

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended June 30 and March 31, 2014 and six months
ended June 30, 2014 and 2013**

Definitions and Conversions

The following discussion is intended to assist you in understanding the Group financial position as of June 30, 2014 and results of operations for the three months ended June 30 and March 31, 2014 and six months ended June 30, 2014 and 2013 and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes there to, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

This report represents Group's financial condition and results of operations on a consolidated basis. In this report the terms "Gazprom Neft", "Company", "Group" represent JSC Gazprom Neft, its consolidated subsidiaries and proportionately consolidated entities (Joint operations as defined in IFRS 11) ("Tomskneft" and "Salym petroleum development" (SPD)). The term "Joint ventures" represents entities accounted by equity method.

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			6m		
2014	2014	Δ, %		2014	2013	Δ, %
Financial results (RUB million)						
429,338	385,170	11.5	Sales	814,508	715,034	13.9
94,350	84,033	12.3	Adjusted EBITDA ¹	178,383	150,567	18.5
5,911.7	5,291.8	11.7	RUB per toe of production	5,602.5	4,918.9	13.9
23.0	20.6	11.5	USD ² per boe of production	21.8	21.6	0.9
49,783	37,816	31.7	Profit attributable to Gazprom Neft	87,599	77,621	12.9
216,604	180,154	20.2	Net debt	216,604	133,785	61.9
Operational results						
117.43	116.75	0.6	Hydrocarbon production including our share in joint ventures (MMboe)	234.18	224.87	4.1
1.29	1.30	(0.8)	Daily hydrocarbon production (MMboepd)	1.29	1.24	4.0
94.08	92.64	1.6	Crude oil production including our share in joint ventures (MMbbl)	186.72	182.68	2.2
140.03	144.71	(3.2)	Gas production including our share in joint ventures (bcf)	284.74	253.14	12.5
11.15	10.84	2.9	Refining throughput at own refineries and joint ventures (MMtonnes)	21.99	21.19	3.8

¹ EBITDA is a non-IFRS measure. A reconciliation of adjusted EBITDA to profit before income taxes is provided in the appendix

² Translated to USD at the average exchange rate for the period

6m 2014 Highlights

- Reached agreement with NOVATEK for 50/50 ownership of SeverEnergiya. Following a series of transactions Gazprom Neft will increase its effective ownership to 50%
- Awarded exploration license for deep oil-saturated prospective horizons in the Achimovsk and Bazhenov formations of southern Priobskoye field
- Acquired 100% share of Gazpromneft Shelf, which holds 18.3% participation in the Joint Operation with Gazprom for the Prirazlomnoye field
- Started oil deliveries from Badra oil field (Iraq) to Central Gathering Point storage. Commercial oil deliveries to the pipeline will begin when storage is at capacity
- Began exploratory drilling at Dolginskoye field in the Arctic
- Opened second production facility for blending and packaging motor oils at Omsk lubricants plant
- Signed agreement with SIBUR and Titan Group to create joint venture around Omsk Polypropylene Plant (Poliom)
- Increased ownership of LLC Gazpromneft-Aero Sheremetyevo to 100%
- Shareholders at Annual General Meeting confirmed decision to pay dividends equivalent to 25 percent of consolidated profits of the Group under IFRS. The total amount of dividend for 2013 is RUB 44.47 billion or RUB 9.38 per ordinary share (including interim dividend paid for the 1st half 2013).

Results for 6m 2014 compared with 6m 2013

- Total hydrocarbon production including our share in joint ventures increased 4.1% to 234.18 MMboe due to continued production growth at Priobskoye and Orenburg region fields and increased effective ownership in SeverEnergiya
- Refining throughput increased 3.8% due to:
 - Operation of diesel hydrotreater at Moscow refinery which was on scheduled maintenance in 1Q 2013
 - Reduced burden on plant's capacity to load heavy petroleum products at Omsk by increasing bitumen production, expanding capacity to load bunker fuel and reducing mixing of light gasoil into fuel oil
 - Use of more gas condensate feedstock.
- Increased hydrocarbon production and petroleum products sales, including sales through premium channels and higher crude and petroleum product prices (nominated in Russian rubles) resulted in 13.9% increase in sales, 18.5% increase in adjusted EBITDA and 12.9% increase in Profit attributable to Gazprom Neft.

Results for 2Q 2014 compared with 1Q 2014

- Daily hydrocarbon production including our share in joint ventures decreased 0.8% to 1.29 MMboepd due to seasonal factors
- Refining throughput increased 2.9% in response to seasonal demand and higher domestic downstream margins compared to export alternatives
- Higher crude oil and petroleum products prices and higher sales volumes led to 11.5% increase in sales and 12.3% increase in adjusted EBITDA. Profit attributable to Gazprom Neft increased further by 31.7%, due to foreign exchange gains in 2Q 2014 vs. losses in 1Q 2014.

Operational Data and Analysis

Production Drilling

2Q 2014	1Q 2014	Δ, %		6m		Δ, %
				2014	2013	
Consolidated subsidiaries						
827	662	25.1	Production drilling ('000 meters)	1,489	1,387	7.3
222	175	26.9	New production wells	397	326	21.8
37.60	42.80	(12.1)	Average new well flow (tonnes per day)	36.30	37.01	(1.9)
Proportionately consolidated companies						
193	94	105.1	Production drilling ('000 meters)	287	419	(31.4)
46	33	39.4	New production wells	79	111	(28.8)
Joint ventures						
283	231	22.7	Production drilling ('000 meters)	514	469	9.6
42	50	(16.0)	New production wells	92	78	18.0

- Production drilling for consolidated subsidiaries increased Y-o-Y due to intensified drilling at Orenburg fields and increased drilling in Noyabrsk region of Yamalo-Nenets Autonomous Okrug
- Production drilling for proportionately consolidated companies decreased Y-o-Y due to:
 - Weather-related delay in preparing drilling pads at Tomskneft
 - Redirection of drilling equipment at SPD to pilot drilling in Bazhenov formation
- Production drilling by joint ventures increased Y-o-Y due to start of development at Slavneft's Ostrovnoye field.

Production

2Q 2014	1Q 2014	Δ, %		6m 2014	2013	Δ, %
	(MMtonnes)		Crude oil		(MMtonnes)	
3.73	3.71	0.5	Noyabrskneftegaz*	7.44	7.29	2.1
3.40	3.34	1.8	Khantos*	6.74	6.44	4.7
1.21	1.22	(0.8)	Tomskneft	2.43	2.50	(2.8)
0.83	0.83	-	SPD	1.66	1.73	(4.1)
0.57	0.55	3.6	Orenburg	1.12	0.67	67.2
0.30	0.31	(3.2)	NIS	0.61	0.62	(1.6)
0.36	0.35	2.9	Vostok*	0.71	0.50	42.0
0.21	0.21	-	Others*	0.42	0.79	(46.8)
10.61	10.52	0.9	Total production by subsidiaries and proportionately consolidated companies	21.13	20.54	2.9
2.05	1.99	3.0	Share in Slavneft	4.04	4.23	(4.5)
0.11	0.08	37.5	Share in SeverEnergiya (SE)	0.19	0.08	137.5
2.16	2.07	4.4	Share in production of joint ventures	4.23	4.31	(1.9)
			Total crude oil production			
12.77	12.59	1.4	MMtonnes	25.36	24.85	2.1
94.08	92.64	1.4	MMbbl	186.72	182.68	2.1
	(bcm)		Gas**		(bcm)	
2.27	2.53	(10.3)	Noyabrskneftegaz*	4.80	4.74	1.3
0.09	0.12	(25.0)	Khantos*	0.21	0.06	250.0
0.22	0.21	4.8	Tomskneft	0.43	0.43	-
0.04	0.03	33.3	SPD	0.07	0.07	-
0.45	0.45	-	Orenburg	0.90	0.72	25.0
0.14	0.14	-	NIS	0.28	0.27	3.7
0.02	0.02	-	Vostok	0.04	0.03	33.3
0.01	0.01	-	Others*	0.02	0.06	(66.7)
3.24	3.51	(7.7)	Total production by subsidiaries and proportionately consolidated companies	6.75	6.38	5.8
0.11	0.10	10.0	Share in Slavneft	0.21	0.21	-
0.61	0.49	24.5	Share in SeverEnergiya (SE)	1.10	0.58	89.7
0.72	0.59	22.0	Share in production of joint ventures	1.31	0.79	65.8
3.96	4.10	(3.4)	Total gas production	8.06	7.17	12.4
	(MMtoe)		Hydrocarbons		(MMtoe)	
13.22	13.33	(0.8)	Total production by subsidiaries and proportionately consolidated companies	26.55	25.67	3.4
2.74	2.55	7.5	Share in production of joint ventures	5.29	4.94	7.1
15.96	15.88	0.5	MMtoe	31.84	30.61	4.0
117.43	116.75	0.6	MMboe	234.18	224.87	4.1
1.29	1.30	(0.8)	Daily hydrocarbon production (MMboepd)	1.29	1.24	4.0

* In 2Q 2013 several field licenses were transferred from JSC Gazprom Neft ("Others" in table above) to other Group companies:

Romanovskoye and Vorgenskoye to Noyabrskneftegas, Krapivinskoye to Vostok and Yuzhno-Kinyaminskoye to Khantos

** Production volume includes marketable gas and gas utilized in Company power plants

- Daily hydrocarbon production increased 4.0% Y-o-Y
- Group oil production increased 2.1% Y-o-Y driven by continued growth at Priobskoye and Orenburg region fields as a result of active new well drilling and completion program
- Group oil production increased 1.4% Q-o-Q primarily due to longer 2Q compared to 1Q
- Group gas production increased 12.4% Y-o-Y, primarily as a result of gas utilization program, and increased effective ownership of SeverEnergiya
- Group gas production decreased Q-o-Q due to seasonal factors.

Crude Oil Purchases

2Q 2014	1Q 2014	Δ, %	(MMtonnes)	6m		Δ, %
				2014	2013	
1.12	0.85	31.8	Crude oil purchases in Russia *	1.97	2.66	(25.9)
0.51	0.56	(8.9)	Crude oil purchases internationally	1.07	0.74	44.6
1.63	1.41	15.6	Total crude purchased	3.04	3.40	(10.6)

* Crude oil purchases in Russia exclude purchases from the Group's joint ventures Slavneft and SeverEnergiya

- Oil purchases in Russia declined 25.9% Y-o-Y due to termination of oil-supply contract with TNK-BP
- Oil purchases in Russia increased 0.27 MMtonnes (31.8%) Q-o-Q due to increased throughput at Moscow refinery
- Oil purchases on international markets increased 44.6% Y-o-Y due to higher trading activity.

Refining

2Q 2014	1Q 2014	Δ, %	(MMtonnes)	6m		Δ, %
				2014	2013	
5.24	5.20	0.8	Omsk	10.44	10.34	1.0
3.15	2.87	9.8	Moscow	6.02	5.37	12.1
0.69	0.62	11.3	Pancevo	1.31	1.26	4.0
9.08	8.69	4.5	Total throughput at refineries owned by subsidiaries	17.77	16.97	4.7
1.79	1.83	(2.2)	Share in Yaroslavl	3.62	3.61	0.3
0.28	0.32	(12.5)	Share in Mozyr	0.60	0.61	(1.6)
11.15	10.84	2.9	Total refining throughput	21.99	21.19	3.8

Production of petroleum products

2Q 2014	1Q 2014	Δ, %	(MMtonnes)	6m		Δ, %
				2014	2013	
2.19	2.28	(4.0)	Gasoline	4.47	4.46	0.2
-	-	-	Class 2 and below	-	0.05	-
0.03	0.02	50.0	Class 3	0.05	0.30	(83.3)
0.22	0.16	37.5	Class 4	0.38	1.43	(73.4)
1.94	2.10	(7.6)	Class 5	4.04	2.68	50.8
0.39	0.28	39.3	Naphtha	0.67	0.77	(13.0)
3.14	3.11	1.0	Diesel	6.25	5.97	4.7
0.03	0.01	200.0	Class 2 and below	0.04	0.16	(75.0)
-	0.14	-	Class 3	0.14	1.84	(92.4)
0.13	0.11	18.2	Class 4	0.24	1.08	(77.8)
2.98	2.85	4.6	Class 5	5.83	2.89	101.7
1.86	2.20	(15.5)	Fuel oil	4.06	3.93	3.3
0.86	0.61	41.0	Jet fuel	1.47	1.34	9.7
0.94	0.90	4.4	Bunker fuel	1.84	1.63	12.9
1.38	0.90	53.3	Other	2.28	2.03	12.3
10.76	10.28	4.7	Total production	21.04	20.13	4.5

- Refining throughput:
 - Increased 3.8% Y-o-Y due to:
 - Operation of diesel hydrotreater at Moscow which was on scheduled maintenance in 1Q 2013
 - Reduced burden on plant's capacity to load heavy petroleum products at Omsk by increasing bitumen production, expanding capacity to load bunker fuel and reducing mixing of light gasoil into fuel oil
 - Use of more gas condensate feedstock.
 - Increased 2.9% Q-o-Q in response to seasonal demand and higher domestic downstream margins compared to export alternatives.
- As a result of the Company's modernization program:
 - Class 5 gasoline production increased due to completion of FCC gasoline hydrotreater and light naphtha isomerization units at Moscow in May 2013 and July 2013, respectively

- Class 5 diesel production increased due to reconstruction of diesel hydrotreating unit at Moscow, completion of new diesel hydrotreating unit at Yaroslavl in February 2013 and completion of major maintenance of diesel hydrotreating unit at Omsk in April 2013
- Gasoline production decreased 4.0% Q-o-Q due to scheduled 24 day maintenance of light naphtha isomerization unit at Omsk in April 2014 and reconstruction of gasoline blending units at Yaroslavl beginning March 2014
- Fuel oil production increased 3.3% Y-o-Y due to increased throughput and scheduled maintenance at Omsk catalytic cracking unit in February 2014 and reconstruction of gasoline blending units at Yaroslavl
- Bunker fuel production increased in response to higher sales in Black Sea and Far East ports.

Petroleum Products Purchases on International Markets

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	1,603	0.05	-	-	-	-
Diesel	8,981	0.27	6,494	0.20	38.3	35.0
Fuel oil	9,112	0.45	8,154	0.42	11.8	7.1
Jet fuel	2,056	0.06	3,449	0.10	(40.4)	(40.0)
Bunker fuel	124	0.01	-	-	-	-
Other	484	0.01	-	-	-	-
Total	22,360	0.85	18,097	0.72	23.6	18.1

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	1,603	0.05	2,658	0.10	(39.7)	(50.0)
Diesel	15,475	0.47	15,104	0.52	2.5	(9.6)
Fuel oil	17,266	0.87	6,845	0.38	152.2	129.0
Jet fuel	5,505	0.16	3,300	0.10	66.8	60.0
Bunker fuel	124	0.01	-	-	-	-
Other	484	0.01	-	-	-	-
Total	40,457	1.57	27,907	1.10	45.0	42.7

- Purchases on international markets increased due to higher trading activity.

Petroleum Products Purchases in CIS

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	552	0.02	846	0.04	(34.8)	(50.0)
Low octane gasoline	-	-	89	0.01	-	-
Diesel	243	0.01	424	0.02	(42.7)	(50.0)
Fuel oil	-	-	165	0.01	-	-
Other	-	-	151	0.01	-	-
Total	795	0.03	1,675	0.09	(52.5)	(66.7)

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,398	0.06	-	-	-	-
Low octane gasoline	89	0.01	562	0.02	(84.2)	(50.0)
Diesel	667	0.03	846	0.04	(21.2)	(25.0)
Fuel oil	165	0.01	-	-	-	-
Other	151	0.01	268	0.02	(43.7)	(50.0)
Total	2,470	0.12	1,676	0.08	47.4	50.0

Domestic Purchases of Petroleum Products

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,900	0.29	7,140	0.26	24.7	11.5
Diesel	2,505	0.08	3,965	0.13	(36.8)	(38.5)
Fuel oil	306	0.02	131	0.01	133.6	100.0
Jet fuel	4,016	0.16	4,102	0.15	(2.1)	6.7
Other	191	-	506	0.03	(62.3)	-
Total	15,918	0.55	15,844	0.58	0.5	(5.2)

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	16,040	0.55	10,396	0.40	54.3	37.5
Diesel	6,470	0.21	4,994	0.17	29.6	23.5
Fuel oil	437	0.03	402	0.04	8.7	(25.0)
Jet fuel	8,118	0.31	4,790	0.20	69.5	55.0
Bunker fuel	-	-	1,491	0.08	-	-
Other	697	0.03	1,247	0.04	(44.1)	(25.0)
Total	31,762	1.13	23,320	0.93	36.2	21.5

- Domestic purchases increased Y-o-Y driven by expanding sales network.

Products Marketing

2Q 2014	1Q 2014	Δ, %		6m 2014	6m 2013	Δ, %
	(units)		Active retail stations		(units)	
1,086	1,097	(1.0)	In Russia	1,086	1,036	4.8
232	232	-	In CIS	232	214	8.4
416	409	1.6	In Eastern Europe	416	405	2.7
1,734	1,738	(0.3)	Total retail stations (as at the end of the period)	1,734	1,655	4.8
			Average daily sales per retail site in Russia (tonnes per day)			
19.0	18.4	3.1		18.7	18.0	3.9
	(MMtonnes)		Sales volume through premium channels		(MMtonnes)	
4.68	4.10	14.1	Gasoline and Diesel	8.78	8.35	5.1
0.79	0.60	31.7	Jet	1.39	1.08	28.7
1.08	0.86	25.6	Bunkering	1.94	1.47	32.0
0.05	0.04	25.0	Lubricants	0.09	0.08	12.5
6.60	5.60	17.9	Total sales volume through premium channels	12.20	10.98	11.1

- Total number of active retail stations increased 4.8% Y-o-Y
- Average daily sales per retail site in Russia increased 3.9% Y-o-Y due to results of rebranding campaign, new promotions and customer loyalty program
- Sales volume through premium channels increased 11.1% Y-o-Y, as:
 - Gasoline and diesel sales increased 5.1% with retail sales growing and stable wholesales
 - Jet fuel sales increased due to expanded sales network within and outside Russia, including Russian military airports and acquisition of remaining 50% of Gazpromneft-Aero Sheremetyevo in March 2014
 - Bunkering sales increased due to growing Far East and Black Sea markets and increased market penetration in Baltic region
- Sales volume through premium channels increased 17.9% Q-o-Q primarily due to higher seasonal demand.

Results of Operations

2Q 2014	1Q 2014	Δ, %	(RUB million)	6m		Δ, %
				2014	2013	
Revenue						
429,338	385,170	11.5	Sales	814,508	715,034	13.9
(60,920)	(65,160)	(6.5)	Less export duties and excise tax*	(126,080)	(124,319)	1.4
368,418	320,010	15.1	Total revenue	688,428	590,715	16.5
Costs and other deductions						
(104,825)	(75,762)	38.4	Purchases of oil, gas and petroleum products	(180,587)	(148,305)	21.8
(43,652)	(37,518)	16.3	Production and manufacturing expenses	(81,170)	(66,402)	22.2
(20,660)	(17,190)	20.2	Selling, general and administrative expenses	(37,850)	(31,242)	21.2
(27,035)	(28,730)	(5.9)	Transportation expenses	(55,765)	(55,478)	0.5
(21,120)	(20,095)	5.1	Depreciation, depletion and amortization	(41,215)	(37,127)	11.0
(88,779)	(85,280)	4.1	Taxes other than income tax	(174,059)	(150,928)	15.3
(528)	(90)	486.7	Exploration expenses	(618)	(835)	(26.0)
(306,599)	(264,665)	15.8	Total operating expenses	(571,264)	(490,317)	16.5
(1,812)	307	-	Other (loss) / gain, net	(1,505)	(449)	235.20
60,007	55,652	7.8	Operating profit	115,659	99,949	15.7
4,196	296	1,317.6	Share of profit of associates and joint ventures	4,492	2,639	70.2
2,189	(7,500)	-	Net foreign exchange gain / (loss)	(5,311)	(2,500)	112.4
1,065	1,570	(32.2)	Finance income	2,635	2,702	(2.5)
(2,946)	(2,896)	1.7	Finance expense	(5,842)	(5,910)	(1.2)
4,504	(8,530)	-	Total other income / (expense)	(4,026)	(3,069)	31.2
64,511	47,122	36.9	Profit before income tax	111,633	96,880	15.2
(10,734)	(8,024)	33.8	Current income tax expense	(18,758)	(14,618)	28.3
(2,561)	186	-	Deferred income tax (expense) / benefit	(2,375)	(1,785)	33.1
(13,295)	(7,838)	69.6	Total income tax expense	(21,133)	(16,403)	28.8
51,216	39,284	30.4	Profit for the period	90,500	80,477	12.5
(1,433)	(1,468)	(2.4)	Less: Profit attributable to non-controlling interest	(2,901)	(2,856)	1.6
49,783	37,816	31.6	Profit attributable to Gazprom Neft	87,599	77,621	12.9

* Includes excise tax calculated based on petroleum products volumes sold by the Company's subsidiary in Serbia

Revenues

2Q	1Q			6m		
2014	2014	Δ, %	(RUB million)	2014	2013	Δ, %
Crude oil						
30,085	27,578	9.1	Export	57,663	51,384	12.2
53,253	52,106	2.2	Export sales	105,359	103,598	1.7
(23,168)	(24,528)	(5.5)	Less related export duties	(47,696)	(52,214)	(8.7)
545	518	5.2	International markets	1,063	631	68.5
4,165	4,166	-	Export to CIS	8,331	22,059	(62.2)
10,375	8,332	24.5	Domestic	18,707	5,544	237.4
45,170	40,594	11.3	Total crude oil revenue	85,764	79,618	7.7
Gas						
174	692	(74.9)	International markets	866	900	(3.8)
5,648	6,379	(11.5)	Domestic	12,027	10,363	16.1
5,822	7,071	(17.7)	Total gas revenue	12,893	11,263	14.5
Petroleum products						
79,044	75,097	5.3	Export	154,141	137,698	11.9
107,030	107,756	(0.7)	Export sales	214,786	194,575	10.4
(27,986)	(32,659)	(14.3)	Less related export duties	(60,645)	(56,877)	6.6
25,727	21,499	19.7	International markets	47,226	38,678	22.1
35,426	29,141	21.6	Sales on international markets	64,567	52,482	23.0
(9,699)	(7,642)	26.9	Excise*	(17,341)	(13,804)	25.6
14,446	13,353	8.2	CIS	27,799	24,666	12.7
14,513	13,684	6.1	Export sales and sales in CIS	28,197	26,090	8.1
(67)	(331)	(79.8)	Less related export duties	(398)	(1,424)	(72.1)
184,834	154,582	19.6	Domestic	339,416	282,191	20.3
304,051	264,531	14.9	Total petroleum products revenue	568,582	483,233	17.7
13,375	7,814	71.2	Other revenue	21,189	16,601	27.6
368,418	320,010	15.1	Total revenue	688,428	590,715	16.5

* Includes excise tax calculated based on petroleum products volumes sold by the Company's subsidiary in Serbia

Sales Volumes

2Q	1Q			6m		
2014	2014	Δ, %		2014	2013	Δ, %
(MMtonnes)			(MMtonnes)			
1.92	1.88	2.1	Crude oil	3.80	4.29	(11.4)
0.02	0.02	-	Export	0.04	0.03	33.3
0.29	0.27	7.4	Sales on international markets	0.56	1.96	(71.4)
0.85	0.71	19.7	Export to CIS	1.56	0.60	160.0
3.08	2.88	6.9	Domestic sales	5.96	6.88	(13.4)
(bcm)			(bcm)			
0.02	0.06	(66.7)	Gas	0.08	0.09	(11.1)
2.99	3.21	(6.9)	International markets	6.20	5.33	16.3
3.01	3.27	(8.0)	Domestic sales	6.28	5.42	15.9
(MMtonnes)			(MMtonnes)			
4.11	4.19	(1.9)	Petroleum products	8.30	8.20	1.2
0.77	0.62	24.2	Export	1.39	1.35	3.0
0.54	0.48	12.5	Sales on international markets	1.02	1.03	(1.0)
7.20	6.16	16.9	Export and sales in CIS	13.36	11.83	12.9
12.62	11.45	10.2	Domestic sales	24.07	22.41	7.4
Total petroleum products sales						

Average Realized Sales Prices

2Q 2014	1Q 2014	Δ, %		6m 2014	2013	Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
27,736	27,716	0.1	Export	27,726	24,149	14.8
14,362	15,430	(6.9)	Export and sales in CIS	14,877	11,255	32.2
12,206	11,735	4.0	Domestic sales	11,992	9,240	29.8
(RUB per tonne)			Petroleum products	(RUB per tonne)		
26,041	25,717	1.3	Export	25,878	23,729	9.1
46,008	47,002	(2.1)	Sales on international markets	46,451	38,876	19.5
26,876	28,508	(5.7)	Export and sales in CIS	27,644	25,330	9.1
25,671	25,094	2.3	Domestic sales	25,405	23,854	6.5

Crude Oil Sales

- Crude export volumes declined 11.4% Y-o-Y due to higher domestic throughput
- Crude export volumes to CIS declined 71.4% Y-o-Y due to reduced exports to Kazakhstan
- Crude export volumes to CIS increased 7.4% Q-o-Q due to higher sales to Mozyr refinery
- Domestic crude sales volumes more than doubled Y-o-Y and increased 19.7% Q-o-Q primarily due to higher production in Orenburg and more efficient transactions based on purchased crude.

Petroleum Products Exports

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	923	0.03	1,641	0.05	(43.8)	(40.0)
Low octane gasoline	463	0.01	557	0.02	(16.9)	(50.0)
Naphtha	10,457	0.32	7,342	0.23	42.4	39.1
Diesel	42,040	1.30	42,102	1.29	(0.2)	0.8
Fuel oil	38,005	1.88	43,067	2.17	(11.8)	(13.4)
Jet fuel	5,700	0.17	5,358	0.16	6.4	6.3
Bunker fuel	5,936	0.24	3,905	0.13	52.0	84.6
Other	3,506	0.16	3,784	0.14	(7.4)	14.3
Total	107,030	4.11	107,756	4.19	(0.7)	(1.9)

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	2,564	0.08	4,392	0.15	(41.6)	(46.7)
Low octane gasoline	1,020	0.03	3,508	0.13	(70.9)	(76.9)
Naphtha	17,799	0.55	18,063	0.66	(1.5)	(16.7)
Diesel	84,142	2.59	80,510	2.81	4.5	(7.8)
Fuel oil	81,072	4.05	68,080	3.69	19.1	9.8
Jet fuel	11,058	0.33	4,093	0.13	170.2	153.9
Bunker fuel	9,841	0.37	9,512	0.39	3.5	(5.1)
Other	7,290	0.30	6,417	0.24	13.6	25.0
Total	214,786	8.30	194,575	8.20	10.4	1.2

- Jet fuel export sales volumes more than doubled Y-o-Y due to expanding presence in foreign airports.

Petroleum Products Export and Sales in CIS

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	5,768	0.19	6,314	0.22	(8.7)	(13.6)
Low octane gasoline	795	0.03	744	0.03	6.9	-
Diesel	5,328	0.19	4,225	0.14	26.1	35.7
Fuel oil	123	0.02	172	0.01	(28.5)	100.0
Jet fuel	708	0.03	1,214	0.03	(41.7)	-
Other	1,791	0.08	1,015	0.05	76.5	60.0
Total	14,513	0.54	13,684	0.48	6.1	12.5

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	12,082	0.41	9,575	0.34	26.2	20.6
Low octane gasoline	1,539	0.06	2,081	0.09	(26.1)	(33.3)
Diesel	9,553	0.33	7,207	0.27	32.6	22.2
Fuel oil	295	0.03	1,208	0.11	(75.6)	(72.7)
Jet fuel	1,922	0.06	3,579	0.09	(46.3)	(33.3)
Other	2,806	0.13	2,440	0.13	15.0	-
Total	28,197	1.02	26,090	1.03	8.1	(1.0)

Domestic Sales of Petroleum Products

	2Q 2014		1Q 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	72,018	2.19	62,195	2.04	15.8	7.4
Low octane gasoline	871	0.03	868	0.03	0.4	-
Diesel	55,292	1.88	49,169	1.64	12.5	14.6
Fuel oil	3,506	0.34	4,597	0.46	(23.7)	(26.1)
Jet fuel	22,572	0.87	15,880	0.63	42.1	38.1
Bunker fuel	16,152	0.89	11,952	0.70	35.1	27.1
Other	14,423	1.00	9,921	0.66	45.4	51.5
Total	184,834	7.20	154,582	6.16	19.6	16.9

	6m 2014		6m 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	134,213	4.23	109,753	3.78	22.3	11.9
Low octane gasoline	1,739	0.06	2,639	0.10	(34.1)	(40.0)
Diesel	104,461	3.52	90,219	3.27	15.8	7.7
Fuel oil	8,103	0.80	7,729	0.72	4.8	11.1
Jet fuel	38,452	1.50	32,585	1.35	18.0	11.1
Bunker fuel	28,104	1.59	18,956	1.07	48.3	48.6
Other	24,344	1.66	20,310	1.54	19.9	7.8
Total	339,416	13.36	282,191	11.83	20.3	12.9

- Domestic sales volumes of high octane gasoline and diesel increased Y-o-Y driven by expanding sales network and growing average daily sales per retail site
- Domestic jet fuel sales volumes increased 11.1% Y-o-Y due to expanded sales network, including Russian military airports, and acquisition of remaining 50% of Gazpromneft-Aero Sheremetyevo
- Domestic bunker fuel sales volumes increased 48.6% Y-o-Y driven by expanding sales network in Far East and Black Sea regions.

Other Revenue

Other revenue primarily includes revenue from transport, construction, and other services.

- Other revenue increased 27.6% Y-o-Y primarily due to volume increases.

Purchases of Oil, Gas and Petroleum Products

- Purchases of oil, gas and petroleum products increased 21.8% Y-o-Y and 38.4% Q-o-Q mostly due to higher volumes of petroleum products purchased.

Production and Manufacturing Expenses

2Q 2014	1Q 2014	Δ, %	(RUB million)	6m		
2014	2014	Δ, %		2014	2013	Δ, %
20,155	17,820	13.1	Upstream expenses	37,975	34,065	11.5
16,131	14,435	11.8	Consolidated subsidiaries	30,566	27,299	12.0
1,471	1,302	13.0	<i>RUB per toe</i>	1,386	1,298	6.7
5.73	5.08	12.8	<i>USD¹ per boe</i>	5.40	5.71	(5.4)
4,023	3,386	18.8	Proportionately consolidated companies	7,409	6,766	9.5
1,788	1,511	18.3	<i>RUB per toe</i>	1,650	1,458	13.2
6.97	5.90	18.2	<i>USD¹ per boe</i>	6.44	6.41	0.3
10,654	10,656	-	Downstream expenses	21,310	17,218	23.8
6,028	6,073	(0.7)	Refining expenses at own refineries	12,101	9,416	28.5
664	699	(5.0)	<i>RUB per tonne</i>	681	555	22.7
2.59	2.73	(5.1)	<i>USD¹ per bbl</i>	2.66	2.44	8.8
3,276	3,386	(3.2)	Refining expenses at refineries of joint ventures	6,662	5,482	21.5
1,583	1,575	0.5	<i>RUB per tonne</i>	1,579	1,299	21.5
6.17	6.15	0.4	<i>USD¹ per bbl</i>	6.16	5.71	7.8
1,350	1,197	12.8	Lubricants manufacturing expenses	2,547	2,320	9.8
6,969	6,910	0.9	Transportation expenses to refineries	13,879	10,364	33.9
5,874	2,132	175.5	Other operating expenses	8,006	4,755	68.4
43,652	37,518	16.3	Total	81,170	66,402	22.2

¹ Translated to USD at average exchange rate for the period

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of extraction equipment, labor costs, fuel and electricity costs, activities to enhance oil recovery, and other similar costs at our Upstream subsidiaries
- Upstream expenses per toe at consolidated subsidiaries increased 6.7% Y-o-Y due to:
 - Higher costs of operating Novoport field in pilot mode, including infrastructure and temporary crude transportation routes
 - Higher tariffs of natural monopolies and prices for oil field services
 - Rising average watercut at mature fields
- Refining expenses at own refineries include expenditures for raw materials and supplies, maintenance and repairs of productive equipment, labor and electricity costs, and other similar costs
- Refining expenses at own refineries increased 28.5% Y-o-Y primarily due to higher throughput, increased expenditures for materials related to higher product quality, startup of new processing units at Omsk and Moscow refineries, and maintenance at own refineries
- Refining expenses at refineries of joint ventures increased 21.5% Y-o-Y due to maintenance
- Transportation expenses to refineries increased 33.9% Y-o-Y due to termination of oil swap contract with Rosneft.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include general business expenses, wages, salaries (except wages and salaries at our production and refining subsidiaries), insurance, banking commissions, legal fees, consulting and audit services, allowances for doubtful accounts, and other expenses.

- Selling, general and administrative expenses increased 21.8% Y-o-Y, driven by growth in premium sales and business expansion.

Transportation Expenses

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

- Transportation expenses remained stable.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses include depreciation of oil and gas properties, refining and other assets

- Depreciation, depletion and amortization expenses increased 11.0% Y-o-Y in line with increase in depreciable assets driven by capital expenditure.

Taxes Other than Income Tax

2Q	1Q			6m		
2014	2014	Δ, %	(RUB million)	2014	2013	Δ, %
61,763	60,482	2.1	Mineral extraction taxes	122,245	99,970	22.3
21,299	18,948	12.4	Excise	40,247	38,104	5.6
2,306	2,281	1.1	Property tax	4,587	3,725	23.1
3,411	3,569	(4.4)	Other taxes	6,980	9,129	(23.5)
88,779	85,280	4.1	Total taxes other than income tax	174,059	150,928	15.3

- Mineral extraction tax (MET) expenses increased 22.3% Y-o-Y in line with increased crude oil production by subsidiaries and proportionately consolidated companies and a higher MET rate. While average Urals prices increased by only 0.6% Y-o-Y, average MET rate for crude oil increased 19.6% as base MET rate rose from 470 RUB/tonne to 493 RUB/tonne and average RUB/USD exchange rate increased 12.8%
- Excise tax expenses increased 5.6% Y-o-Y due to excise rates increases from 1 July 2013 and 1 January 2014 which were partially offset by increasing shares of Class 5 gasoline and diesel, taxed at lower rates.

Share of Profit of Equity Accounted Investments

2Q	1Q			6m		
2014	2014	Δ, %	(RUB million)	2014	2013	Δ, %
4,761	933	410.3	Slavneft	5,694	2,575	121.1
(846)	(1,159)	(27.0)	SeverEnergiya	(2,005)	(161)	1,145.3
281	522	(46.2)	Other companies	803	225	256.9
4,196	296	1,317.6	Share of profit of associates and joint ventures	4,492	2,639	70.2

- Increase in share of Slavneft profit Y-o-Y was driven primarily by higher domestic crude prices
- Increase in share of Slavneft profit Q-o-Q was driven primarily by net foreign exchange gains vs. losses in 1Q 2014, resulting from revaluing debt portfolio primarily denominated in USD.

Other Financial Items

- Foreign exchange gains/losses were mainly driven by a revaluation of that part of the Group's debt portfolio that is denominated in foreign currencies

Liquidity and Capital Resources

Cash Flows

(RUB million)	6m		
	2014	2013	Δ %
Net cash provided by operating activities	145,559	125,885	15.6
Net cash used in investing activities	(148,595)	(100,551)	47.8
Net cash provided by / (used in) financing activities	48,794	(9,606)	-
Increase in cash and cash equivalents	45,758	15,728	190.9

Net Cash Provided by Operating Activities

(RUB million)	6m		
	2014	2013	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	156,858	143,111	9.6
Net changes in working capital	10,423	1,937	438.1
Income tax paid	(15,432)	(14,179)	8.8
Interest paid	(7,846)	(5,962)	31.6
Dividends received	1,556	978	59.1
Net cash provided by operating activities	145,559	125,885	15.6

- Net cash provided by operating activities increased 15.6% Y-o-Y due to higher EBITDA.

Net Cash Used in Investing Activities

(RUB million)	6m		
	2014	2013	Δ %
Capital expenditures	(107,585)	(90,497)	18.9
Acquisition of subsidiaries and shares in equity affiliates	(52,198)	(2,566)	1,934.2
Net changes in deposits	14,977	(5,891)	-
Other transactions	(3,789)	(1,597)	137.3
Net cash used in investing activities	(148,595)	(100,551)	47.8

- Net cash used in investing activities increased 47.8% Y-o-Y due to:
 - Higher capital expenditures
 - Increase in SeverEnegia stake
 - Advance payment to acquire share in Gazprom Resource Northgaz.

Net Cash Used in Financing Activities

(RUB million)	6m		
	2014	2013	Δ %
Net changes in debt	57,969	(8,356)	-
Payment of dividends to shareholders	(6,826)	-	-
Acquisition of non-controlling interest in subsidiaries	(485)	(378)	28.3
Other transactions	(1,864)	(872)	113.8
Net cash provided by / (used in) financing activities	48,794	(9,606)	-

- During 6m 2014 Group debt increased by 57,969 RUB million primarily due to utilization of 2,150 USD million club term facility signed in November 2013. The Group also repaid in full its pre-export finance facility, on which 731 USD million was outstanding at 31 December 2013.

Capital Expenditure

(RUB million)	6m		Δ, %
	2014	2013	
Exploration and production	79,403	57,932	37.1
Consolidated subsidiaries	72,825	52,095	39.8
Proportionately consolidated companies	6,578	5,837	12.7
Refining	10,274	12,951	(20.7)
Marketing and distribution	3,380	5,898	(42.7)
Others	3,128	1,799	73.9
Subtotal capital expenditures	96,185	78,580	22.4
Change in advances issued and material used in capital expenditures	11,400	11,917	(4.3)
Total capital expenditures	107,585	90,497	18.9

- Capital expenditure for Exploration and Production increased 37.1% Y-o-Y mostly due to:
 - Development of Noyabrsk and Orenburg region fields
 - Increased production drilling at Priobskoye field,
 - Construction of major infrastructure for Novoport field (arctic terminal, oil collection system, pipelines)
 - Capital expenditure related to recent acquisitions: Prirazlomnoye (2Q 2014) and Dolginskoye fields (3Q 2013).

Debt and Liquidity

(RUB million)	June 30, 2014	December 31, 2013
Short-term loans and borrowings	56,331	52,413
Long-term loans and borrowings	313,210	261,455
Cash and cash equivalents	(130,269)	(91,077)
Short-term deposits	(22,668)	(36,869)
Net debt	216,604	185,922
Short-term debt / total debt, %	15.2	16.7
Net debt / EBITDA ttm	0.64	0.59

- The Group's diversified debt structure includes, syndicated and bilateral loans, bonds, and other instruments
- Average debt maturity decreased from 5.15 years at December 31, 2013 to 4.59 years at June 30, 2014
- Average interest rate decreased from 3.68% at December 31, 2013 to 3.24% at June 30, 2014.

Financial Appendix

EBITDA Reconciliation

2Q	1Q			6m		
2014	2014	Δ, %	(RUB million)	2014	2013	Δ, %
51,216	39,284	30.4	Profit for the period	90,500	80,477	12.5
13,295	7,838	69.6	Total income tax expense	21,133	16,403	28.8
2,946	2,896	1.7	Finance expense	5,842	5,910	(1.2)
(1,065)	(1,570)	(32.2)	Finance income	(2,635)	(2,702)	(2.5)
21,120	20,095	5.1	Depreciation, depletion and amortization	41,215	37,127	11.0
(2,189)	7,500	-	Net foreign exchange gain / (loss)	5,311	2,500	112.4
1,812	(307)	-	Other (loss) / gain, net	1,505	449	235.2
87,135	75,736	15.1	EBITDA	162,871	140,164	16.2
(4,196)	(296)	1,317.6	less Share of profit of associates and joint ventures	(4,492)	(2,639)	70.2
11,411	8,593	32.8	add Share of EBITDA of equity accounted investments	20,004	13,042	53.4
94,350	84,033	12.3	Adjusted EBITDA	178,383	150,567	18.5

Financial ratios

Profitability

	6m		
	2014	2013	Δ, p.p.
Adjusted EBITDA margin, %	25.91	25.49	0.4
Net profit margin, %	13.15	13.62	(0.5)
Return on assets (ROA), %	12.46	13.57	(1.1)
Return on equity (ROE), %	19.99	21.42	(1.4)
Return on average capital employed (ROACE), %	17.68	18.96	(1.3)

Liquidity

	6m		
	2014	2013	Δ, %
Current ratio	1.86	1.85	0.4
Quick ratio	1.00	0.95	5.0
Cash ratio	0.63	0.60	5.3

Leverage

	6m		
	2014	2013	Δ, p.p.
Net debt/ Total Assets, %	12.52	9.38	3.1
Net debt/ Equity, %	20.43	14.74	5.7
Gearing, %	18.41	13.97	4.4
			Δ, %
Net debt/ Market Capitalization	0.31	0.24	26.3
Net debt/ EBITDA	0.64	0.44	45.9
Total debt/ EBITDA	1.09	0.80	35.6

Main Macroeconomic Factors Affecting Results of Operations

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

- Changes in market prices of crude oil and petroleum products
- Changes in exchange rate between the Russian ruble and 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

Prices for crude oil and petroleum products on international and Russian markets are the primary factor affecting the Group's results of operations.

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

2Q 2014	1Q 2014	Δ, %		6m 2014	2013	Δ, %
			International market	(US\$/ barrel)		
109.67	108.21	1.3	Brent	108.93	107.50	1.3
107.67	106.53	1.1	Urals Spot (average Med + NWE)	107.09	106.46	0.6
				(US\$/ tonne)		
1,021.17	959.20	6.5	Premium gasoline (average NWE)	989.69	999.06	(0.9)
929.72	903.07	3.0	Naphtha (average Med. + NWE)	916.18	876.74	4.5
920.50	923.51	(0.3)	Diesel fuel (average NWE)	922.03	931.21	(1.0)
904.75	909.09	(0.5)	Gasoil 0.2% (average Med. + NWE)	906.95	911.87	(0.5)
570.59	562.70	1.4	Fuel oil 3.5% (average NWE)	566.58	588.67	(3.8)
			Domestic market	(RUB/ tonne)		
31,008	28,739	7.9	High-octane gasoline	29,879	26,760	11.7
27,496	25,738	6.8	Low-octane gasoline	26,622	24,239	9.8
27,728	27,154	2.1	Diesel fuel	27,443	26,006	5.5
9,699	8,528	13.7	Fuel oil	9,117	8,278	10.1

Sources: Platts (international), Kortes (domestic)

Ruble vs. US Dollar Exchange Rate and Inflation

The Group presentation currency is the Russian ruble. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates, which for most entities is the Russian ruble.

2Q 2014	1Q 2014		6m 2014	2013
2.5	2.3	Change in Consumer Price Index (CPI), %	4.8	3.5
2.0	2.3	Change in Producer Price Index (PPI), %	4.3	(0.9)
33.63	35.69	US\$/ RUB exchange rate as of the end of the period	33.63	32.71
35.00	34.96	Average RUB/US\$ exchange rate for the period	34.98	31.02

Hydrocarbon Taxes

Average tax rates effective in reporting periods for taxation of oil and gas companies in Russia

2Q 2014	1Q 2014	Δ, %		6m 2014	2013	Δ, %
			Export customs duty			
					(US\$/ tonne)	
382.70	390.57	(2.0)	Crude oil	386.64	393.12	(1.6)
252.57	257.73	(2.0)	Light petroleum products	255.15	259.45	(1.7)
248.70	255.13	(2.5)	Diesel	251.92	259.45	(2.9)
344.40	351.47	(2.0)	Gasoline and naphtha	347.94	353.82	(1.7)
252.57	257.73	(2.0)	Heavy petroleum products	255.15	259.45	(1.7)
			Mineral extraction tax			
6,136	6,081	0.9	Crude oil (RUB/ tonne)	6,109	5,108	19.6
700	700	-	Natural gas for owners of Integrated gas-supply system and its subsidiaries (RUB/Mcm)	700	582	20.3
471	471	-	Natural gas for other categories (RUB/Mcm)	471	265	77.7

Crude and oil products export duty rates

Federal Law # 239-FZ (December 3, 2012) changed the method for setting export duties for crude oil and oil products from April 1, 2013. In place of export duty rates established monthly by the Government of the Russian Federation, new Resolution of the Russian Government # 276 (March 29, 2013) establishes a methodology for the Ministry of Economic Development of the Russian Federation to calculate export duty rates for crude oil and certain oil products each month.

Crude oil export customs duty rate

a) Russian Federal Law # 5003-1 (May 21, 1993) clause 3.1. subclause 4, amended by Russian Federal Law # 253-FZ (September 30, 2013) sets export custom duty rates according to the following formulas:

Quoted Urals price (P), USD/ tonne	Maximum Export Custom Duty Rate
≤109.50	0%
109.50 < P ≤ 146.00	35.0% * (P – 109.50)
146.00 < P ≤ 182.50	12.78 + 45.0% * (P – 146.00)
>182.50	29.20 + 59.0% * (P – 182.50) for 2014
	29.20 + 57.0% * (P – 182.50) for 2015
	29.20 + 55.0% * (P – 182.50) for 2016

The lower percentage of 59% was introduced in the calculation of crude export duty beginning February 2014 by Resolution of Russian Government # 2 (January 3, 2014).

Crude oil exports to those CIS countries that are Customs Union members (Kazakhstan, Belorussia), are not subject to oil export duties.

b) Under Federal Law # 239-FZ (December 3, 2012) the Government of the Russian Federation established certain formulas for lower customs duty rates for crude oil that meets certain chemical and physical conditions, identified by the codes TN VED TS 2709 00 900 1 and 2709 00 900 3. According to Russian Government Resolution # 276 (March 29, 2013) these lower duty rates are calculated based on the average Urals price in the monitoring period using the following formula:

Quoted Urals price (P), USD/ tonne	Export duty rate
≤365	0
>365	45.0% * (P – 365)

Resolution of the Russian Government # 846 (September 26, 2013) sets the rules for applying specific crude oil export duty rates and monitoring their use in respect of Group investment projects in Sakha Republic (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai, Yamalo-Nenets Autonomous Okrug north of Latitude 65⁰, and on the continental shelf of the Russian Federation.

Order # 868 (December 3, 2013) of the Ministry of Energy establishes application form and methodology to carry out the analysis for the applicability of these special rates.

Export customs duty rate on petroleum products

In accordance with clause 3.1 of Russian Federal Law # 5003-1 (May 21, 1993) the export customs duty rate on petroleum products is determined by the Government. Petroleum products exported to those CIS countries that are Customs Union members (Kazakhstan, Belorussia) are not subject to customs duties. From January 1, 2011 petroleum products exported to Kyrgyzstan are also not subject to customs duties. From November 13, 2013 the export of petroleum products to Tadzhikistan within the indicative balance are not subject to customs duties.

Resolution of the Russian Government # 1155 (December 27, 2010) changed the export customs duty rates charged on petroleum products. From February 1, 2011 the export customs duty rate on petroleum products has been calculated using the following formula:

$R = K * R_{crude}$, where R_{crude} is the export customs duty rate per tonne of crude oil and K is a coefficient depending on the type of petroleum product.

From October 2011 in accordance with Resolution of the Russian Government #1155 (December 27, 2010), the coefficient K for each type of petroleum product has been based on the following table:

	From October 01, 2011 until December 31, 2014
Light and middle distillates	0.66
Fuel oil	0.66
Gasoline	0.90

Resolution of the Russian Government # 276 (March 29, 2013) further confirms the application of the rules outlined in Resolution of the Russian Government # 1155 (December 27, 2010).

Under the Resolution of the Russian Government #2 (January 3, 2014), the coefficient K for diesel fuel is set at 0.65 for 2014, 0.63 for 2015, and 0.61 for 2016.

Excise on petroleum products

In Russia, excise duties are paid by the producers of refined products. The excise duty also applies to petroleum products imported into Russia.

Russian Tax Code clause 193 established the following excise rates for petroleum products (in rubles/tonne):

	2013 (Jan. - June)	2013 (July - Dec.)	2014
Gasoline			
Below Class 3	10,100	10,100	11,110
Class 3	9,750	9,750	10,725
Class 4	8,560	8,960	9,916
Class 5	5,143	5,750	6,450
Naphtha	10,229	10,229	11,252
Diesel fuel			
Below Class 3	5,860	5,860	6,446
Class 3	5,860	5,860	6,446
Class 4	4,934	5,100	5,427
Class 5	4,334	4,500	4,767
Heating oil	-	5,860	6,446
Motor oil	7,509	7,509	8,260

Mineral extraction tax (MET) on crude oil.

From January 1, 2014 the mineral extraction tax rate on crude oil (R) is calculated using the following general formula:

$R = 493 * K_c * K_v * K_z * K_d * K_{dv}$, where

K_c reflects the volatility of crude oil prices on the global market. $K_c = (P - 15) * D / 261$, where P is average monthly Urals oil price on the Rotterdam and Mediterranean markets (in USD/bbl) and D is the average ruble/ US dollar exchange rate.

K_v characterizes the degree of depletion of the specific field. It provides lower tax rate for highly depleted fields. Depletion is measured by N/V , where N is the cumulative production volume from the field and V is the total initial reserves (ABC1 + C2 reserves volume at January 1, 2006). For fields with depletion between 0.8 and 1, $K_v = 3.8 - 3.5 * N / V$. Where depletion is greater than 1, K_v is 0.3. In all other cases $K_v = 1$.

K_z characterizes the relative size of the field (by reserves) and provides lower tax rate for small fields. For field's with initial reserves (designated by V_3 , defined as ABC1 + C2 reserves volume at January 1 of the year preceding the tax period) below 5 MMtonnes and depletion (N / V_3 where N is the cumulative production volume from the field) less than 0.05, $K_z = 0.125 * V_3 + 0.375$

K_d characterizes the effort required to recover oil. It varies between 0 and 1 depending on recovery complexity from the deposit as follows:

- 0 – for oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov, Abalask, Khadumsk, Domanikov formations
- 0.2 – for oil produced from deposits with permeability no greater than $2 * 10^{-3}$ mkm² and effective formation thickness no greater than 10 meters
- 0.4 – for oil produced from deposits with permeability no greater than $2 * 10^{-3}$ mkm² and effective formation thickness greater than 10 meters
- 0.8 – for oil produced from deposits classified in the state mineral reserves balance as related to the Tyumen formation
- 1 – for oil produced from other deposits.

K_{dv} characterizes the degree of depletion of the deposit, providing lower tax rates for highly depleted deposits. Depletion is measured by N_{dv}/V_{dv} , where N_{dv} is cumulative production volume from the deposit and V_{dv} is total initial reserves (ABC1 + C2 reserves at January 1 of the year preceding the tax period). For deposits with depletion between 0.8 and 1, $K_{dv} = 3.8 - 3.5 * N_{dv} / V_{dv}$. Where depletion is greater than 1, K_{dv} is 0.3. In all other cases $K_{dv} = 1$. For deposits containing hard-to-recover reserves the coefficient K_v is equal to 1.

Russian Tax Code clause 342 established base mineral extraction tax rates for crude oil according to the above formula as follows:

	2013	2014
MET on crude oil (RUB/tonne)	470	493

In addition, tax legislation establishes concessionary MET tax rates for crude produced under certain conditions from specific regions of the Russian Federation.

Group effective MET rate

2Q 2014	1Q 2014	Δ, %		6m		
				2014	2013	Δ, %
6,136	6,081	0.9	Nominal crude oil MET rate, RUB/tonne	6,109	5,108	19.6
5,891	5,824	1.2	Effective crude oil MET rate, RUB/tonne	5,858	4,954	18.2
245	257		Difference between nominal and effective rates, RUB/tonne	251	154	
4.0%	4.2%		Difference between nominal and effective rates, %	4.1%	3.0%	

During 6m 2014 the effective MET rate was 5,858 RUB/tonne, or 251 RUB/tonne lower than the nominal MET rate set out in Russian legislation. The difference results from the application of certain factors (Kv, Kz and Kd) that reduce the MET rate.

Mineral extraction tax (MET) on natural gas and gas condensate

Russian Federal Law # 204-FZ (November 29, 2012) established mineral extraction tax rates for natural gas and gas condensate as follows:

	2013 (January - June)	2013 (July - December)	2014 (January - June)
MET on natural gas (RUB/Mcm)	265*	402*	471*
	582	622	700
MET on gas condensate (RUB/tonne)	590	590	647

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

Russian Federal Law # 263-FZ (September 30, 2013) establishes a new formula to calculate MET for natural gas and gas condensate from July 1, 2014. The future rate, which will replace the rates above, will be the product of fixed base MET rates of 35 RUB/Mcm for gas and 42 RUB/tonne for gas condensate and two variable coefficients. Eut (the base rate per fuel-equivalent unit) and Kc (which characterizes the effort required to recover hydrocarbons from the particular deposit). From 2015 the MET rate for gas will include a new parameter Tg, reflecting gas transportation costs.

Tax concessions

Under effective tax legislation Group subsidiaries apply the following tax concessions (including lower tax rates and coefficients that reduce the MET rate):

Tax concessions, applied in 6m 2014	Subsidiaries (oil fields) belonging to the Group
MET for Oil	
Small fields factor Kz	OJSC Gazpromneft-Noyabrskneftegaz (Vorgentskoye, Vostochno-Vyngayakhinskoye, Severo-Karamovskoye, Valyntoyskoye) LLC Zhivoy Istok (Baleykinskoye)
Depletion factor Kv	OJSC Gazpromneft-Noyabrskneftegaz (Pogranichnoye, Kholmogorskoye, Chatilkinskoye, Muravlenkovskoye, Sugmutskoye) LLC Gazpromneft-Vostok (Zapadno-Luginetskiy)
Hard-to-recover factor Kd	OJSC Gazpromneft-Noyabrskneftegaz (Vyngayakhinskoye) LLC Gazpromneft-Khantos (Krasnoleninskoye) LLC Archinskoye (Urmanskoye)
Zero MET rate for fields located fully or partially on the territory of Nenets Autonomous Okrug or Yamal Peninsula in Yamalo-Nenets Autonomous Okrug	LLC Gazpromneft Novy Port (Novoportovskoye)
Zero MET rate for fields located fully or partially on the territory of in Sakha Republic (Yakutia), Irkutsk Oblast or Krasnoyarsk Krai	LLC Gazpromneft-Angara (Tympuchanskoye, Ignyalinskoye)
Profit tax	
16% rate (4% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug–Ugra)	LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz
17% rate (3% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug–Ugra)	LLC Magma (before merger with LLC Gazpromneft-Khantos)
15.5% rate (4.5% concession under regional legislation of Yamalo-Nenets Autonomous Okrug)	OJSC Gazpromneft-Noyabrskneftegaz
Property tax	
Exemption from property tax for investment projects in Khanty–Mansiysk Autonomous Okrug–Ugra applied before January 01, 2011 (under regional legislation of Khanty–Mansiysk Autonomous Okrug–Ugra)	LLC Gazpromneft-Khantos
Exemption from property tax for fields in Khanty–Mansiysk Autonomous Okrug–Ugra where development started before January 01, 2011 (under regional legislation of Khanty–Mansiysk Autonomous Okrug–Ugra)	LLC Gazpromneft-Khantos
1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under regional legislation of Yamalo-Nenets Autonomous Okrug)	OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft

Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by 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, transportation distance, and several other factors. Changes in tariffs depend on inflation forecasts made by the Ministry of Economic Development of the Russian Federation, investment needs of the owners of transportation infrastructure, other macroeconomic factors, and 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 average transportation costs per tonne for the Group's crude oil for export and use at its refineries, as well as costs per tonne for transportation of its petroleum products from refineries for export:

2Q	1Q			6m		
2014	2014	Δ, %	(RUB per tonne)	2014	2013	Δ, %
Crude oil						
Export						
1,696	1,707	(0.6)	Pipeline	1,702	1,617	5.3
CIS						
1,175	1,160	1.3	Pipeline	1,168	1,112	5.0
Transportation to Refineries						
514	513	0.2	ONPZ	514	481	6.7
1,035	1,014	2.1	MNPZ	1,024	996	2.9
1,043	1,096	(4.9)	YaNPZ	1,069	943	13.4
Petroleum products						
Export from ONPZ						
2,305	2,368	(2.7)	Gasoline	2,336	3,342	(30.1)
3,809	4,165	(8.6)	Fuel oil	3,986	3,995	(0.2)
3,444	3,158	9.1	Diesel fuel	3,302	3,375	(2.2)
Export from MNPZ						
1,640	1,646	(0.4)	Gasoline	1,643	1,723	(4.6)
1,445	1,475	(2.0)	Fuel oil	1,460	1,476	(1.1)
1,817	1,890	(3.8)	Diesel fuel	1,854	1,717	8.0
Export from YaNPZ						
1,128	1,137	(0.8)	Gasoline	1,133	1,146	(1.2)
1,460	2,028	(28.0)	Fuel oil	1,742	1,407	23.8
1,504	1,441	4.4	Diesel fuel	1,473	1,476	(0.2)

During 6m 2014 the Group exported 34.2% (47.3% during 6m 2013) of its total crude export through the Primorsk Baltic Sea port (35.5% through Primorsk and 11.8% through Ust-Luga during 6m 2013); 12.0% (22.0% during 6m 2013) was exported through the Druzhba pipeline, principally to the Czech Republic; 21.6% (11.3% during 6m 2013) was exported through the port of Novorossiysk including 13.7% (9.5% during 6m 2013) of light crude; 32.2% (19.4% during 6m 2013) was exported through the ESPO pipeline and the port of Kozmino. Exports of crude to CIS countries during 6m 2014 were 100.0% (45.9% during 6m 2013) to Belarus and none (54.1% in during 6m 2013) to Kazakhstan.

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