

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended June 30 and March 31, 2011 and the six months ended
June 30, 2011 and 2010**



Definitions and Conversions

The following discussion is intended to assist you in understanding of JSC Gazprom Neft's financial position as of June 30, 2011 and results of operations for the three months ended June 30 and March 31, 2011 and the six months ended June 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.

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

2Q	1Q			1H		Δ, %
2011	2011	Δ, %		2011	2010	2011-2010
11,476	9,865	16.3	Revenue (US\$ million)	21,341	15,322	39.3
1,585	1,872	(15.3)	Income before income taxes (US\$ million)	3,457	1,947	77.6
2,478	2,467	0.4	Adjusted EBITDA ¹ (US\$ million)	4,945	3,136	57.7
24.0	24.2	(0.8)	\$ per boe of production	24.1	16.5	46.4
1,167	1,437	(18.8)	Net income attributable to Gazprom Neft (US\$ million)	2,604	1,501	73.5
11.3	14.1	(19.8)	\$ per boe of production	12.7	7.9	61.1
1,891	621	204.5	Net cash provided by operating activities (US\$ million)	2,512	2,364	6.3
18.3	6.1	200.8	\$ per boe of production	12.3	12.4	(1.3)
103.14	101.89	1.2	Hydrocarbon production including our share in equity affiliates (millions of boe)	205.03	190.42	7.7
91.01	90.00	1.1	Crude oil production including our share in equity affiliates (millions bbl)	181.01	180.27	0.4
72.77	71.29	2.1	Marketable gas production including our share in equity affiliates (bcf)	144.06	60.81	136.9
9.75	8.95	9.0	Production of petroleum products at own and equity affiliates refineries (millions of tonnes)	18.70	16.53	13.1

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

1H 2011 highlights

- Consolidation of 100% of Sibir Energy
- Increased NIS shareholding to 56.15%
- Cenomanian gas production at full scale
- Commissioned the second phase of Priobskaya gas power plant
- Confirmed feasibility of year-round oil export by sea from Novoportovskoe via the Gulf of Ob
- Processed billionth tonne of crude oil at Omsk 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
- Introduced new high-performance 95 octane gasoline under "G-Drive" brand in St. Petersburg area
- Almost completed oilfield services spin-off
- Issued 30 bln ruble bond and reduced interest rate on Sberbank loan
- Reached agreement with a group of banks on a five-year US\$ 600 million unsecured club term loan facility

Results for 1H 2011 compared with 1H 2010

- Higher oil prices, increased refining throughput and product mix optimization supported improved financial results, with 39.3% higher revenue driving a 57.7% increase in adjusted EBITDA and 73.5% increase in net income
- Hydrocarbon production volumes increased by 7.7%, crude production increased by 0.4%, and marketable gas production by 136.9%, for total hydrocarbon production of 205.03 MMboe
- Refining throughput increased by 12.0%
- Operating expenses were 22.7% higher as a result of a 5.1% appreciation in the value of the ruble against the US dollar, a 12.2% growth in hydrocarbon production by consolidated subsidiaries, and 12.0% increase in refining throughput

- Interest expense decreased by 10.6% due to debt portfolio optimization

Results for 2Q 2011 compared with 1Q 2011

- Higher oil prices, increased refining throughput and product mix optimization supported improved results, with a 16.3% growth in revenue driving a 0.4% rise in adjusted EBITDA. On the other hand, export duty lag exerted downward pressure on 2Q 2011 results vs. 1Q 2011
- Operating income for the quarter decreased by 5.5% to US\$ 1,612 million primarily due to higher levels of taxes other than income taxes
- Reported net income attributable to Gazprom Neft shareholders was US\$ 1,167 million compared to US\$ 1,437 million in 1Q 2011, a decrease of 18.8%
- Hydrocarbon production volumes increased by 1.2% and refining throughput by 9.3%

Operating Segments

The Company's activities are divided into two main operating segments:

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

The Company's operating segments are interdependent; a portion of the revenues of one segment forms a part of the costs of the other segment. In most cases it is difficult to assess market prices for crude oil in the domestic market due to the significant intragroup turnover within the vertically integrated oil companies. The prices set for intragroup purchases of crude oil reflect a combination of market factors such as the global crude pricing environment, transportation, crude processing costs, capital investment requirements as well as other factors. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent each segment's underlying financial position and results of operations. For this reason, we do not analyze our segments separately.

Changes to Corporate Structure

Equatorial Guinea

In early February 2011, we completed 3D seismic exploration in block T on the Equatorial Guinea shelf and 300 square kilometers of total seismic study. As a result, the obligations under the PSA have been completely fulfilled. The seismic data is currently being analyzed and interpreted in conjunction with historical geological data from blocks T and U.

On June 6, 2011 the Company and GEPetrol signed a cooperation agreement. The document regulates key areas of cooperation between the companies within the framework of implementing the PSA signed in 2010 for geological prospecting of blocks T and U. In particular, the agreement sets out the project's fundamental management principles and key decision making procedures.

Sibir Energy (Sibir)

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

Naftna Industrija Srbije (NIS)

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

Operational Data and Analysis

Production Drilling

2Q	1Q			1H		Δ, %
2011	2011	Δ, %		2011	2010	2011-2010
Consolidated subsidiaries						
681	531	28.4	Production drilling ('000 meters)	1,212	1,180	2.7
176	188	(6.4)	Production wells drilled	364	334	9.0
15.24	15.40	(1.0)	Average well flow (tonnes per day)	15.32	16.14	(5.1)
83.74	84.02	(0.3)	Watercut, %	83.88	82.06	2.2
Equity affiliates						
451	380	18.5	Production drilling ('000 meters)	831	638	30.2
127	114	11.4	Production wells drilled	241	148	62.8

- The number of new wells drilled at consolidated subsidiaries decreased by 6.4% Q-o-Q to 176 wells due to reduced development activity at the Priobskoye field
- The number of new wells drilled at equity affiliates increased by 11.4% Q-o-Q to 127 wells

Production

2Q 2011	1Q 2011	Δ, %		1H 2011	2010	Δ, % 2011-2010
			Crude oil	(MMbbl)		
30.11	30.23	(0.4)	Noyabrskneftegaz	60.34	65.02	(7.2)
18.51	17.98	2.9	Yugra	36.49	33.67	8.4
2.69	2.76	(2.5)	Gazprom Neft	5.45	5.59	(2.5)
2.05	2.00	2.5	NIS	4.05	3.31	22.4
3.90	3.76	3.7	Others	7.66	5.65	35.6
57.26	56.73	0.9	Total crude oil production by consolidated subsidiaries	113.99	113.24	0.7
16.48	16.34	0.9	Share in Slavneft	32.82	33.55	(2.2)
9.60	9.46	1.5	Share in Tomskneft	19.06	19.13	(0.4)
7.67	7.47	2.7	Share in SPD	15.14	14.35	5.5
33.75	33.27	1.4	Total share in production of equity affiliates	67.02	67.03	(0.0)
91.01	90.00	1.1	Total crude oil production	181.01	180.27	0.4
			Gas	(Bcf)		
64.61	64.23	0.6	Gazprom Neft (own)	128.84	44.98	186.4
2.92	2.87	1.7	Share in Slavneft	5.79	6.10	(5.1)
5.24	4.19	25.1	Share in Tomskneft	9.43	9.73	(3.1)
72.77	71.29	2.1	Total gas production	144.06	60.81	136.9
			Hydrocarbons	(MMboe)		
68.03	67.44	0.9	Gazprom Neft (own)	135.47	120.74	12.2
16.97	16.82	0.9	Share in Slavneft	33.79	34.57	(2.3)
10.47	10.16	3.1	Share in Tomskneft	20.63	20.76	(0.6)
7.67	7.47	2.7	Share in SPD	15.14	14.35	5.5
103.14	101.89	1.2	Total hydrocarbon production	205.03	190.42	7.7
1.13	1.13	0.1	Daily hydrocarbon production (MMboepd)	1.13	1.05	7.7

- Total Group hydrocarbon production increased 1.2% Q-o-Q and 7.7% Y-o-Y
- Crude oil production by consolidated subsidiaries increased 0.9% Q-o-Q and 0.7% Y-o-Y, driven by increased development activity, primarily hydrofracturing and sidetracking
- Crude oil production by equity affiliates increased 1.4% Q-o-Q and remained stable Y-o-Y, driven by increased development activity in 2Q 2011, primarily at Slavneft
- Gas production grew by 2.1% Q-o-Q and 136.9% Y-o-Y due to the startup of Cenomanian gas production at the Muravlenkovskoye and Novogodneye fields in 4Q 2010
 - Tomskneft Q-o-Q gas production increased by 25.1% due to completion of maintenance at the Luginetskaya gas compressor station, which started in late 2010 and had the effect of reducing production Y-o-Y by 3.1%

Crude Oil Purchases

2Q 2011	1Q 2011	Δ, %	(MMbbl)	1H		Δ, %
				2011	2010	2011-2010
11.00	9.49	15.9	Crude oil purchases in Russia	20.49	17.03	20.3
4.37	1.69	158.6	Crude oil purchases internationally	6.06	7.51	(19.3)
15.37	11.18	37.5	Total crude oil purchases	26.55	24.54	8.2

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

- Crude oil purchases increased 37.5% Q-o-Q and 8.2% Y-o-Y driven by increased trading activity and improved market conditions

Refining

2Q 2011	1Q 2011	Δ, %	(MMtonnes)	1H		Δ, %
				2011	2010	2011-2010
Refining throughput:						
5.24	4.62	13.4	Omsk	9.86	9.17	7.5
2.73	2.57	6.2	Moscow	5.30	3.78	40.2
0.67	0.51	31.4	Panchevo and Novi Sad	1.18	1.37	(13.9)
1.68	1.74	(3.4)	Share in Yaroslavl	3.42	3.33	2.7
10.32	9.44	9.3	Total refining throughput	19.76	17.65	12.0
Production of petroleum products						
2.07	1.99	4.0	Gasoline	4.06	3.34	21.6
0.38	0.33	15.2	Below class 2	0.71	0.58	22.4
0.05	0.02	150.0	Class 2	0.07	1.69	(95.9)
1.42	1.46	(2.7)	Class 3	2.88	1.07	169.2
0.22	0.18	22.2	Class 4 & 5	0.40	0.00	-
0.35	0.27	29.6	Naphtha	0.62	0.89	(30.3)
2.81	2.92	(3.6)	Diesel	5.73	5.29	8.1
1.11	1.59	(30.2)	Below class 2	2.70	2.59	4.1
0.84	0.63	33.6	Class 2	1.47	1.69	(13.3)
0.00	0.04	(100.0)	Class 3	0.04	0.37	(88.6)
0.52	0.31	66.5	Class 4	0.83	0.00	-
0.34	0.34	(0.4)	Class 5	0.68	0.63	8.0
1.97	2.12	(7.1)	Fuel oil	4.09	3.64	12.4
0.78	0.49	59.2	Jet fuel	1.27	1.14	11.4
1.77	1.16	52.6	Other	2.93	2.23	31.4
9.75	8.95	9.0	Total production	18.70	16.53	13.1

- Total refining throughput increased by 9.3% Q-o-Q and by 12.0% 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)

- Gasoline output increased 4.0% Q-o-Q and 21.6% Y-o-Y due to:
 - A 9.3% increase Q-o-Q and 12.0% Y-o-Y in refining throughput
 - Higher demand for petroleum products on the domestic market
- A 59.2% increase in jet fuel production Q-o-Q and 11.4% Y-o-Y due to an expanding sales geography to 25 countries (44 cities) vs. 11 countries (18 cities) in 2010 as well as seasonal factors
- A 3.6% decrease in diesel Q-o-Q due to seasonal factors
- An 8.1% increase in diesel output Y-o-Y due to the 12.0% Y-o-Y increase in refining throughput
- A change in the mix of petroleum products output to comply with the Technical regulations on motor fuel quality, which resulted in:
 - Reduced Class 2 gasoline output Y-o-Y vs. increased Class 3 gasoline (S<150ppm) production in 1H 2011
 - Reduced Class 3 gasoline output Q-o-Q due to the startup of Class 4 gasoline production at the Moscow refinery in January 2011 and at the Omsk refinery in February 2011 and startup of Class 5 gasoline production at the Omsk refinery in June 2011
 - Reduced Class 3 diesel output Q-o-Q due to the startup Class 4 diesel production at the Moscow refinery in January 2011 and at the Yaroslavl refinery in February 2011

Products Purchases International

	1H 2011		1H 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	57	0.06	48	0.08	18.8	(25.0)
Diesel	274	0.29	23	0.03	1,091.3	866.7
Fuel oil	-	-	25	0.06	(100.0)	(100.0)
Jet fuel	60	0.06	19	0.02	215.8	200.0
Other	10	0.02	-	-	-	-
Total	401	0.43	115	0.19	248.7	123.7

	2Q 2011		1Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
Naphtha	46	0.05	11	0.01	318.2	400.0
Diesel	145	0.15	129	0.14	12.4	7.1
Jet fuel	25	0.02	35	0.04	(28.6)	(50.0)
Other	5	0.01	5	0.01	-	(50.0)
Total	221	0.23	180	0.20	22.8	12.5

- Petroleum products purchases increased 12.5% Q-o-Q and 123.7% Y-o-Y driven by increase in trading activity and improved market conditions

Products Purchases (CIS)

	1H 2011		1H 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	45	0.06	21	0.03	114.3	100.0
Low octane gasoline	8	0.01	4	0.01	100.0	-
Diesel	54	0.07	22	0.03	145.5	133.3
Other	9	0.02	6	0.01	50.0	50.0
Total	116	0.16	53	0.08	118.9	93.8

	2Q 2011		1Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	37	0.05	8	0.01	362.5	400.0
Low octane gasoline	4	0.00	4	0.01	-	(100.0)
Diesel	31	0.04	23	0.03	34.8	33.3
Other	7	0.01	2	0.01	250.0	(50.0)
Total	79	0.10	37	0.06	113.5	58.3

- Petroleum products purchases increased 58.3% Q-o-Q and 93.8% Y-o-Y due to increased trading activity and higher demand for petroleum products in the CIS

Products Purchases Domestic

	1H 2011		1H 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	397	0.53	30	0.04	1,223.3	1,225.0
Low octane gasoline	6	0.01	8	0.01	(25.0)	-
Diesel	178	0.27	60	0.12	196.7	125.0
Fuel oil	66	0.18	40	0.14	65.0	28.6
Jet fuel	46	0.08	31	0.06	48.4	33.3
Other	28	0.04	14	0.04	100.0	-
Total	721	1.11	183	0.41	294.0	170.7

	2Q 2011		1Q 2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	184	0.23	213	0.30	(13.6)	(23.3)
Low octane gasoline	4	0.00	2	0.01	100.0	(100.0)
Diesel	49	0.06	129	0.21	(62.0)	(71.4)
Fuel oil	35	0.09	31	0.09	12.9	-
Jet fuel	19	0.03	27	0.05	(29.6)	(40.0)
Other	20	0.02	8	0.02	150.0	-
Total	311	0.43	410	0.68	(24.1)	(36.8)

- Petroleum products purchases decreased 36.8% Q-o-Q due to a 9.0% increase in petroleum products production at the Company's refineries
- Petroleum products purchases increased 170.7% Y-o-Y in response to strong demand for petroleum products in the Company's retail network following regulatory actions to limit price increase

Products Marketing

2Q 2011	1Q 2011	Δ, %		1H 2011	2010	Δ, % 2011-2010
			Active retail stations			(units)
941	976	(3.6)	In Russia	941	924	1.8
180	187	(3.7)	In CIS	180	166	8.4
482	483	(0.2)	In Eastern Europe	482	497	(3.0)
1,603	1,646	(2.6)	Total retail stations	1,603	1,587	1.0
			Average daily sales per retail site in Russia			
13.3	11.7	13.7	(tonnes per day)	12.5	9.4	32.6

- Our total site count increased by 1.0% Y-o-Y as we expanded our retail footprint in Russia, the CIS and Eastern Europe
- Average daily sales per retail site in Russia grew by 13.7% Q-o-Q and 32.6% Y-o-Y as a result of the ongoing rebranding campaign and higher demand for petroleum products in the Company's retail network following regulatory actions to limit price increase
- We launched the rebranding campaign at Sibir Energy retail sites

Results of Operations

2Q 2011	1Q 2011	Δ, %	(in US\$ million)	1H 2011	2010	Δ, % 2011-2010
Revenues						
11,231	9,676	16.1	Refined products and oil and gas sales	20,907	14,928	40.1
245	189	29.6	Other	434	394	10.2
11,476	9,865	16.3	Total	21,341	15,322	39.3
Costs and other deductions						
3,060	2,224	37.6	Cost of purchased oil, gas and petroleum products	5,284	3,326	58.9
615	578	6.4	Operating expenses	1,193	972	22.7
398	456	(12.7)	Selling, general and administrative expenses	854	786	8.7
896	800	12.0	Transportation expenses	1,696	1,412	20.1
505	424	19.1	Depreciation, depletion and amortization	929	742	25.2
2,104	1,766	19.1	Export duties	3,870	3,363	15.1
2,113	1,772	19.2	Taxes other than income tax	3,885	2,497	55.6
12	22	(45.5)	Exploration expenses	34	43	(20.9)
161	117	37.6	Cost of other sales	278	223	24.7
9,864	8,159	20.9	Total	18,023	13,364	34.9
1,612	1,706	(5.5)	Operating income	3,318	1,958	69.5
Other income / (expense)						
87	41	112.2	Share in income of equity affiliates	128	130	(1.5)
64	9	-	Gain on investment	73	-	-
26	32	(18.8)	Interest income	58	20	190.0
(76)	(93)	(18.3)	Interest expense	(169)	(189)	(10.6)
(22)	11	(300.0)	Other expense, net	(11)	(52)	(78.8)
(106)	166	(163.9)	Foreign exchange (loss) / gain, net	60	80	(25.0)
(27)	166	(116.3)	Total	139	(11)	(1,363.6)
1,585	1,872	(15.3)	Income before income taxes	3,457	1,947	77.6
313	416	(24.8)	Provision for income taxes	729	363	100.8
54	3	1,700.0	Deferred income tax expense / (benefit)	57	(20)	(385.0)
367	419	(12.4)	Total	786	343	129.2
1,218	1,453	(16.2)	Net income	2,671	1,604	66.5
(51)	(16)	218.8	<i>Less: Net income attributable to non-controlling interest</i>	(67)	(103)	(35.0)
1,167	1,437	(18.8)	Net income attributable to Gazprom Neft	2,604	1,501	73.5

Revenues

2Q 2011	1Q 2011	Δ, %	(in US\$ million)	1H 2011	2010	Δ, % 2011-2010
Crude oil						
2,740	2,535	8.1	Export and sales on international markets	5,275	4,482	17.7
330	271	21.8	Export to CIS	601	603	(0.3)
1	1	-	Domestic sales	2	-	-
3,071	2,807	9.4	Total crude oil sales	5,878	5,085	15.6
Gas						
42	34	23.5	Sales on international markets	76	43	76.7
116	123	(5.7)	Domestic sales	239	105	127.6
158	157	0.6	Total gas sales	315	148	112.8
Petroleum products						
2,653	2,373	11.8	Export	5,026	3,381	48.7
853	606	40.8	Sales on international markets	1,459	1,126	29.6
406	356	14.0	Export and sales in CIS	762	491	55.2
4,090	3,377	21.1	Domestic sales	7,467	4,697	59.0
8,002	6,712	19.2	Total petroleum products sales	14,714	9,695	51.8
245	189	29.6	Other sales	434	394	10.2
11,476	9,865	16.3	Total sales	21,341	15,322	39.3

Sales Volumes

2Q 2011	1Q 2011	Δ, %		1H 2011	2010	Δ, % 2011-2010
Crude oil						
(MMTonnes)						
3.27	3.47	(5.8)	Export and sales on international markets	6.74	8.19	(17.7)
0.75	0.67	11.9	Export to CIS	1.42	1.58	(10.1)
-	0.01	-	Domestic sales	0.01	-	-
4.02	4.15	(3.1)	Total crude oil sales	8.17	9.77	(16.4)
2.36	2.37	(0.4)	Gas domestic sales (bcm)	4.73	2.50	89.2
Petroleum products						
(MMTonnes)						
3.23	3.22	0.3	Export	6.45	5.93	8.8
0.62	0.52	19.2	Sales on international markets	1.14	1.18	(3.4)
0.53	0.49	8.2	Export and sales in CIS	1.02	0.82	24.4
6.08	5.43	12.0	Domestic sales	11.51	9.37	22.8
10.46	9.66	8.3	Total petroleum products sales	20.12	17.30	16.3

Average Realized Sales Prices

2Q 2011	1Q 2011	Δ, %		1H 2011	1H 2010	Δ, % 2011-2010
			Crude oil	(US\$ per tonne)		
837.92	730.55	14.7	Export and sales on international markets	782.64	547.25	43.0
440.00	404.48	8.8	Export to CIS	423.24	381.65	10.9
			Petroleum products	(US\$ per tonne)		
821.36	736.96	11.5	Export	779.22	570.15	36.7
1,375.81	1,165.38	18.1	Sales on international markets	1,279.82	954.24	34.1
766.04	726.53	5.4	Export and sales in CIS	747.06	598.78	24.8
672.70	621.92	8.2	Domestic sales	648.74	501.28	29.4

- Revenue grew by 16.3% Q-o-Q and 39.3% Y-o-Y mainly due to higher prices for crude oil and petroleum products as well as increased sales volumes

Crude Oil Export Sales and Sales on International Markets

- Revenues from crude oil exports and sales on international markets increased by 8.1% Q-o-Q due to higher prices (+14.7%), offset by a 5.8% decline in sales volumes
- Revenues from crude oil exports and sales on international markets increased by 17.7% Y-o-Y due to a 43.0% increase in prices, partly offset by a 17.7% decrease in sales volumes
- Crude oil export sales volumes declined due to a 9.3% Q-o-Q and a 12.0% Y-o-Y increase in refining throughput

Crude Oil Export Sales to CIS

- Revenues from crude oil exports to the CIS increased by 21.8% Q-o-Q due to higher sales prices (+8.8%) and a 11.9% increase in sales volumes
- Crude oil export sales to the CIS decreased by 0.3% Y-o-Y due to an 10.1% decrease in sales volumes, partially offset by a 10.9% increase in sales prices

Petroleum Products Exports

	1H 2011		1H 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	486	0.52	595	0.86	(18.3)	(39.5)
Diesel	2,447	2.68	1,558	2.42	57.1	10.7
Fuel oil	1,634	2.79	922	2.16	77.2	29.2
Jet fuel	70	0.07	74	0.10	-	-
Other	257	0.25	166	0.30	54.8	(15.3)
Total	5,026	6.45	3,381	5.93	48.7	8.8

	2Q 2011		1Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	60	0.06	44	0.05	36.4	20.0
Low octane gasoline	16	0.01	12	0.02	33.3	(50.0)
Naphtha	324	0.33	162	0.19	100.0	73.7
Diesel	1,180	1.23	1,267	1.45	(6.9)	(15.2)
Fuel oil	890	1.42	744	1.37	19.6	3.6
Jet fuel	31	0.03	39	0.04	-	-
Other	152	0.15	105	0.10	44.8	50.0
Total	2,653	3.23	2,373	3.22	11.8	0.3

- Revenues from export sales of petroleum products increased by 11.8% Q-o-Q due to an 11.5% increase in prices as well as 0.3% increase in sales volumes
- Revenues from export sales of petroleum products increased by 48.7% Y-o-Y due to a 36.7% increase in prices as well as 8.8% increase in sales volumes
- Export sales volumes of petroleum products increased due to a 9.3% Q-o-Q and a 12.0% Y-o-Y increase in refining throughput

Petroleum Products Sales on International Markets

- Revenues from export sales of petroleum products on international markets increased by 40.8% Q-o-Q due to higher sales volumes (19.2% increase), supported by 18.1% higher prices
- Revenues from export sales of petroleum products on international markets increased by 29.6% Y-o-Y due to 34.1% higher prices, partially offset by a 3.4% decrease in sale volumes

Petroleum Products Export and Sales in CIS

	1H 2011		1H 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	322	0.42	196	0.26	64.3	61.5
Low octane gasoline	50	0.06	33	0.04	51.5	50.0
Naphtha	46	0.06	2	0.01	2,200.0	500.0
Diesel	182	0.22	111	0.15	64.0	46.7
Jet fuel	48	0.06	69	0.14	(30.4)	(57.1)
Other	114	0.20	80	0.22	42.5	(9.1)
Total	762	1.02	491	0.82	55.2	24.4

	2Q 2011		1Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	142	0.18	180	0.24	(21.1)	(25.0)
Low octane gasoline	28	0.03	22	0.03	27.3	-
Naphtha	25	0.03	21	0.03	19.0	-
Diesel	107	0.12	75	0.10	42.7	20.0
Jet fuel	34	0.04	14	0.02	142.9	100.0
Other	70	0.13	44	0.07	59.1	-
Total	406	0.53	356	0.49	14.0	8.2

- Revenues from the export and sales of petroleum products in the CIS increased 14.0% Q-o-Q due to a 5.4% increase in prices and 8.2% increase in sales volumes
- Revenues from the export and sales of petroleum products in the CIS increased by 55.2% Y-o-Y due to a 24.8% increase in sales prices and a 24.4% increase in sales volumes
- Petroleum products export sales volumes in the CIS increased due to a 9.3% Q-o-Q and a 12.0% Y-o-Y increase in refining throughput

Domestic Sales of Petroleum Products

	1H 2011		1H 2010		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	2,871	3.56	1,712	2.38	67.7	49.6
Low octane gasoline	291	0.39	224	0.37	29.9	5.4
Diesel	2,176	3.06	1,383	2.77	57.3	10.5
Fuel oil	665	1.80	520	1.81	27.9	(0.6)
Jet fuel	765	1.18	460	0.98	66.3	20.4
Other	699	1.52	398	1.06	75.6	43.4
Total	7,467	11.51	4,697	9.37	59.0	22.8

	2Q 2011		1Q2011		Δ, %	
	US\$ million	MMtonnes	US\$ million	MMtonnes	US\$ million	MMtonnes
High octane gasoline	1,564	1.86	1,307	1.70	19.7	9.4
Low octane gasoline	160	0.21	131	0.18	22.1	16.7
Diesel	1,152	1.59	1,024	1.47	12.5	8.2
Fuel oil	330	0.81	335	0.99	(1.5)	(18.2)
Jet fuel	462	0.68	303	0.50	52.5	36.0
Other	422	0.93	277	0.59	52.3	57.6
Total	4,090	6.08	3,377	5.43	21.1	12.0

- Revenues from domestic petroleum products sales increased by 21.1% Q-o-Q due to a 8.2% increase in prices as well as 12.0% increase in sales volumes
- Revenues from domestic petroleum products sales increased by 59.0% Y-o-Y due to a 29.4% increase in prices as well as 22.8% increase in sales volumes
- Petroleum products domestic volumes increased due to a 9.3% Q-o-Q and a 12.0% 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 29.6% Q-o-Q and 10.2% Y-o-Y due to increases in prices and volumes

Cost of Purchased Oil, Gas and Petroleum Products

- The cost of purchased crude oil, gas and petroleum products increased by 37.6% Q-o-Q due to higher crude oil and petroleum products prices
- The cost of purchased crude oil, gas and petroleum products increased by 58.9% Y-o-Y due to higher crude oil and petroleum products prices and larger purchased volumes

Extraction and Refining Expenses

2Q 2011	1Q 2011	Δ, %	(in US\$ million)	1H 2011	1H 2010	Δ, % 2011-2010
394	347	13.5	Hydrocarbon extraction expenses	741	570	30.0
221	231	(4.3)	Refining expenses at own and equity affiliates refineries	452	402	12.4
615	578	6.4	Total	1,193	972	22.7

- 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 30.0% Y-o-Y due to a 5.1% appreciation in the ruble relative to the US dollar, 7.9% PPI inflation, and a 12.2% volume increase. Average hydrocarbon extraction costs per barrel of oil equivalent increased from US\$ 4.72 to US\$ 5.47, or 15.9%
- Extraction costs increased 13.5% Q-o-Q due to a 4.6% appreciation in the ruble relative to the US dollar, PPI inflation, and an increase in geological and engineering operations. Average hydrocarbon extraction costs per barrel of oil equivalent increased from US\$ 5.15 to US\$ 5.79, or 12.4%
- Refining expenses at our own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor costs and electricity costs, and other similar costs at our refinery subsidiaries
- Refining expenses increased 12.4% Y-o-Y due to a 12.0% increase in refining volumes, 5.1% appreciation in the ruble relative to the US dollar, and higher tariffs of natural monopolies. Average refining expenses per barrel remained essentially unchanged (US\$ 3.12 in 1H 2011 compared to US\$ 3.11 in 1H 2010)
- Refining expenses decreased 4.3% Q-o-Q due to lower fuel and electricity costs at the Omsk and Moscow refineries, partially offset by a 9.3% increase in refining volumes, 4.6% appreciation in the ruble relative to the US dollar and inflation. Average refining expenses per barrel decreased from US\$ 3.34 to US\$ 2.92, or 12.5%

Selling, General and Administrative Expenses

- Selling, general and administrative expenses include general business expenses, wages, salaries (except for wages and salaries at our production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, charity, allowances for doubtful accounts and other expenses
- Selling, general and administrative expenses increased 8.7% Y-o-Y due to appreciation of the ruble relative to the US dollar and 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 Q-o-Q and Y-o-Y reflect higher transportation tariffs and increased sales volumes as well as an appreciation of the ruble relative to the US dollar

Depreciation, Depletion and Amortization

- Depreciation, depletion and amortization expenses include depletion of oil and gas producing assets and depreciation of other fixed assets

- Depreciation, depletion and amortization expenses increased by 25.2% Y-o-Y and 19.1% Q-o-Q. The increases resulted from the growth in depreciable assets due to the Company's capital expenditure program

Export Duties and Taxes Other Than Income Tax

2Q	1Q			1H		
2011	2011	Δ, %	(in US\$ million)	2011	2010	Δ, %
						2011-2010
1,359	1,157	17.5	Export customs duties for crude oil	2,516	2,393	5.1
745	609	22.3	Export customs duties for petroleum products	1,354	970	39.6
2,104	1,766	19.1	Total export customs duties	3,870	3,363	15.1

- Export customs duties for crude oil increased 5.1% Y-o-Y and 17.5% Q-o-Q due to higher crude oil prices, partially offset by a decrease in export sales volumes and the cancellation of crude oil export duty for Belorussia
- Export customs duties for petroleum products increased 39.6% Y-o-Y and 22.3% Q-o-Q due to higher export customs duties for crude oil, partially offset by the ending of petroleum products export duties for Belorussia and Kirgizia

2Q	1Q			1H		
2011	2011	Δ, %	(in US\$ million)	2011	2010	Δ, %
						2011-2010
1,172	1,020	14.9	Mineral extraction taxes	2,192	1,449	51.3
777	599	29.7	Excise	1,376	819	68.0
54	52	3.8	Property tax	106	80	32.5
110	101	8.9	Other taxes	211	149	41.6
2,113	1,772	19.2	Total taxes other than income tax	3,885	2,497	55.6

- Mineral extraction taxes increased 51.3% Y-o-Y and 14.9% Q-o-Q due to higher crude prices and changes in production volumes. The average Urals price increased 42.0% Y-o-Y and 10.8% Q-o-Q
- Excise taxes increased 29.7% Q-o-Q and 68.0% Y-o-Y due to higher production volumes of refined products at the Company's refineries and higher excise tax rates
- The increase in excise tax rates is due to Russian federal law # 306-FZ (November 27, 2010) that increased excise rates on petroleum products effective January 1, 2011

Other financial items

- Changes in interest income reflect changes in cash and deposits in banks
- Interest expenses were lower Q-o-Q due to a lower total debt
- Interest expenses were lower Y-o-Y as a result of the Company's success in reducing its effective interest rate
- The Company's effective income tax rate was 22.7% for 1H 2011, consistent with statutory income tax rates

Liquidity and Capital Resources

Cash Flows

(in US\$ million)	1H		Δ %
	2011	2010	2011-2010
Net cash provided by operating activities	2,512	2,364	6.3
Net cash used in investing activities	(2,449)	(2,023)	21.1
Net cash used in financing activities	(91)	(8)	1,037.5

Net Cash Provided by Operating Activities

- Net cash provided by operating activities increased 6.3% to US\$ 2,512 million from US\$ 2,364 million in 1H 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 21.1% to US\$ 2,449 million from US\$ 2,023 million in 1H 2010 due to a higher level of M&A activities (acquisition of additional interest in Sibir Energy and NIS) and a 12.1% increase in capital expenditures

Net Cash Used in Financing Activities

- Net cash used in financing activities was US\$ 91million compared with net cash used of US\$ 8 million in 1H 2010. The change was mainly due to a decrease in net loan proceeds over repayments of US\$ 222 million and reduced dividend payments of US\$ 139 million

Capital Expenditure

2Q	1Q	Δ, %	(in US\$ million)	1H		Δ, %
2011	2011			2011	2010	2011-2010
631	495	27.5	Exploration and production	1,126	1,039	8.4
191	75	154.7	Refining	266	186	43.0
67	26	157.7	Marketing and distribution	93	97	(4.1)
4	16	(75.0)	Others	20	21	(4.8)
893	612	45.9	Total capital expenditures	1,505	1,343	12.1

Capital expenditures were 12.1% higher Y-o-Y. The increase was due to:

- 8.4% higher capital expenditures in exploration and production due to a 2.7% increase in production drilling, 5.1% appreciation in the value of ruble against the US dollar, and cost inflation, partially offset by lower investments in the Cenomanian gas project
- 43.0% higher capital expenditures in refining due to implementation of the modernization program at the Company's refineries to comply with Russian government regulations. Currently under the modernization program Omsk Refinery is 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. Once commissioned, these units will produce Class 4 and Class 5 motor fuels
- 4.1% lower capital expenditures in marketing and distribution due to completion of most of the retail rebranding campaign

Capital expenditures were 45.9% higher Q-o-Q. The increase was due to:

- 27.5% higher capital expenditures in exploration and production due to a 28.4% increase in production drilling, a 4.6% appreciation in the value of the ruble against the US dollar and cost inflation
- 154.7% higher refining capital expenditures due to implementation of the modernization program at the Company's refineries
- A 157.7% increase in marketing and distribution capital expenditures due to seasonal factors as well as 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)

Debt and Liquidity

	2011	2010
Short-term debt	1,164	1,694
Long-term debt	5,919	4,942
Cash and cash equivalents	(1,129)	(1,146)
Short-term deposits	(52)	(109)
Net debt	5,902	5,381
Short-term debt/ total debt, %	16.4	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 7.4% Q-o-Q from 2.41 to 2.59 years. The average interest rate remained stable Q-o-Q (3.93%)
- In April 2011 the Company reduced the interest rate on its \$1.5 billion syndicated loan from Libor +2.1% to Libor +1.6% and signed an unsecured 5 year club deal for \$600 mln
- The majority of the Company's debt is denominated or hedged in US dollars

Financial Appendix

EBITDA Reconciliation

2Q	1Q			1H		
2011	2011	Δ, %	(in US\$ million)	2011	2010	Δ, % 2011- 2010
2,478	2,467	.4	Adjusted EBITDA	4,945	3,136	57.7
(361)	(337)	7.1	The Company's share in EBITDA of equity affiliates	(698)	(436)	60.1
64	9	-	Gain on investment	73	-	-
87	41	112.2	Share in income of equity affiliates	128	130	(1.5)
(106)	166	(163.9)	Foreign exchange (loss) / gain, net	60	80	(25.0)
(22)	11	(300.0)	Other expense, net	(11)	(52)	(78.8)
(76)	(93)	(18.3)	Interest expense	(169)	(189)	(10.6)
26	32	(18.8)	Interest income	58	20	190.0
(505)	(424)	19.1	Depreciation, depletion and amortization	(929)	(742)	25.2
1,585	1,872	(15.3)	Income before income taxes	3,457	1,947	77.6

Financial Ratios

Profitability

	2011	1H 2010	Δ, p.p. 2011-2010
Adjusted EBITDA margin, %	23.17	20.47	2.7
Net income margin, %	12.20	9.80	2.4
Return on assets (ROA), %	13.15	10.33	2.8
Return on equity (ROE), %	20.85	16.56	4.3
Return on average capital employed (ROACE), %	16.83	15.98	0.8

Liquidity

	2011	1H 2010	Δ, % 2011-2010
Current ratio	1.65	1.13	0.5
Quick ratio	0.91	0.68	0.3
Cash ratio	0.26	0.23	0.2

Leverage

	2011	1H 2010	Δ, p.p. 2011-2010
Net debt/ Total Assets, %	17.13	18.31	(0.1)
Net debt/ Equity, %	27.15	29.04	(0.1)
Gearing, %	21.35	22.50	(0.1)
			Δ, %
Net debt/ Market Capitalization	26.64	30.56	(0.1)
Net debt/ EBITDA	0.76	1.00	(0.2)
Total debt/ EBITDA	0.91	1.21	(0.3)

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 2Q 2011, the average Brent crude oil price was US\$ 117.04 per barrel, an increase of 11.0% Q-o-Q and in 1H 2011 the average Brent crude oil price was US\$ 111.09 per barrel, an increase of 43.7% 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.

2Q 2011	1Q 2011	Δ, %		1H 2011	2010	Δ, % 2011-2010
International market				(US\$/ barrel)		
117.04	105.43	11.0	Brent	111.09	77.29	43.7
113.74	102.61	10.8	Urals Spot (average Med + NWE)	108.04	76.11	42.0
				(US\$/ tonne)		
1057.82	922.24	14.7	Premium gasoline (average NWE)	988.37	729.54	35.5
976.54	900.19	8.5	Naphtha (average Med. + NWE)	937.43	692.33	35.4
984.36	913.43	7.8	Diesel fuel (average NWE)	948.03	665.91	42.4
955.78	885.74	7.9	Gasoil 0.2% (average Med. + NWE)	919.90	652.58	41.0
617.64	550.90	12.1	Fuel oil 3.5% (average NWE)	583.45	432.35	34.9
Domestic market				(US\$ / tonne)		
875.79	784.10	11.7	High-octane gasoline	829.02	691.44	19.9
784.00	718.44	9.1	Low-octane gasoline	750.58	557.43	34.7
702.78	686.44	2.4	Diesel fuel	694.51	485.73	43.0
302.73	260.62	16.2	Fuel oil	281.24	245.01	14.8

Sources: Platts (international), Kortes (domestic)

Ruble vs. US Dollar Exchange Rate and Inflation

The management of the Company has determined the US Dollar is the functional and reporting currency of the Company as the majority of its revenues, debt and trade liabilities are either priced, incurred, payable, or otherwise measured in 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.

2Q 2011	1Q 2011		1H 2011	2010
1.2	3.8	Change in Consumer Price Index (CPI), %	5.0	4.4
0.9	6.9	Change in Producer Price Index (PPI), %	7.9	5.5
28.08	28.43	US\$/ RUB exchange rate as of the end of the period	28.08	31.20
27.99	29.27	Average RUB/US\$ exchange rate for the period	28.62	30.07
2.5	11.9	Real appreciation (depreciation) of the RUB against the US\$, %	14.0	1.2
4.6	4.9	Change of the average invert exchange rate (RUB / US\$), %	5.1	10.0

Taxation

2Q 2011	1Q 2011	Δ, %		1H 2011	2010	Δ, % 2011-2010
			Export customs duty	(US\$/ tonne)		
446.50	343.03	30.2	Crude oil	394.77	272.66	44.8
299.17	234.33	27.7	Light and middle distillates	266.75	196.03	36.1
208.50	151.37	37.7	Fuel oil	179.93	105.60	70.4
			Mineral extraction tax			
4,466	4,090	9.2	Crude oil (RUB/ tonne)	4,278	2,929	46.1
22	19	14.2	Crude oil (US\$/ barrel)	20	13	54.0
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 on crude oil exported to Belorussia. Since January 1, 2011 export of crude oil to Belorussia has been exempt from customs duty.

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 the US dollar 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} - 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

Starting from May 2011 a protective duty for gasoline exports amounting to 90% of crude oil export duty was introduced in order to stabilize the Russian domestic market. An equivalent measure was introduced for naphtha exports starting from June 2011. Export customs duty on gasoline exports amounted to US\$ 408.3 per tonne in May 2011, and US\$ 415.8 per tonne in June 2011; export customs duty on naphtha exports amounted to US\$ 415.8 per tonne in June 2011.

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: $C = -3.5 * N/V + 3.8$.

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

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

Russian federal law # 307-FZ (November 27, 2010) changed mineral extraction tax rates charged on crude oil and natural gas production:

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

Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are defined 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:

2Q 2011	1Q 2011	Δ, %		1H 2011	1H 2010	Δ, % 2011-2010
			Crude oil	(rubles per tonne)		
			Export			
1,409.34	1,405.55	0.3	Pipeline	1,407.44	1,239.91	13.5
			CIS			
1,194.38	1,156.82	3.2	Pipeline	1,175.60	928.02	26.7
			Transportation to Refineries			
442.34	457.37	(3.3)	ONPZ	449.85	407.89	10.3
1,123.33	1,013.27	10.9	MNPZ	1,068.30	908.96	17.5
1,108.31	966.56	14.7	YaNPZ	1,037.44	838.89	23.7
			Petroleum products			
			Export from ONPZ			
2,044.02	2,041.85	0.1	Gasoline	2,042.94	1,985.75	2.9
3,241.66	3,181.80	1.9	Fuel oil	3,211.73	3,063.04	4.9
2,593.67	2,466.55	5.2	Diesel fuel	2,530.11	2,517.70	0.5
			Export from MNPZ			
-	1,486.81	(100.0)	Gasoline	1,486.81	1,522.05	(2.3)
1,272.06	1,469.63	(13.4)	Fuel oil	1,370.84	1,252.60	9.4
1,492.91	1,461.04	2.2	Diesel fuel	1,476.98	1,304.18	13.2
			Export from YaNPZ			
1,507.19	1,525.74	(1.2)	Gasoline	1,516.47	1,756.52	(13.7)
1,371.19	1,371.19	(0.0)	Fuel oil	1,371.19	1,264.82	8.4
1,218.30	1,276.96	(4.6)	Diesel fuel	1,247.63	901.21	38.4

In the second quarter of 2011 the Company exported 48.9% of its total crude export volume through the port of Primorsk (48.8% in 1H 2011 compared to 48.4% in 1H 2010); 19.5% was exported through Druzhba (19.7% in 1H 2011 compared to 23.9% in 1H 2010), principally to Germany and the Czech Republic; 0% was exported through the port of Novorossiysk (2.1% in 1H 2011 compared to 5.1% in 1H 2010); 11.7% was exported through the port of Tuapse (10.8% in 1H 2011 compared to 10.5% in 1H 2010); and 19.9% was exported through the ESPO pipeline and the port of Kozmino (18.6% in 1H 2011 compared to 12.1% in 1H 2010). Exports of crude to CIS countries in the second quarter of 2011 were: 90.6% to Belarus (86.6% in 1H 2011 compared to 73.2% in 1H 2010) and 9.4% to Kazakhstan (13.4% in 1H 2011 compared to 26.8% in 1H 2010).

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