

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended December 31 and September 30, 2011 and the full
years ended December 31, 2011, 2010 and 2009**

Definitions and Conversions

The following discussion is intended to assist you in understanding JSC Gazprom Neft's financial position as of December 31, 2011 and results of operations for the three months ended December 31 and September 30, 2011 and the full years ended December 31, 2011, 2010 and 2009 and should be read in conjunction with the 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.

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 ¹

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Financial results ¹								
11,146	11,606	(4.0)	Revenue (US\$ million)	44,172	32,912	24,305	34.2	35.4
2,426	2,768	(12.4)	Adjusted EBITDA ² (US\$ million)	10,158	7,271	6,037	39.7	20.4
21.9	26.4	(17.0)	\$ per boe of production	24.1	18.7	16.4	28.9	14.0
Net income attributable to Gazprom Neft (US\$ million)								
1,475	1,273	15.9		5,352	3,151	3,026	69.9	4.1
13.3	12.2	9.0	\$ per boe of production	12.7	8.1	8.2	56.8	(1.2)
Net cash provided by operating activities (US\$ million)								
1,092	2,397	(54.4)		6,001	5,391	3,499	11.3	54.1
9.9	22.9	(56.8)	\$ per boe of production	14.2	13.8	9.5	2.9	45.3
Operational results ³								
Hydrocarbon production including our share in equity affiliates (million boe)								
110.59	104.66	5.7		421.64	389.57	367.92	8.2	5.9
Crude oil production including our share in equity affiliates (million bbl)								
94.51	92.75	1.9		368.27	366.13	349.35	0.6	4.8
Gas production including our share in equity affiliates (bcf)								
96.48	71.43	35.1		320.20	140.53	111.42	127.9	26.1
Production of petroleum products at own and equity affiliates refineries (million tonnes)								
9.08	10.57	(14.1)		38.34	35.63	31.51	7.6	13.1

¹ The financial data include JSC Gazpromneft Orenburg for all periods. JSC Gazpromneft Orenburg has been acquired from JSC Gazprom, which is the parent of the Company. In accordance with US GAAP, the acquisition has been classified as carried out under common control and the financial data were adjusted retrospectively. The financial results of JSC Gazpromneft Orenburg as a separate entity are provided in note 3 to the US GAAP financial statements.

² EBITDA is a non-GAAP measure. A reconciliation of adjusted EBITDA to income before income taxes is provided in the Appendix

³ Operational results include JSC Gazpromneft Orenburg from the date of acquisition. Operational data for JSC Gazpromneft Orenburg as a separate entity are provided in the notes below.

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%
- Acquired lubricant producing facility in Moscow Region
- Started drilling in Iraq
- 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 113 retail sites in Novosibirsk, Chelyabinsk, Nizhniy Novgorod and Krasnodar regions

Results for 2011 Compared with 2010

- Higher oil prices, increased refining throughput, and product mix optimization supported improved financial results, with 34.2% higher revenue driving 39.7% increase in adjusted EBITDA
- Hydrocarbon production volumes increased by 8.2% to 421.64 MMboe and marketable gas production increased by 127.9%
- Refining throughput increased by 6.8%
- Reported net income attributable to Gazprom Neft shareholders increased by 69.9% to US\$ 5,352 million.
- After adjusting for one-time items, 2011 net income attributable to Gazprom Neft shareholders was US\$ 5,755 million, an increase of 86.1% over 2010. These one-time items were:
 - For 2011: US\$ 403 million unrealized loss on changes in fair value of derivatives
 - For 2010: US\$ 59 million unrealized gain on changes in fair value of derivatives
- Operating expenses were 15.9% higher as a result of a 12.4% growth in hydrocarbon production by consolidated subsidiaries, 6.8% increase in refining throughput, inflation and 3.3% ruble appreciation against the US dollar.

Results for 4Q 2011 Compared with 3Q 2011

- Lower retail petroleum products sales volumes in the domestic market (-13.7%), which were partially offset by a 35.8% increase in crude oil export sales, caused a 4.0% revenue decrease, resulting in a 12.4% decrease in adjusted EBITDA and 24.9% decrease in adjusted net income
- Hydrocarbon production volumes increased by 5.7%
- Refining throughput decreased by 13.3% due to scheduled repairs at Group refineries and lower seasonal demand
- Reported net income attributable to Gazprom Neft shareholders increased by 15.9% to US\$ 1,475 million (US\$ 1,273 million in 3Q 2011)

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 the purchase, 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 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

On August 30, 2011 the Company acquired 100% of CJSC Centre of Science-Intensive Technologies, which holds exploration and production licenses for the Tsarichanskoye field. On October 18, 2011 the Company completed its purchase of a 61.8% stake in CJSC Gazprom Neft Orenburg from JSC Gazprom (the parent company). This entity holds the license for the eastern part of the Orenburg field. Finally, in November 2011, the Company acquired an 87.5% stake in JSC Yuzhuralneftegaz, which owns a license for the Kapitonovskoye field. Together these three assets form a new production cluster in the Orenburg region.

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

Exploration Drilling and Discoveries

	2011	2010	2009	Δ, %	
				2011-2010	2010-2009
Consolidated subsidiaries					
Exploration drilling ('000 meters)	63	64	38	(1.6)	68.4
Exploration wells drilled	25	21	13	19.0	61.5
New fields discovered	4	1	3	300.0	(66.7)
New reservoirs discovered	23	20	5	15.0	300.0
Equity affiliates					
Exploration drilling ('000 meters)	63	38	25	65.8	52.0
Exploration wells drilled	27	14	9	92.9	55.6
New reservoirs discovered	16	27	3	(40.7)	800.0

- Discovered 4 new fields and 39 new reservoirs (consolidated subsidiaries and equity affiliates)

Oil and Gas Reserves

The following table shows the Company's reserves for the periods indicated:

(MMboe)	Share in equity investees						Total
	Gazprom Neft	Slavneft	Tomskneft	SPD	SeverEnergy	Messoyakha neftegaz	
<i>Proved Reserves (December 31, 2009)</i>	4,989	1,489	701	283	-	-	7,462
Production	(249)	(69)	(42)	(30)	-	-	(390)
Revision of previous estimates	539	(494)	(43)	(3)	-	-	(1)
Purchases of minerals in place	-	-	-	-	455	-	455
<i>Proved Reserves (December 31, 2010)</i>	5,279	926	616	250	455	-	7,526
Production	(279)	(69)	(43)	(31)	-	-	(422)
Revision of previous estimates	355	83	90	15	355	-	898
Purchases of minerals in place	317	-	-	-	-	-	317
<i>Proved Reserves (December 31, 2011)</i>	5,672	940	663	234	810	-	8,319
Total group probable reserves	2,944	1,506	389	101	666	273	5,879
Total group possible reserves	2,456	1,371	276	58	823	299	5,283

* Total reflects 49.9% ownership of Slavneft, 50% of Tomskneft, Salym Petroleum Development and Messoyakhaneftgaz and 25.5% of SeverEnergy

- The Company's proved reserves as of December 31, 2011 totaled 5,672 million barrels of oil equivalent (MMboe), including 4,903 million barrels of crude oil and 4.6 trillion cubic feet (tcf) of gas
- Including the shares of equity investees, proved reserves were 8,319 MMboe, including 6,789 MMbbl of crude oil and 9.2 tcf of gas as of December 31, 2011
- The proved reserves do not include reserve quantities related to the Company's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia
- Reserve estimates are made by the independent reservoir engineers DeGolyer and MacNaughton on the basis of the standards of the Society of Petroleum Engineers (SPE) Petroleum Reserves Management System (PRMS)
- The PRMS reserves figures provided in the table differ from those reported in the supplementary information on oil and gas activities included with our consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the US Securities and Exchange Commission (SEC), which require the use of a 12-month average of the first day of the month price for each month within the reporting period. The PRMS reserves in the above table use management's best estimate of future crude oil and natural gas prices

Production Drilling

4Q	3Q					Δ, %	Δ, %	
2011	2011	Δ, %	2011	2010	2009	2011-2010	2010-2009	
Consolidated subsidiaries								
445	596	(25.3)	Production drilling ('000 meters)	2,254	2,610	2,259	(13.6)	15.5
158	212	(25.5)	Production wells drilled	735	746	667	(1.5)	11.8
15.19	15.13	0.4	Average well flow (tonnes per day)	15.27	16.06	16.34	(4.9)	(1.7)
83.24	83.53	(0.3)	Watercut, %	83.63	82.18	82.11	1.8	0.1
Equity affiliates								
319	461	(30.7)	Production drilling ('000 meters)	1,611	1,623	1,296	(0.7)	25.2
123	123	-	Production wells drilled	487	407	383	19.7	6.3

- The number of new wells drilled at equity affiliates increased by 19.7% Y-o-Y to 487 wells due to active development of the Krapivinskoye field (Tomskneft)

Production

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
			Crude oil	(MMbbl)				
29.88	30.04	(0.5)	Noyabrskneftegaz	120.26	129.12	138.05	(6.9)	(6.5)
19.60	19.01	3.1	Yugra	75.10	69.25	60.82	8.4	13.9
2.34	2.63	(11.0)	Gazprom Neft	10.42	11.10	12.96	(6.1)	(14.4)
2.23	2.08	7.2	NIS	8.36	7.17	5.14	16.6	39.5
6.32	4.60	37.4	Others **	18.58	13.56	7.97	37.0	70.1
60.37	58.36	3.4	Total crude oil production by consolidated subsidiaries	232.72	230.20	224.94	1.1	2.3
16.75	16.75	-	Share in Slavneft	66.32	67.33	69.34	(1.5)	(2.9)
9.79	9.80	(0.1)	Share in Tomskneft	38.65	38.72	40.73	(0.2)	(4.9)
7.60	7.84	(3.1)	Share in SPD	30.58	29.88	14.34	2.3	108.4
34.14	34.39	(0.7)	Total share in production of equity affiliates	135.55	135.93	124.41	(0.3)	9.3
94.51	92.75	1.9	Total crude oil production	368.27	366.13	349.35	0.6	4.8
			Gas*	(Bcf)				
83.57	60.49	38.2	Gazprom Neft (own) **	277.67	107.93	73.22	157.3	47.4
3.93	3.54	11.0	Share in Slavneft	14.93	11.91	13.25	25.4	(10.1)
8.36	6.93	20.6	Share in Tomskneft	25.74	20.69	24.95	24.4	(17.1)
0.62	0.47	31.9	Share in SPD	1.86	-	-	-	-
96.48	71.43	35.1	Total gas production	320.20	140.53	111.42	127.9	26.1
			Hydrocarbons	(MMboe)				
74.30	68.44	8.6	Gazprom Neft (own)	279.00	248.19	237.14	12.4	4.7
17.41	17.34	0.4	Share in Slavneft	68.81	69.32	71.55	(0.7)	(3.1)
11.18	10.96	2.0	Share in Tomskneft	42.94	42.18	44.89	1.8	(6.0)
7.70	7.92	(2.8)	Share in SPD	30.89	29.88	14.34	3.4	108.4
110.59	104.66	5.7	Total hydrocarbon production	421.64	389.57	367.92	8.2	5.9
1.20	1.14	5.7	Daily hydrocarbon production (MMboepd)	1.16	1.07	1.01	8.2	5.9

* Production volume includes marketable gas plus utilized gas

** Includes JSC Gazpromneft Orenburg from the date of acquisition

Production volumes of JSC Gazpromneft Orenburg for the full years 2011, 2010 and 2009 are provided below:

	2011	2010	2009
Oil (MMbbl)	3.90	4.04	4.08
Gas (bcf)	0.24	0.22	0.18
Total hydrocarbon production (MMboe)	3.94	4.08	4.11

- Total Group hydrocarbon production increased 5.7% Q-o-Q and 8.2% Y-o-Y driven by continued production growth at the Priobskoye field, production start ups at the Muravlenkovskoye and Novogodneye fields and the acquisition of assets in Orenburg (eastern part of the Orenburgskoye field and the Tzharichanskoye and Kapitonovskoye fields).

Crude Oil Purchases

4Q 2011	3Q 2011	Δ, %	(MMbbl)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
8.61	12.94	(33.5)	Crude oil purchases in Russia*	42.04	38.62	24.77	8.9	55.9
3.49	2.70	29.3	Crude oil purchases internationally	12.25	17.42	16.11	(29.7)	8.1
12.10	15.64	(22.6)	Total crude oil purchases	54.29	56.04	40.88	(3.1)	37.1

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

Refining

4Q 2011	3Q 2011	Δ, %	(MMtonnes)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Refining throughput:								
4.54	5.55	(18.2)	Omsk	19.95	18.99	18.43	5.1	3.0
2.49	3.01	(17.3)	Moscow	10.80	8.91	5.78	21.2	54.2
0.60	0.57	5.3	Panchevo and Novi Sad	2.35	2.85	2.39	(17.5)	19.2
2.00	1.98	1.0	Share in Yaroslavl	7.39	7.15	6.83	3.4	4.7
9.63	11.11	(13.3)	Total refining throughput	40.49	37.90	33.43	6.8	13.4
Production of petroleum products								
1.78	2.27	(21.6)	Gasoline	8.10	7.25	6.63	11.7	9.4
0.10	0.11	(9.1)	Below class 2	0.44	0.44	0.38	-	15.8
0.06	-	-	Class 2	0.14	4.00	4.34	(96.5)	(7.8)
1.44	1.87	(23.0)	Class 3	6.65	2.81	1.91	136.7	47.1
0.18	0.29	(37.9)	Class 4 & 5	0.87	-	-	-	-
0.27	0.26	3.8	Naphtha	1.15	1.63	2.13	(29.4)	(23.5)
2.56	3.21	(20.2)	Diesel	11.49	11.40	9.94	0.8	14.7
0.69	1.07	(35.5)	Below class 2	4.46	5.70	6.54	(21.8)	(12.8)
0.53	0.45	17.8	Class 2	2.45	3.48	1.76	(29.6)	97.7
0.32	0.59	(45.8)	Class 3	0.95	0.81	0.50	17.3	62.0
0.56	0.73	(23.3)	Class 4	2.12	-	0.04	-	(100.0)
0.46	0.37	24.3	Class 5	1.51	1.41	1.10	7.1	28.2
2.26	1.99	13.6	Fuel oil	8.34	7.79	6.01	7.1	29.6
0.48	0.82	(41.5)	Jet fuel	2.57	2.44	2.11	5.3	15.6
1.73	2.02	(14.4)	Other	6.69	5.12	4.69	30.7	9.2
9.08	10.57	(14.1)	Total production	38.34	35.63	31.51	7.6	13.1

- Total refining throughput decreased by 13.3% Q-o-Q and increased by 6.8% Y-o-Y due to:
 - Seasonal decline in the domestic market and maintenance scheduled at the Moscow and Omsk refineries therefore (Q-o-Q)
 - Higher utilization rates at the Company's refineries in Russia in response to strong domestic demand as well as higher refining margins (Y-o-Y)
 - Consolidation of third party processing at the Moscow refinery (Y-o-Y)
- NIS refining throughput decreased Y-o-Y as the result of planned product mix optimization
- Gasoline output decreased 21.6% Q-o-Q and increased 11.7% Y-o-Y due to:
 - Seasonal decline in the domestic market (Q-o-Q)
 - Availability of higher margins for refining than crude exports (Y-o-Y)
 - Increased demand for petroleum products on the domestic market (Y-o-Y)
- 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 Y-o-Y
- 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

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	83	0.09	109	0.16	(23.9)	(43.8)
Diesel	539	0.55	97	0.13	455.7	323.1
Fuel oil	93	0.14	25	0.06	272.0	133.3
Jet fuel	144	0.14	56	0.07	157.1	100.0
Other	19	-	-	-	-	-
Total	878	0.92	287	0.42	205.9	119.0

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	-	-	2	-	(100.0)	(100.0)
Low octane gasoline	-	-	4	0.01	(100.0)	(100.0)
Naphtha	109	0.16	25	0.05	336.0	220.0
Diesel	97	0.13	68	0.14	42.6	(7.1)
Fuel oil	25	0.06	-	-	-	-
Jet fuel	56	0.07	7	0.01	700.0	600.0
Total	287	0.42	106	0.21	170.8	100.0

- The volume of international petroleum products purchases increased 119.0% Y-o-Y due to higher market demand for petroleum products

Products Purchases CIS

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	126	0.21	43	0.05	193.0	320.0
Low octane gasoline	25	0.05	12	0.02	108.3	150.0
Naphtha	23	0.04	-	-	-	-
Diesel	117	0.18	57	0.08	105.3	125.0
Other	23	0.03	11	0.02	109.1	50.0
Total	314	0.51	123	0.17	155.3	200.0

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	43	0.05	47	0.09	(8.5)	(44.4)
Low octane gasoline	12	0.02	10	0.02	20.0	-
Diesel	57	0.08	72	0.15	(20.8)	(46.7)
Fuel oil	-	-	39	0.13	(100.0)	(100.0)
Other	11	0.02	8	0.02	37.5	-
Total	123	0.17	176	0.41	(30.1)	(58.5)

- The volume of petroleum products purchases in the CIS increased 200% in 2011 Y-o-Y due to increased sales activity and higher demand for petroleum products in the CIS

Products Purchases Domestic

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	786	1.00	160	0.24	391.3	316.7
Low octane gasoline	9	0.01	53	0.09	(83.0)	(88.9)
Diesel	230	0.34	226	0.49	1.8	(30.6)
Fuel oil	112	0.26	87	0.31	28.7	(16.1)
Jet fuel	140	0.20	59	0.11	137.3	81.8
Other	92	0.12	68	0.31	35.3	(61.3)
Total	1,369	1.93	653	1.55	109.6	24.5

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	160	0.24	168	0.35	(4.8)	(31.4)
Low octane gasoline	53	0.09	33	0.07	60.6	28.6
Diesel	226	0.49	183	0.51	23.5	(3.9)
Fuel oil	87	0.31	47	0.23	85.1	34.8
Jet fuel	59	0.11	76	0.17	(22.4)	(35.3)
Other	68	0.31	28	0.11	142.9	181.8
Total	653	1.55	535	1.44	22.1	7.6

- The volume of domestic petroleum products purchases increased 24.5% Y-o-Y in response to strong demand for petroleum products in the Company's retail network

Products Marketing

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
			Active retail stations	(units)				
1,043	901	15.8	Russia	1,043	947	921	10.1	2.8
202	170	18.8	CIS	202	181	120	11.6	50.8
425	438	(3.0)	Eastern Europe	425	468	473	(9.2)	(1.1)
1,670	1,509	10.7	Total retail stations	1,670	1,596	1,514	4.6	5.4
			Average daily sales per active retail site in Russia (tonnes per day)	14.2	10.3	9.1	37.9	13.2

- Our total active site count increased by 10.7% Q-o-Q and 4.6% Y-o-Y due to planned reconstruction activities at some of our retail sites in Russia, the CIS, and Eastern Europe and acquisition of 113 retail sites in Russia
- Average daily sales per retail site in Russia grew by 9.9% Q-o-Q and 37.9% Y-o-Y as a result of the ongoing rebranding campaign, customer loyalty program, and higher demand for petroleum products in our markets
- We launched the rebranding campaign at our Sibir Energy retail sites

Results of Operations

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Revenues								
10,924	11,359	(3.8)	Refined products and oil and gas sales	43,268	32,176	23,773	34.5	35.3
222	247	(10.1)	Other	904	736	532	22.8	38.3
11,146	11,606	(4.0)	Total	44,172	32,912	24,305	34.2	35.4
Costs and other deductions								
2,668	2,865	(6.9)	Cost of purchased oil, gas and petroleum products	10,817	7,459	5,335	45.0	39.8
646	614	5.2	Operating expenses	2,464	2,126	1,896	15.9	12.1
512	410	24.9	Selling, general and administrative expenses	1,779	1,660	1,287	7.2	29.0
832	863	(3.6)	Transportation expenses	3,391	2,886	2,262	17.5	27.6
480	535	(10.3)	Depreciation, depletion and amortization	1,963	1,649	1,503	19.0	9.7
2,230	1,992	11.9	Export duties	8,092	6,631	3,948	22.0	68.0
1,917	2,190	(12.5)	Taxes other than income tax	8,038	5,301	4,027	51.6	31.6
28	12	133.3	Exploration expenses	74	91	147	(18.7)	(38.1)
139	158	(12.0)	Cost of other sales	575	436	297	31.9	46.8
-	-	-	Loss on sale of assets, net	-	-	142	-	(100.0)
9,452	9,639	(1.9)	Total	37,193	28,239	20,844	31.7	35.5
1,694	1,967	(13.9)	Operating income	6,979	4,673	3,461	49.3	35.0
Other (expense)/ income								
12	79	(84.8)	Share in net income of equity affiliates	248	229	212	8.3	8.0
19	12	58.3	Gain on sales of investments	104	9	470	1,055.6	(98.1)
16	21	(23.8)	Interest income	66	48	108	37.5	(55.6)
(74)	(81)	(8.6)	Interest expense	(329)	(347)	(380)	(5.2)	(8.7)
36	(90)	(140.0)	Other expense, net	(65)	(309)	(1)	(79.0)	30,800.0
66	(299)	(122.1)	Foreign exchange (loss) / gain, net	(172)	(24)	45	616.7	(153.3)
75	(358)	(120.9)	Total	(148)	(394)	454	(62.4)	(186.8)
1,769	1,609	9.9	Income before income taxes	6,831	4,279	3,915	59.6	9.3
176	268	(34.3)	Provision for income taxes	1,173	884	801	32.7	10.4
14	5	180.0	Deferred income tax expense / (benefit)	71	(43)	13	(265.1)	(430.8)
190	273	(30.4)	Total	1,244	841	814	47.9	3.3
1,579	1,336	18.2	Net income	5,587	3,438	3,101	62.5	10.9
(104)	(63)	65.1	Less: Net income attributable to non-controlling interest	(235)	(287)	(75)	(18.1)	282.7
1,475	1,273	15.9	Net income attributable to Gazprom Neft	5,352	3,151	3,026	69.9	4.1

Revenues

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Crude oil								
2,922	2,151	35.8	Export and sales on international markets	10,347	8,941	6,749	15.7	32.5
308	332	(7.2)	Export to CIS	1,241	1,252	990	(0.9)	26.5
26	3	766.7	Domestic sales (excluding Orenburg)	31	2	52	1,450.0	(96.2)
35	34	2.9	Domestic sales (Orenburg)	137	116	112	18.1	3.6
3,291	2,520	30.6	Total crude oil sales	11,756	10,311	7,903	14.0	30.5
Gas								
55	51	7.8	Sales on international markets	182	117	68	55.6	72.1
100	90	11.1	Domestic sales (excluding Orenburg)	429	190	107	125.8	77.6
8	5	60.0	Domestic sales (Orenburg)	24	16	13	50.0	23.1
163	146	11.6	Total gas sales	635	323	188	96.6	71.8
Petroleum products								
2,184	2,607	(16.2)	Export	9,817	7,116	5,149	38.0	38.2
787	866	(9.1)	Sales on international markets	3,112	2,590	2,095	20.2	23.6
394	443	(11.1)	Export and sales in CIS	1,599	1,146	907	39.5	26.4
4,105	4,777	(14.1)	Domestic sales	16,349	10,690	7,531	52.9	41.9
7,470	8,693	(14.1)	Total petroleum products sales	30,877	21,542	15,682	43.3	37.4
222	247	(10.1)	Other sales	904	736	532	22.8	38.3
11,146	11,606	(4.0)	Total sales	44,172	32,912	24,305	34.2	35.4

Sales Volumes

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Crude oil (MMTonnes)								
3.69	2.65	39.2	Export and sales on international markets	13.08	15.94	15.57	(17.9)	2.4
0.75	0.82	(8.5)	Export to CIS	2.99	3.02	3.32	(1.0)	(9.0)
0.18	0.01	1,700.0	Domestic sales (excluding Orenburg)	0.20	0.01	0.25	1,900.0	(96.0)
0.11	0.14	(21.4)	Domestic sales (Orenburg)	0.53	0.55	0.56	(3.6)	(1.8)
4.73	3.62	30.7	Total crude oil sales	16.80	19.52	19.70	(13.9)	(0.9)
Gas (bcm)								
2.57	2.01	27.9	Domestic sales (excluding Orenburg)	9.31	4.88	3.43	90.8	42.3
0.21	0.23	(10.0)	Domestic sales (Orenburg)	0.91	0.84	0.70	8.3	20.0
2.78	2.24	23.9	Gas domestic sales (bcm)	10.22	5.72	4.13	78.7	38.5
Petroleum products (MMTonnes)								
2.86	3.32	(13.9)	Export	12.63	12.31	11.36	2.6	8.4
0.63	0.66	(4.5)	Sales on international markets	2.43	2.61	2.29	(6.9)	14.0
0.48	0.55	(12.7)	Export and sales in CIS	2.05	1.74	1.90	17.8	(8.4)
5.92	6.86	(13.7)	Domestic sales	24.29	20.54	17.43	18.3	17.8
9.89	11.39	(13.2)	Total petroleum products sales	41.40	37.20	32.98	11.3	12.8

Average Realized Sales Prices

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
			Crude oil	(US\$ per tonne)				
791.87	811.70	(2.4)	Export and sales on international markets	791.13	560.92	433.46	41.0	29.4
410.67	404.88	1.4	Export to CIS	415.05	414.57	298.19	0.1	39.0
			Petroleum products	(US\$ per tonne)				
763.64	785.24	(2.8)	Export	777.28	578.07	453.26	34.5	27.5
1,249.21	1,312.12	(4.8)	Sales on international markets	1,280.66	992.34	914.85	29.1	8.5
820.83	805.45	1.9	Export and sales in CIS	780.00	658.62	477.37	18.4	38.0
693.41	696.36	(0.4)	Domestic sales	673.08	520.45	432.07	29.3	20.5

- Revenue decreased by 4.0% Q-o-Q due to decreased sales volumes and lower prices for crude oil and petroleum products
- Revenue grew by 34.2% 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 increased by 35.8% Q-o-Q due to a 39.2% increase in sales volumes partially offset by a decline in prices (-2.4%)
- Revenues from crude oil exports and sales on international markets increased by 15.7% Y-o-Y due to a 41.0% increase in prices, partially offset by a 17.9% decrease in sales volumes
- Volumes of crude oil exports and sales on international markets declined 17.9% Y-o-Y as more crude was processed at the Company's refineries (+6.8% Y-o-Y).

Crude Oil Export Sales to CIS

- Revenues from crude oil exports to the CIS decreased by 7.2% Q-o-Q due to an 8.5% decrease in sales volumes partially offset by higher prices (+1.4%)
- Revenues from crude oil export sales to the CIS decreased by 0.9% Y-o-Y due to a 1.0% decrease in sales volumes

Petroleum Products Exports

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	119	0.13	65	0.10	83.1	30.0
Low octane gasoline	28	0.03	14	0.03	100.0	-
Naphtha	942	1.00	1,131	1.64	(16.7)	(39.0)
Diesel	4,321	4.66	3,179	4.73	35.9	(1.5)
Fuel oil	3,757	6.15	2,205	5.08	70.4	21.1
Jet fuel	158	0.15	181	0.25	(12.7)	(40.0)
Other	492	0.51	341	0.48	44.3	6.3
Total	9,817	12.63	7,116	12.31	38.0	2.6

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	65	0.10	224	0.45	(71.0)	(77.8)
Low octane gasoline	14	0.03	20	0.04	(30.0)	(25.0)
Naphtha	1,131	1.64	873	1.70	29.6	(3.5)
Diesel	3,179	4.73	2,477	4.93	28.3	(4.1)
Fuel oil	2,205	5.08	1,249	3.61	76.5	40.7
Jet fuel	181	0.25	13	0.02	1,292.3	1,150.0
Other	341	0.48	293	0.61	16.4	(21.3)
Total	7,116	12.31	5,149	11.36	38.2	8.4

- In 2011 revenues from export sales of petroleum products increased 38% compared to 2010 due to a 2.6% increase in sales volumes and 34.5% growth in prices. The increase in volumes was driven by a 6.8% increase in refinery throughput.
- In 2010 revenues from export sales of petroleum products increased 38.2% compared to 2009 due to a 27.5% increase in sales prices and 8.4% increase in sales volumes.

Petroleum Products Sales on International Markets

- In 2011 revenues from export sales of petroleum products on international markets increased by 20.2% due to 29.1% higher prices, partially offset by a 6.9% decrease in sales volumes
- In 2010 revenues from export sales of petroleum products on international markets increased 23.6% compared to 2009 due to a 14.0% increase in sales volumes and 8.5% growth in sales prices.

Petroleum Products Export and Sales in CIS

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	531	0.57	488	0.62	8.8	(8.1)
Low octane gasoline	149	0.23	79	0.12	88.6	91.7
Naphtha	84	0.11	15	0.03	460.0	266.7
Diesel	480	0.58	264	0.42	81.8	38.1
Fuel oil	28	0.08	1	0.00	2,700.0	3,900.0
Jet fuel	92	0.11	114	0.22	(19.3)	(50.0)
Other	235	0.37	185	0.33	27.0	12.1
Total	1,599	2.05	1,146	1.74	39.5	17.8

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	488	0.62	366	0.60	33.3	3.3
Low octane gasoline	79	0.12	61	0.12	29.5	-
Naphtha	15	0.03	86	0.23	(82.6)	(87.0)
Diesel	264	0.42	109	0.22	142.2	90.9
Fuel oil	1	0.00	5	0.02	(80.0)	(90.0)
Jet fuel	114	0.22	166	0.44	(31.3)	(50.0)
Other	185	0.33	114	0.27	62.3	22.2
Total	1,146	1.74	907	1.90	26.4	(8.4)

- In 2011 revenues from export and sales of petroleum products in CIS increased 39.5% vs. 2010 due to a 17.8% increase in sales volumes and an 18.4% increase in sales prices.
- In 2010 revenues from export and sales of petroleum products in CIS increased 26.4% vs. 2009 due to a 38.0% growth in sales prices partially offset by an 8.4% decrease in sales volumes.

Domestic Sales of Petroleum Products

	2011		2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	6,163	7.11	4,006	5.44	53.8	30.7
Low octane gasoline	577	0.74	513	0.87	12.5	(14.9)
Diesel	4,791	6.66	3,117	6.06	53.7	9.9
Fuel oil	1,498	3.72	1,081	3.49	38.6	6.6
Jet fuel	1,694	2.50	1,033	2.10	64.0	19.0
Other	1,626	3.56	940	2.58	73.0	38.0
Total	16,349	24.29	10,690	20.54	52.9	18.3

	2010		2009		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	4,006	5.44	2,772	4.51	44.5	20.6
Low octane gasoline	513	0.87	449	0.84	14.3	3.6
Diesel	3,117	6.06	2,050	4.73	52.0	28.1
Fuel oil	1,081	3.49	750	3.26	44.1	7.1
Jet fuel	1,033	2.10	774	1.88	33.5	11.7
Other	940	2.58	736	2.21	27.7	16.7
Total	10,690	20.54	7,531	17.43	41.9	17.8

- In 2011 domestic petroleum products revenues increased 52.9% compared to 2010 due to a 18.3% increase in sales volumes and 29.3% increase in prices
- In 2010 domestic petroleum products revenues increased 41.9% vs. 2009 due to a 17.8% increase in sales volumes and 20.5% growth in prices. The increase in volumes was driven by a 13.4% increase in refinery throughput.

Other Sales

- Other sales consist primarily of sales of services such as transportation, construction, utilities, and other services
- In 2011 and 2010 other sales increased by 22.8% and 38.3% in comparison with previous periods due to increase in prices and volumes

Cost of Purchased Oil, Gas and Petroleum Products

- The cost of purchased crude oil, gas and petroleum products increased 45.0% in 2011 vs. 2010 due to growth in crude oil and petroleum products prices and volumes. The Urals price increased by 39.4% in 2011 vs. 2010
- The cost of purchased crude oil, gas and petroleum products increased 39.8% in 2010 vs. 2009 due to growth in crude oil and petroleum products prices and volumes

Extraction and Refining Expenses

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
369	389	(5.1)	Hydrocarbon extraction expenses (excl. Orenburg)	1,499	1,282	1,217	16.9	5.4
6	5	20.0	Hydrocarbon extraction expenses (Orenburg)	22	15	13	46.7	5.1
5.05	5.68	(11.1)	\$ per boe of production*	5.39	5.17	5.13	4.3	0.8
271	220	23.2	Refining expenses at own and equity affiliate refineries	943	829	666	13.8	24.4
28.14	19.80	42.1	\$ per tonne	23.29	21.86	19.92	6.5	9.7
3.84	2.70	42.1	\$ per boe	3.18	2.98	2.72	6.6	9.7
646	614	5.2	Total	2,464	2,126	1,896	15.9	12.1

* Hydrocarbon extraction expenses per boe of production include data of JSC Gazpromneft Orenburg from the date of acquisition.

- 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 increased by 16.9% in 2011 due to a 3.3% appreciation in the ruble relative to the US dollar, a 12% change in PPI and 12.4% higher hydrocarbon production by consolidated subsidiaries
- Average hydrocarbon extraction costs per barrel of oil equivalent increased from US\$ 5.17 to US\$ 5.39, or 4.3%
- Refining expenses at our own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs
- Refining expenses increased by 13.8% in 2011 due to organic and non-organic growth in refining volumes across all refineries
- Refining expenses per barrel of oil increased by 42.1% Q-o-Q due to scheduled repairs at our Moscow and Omsk refineries
- Average refining expenses per barrel increased from US\$ 2.98 to US\$ 3.18 or 6.6% in 2011 compared to 2010

As of 31 December 2011, the Company sold its oil field service business. From 2012 the Company plans to adopt IFRS as a reporting standard. The table below shows the effects of the sale of the oil field service business and the transition to IFRS on the classification of operating expenses:

(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Hydrocarbon extraction expenses (US GAAP, excluding Orenburg)	1,499	1,282	1,217	16.9	5.4
\$ per boe of production*	5.39	5.17	5.13	4.3	0.8
Effect from the sales of oil field services business	116	173	122	(32.9)	41.8
Reclassification of Work in progress from Operating expenses to Cost of goods sold	16	9	8	77.8	12.5
Adjusted operating expenses	1,631	1,464	1,347	11.4	8.7
\$ per boe of production*	5.85	5.90	5.68	(0.9)	3.9

* Hydrocarbon extraction expenses per boe of production include data of JSC Gazpromneft Orenburg from the date of acquisition.

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 7.2% and 29.0% in 2011 and 2010, respectively, due to increases in consulting fees and other administrative expenses

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

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 in 2011 by 19.0% Y-o-Y. The increase was a result of the increase in depreciable assets due to acquisitions and capital expenditures

Export Duties and Taxes Other Than Income Tax

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
1,451	1,193	21.6	Export customs duties for crude oil	5,160	4,631	2,790	11.4	66.0
779	799	(2.5)	Export customs duties for petroleum products	2,932	2,000	1,158	46.6	72.7
2,230	1,992	11.9	Total export customs duties	8,092	6,631	3,948	22.0	68.0

- Export customs duties for crude oil increased in 2011 by 11.4% due to higher export customs duty rates resulting from a 39.4% increase in Urals prices, partially offset by lower sales volumes
- Export customs duties for petroleum products increased in 2011 by 46.6% due to higher export customs duty rates, partially offset by the ending of petroleum products export duties for Belorussia and Kirgizia

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
1,173	1,209	(3.0)	Mineral extraction taxes	4,614	3,107	2,256	48.5	37.7
628	841	(25.3)	Excise	2,845	1,743	1,412	63.2	23.4
51	54	(5.6)	Property tax	213	182	127	17.0	43.3
65	86	(24.4)	Other taxes	366	269	232	36.1	15.9
1,917	2,190	(12.5)	Total taxes other than income tax	8,038	5,301	4,027	51.6	31.6

- Mineral extraction taxes increased in 2011 by 48.5% due to higher crude oil prices, which are used to calculate the tax rate, and changes in production volumes. The average Urals price increased 39.4%
- Mineral extraction taxes increased in 2010 due to higher crude oil prices, which are used to calculate the tax rate, and a 2.3% increase in crude production volumes
- Excise taxes increased in 2011 by 63.2% 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 18.3% for 2011, consistent with statutory income tax rates

Liquidity and Capital Resources

Cash Flows

(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Net cash provided by operating activities	6,001	5,391	3,499	11.3	54.1
Net cash used in investing activities	(5,474)	(4,852)	(4,908)	12.8	(1.1)
Net cash used in financing activities	(752)	(309)	185	143.4	(267.0)

Net Cash Provided by Operating Activities

- Net cash provided by operating activities increased in 2011 by 11.3% to US\$ 6,001 million from US\$ 5,391 million in 2010. The increase in net cash provided by operating activities was due to the Company's higher net income partially offset by increased working capital due to higher crude oil and petroleum products prices
- In 2010 net cash provided by operating activities increased 54.1% to US\$ 5,391 million from US\$ 3,499 million in 2009. The increase was due to an increase in operating income as well as improved working capital management

Net Cash Used in Investing Activities

- In 2011 net cash used in investing activities increased by 12.4% to US\$ 5,455 million from US\$ 4,852 million in 2010 due to a higher level of M&A activities and a 22.1% increase in capital expenditures
- In 2010 net cash used in investing activities decreased 1.1% to US\$ 4,852 million from US\$ 4,908 million in 2009 mainly due to a lower level of M&A activities (US\$ 658 million less than in 2009) offset by a 25.3% increase in capital expenditures

Net Cash Used in Financing Activities

- Net cash used in financing activities in 2011 was US\$ 752 million compared with US\$ 309 million in 2010. The change was mainly due to a decrease in net loan proceeds of US\$ 146 million and a US\$ 320 million increase in dividend payments
- In 2010 financing activities used US\$ 309 million in net cash, compared with providing US\$ 185 million in 2009. The change was mainly due to a decrease in net loan proceeds minus repayments of US\$ 703 million, partly offset by reduced dividend payments of US\$ 209 million

Capital Expenditure

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
642	597	7.5	Exploration and production	2,365	2,430	2,053	(2.7)	18.4
474	303	56.4	Refining	1,043	473	334	120.5	41.6
279	190	46.8	Marketing and distribution	562	327	194	71.9	68.7
18	21	(14.3)	Others	59	71	54	(16.9)	30.4
1,413	1,111	27.1	Total capital expenditures	4,029	3,301	2,635	22.1	25.3

- 2011 capital expenditures were 22.1% higher than in 2010. The increase was due to:
 - 120.5% 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
 - 71.9% higher capital expenditures in marketing and distribution due to the retail rebranding campaign and acquisition of 113 new retail stations
 - Partially offsetting these increases was a 2.7% reduction in capital expenditures for exploration and production due to optimization of geological and engineering operations
- 2010 capital expenditures were 25.3% higher than in 2009. The increase was due to the following:
 - 18.4% higher capital expenditures in exploration and production due to 4.4% appreciation in the value of ruble against the US dollar and cost inflation
 - 41.6% higher refining capital expenditures due to the modernization program at the Company's refineries
 - 68.7% increase in marketing and distribution capital expenditures due to the service station rebranding program

Debt and Liquidity

	2011	2010
Short-term debt	1,277	1,740
Long-term debt	5,420	4,942
Cash and cash equivalents	(914)	(1,146)
Short-term deposits	(8)	(109)
Net debt	5,775	5,427
Short-term debt/ total debt, %	19.1	26.0

- 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 27.0% to 2.68 years in 2011 compared with 2.10 years in 2010. The average interest rate decreased by 0.59 percentage points to 3.37%

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- 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 bond series 04 in the nominal amount of 6.1 bln rubles
 - In February 2012 the Company issued bond series 11 in the nominal amount of 10 bln rubles

Financial Appendix

EBITDA Reconciliation

4Q 2011	3Q 2011	Δ, %	(in US\$ million)	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
2,426	2,768	(12.4)	Adjusted EBITDA	10,158	7,271	6,037	39.7	20.4
(252)	(266)	(5.3)	The Company's share in EBITDA of equity affiliates	(1,216)	(949)	(931)	28.1	1.9
19	12	58.3	Gain on sales of investments	104	9	470	-	-
12	79	(85.1)	Share in net income of equity affiliates	248	229	212	8.3	8.0
66	(299)	(122.1)	Foreign exchange (loss) / gain, net	(172)	(24)	45	616.7	(153.3)
36	(90)	(140.0)	Other expense, net	(65)	(309)	(143)	(79.0)	116.1
(74)	(81)	(8.6)	Interest expense	(329)	(347)	(380)	(5.2)	(8.7)
16	21	(24.0)	Interest income	66	48	108	37.5	(55.6)
(480)	(535)	(10.3)	Depreciation, depletion and amortization	(1,963)	(1,649)	(1,503)	19.0	9.7
1,769	1,609	9.9	Income before income taxes	6,831	4,279	3,915	59.6	9.3

Financial Ratios

Profitability

	2011	2010	2009	Δ, p.p. 2011-2010	Δ, p.p. 2010-2009
Adjusted EBITDA margin, %	23.00	22.09	24.84	0.9	(2.7)
Net income margin, %	12.65	10.45	12.76	2.2	(2.3)
Return on assets (ROA), %	16.11	10.88	12.07	5.2	(1.2)
Return on equity (ROE), %	24.28	17.18	18.58	7.1	(1.4)
Return on average capital employed (ROACE), %	20.98	15.83	15.44	5.1	0.4

Liquidity

	2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Current ratio	2.05	1.44	1.15	0.4	0.2
Quick ratio	1.13	0.80	0.67	0.4	0.2
Cash ratio	0.33	0.27	0.18	0.2	0.5

Leverage

	2011	2010	2009	Δ, p.p. 2011-2010	Δ, p.p. 2010-2009
Net debt/ Total Assets, %	15.74	16.62	17.83	(0.9)	(1.2)
Net debt/ Equity, %	23.15	25.75	28.71	(2.6)	(3.0)
Gearing, %	18.80	20.48	22.31	(1.7)	(1.8)
Net debt/ Market Capitalization	0.26	0.27	0.21	(0.0)	0.3
Net debt/ EBITDA	0.65	0.86	1.10	(0.2)	(0.2)
Total debt/ EBITDA	0.75	1.06	1.25	(0.3)	(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 2011 the average Brent crude oil price was US\$ 111.26 per barrel, an increase of 40.0% 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.

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
			International market	(US\$ / barrel)				
109.35	113.41	(3.6)	Brent	111.26	79.50	61.67	40.0	28.9
108.72	111.48	(2.5)	Urals Spot (average Med + NWE)	109.10	78.28	61.22	39.4	27.9
				(US\$ / tonne)				
932.40	1026.87	(9.2)	Premium gasoline (average NWE)	983.88	735.26	578.99	33.8	27.0
865.21	944.95	(8.4)	Naphtha (average Med. + NWE)	920.81	704.68	527.28	30.7	33.6
971.08	967.55	0.4	Diesel fuel (average NWE)	958.97	689.65	536.98	39.1	28.4
941.33	945.05	(0.4)	Gasoil 0.2% (average Med. + NWE)	931.87	672.65	512.67	38.5	31.2
617.24	623.98	(1.1)	Fuel oil 3.5% (average NWE)	602.55	436.17	341.66	38.1	27.7
			Domestic market	(US\$ / tonne)				
814.33	877.06	(7.2)	High-octane gasoline	836.87	715.05	600.06	17.0	19.2
734.78	770.36	(4.6)	Low-octane gasoline	751.86	569.15	494.07	32.1	15.2
745.44	697.84	6.8	Diesel fuel	709.40	507.28	419.88	39.8	20.8
293.47	327.71	(10.4)	Fuel oil	296.23	250.73	204.38	18.1	22.7

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.

4Q 2011	3Q 2011		2011	2010	2009
1.4	(0.3)	Change in Consumer Price Index (CPI), %	6.1	8.8	8.8
1.3	2.9	Change in Producer Price Index (PPI), %	12.0	16.7	13.9
32.20	31.88	US\$/ RUB exchange rate as of the end of the period	32.20	30.48	30.24
31.23	29.05	Average RUB/US\$ exchange rate for the period	29.39	30.37	31.72
(4.0)	(12.2)	Real appreciation (depreciation) of the RUB against the US\$, %	0.4	7.9	5.7
(7.0)	(3.7)	Change of the average invert exchange rate (RUB / US\$), %	3.3	4.4	(21.6)

Taxation

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
			Export customs duty	(US\$/ tonne)				
403.67	442.47	(8.8)	Crude oil	408.92	273.61	179.33	49.5	52.6
266.37	296.43	(10.1)	Light and middle distillates	274.08	196.66	133.13	39.4	47.7
266.37	206.60	28.9	Fuel oil	208.21	105.94	71.74	96.5	47.7
			Mineral extraction tax					
4,718	4,547	3.8	Crude oil (RUB/ tonne)	4,455	3,074	2,299	44.9	33.7
21	21	(3.5)	Crude oil (US\$/ barrel)	21	14	10	49.7	39.7
237	237	-	Natural gas (RUB/ Mcm)	237	147	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.

From October 2011 under the new 60 / 66 / 90 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 set by the Government. Petroleum products exported to CIS countries that are members of the Customs Union (Kazakhstan, Belorussia) are not subject to export duties.

Before February 1, 2011 export customs duty on light and middle distillate 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_{crude} is the export customs duty rate per tonne of crude oil, 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	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
		Jan-Jun	Jul-Dec		
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 using the Russian classification). 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 V3, defined as ABC1 + C2 reserves volume according to the state mineral reserves balance approved in the year preceding the tax period) are lower than 5 MMtonnes and depletion (N/V) is less than 0.05, $K_z = 0.125 * V3 + 0.375$

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.

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

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

* The lower rate of MET applies to tax-payers 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:

4Q 2011	3Q 2011	Δ, %		2011	2010	2009	Δ, % 2011-2010	Δ, % 2010-2009
Crude oil (rubles per tonne)								
Export								
1,479.62	1,398.27	5.8	Pipeline	1,424.27	1,273.93	937.19	11.8	35.9
CIS								
1,246.61	1,238.08	0.7	Pipeline	1,217.41	994.75	749.33	22.4	32.8
Transportation to Refineries								
460.00	437.00	5.3	ONPZ	446.25	416.17	351.51	7.2	18.4
758.00	626.00	21.1	MNPZ	667.00	945.49	629.22	(29.5)	50.3
939.00	891.00	5.4	YaNPZ	903.75	860.70	705.57	5.0	22.0
Petroleum products								
Export from ONPZ								
2,292.94	2,044.02	12.2	Gasoline	2,105.71	1,964.06	1,718.86	7.2	14.3
3,236.84	3,236.84	-	Fuel oil	3,224.28	3,036.06	2,717.20	6.2	11.7
2,393.04	2,860.99	(16.4)	Diesel fuel	2,578.56	2,573.51	2,056.74	0.2	25.1
Export from MNPZ								
1,443.44	-	-	Gasoline	732.56	1,569.28	1,263.82	(53.3)	24.2
1,357.40	1,263.86	7.4	Fuel oil	1,340.74	1,287.96	1,075.39	4.1	19.8
1,212.36	1,509.81	(19.7)	Diesel fuel	1,419.03	1,361.91	1,347.11	4.2	1.1
Export from YaNPZ								
1,307.99	1,289.98	1.4	Gasoline	1,407.73	1,699.24	1,574.17	(17.2)	7.9
1,373.43	1,358.44	1.1	Fuel oil	1,368.56	1,269.50	1,130.93	7.8	12.3
1,218.30	1,218.30	-	Diesel fuel	1,232.97	927.40	1,005.33	32.9	(7.8)

In 2011 the Company shipped 49.4% (48.0% in 2010) of crude oil for export through the Baltic Sea port of Primorsk; 21.6 % of crude oil was exported through Transneft's Druzhba pipeline (24.9% in 2010) mainly to Germany, the Czech Republic and the Polish port of Gdansk; 6.42% of crude oil was shipped from the Black Sea port of Novorossiysk (3.7 % in 2010) and 8.31% from the Black Sea port of Tuapse (9.7 % in 2010); 14.2 % of crude oil was exported through the East Siberia - Pacific Ocean pipeline system (ESPO) from the Pacific port of Kozmino (13.7 % in 2010). Exports of crude to CIS countries in 2011 were: 88.97% to Belarus (76.39% in 2010) and 11.03% to Kazakhstan (23.61% in 2010).

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