in Slavneft	51.00	51.94	(1.8)
10.88	10.47	3.9	Share in Tomskneft	31.51	31.31	0.6
7.84	7.67	2.2	Share in SPD	22.98	22.08	4.1
<b>103.91</b>	<b>103.14</b>	<b>0.7</b>	<b>Total hydrocarbon production</b>	<b>308.94</b>	<b>288.59</b>	<b>7.1</b>
<b>1.13</b>	<b>1.13</b>	<b>(0.3)</b>	<b>Daily hydrocarbon production (MMboepd)</b>	<b>1.13</b>	<b>1.06</b>	<b>7.1</b>

- Total Group hydrocarbon production increased 0.7% Q-o-Q and 7.1% Y-o-Y
- Crude oil production by consolidated subsidiaries increased 1.8% Q-o-Q and 0.1% Y-o-Y, driven by increased development activity, primarily hydrofracturing and sidetracking
- Crude oil production by equity affiliates increased 1.9% Q-o-Q and remained stable Y-o-Y, driven by increased development activity in 3Q 2011, primarily at Slavneft
- Gas production decreased by 7.4% Q-o-Q due to seasonal factors
- Gas production increased by 134.7% Y-o-Y due to the startup of Cenomanian gas production at the Muravlenkovskoye and Novogodneye fields in 4Q 2010

## Crude Oil Purchases

3Q 2011	2Q 2011	Δ, %	(MMbbl)	9M 2011	2010	Δ, % 2011-2010
12.94	11.00	17.6	Crude oil purchases in Russia	33.43	26.25	27.4
2.70	4.37	(38.2)	Crude oil purchases internationally	8.76	14.09	(37.8)
<b>15.64</b>	<b>15.37</b>	<b>1.8</b>	<b>Total crude oil purchases</b>	<b>42.19</b>	<b>40.34</b>	<b>4.6</b>

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

- Crude oil purchases increased 1.8% Q-o-Q and 4.6% Y-o-Y driven by increased trading activity and improved market conditions

## Refining

3Q 2011	2Q 2011	Δ, %	(MMtonnes)	9M 2011	2010	Δ, % 2011-2010
<b>Refining throughput:</b>						
5.55	5.24	5.9	Omsk	15.41	14.24	8.2
3.01	2.73	10.3	Moscow	8.31	6.17	34.7
0.57	0.67	(14.9)	Panchevo and Novi Sad	1.75	2.20	(20.5)
1.98	1.68	17.9	Share in Yaroslavl	5.40	5.26	2.7
<b>11.11</b>	<b>10.32</b>	<b>7.7</b>	<b>Total refining throughput</b>	<b>30.87</b>	<b>27.87</b>	<b>10.8</b>
<b>Production of petroleum products</b>						
2.27	2.07	9.7	Gasoline	6.33	5.31	19.2
0.33	0.38	(13.2)	Below class 2	1.04	0.98	6.1
0.00	0.05	(100.0)	Class 2	0.07	2.54	(97.2)
1.65	1.42	16.2	Class 3	4.53	1.79	153.1
0.29	0.22	31.8	Class 4 & 5	0.69	0.00	-
0.26	0.35	(25.7)	Naphtha	0.88	1.33	(33.8)
3.21	2.81	14.2	Diesel	8.93	8.34	7.1
1.07	1.11	(3.6)	Below class 2	3.77	4.05	(6.8)
0.45	0.84	(46.4)	Class 2	1.92	2.70	(29.0)
0.59	0.00	-	Class 3	0.63	0.56	13.2
0.73	0.52	40.4	Class 4	1.56	0.00	-
0.37	0.34	8.8	Class 5	1.05	1.03	2.3
1.99	1.97	1.0	Fuel oil	6.08	5.45	11.6
0.82	0.78	5.1	Jet fuel	2.09	1.92	8.9
2.02	1.77	14.1	Other	4.95	3.85	28.6
<b>10.57</b>	<b>9.75</b>	<b>8.4</b>	<b>Total production</b>	<b>29.27</b>	<b>26.19</b>	<b>11.7</b>

- Total refining throughput increased by 7.7% Q-o-Q and by 10.8% Y-o-Y due to:
  - Higher utilization rates at the Company's refineries in Russia in response to strong domestic demand as well as higher refining margins
  - Consolidation of third party processing at the Moscow refinery (Y-o-Y)
- NIS refining throughput decreased Q-o-Q and Y-o-Y as the result of planned product mix optimization

- Gasoline output increased 9.7% Q-o-Q and 19.2% Y-o-Y due to:
  - The availability of higher margins on refining than for crude exports
  - Increased demand for petroleum products on the domestic market
- Jet fuel production increased by 5.1% Q-o-Q and 8.9% Y-o-Y as the Company expanded its sales footprint to 49 cities in 30 countries vs. 18 cities in 11 countries in 2010
- Diesel output increased 14.2% Q-o-Q and 7.2% Y-o-Y due to strong demand
- The Company changed its mix of petroleum products to comply with technical regulations on motor fuel quality. As a result:
  - Class 2 gasoline output declined Y-o-Y and Class 3 gasoline production increased Q-o-Q and Y-o-Y
  - Class 4 and 5 gasoline output increased Q-o-Q and Y-o-Y as the Company began Class 4 gasoline production at the Moscow refinery in January 2011, at the Yaroslavl refinery in February 2011, and at the Omsk refinery in February 2011, and began Class 5 gasoline production at the Omsk refinery in June 2011

### Products Purchases International

	3Q 2011		2Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	16	0.02	46	0.05	(65.2)	(60.0)
Diesel	126	0.12	145	0.15	(13.1)	(20.0)
Fuel oil	43	0.06	-	-	-	-
Jet fuel	32	0.03	25	0.02	28.0	50.0
Other	6	0.01	5	0.01	20.0	-
<b>Total</b>	<b>223</b>	<b>0.24</b>	<b>221</b>	<b>0.23</b>	<b>0.9</b>	<b>4.4</b>

	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	73	0.08	70	0.11	4.3	(27.3)
Diesel	400	0.41	43	0.06	830.2	583.3
Fuel oil	43	0.06	25	0.06	72.0	-
Jet fuel	92	0.09	30	0.04	206.7	125.0
Other	16	0.02	-	-	-	-
<b>Total</b>	<b>624</b>	<b>0.66</b>	<b>168</b>	<b>0.27</b>	<b>271.4</b>	<b>144.4</b>

- Petroleum products purchases increased 4.4% Q-o-Q and 144.4% Y-o-Y due to higher market demand for petroleum products

### Products Purchases CIS

	3Q 2011		2Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	57	0.13	37	0.05	54.1	160.0
Low octane gasoline	14	0.03	4	0.00	250.0	2,800.0
Naphtha	4	0.01	7	0.01	(42.9)	-
Diesel	27	0.03	31	0.04	(12.9)	(25.0)
Other	-	-	7	0.01	(100.0)	(100.0)
<b>Total</b>	<b>102</b>	<b>0.20</b>	<b>86</b>	<b>0.11</b>	<b>18.6</b>	<b>87.7</b>



	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	102	0.19	32	0.04	218.8	375.0
Low octane gasoline	22	0.04	8	0.01	175.0	300.0
Naphtha	11	0.02	-	-	-	-
Diesel	81	0.10	36	0.05	125.0	100.0
Other	9	0.02	11	0.02	(18.2)	-
<b>Total</b>	<b>225</b>	<b>0.37</b>	<b>87</b>	<b>0.12</b>	<b>158.6</b>	<b>208.3</b>

- Petroleum products purchases increased 87.7% Q-o-Q and 208.3% Y-o-Y due to increased trading activity and higher demand for petroleum products in the CIS

### Products Purchases Domestic

	3Q 2011		2Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	95	0.11	184	0.23	(48.4)	(52.2)
Low octane gasoline	1	0.00	4	0.00	(75.0)	-
Diesel	21	0.03	49	0.06	(57.1)	(50.0)
Fuel oil	27	0.05	35	0.09	(22.9)	(44.4)
Jet fuel	38	0.05	19	0.03	100.0	66.7
Other	41	0.04	20	0.02	105.0	100.0
<b>Total</b>	<b>223</b>	<b>0.28</b>	<b>311</b>	<b>0.43</b>	<b>(28.3)</b>	<b>(34.8)</b>

	9M 2011		9M 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	492	0.64	69	0.10	613.0	540.0
Low octane gasoline	7	0.01	48	0.08	(85.4)	(87.5)
Diesel	199	0.30	128	0.28	55.5	7.1
Fuel oil	93	0.23	56	0.20	66.1	15.0
Jet fuel	84	0.13	43	0.08	95.3	62.5
Other	69	0.08	34	0.28	102.9	(71.4)
<b>Total</b>	<b>944</b>	<b>1.39</b>	<b>378</b>	<b>1.02</b>	<b>149.7</b>	<b>36.3</b>

- Petroleum products purchases decreased 34.8% Q-o-Q due to a the Company's increased production of refined products (+8.4%)
- Petroleum products purchases increased 36.3% Y-o-Y in response to strong demand for petroleum products in the Company's retail network

## Products Marketing

3Q 2011	2Q 2011	Δ, %		9M 2011	2010	Δ, % 2011-2010
			<b>Active retail stations</b>			<b>(units)</b>
968	946	2.3	In Russia	968	939	3.1
173	185	(6.5)	In CIS	173	175	(1.1)
438	482	(9.1)	In Eastern Europe	438	492	(11.0)
<b>1,579</b>	<b>1,613</b>	<b>(2.1)</b>	<b>Total retail stations</b>	<b>1,579</b>	<b>1,606</b>	<b>(1.7)</b>
			<b>Average daily sales per retail site in Russia</b>			
<b>15.2</b>	<b>13.4</b>	<b>13.7</b>	<b>(tonnes per day)</b>	<b>13.4</b>	<b>10.0</b>	<b>34.6</b>

- Our total active site count decreased by 2.1% Q-o-Q and 1.7% Y-o-Y due to planned reconstruction activities at some of our retail sites in Russia, the CIS, and Eastern Europe
- Average daily sales per retail site in Russia grew by 13.7% Q-o-Q and 34.6% 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
- We launched the rebranding campaign at Sibir Energy retail sites

## Results of Operations

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
<b>Revenues</b>						
11,320	11,231	0.8	Refined products and oil and gas sales	32,227	23,141	39.3
247	245	0.8	Other	681	568	19.9
11,567	11,476	0.8	Total	32,908	23,709	38.8
<b>Costs and other deductions</b>						
2,865	3,060	(6.4)	Cost of purchased oil, gas and petroleum products	8,149	5,325	53.0
609	615	(1.0)	Operating expenses	1,802	1,522	18.4
408	398	2.5	Selling, general and administrative expenses	1,262	1,200	5.2
863	896	(3.7)	Transportation expenses	2,559	2,117	20.9
525	505	4.0	Depreciation, depletion and amortization	1,454	1,205	20.7
1,992	2,104	(5.3)	Export duties	5,862	4,929	18.9
2,167	2,113	2.6	Taxes other than income tax	6,052	3,810	58.8
12	12	0.0	Exploration expenses	46	54	(14.8)
158	161	(1.9)	Cost of other sales	436	316	38.0
9,599	9,864	(2.7)	Total	27,622	20,478	34.9
1,968	1,612	22.1	Operating income	5,286	3,231	63.6
<b>Other income / (expense)</b>						
68	87	(21.8)	Share in income of equity affiliates	196	165	18.8
12	64	(81.3)	Gain on investment	85	9	844.4
32	26	23.1	Interest income	90	27	233.3
(81)	(76)	6.6	Interest expense	(250)	(260)	(3.8)
(90)	(22)	309.1	Other expense, net	(101)	(92)	9.8
(299)	(106)	182.1	Foreign exchange (loss) / gain, net	(239)	48	(597.9)
(358)	(27)	1,225.9	Total	(219)	(103)	112.6
1,610	1,585	1.6	<b>Income before income taxes</b>	5,067	3,128	62.0
268	313	(14.4)	Provision for income taxes	997	642	55.3
8	54	(85.2)	Deferred income tax expense / (benefit)	65	(25)	(360.0)
276	367	(24.8)	Total	1,062	617	72.1
1,334	1,218	9.5	Net income	4,005	2,511	59.5
(63)	(51)	23.5	<i>Less: Net income attributable to non-controlling interest</i>	(130)	(145)	(10.3)
1,271	1,167	8.9	<b>Net income attributable to Gazprom Neft</b>	3,875	2,366	63.8

## Revenues

3Q 2011	2Q 2011	Δ, %	(in US\$ million)	9M 2011	2010	Δ, % 2011-2010
<b>Crude oil</b>						
2,151	2,740	(21.5)	Export and sales on international markets	7,426	6,580	12.9
332	330	0.6	Export to CIS	933	918	1.6
3	1	200.0	Domestic sales	5	1	400.0
<b>2,486</b>	<b>3,071</b>	<b>(19.0)</b>	<b>Total crude oil sales</b>	<b>8,364</b>	<b>7,499</b>	<b>11.5</b>
<b>Gas</b>						
51	42	21.4	Sales on international markets	127	73	74.0
90	116	(22.4)	Domestic sales	329	127	159.1
<b>141</b>	<b>158</b>	<b>(10.8)</b>	<b>Total gas sales</b>	<b>456</b>	<b>200</b>	<b>128.0</b>
<b>Petroleum products</b>						
2,607	2,653	(1.7)	Export	7,633	5,036	51.6
866	853	1.5	Sales on international markets	2,325	1,880	23.7
443	406	9.1	Export and sales in CIS	1,205	820	47.0
4,777	4,090	16.8	Domestic sales	12,244	7,706	58.9
<b>8,693</b>	<b>8,002</b>	<b>8.6</b>	<b>Total petroleum products sales</b>	<b>23,407</b>	<b>15,442</b>	<b>51.6</b>
<b>247</b>	<b>245</b>	<b>0.8</b>	<b>Other sales</b>	<b>681</b>	<b>568</b>	<b>19.9</b>
<b>11,567</b>	<b>11,476</b>	<b>0.8</b>	<b>Total sales</b>	<b>32,908</b>	<b>23,709</b>	<b>38.8</b>

## Sales Volumes

3Q 2011	2Q 2011	Δ, %		9M 2011	2010	Δ, % 2011-2010
<b>Crude oil</b>						
<b>(MMTonnes)</b>						
2.65	3.27	(19.0)	Export and sales on international markets	9.39	12.05	(22.1)
0.82	0.75	9.3	Export to CIS	2.24	2.30	(2.6)
0.01	0.00	-	Domestic sales	0.02	-	-
<b>3.48</b>	<b>4.02</b>	<b>(13.5)</b>	<b>Total crude oil sales</b>	<b>11.65</b>	<b>14.35</b>	<b>(18.8)</b>
<b>2.01</b>	<b>2.36</b>	<b>(14.8)</b>	<b>Gas domestic sales (bcm)</b>	<b>6.74</b>	<b>3.33</b>	<b>102.4</b>
<b>Petroleum products</b>						
<b>(MMTonnes)</b>						
3.32	3.23	2.8	Export	9.77	8.95	9.2
0.66	0.62	6.5	Sales on international markets	1.80	1.95	(7.7)
0.55	0.53	3.8	Export and sales in CIS	1.57	1.30	20.8
6.86	6.08	12.8	Domestic sales	18.37	15.09	21.7
<b>11.39</b>	<b>10.46</b>	<b>8.9</b>	<b>Total petroleum products sales</b>	<b>31.51</b>	<b>27.29</b>	<b>15.5</b>

### Average Realized Sales Prices

3Q 2011	2Q 2011	Δ, %		9M 2011	2010	Δ, % 2011-2010
			<b>Crude oil</b>	<b>(US\$ per tonne)</b>		
811.70	837.92	(3.1)	Export and sales on international markets	790.84	546.06	44.8
404.88	440.00	(8.0)	Export to CIS	416.52	399.13	4.4
			<b>Petroleum products</b>	<b>(US\$ per tonne)</b>		
785.24	821.36	(4.4)	Export	781.27	562.68	38.8
1,312.12	1,375.81	(4.6)	Sales on international markets	1,291.67	964.10	34.0
805.45	766.04	5.1	Export and sales in CIS	767.52	630.77	21.7
696.36	672.70	3.5	Domestic sales	666.52	510.67	30.5

- Revenue grew by 0.8% Q-o-Q due to increased sales volumes partially offset by lower prices for crude oil and petroleum products
- Revenue grew by 38.8% Y-o-Y due to higher prices for crude oil and petroleum products and increased sales volumes

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

- Revenues from crude oil exports and sales on international markets decreased by 21.5% Q-o-Q due to lower prices (-3.1%) and a 19.0% decrease in sales volumes
- Revenues from crude oil exports and sales on international markets increased by 12.9% Y-o-Y due to a 44.8% increase in prices, partly offset by a 22.1% decrease in sales volumes
- Volumes of crude oil exports and sales on international markets declined 19.0% Q-o-Q and 22.1% Y-o-Y as more crude was processed at the Company's refineries (+7.7% Q-o-Q and +10.8% Y-o-Y).

### Crude Oil Export Sales to CIS

- Revenues from crude oil exports to the CIS increased by 0.6% Q-o-Q due to a 9.3% increase in sales volumes partially offset by a decline in prices (-8.0%)
- Revenues from crude oil export sales to the CIS increased by 1.6% Y-o-Y due to a 4.4% increase in prices, partially offset by a 2.6% decrease in sales volumes

### Petroleum Products Exports

	3Q 2011		2Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	-	-	60	0.06	(100.0)	(100.0)
Low octane gasoline	-	-	16	0.01	(100.0)	(100.0)
Naphtha	271	0.28	324	0.33	(16.4)	(15.2)
Diesel	1,068	1.13	1,180	1.23	(9.5)	(8.1)
Fuel oil	1,127	1.78	890	1.42	26.6	25.4
Jet fuel	35	0.03	31	0.03	12.9	-
Other	106	0.10	152	0.15	(30.3)	(33.3)
<b>Total</b>	<b>2,607</b>	<b>3.32</b>	<b>2,653</b>	<b>3.23</b>	<b>(1.7)</b>	<b>2.8</b>

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

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

#### Petroleum Products Sales on International Markets

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

#### Petroleum Products Export and Sales in CIS

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

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

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

### Domestic Sales of Petroleum Products

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

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

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

### Other Sales

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

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

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

### Extraction and Refining Expenses

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

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

### Selling, General and Administrative Expenses

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

### Transportation Expenses

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



### Depreciation, Depletion and Amortization

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

### Export Duties and Taxes Other Than Income Tax

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

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

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

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

### Other financial items

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

## Liquidity and Capital Resources

### Cash Flows

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

### Net Cash Provided by Operating Activities

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

### Net Cash Used in Investing Activities

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

### Net Cash Used in Financing Activities

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

### Capital Expenditure

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

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

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

### **Debt and Liquidity**

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

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

## Financial Appendix

### EBITDA Reconciliation

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

### Financial Ratios

#### Profitability

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

#### Liquidity

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

#### Leverage

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

## Supplementary Information

### Main Macroeconomic Factors Affecting Results of Operations

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

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

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

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

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

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

Sources: Platts (international), Kortes (domestic)

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

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

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

### Taxation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by the state authorities to ensure a balance of interests of the state and all participants in the transportation process. Transportation tariffs for natural monopolies are set by the Federal Tariffs Service of the Russian Federation (“FTS”). The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Changes in the tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, the investment needs of the owners of transportation infrastructure, other macroeconomic factors, and the compensation of economically reasonable expenses incurred by entities of natural monopolies. Tariffs are to be revised by FTS at least annually, and comprise a dispatch tariff, loading, transshipment, pumping, and other tariffs.

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

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

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

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