

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

Definitions and Conversions

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

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

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
Financial results (RUB million)						
385,170	386,691	(0.4)	Sales	385,170	355,954	8.2
84,033	84,833	(0.9)	Adjusted EBITDA ¹	84,033	76,693	9.6
5,291.8	5,265.9	0.5	RUB per toe of production	5,291.8	5,042.3	5.0
20.6	22.0	(6.5)	USD ² per boe of production	20.6	22.6	(8.8)
37,816	42,763	(11.6)	Profit attributable to Gazprom Neft	37,816	39,567	(4.4)
180,154	185,922	(3.1)	Net debt	180,154	155,141	16.1
Operational results						
116.75	118.38	(1.4)	Hydrocarbon production including our share in joint ventures (MMboe)	116.75	111.76	4.5
1.30	1.29	0.8	Daily hydrocarbon production (MMboepd)	1.30	1.24	4.8
92.64	94.89	(2.4)	Crude oil production including our share in joint ventures (MMbbl)	92.64	90.85	2.0
144.71	140.95	2.7	Gas production including our share in joint ventures (bcf)	144.71	125.46	15.3
10.84	10.54	2.9	Refining throughput at own refineries and joint ventures (MMtonnes)	10.84	10.36	4.6

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

1Q 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
- Opened second production facility for blending and packaging motor oils at Omsk lubricants plant

Results for 1Q 2014 compared with 1Q 2013

- Total hydrocarbon production including our share in joint ventures increased 4.5% to 116.75 MMboe due to continued production growth at Priobskoye and Orenburg region fields and increased effective ownership in SeverEnergiya
- Refining throughput increased 4.6% due to increased bitumen production and use of more gas condensate feedstock at Omsk, which reduced burden on plant's capacity to load heavy petroleum products, and operation of diesel hydrotreater at Moscow refinery which was on scheduled maintenance in the 1Q 2013
- Higher hydrocarbon production and petroleum products sales through premium channels led to 8.2% increase in sales and 9.6% increase in adjusted EBITDA. Profit attributable to Gazprom Neft decreased 4.4% due to effects of foreign exchange losses and higher depreciation charges.

Results for 1Q 2014 compared with 4Q 2013

- Daily hydrocarbon production including our share in joint ventures increased to 1.30 MMboepd
- Refining throughput increased 2.9% following scheduled maintenance of catalytic cracking and reforming units at Moscow refinery in December 2013
- Lower petroleum products prices on domestic market offset by higher export sales led to 0.4% decrease in sales. Higher MET and excise rates caused 0.9% decline in adjusted EBITDA and effect of foreign exchange losses reduced profit attributable to Gazprom Neft by 11.6%.

Operational Data and Analysis

Production Drilling

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
Consolidated subsidiaries						
662	770	(14.1)	Production drilling ('000 meters)	662	615	7.6
175	217	(19.4)	New production wells	175	141	24.1
42.80	31.38	36.4	Average new well flow (tonnes per day)	42.80	38.50	11.2
Proportionately consolidated companies						
94	122	(22.9)	Production drilling ('000 meters)	94	187	(49.8)
33	43	(23.3)	New production wells	33	44	(25.0)
Joint ventures						
231	283	(18.3)	Production drilling ('000 meters)	231	189	22.0
50	48	4.2	New production wells	50	31	61.3

- Production drilling by consolidated subsidiaries increased Y-o-Y due to intensified drilling at Orenburg fields and development of Yuzhno-Kinyaminskoye field acquired in 1Q 2013.

Production

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
(MMtonnes)			Crude oil	(MMtonnes)		
3.71	3.83	(3.1)	Noyabrskneftegaz	3.71	3.62	2.5
3.34	3.38	(1.2)	Khantos*	3.34	3.18	5.0
1.22	1.28	(4.7)	Tomskneft	1.22	1.23	(0.8)
0.83	0.89	(6.7)	SPD	0.83	0.87	(4.6)
0.55	0.53	3.8	Orenburg	0.55	0.33	66.7
0.31	0.31	-	NIS	0.31	0.32	(3.1)
0.35	0.36	(2.8)	Vostok	0.35	0.23	52.2
0.21	0.21	-	Others	0.21	0.42	(50.0)
10.52	10.79	(2.5)	Total production by subsidiaries and proportionately consolidated companies	10.52	10.20	3.1
1.99	2.07	(3.9)	Share in Slavneft	1.99	2.12	(6.1)
0.08	0.05	60.0	Share in SeverEnergiya (SE)	0.08	0.04	100.0
2.07	2.12	(2.4)	Share in production of joint ventures	2.07	2.16	(4.2)
Total crude oil production						
12.59	12.91	(2.5)	MMtonnes	12.59	12.36	1.9
92.64	94.89	(2.5)	MMbbl	92.64	90.85	1.9
(bcm)			Gas**	(bcm)		
2.53	2.54	(0.4)	Noyabrskneftegaz	2.53	2.42	4.6
0.12	0.11	9.1	Khantos*	0.12	0.03	300.0
0.21	0.23	(8.7)	Tomskneft	0.21	0.21	-
0.03	0.04	(25.0)	SPD	0.03	0.03	-
0.45	0.44	2.3	Orenburg	0.45	0.31	45.2
0.14	0.14	-	NIS	0.14	0.14	-
0.02	0.02	-	Vostok	0.02	0.01	100.0
0.01	0.02	(50.0)	Others	0.01	0.04	(75.0)
3.51	3.54	(0.9)	Total production by subsidiaries and proportionately consolidated companies	3.51	3.19	10.0
0.10	0.10	-	Share in Slavneft	0.10	0.10	-
0.49	0.35	40.0	Share in SeverEnergiya (SE)	0.49	0.26	88.5
0.59	0.45	31.1	Share in production of joint ventures	0.59	0.36	63.9
4.10	3.99	2.8	Total gas production	4.10	3.55	15.5
(MMtoe)			Hydrocarbons	(MMtoe)		
13.33	13.62	(2.1)	Total production by subsidiaries and proportionately consolidated companies	13.33	12.76	4.5
2.55	2.49	2.4	Share in production of joint ventures	2.55	2.45	4.1
Total hydrocarbon production						
15.88	16.11	(1.4)	MMtoe	15.88	15.21	4.4
116.75	118.38	(1.4)	MMboe	116.75	111.76	4.5
1.30	1.29	0.8	Daily hydrocarbon production (MMboepd)	1.30	1.24	4.8

* Khantos merged with Yugra from March 1, 2013

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

- Daily hydrocarbon production increased 4.8% Y-o-Y and 0.8% Q-o-Q
- Group oil production increased 1.9% 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 decreased 2.5% Q-o-Q primarily due to shorter 1Q compared to 4Q
- Group gas production increased 15.5% Y-o-Y, primarily as a result of higher natural gas production at Muravlenkovskoye field, the gas utilization program, and increased effective ownership of SeverEnergiya.

Crude Oil Purchases

1Q 2014	4Q 2013	Δ, %	(MMtonnes)	1Q 2014	1Q 2013	Δ, %
0.85	1.12	(24.1)	Crude oil purchases in Russia *	0.85	1.51	(43.7)
0.56	0.69	(18.8)	Crude oil purchases internationally	0.56	0.37	51.4
1.41	1.81	(22.1)	Total crude purchased	1.41	1.88	(25.0)

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

- Oil purchases in Russia declined 43.7% Y-o-Y due to termination of oil-supply contract with TNK-BP
- Oil purchases on international markets increased 51.4% Y-o-Y due to higher trading activity
- Oil purchases on international markets decreased 18.8% Q-o-Q due to lower throughput at Pancevo.

Refining

1Q 2014	4Q 2013	Δ, %	(MMtonnes)	1Q 2014	1Q 2013	Δ, %
5.20	4.96	4.8	Omsk	5.20	5.09	2.2
2.87	2.64	8.7	Moscow	2.87	2.53	13.4
0.62	0.76	(18.4)	Pancevo	0.62	0.52	19.2
8.69	8.36	4.0	Total throughput at refineries owned by subsidiaries	8.69	8.14	6.8
1.83	1.99	(8.0)	Share in Yaroslavl	1.83	1.87	(2.1)
0.32	0.19	68.4	Share in Mozyr	0.32	0.35	(8.6)
10.84	10.54	2.9	Total refining throughput	10.84	10.36	4.6

Production of petroleum products

2.28	2.27	0.4	Gasoline	2.28	2.25	1.3
-	-	-	Class 2 and below	-	0.04	-
0.02	0.04	(50.0)	Class 3	0.02	0.16	(87.5)
0.16	0.25	(36.0)	Class 4	0.16	0.79	(79.8)
2.10	1.98	6.1	Class 5	2.10	1.26	66.7
0.28	0.33	(15.2)	Naphtha	0.28	0.34	(17.7)
3.11	3.02	3.0	Diesel	3.11	3.01	3.3
0.01	0.02	(50.0)	Class 2 and below	0.01	0.03	(66.7)
0.14	0.06	133.3	Class 3	0.14	1.36	(89.7)
0.11	0.08	37.5	Class 4	0.11	0.60	(81.7)
2.85	2.86	(0.4)	Class 5	2.85	1.02	179.4
2.20	1.94	13.4	Fuel oil	2.20	2.04	7.8
0.61	0.58	5.2	Jet fuel	0.61	0.56	8.9
0.90	0.84	7.1	Bunker fuel	0.90	0.74	21.6
0.90	1.09	(17.4)	Other	0.90	0.87	3.5
10.28	10.07	2.1	Total production	10.28	9.81	4.8

- Refining throughput:
 - Increased 4.6% Y-o-Y due to increased bitumen production and use of more gas condensate feedstock at Omsk, which reduced burden on plant's capacity to load heavy petroleum products, and operation of diesel hydrotreater at Moscow refinery which was on scheduled maintenance in the 1Q 2013
 - Increased 2.9% Q-o-Q following completion of scheduled maintenance of catalytic cracking and reforming units at Moscow refinery in December 2013
- 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 refinery in May 2013 and July 2013, respectively
 - Class 5 diesel fuel production increased due to reconstruction of diesel hydrotreating unit at Moscow refinery and completion of major maintenance of diesel hydrotreating unit at Omsk refinery in April 2013

- Fuel oil production increased 7.8% Y-o-Y and 13.4% Q-o-Q due to higher throughput and scheduled maintenance of Omsk catalytic cracking unit in February 2014
- Bunker fuel production increased in 1Q 2014 as a result of expanding sales network and early start of navigation in Northwest and Far East regions.

Petroleum Products Purchases on International Markets

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	-	-	233	0.01	-	-
Diesel	6,494	0.20	6,791	0.22	(4.4)	(9.1)
Fuel oil	8,154	0.42	4,989	0.27	63.4	55.6
Jet fuel	3,449	0.10	2,333	0.07	47.8	42.9
Total	18,097	0.72	14,346	0.57	26.2	26.3

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	-	-	1,880	0.07	-	-
Diesel	6,494	0.20	6,132	0.20	5.9	-
Fuel oil	8,154	0.42	2,927	0.16	178.6	162.5
Jet fuel	3,449	0.10	2,156	0.07	60.0	42.9
Total	18,097	0.72	13,095	0.50	38.2	44.0

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

Petroleum Products Purchases in CIS

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	846	0.04	839	0.03	0.8	33.3
Low octane gasoline	89	0.01	372	0.02	(76.1)	(50.0)
Diesel	424	0.02	302	0.01	40.4	100.0
Fuel oil	165	0.01	-	-	-	-
Other	151	0.01	204	0.01	(26.0)	-
Total	1,675	0.09	1,717	0.07	(2.5)	28.6

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	846	0.04	-	-	-	-
Low octane gasoline	89	0.01	291	0.01	(69.4)	-
Diesel	424	0.02	423	0.02	0.2	-
Fuel oil	165	0.01	-	-	-	-
Other	151	0.01	136	0.01	11.0	-
Total	1,675	0.09	850	0.04	97.1	125.0

Domestic Purchases of Petroleum Products

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	7,140	0.26	7,378	0.26	(3.2)	-
Diesel	3,965	0.13	5,017	0.17	(21.0)	(23.5)
Fuel oil	131	0.01	515	0.04	(74.6)	(75.0)
Jet fuel	4,102	0.15	4,304	0.16	(4.7)	(6.3)
Other	506	0.03	1,935	0.05	(73.9)	(40.0)
Total	15,844	0.58	19,149	0.68	(17.3)	(14.7)

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	7,140	0.26	5,304	0.20	34.6	30.0
Diesel	3,965	0.13	3,242	0.11	22.3	18.2
Fuel oil	131	0.01	211	0.02	(37.9)	(50.0)
Jet fuel	4,102	0.15	2,220	0.09	84.8	66.7
Bunker fuel	-	-	629	0.03	-	-
Other	506	0.03	159	0.01	218.2	200.0
Total	15,844	0.58	11,765	0.46	34.7	26.1

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

Products Marketing

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
	(units)		Active retail stations		(units)	
1,097	1,111	(1.3)	In Russia	1,097	1,060	3.5
232	228	1.8	In CIS	232	214	8.4
409	408	0.3	In Eastern Europe	409	392	4.4
1,738	1,747	(0.5)	Total retail stations (as at the end of the period)	1,738	1,666	4.3
			Average daily sales per retail site in Russia (tonnes per day)			
18.4	20.2	(8.9)		18.4	17.6	4.8
	(MMtonnes)		Sales volume through premium channels		(MMtonnes)	
4.10	4.73	(13.3)	Gasoline and Diesel	4.10	3.89	5.4
0.60	0.61	(1.6)	Jet	0.60	0.53	13.2
0.86	0.80	7.5	Bunkering	0.86	0.66	30.3
0.04	0.06	(33.3)	Lubricants	0.04	0.04	-
5.60	6.20	(9.7)	Total sales volume through premium channels	5.60	5.12	9.4

- Total number of active retail stations increased 4.3% Y-o-Y
- Average daily sales per retail site in Russia increased 4.8% Y-o-Y due to results of rebranding campaign, new promotions and customer loyalty program
- Sales volume through premium channels increased 9.4% Y-o-Y, as:
 - Gasoline and diesel sales increased 5.4% while retail sales expanded 8.8% and wholesale remained stable
 - Jet fuel sales increased due to expanded sales network within and outside Russia, including Russian military airports
 - Bunkering sales increased due to growing Far East markets, increased market penetration in Baltic region, and increased production
- Sales volume through premium channels declined 9.7% Q-o-Q primarily due to lower seasonal demand.

Results of Operations

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	1Q 2013	Δ, %
Revenues						
385,170	386,691	(0.4)	Sales	385,170	355,954	8.2
(65,160)	(56,941)	14.4	Less export duties and excise tax*	(65,160)	(64,059)	1.7
320,010	329,750	(3.0)	Total revenue	320,010	291,895	9.6
Costs and other deductions						
(75,762)	(82,744)	(8.4)	Purchases of oil, gas and petroleum products	(75,762)	(70,760)	7.1
(37,518)	(39,677)	(5.4)	Production and manufacturing expenses	(37,518)	(31,529)	19.0
(17,190)	(21,032)	(18.3)	Selling, general and administrative expenses	(17,190)	(14,276)	20.4
(28,730)	(27,459)	4.6	Transportation expenses	(28,730)	(28,015)	2.6
(20,095)	(19,485)	3.1	Depreciation, depletion and amortization	(20,095)	(17,993)	11.7
(85,280)	(81,172)	5.1	Taxes other than income tax	(85,280)	(77,302)	10.3
(90)	(895)	(89.9)	Exploration expenses	(90)	(712)	(87.4)
(264,665)	(272,464)	(2.9)	Total operating expenses	(264,665)	(240,587)	10.0
307	(4,266)	-	Other gain / (loss), net	307	(943)	-
55,652	53,020	5.0	Operating profit	55,652	50,365	10.5
296	3,412	(91.3)	Share of profit of associates and joint ventures	296	2,337	(87.3)
(7,500)	108	-	Net foreign exchange (loss) / gain	(7,500)	(1,172)	539.9
1,570	1,724	(8.9)	Finance income	1,570	1,511	3.9
(2,896)	(2,437)	18.8	Finance expense	(2,896)	(3,090)	(6.3)
(8,530)	2,807	-	Total other (expense) / income	(8,530)	(414)	1,960.4
47,122	55,827	(15.6)	Profit before income tax	47,122	49,951	(5.7)
(8,024)	(9,747)	(17.7)	Current income tax expense	(8,024)	(7,399)	8.4
186	(499)	-	Deferred income tax benefit / (expense)	186	(2,025)	-
(7,838)	(10,246)	(23.5)	Total income tax expense	(7,838)	(9,424)	(16.8)
39,284	45,581	(13.8)	Profit for the period	39,284	40,527	(3.1)
(1,468)	(2,818)	(47.9)	Less: Profit attributable to non-controlling interest	(1,468)	(960)	52.9
37,816	42,763	(11.6)	Profit attributable to Gazprom Neft	37,816	39,567	(4.4)

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

Revenues

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	2013	Δ, %
Crude oil						
27,578	28,225	(2.3)	Export	27,578	28,926	(4.7)
52,106	53,783	(3.1)	Export sales	52,106	57,429	(9.3)
(24,528)	(25,558)	(4.0)	Less related export duties	(24,528)	(28,503)	(13.9)
518	-	-	International markets	518	10	5,080.0
4,166	13,758	(69.7)	Export to CIS	4,166	12,267	(66.0)
8,332	8,155	2.2	Domestic	8,332	2,964	181.1
40,594	50,138	(19.0)	Total crude oil revenue	40,594	44,167	(8.1)
Gas						
692	469	47.5	International markets	692	619	11.8
6,379	7,952	(19.8)	Domestic	6,379	5,728	11.4
7,071	8,421	(16.0)	Total gas revenue	7,071	6,347	11.4
Petroleum products						
75,097	51,326	46.3	Export	75,097	71,490	5.0
107,756	72,276	49.1	Export sales	107,756	100,783	6.9
(32,659)	(20,950)	55.9	Less related export duties	(32,659)	(29,293)	11.5
21,499	27,773	(22.6)	International markets	21,499	16,601	29.5
29,141	37,013	(21.3)	Sales on international markets	29,141	22,137	31.6
(7,642)	(9,240)	(17.3)	Excise*	(7,642)	(5,536)	38.0
13,353	15,251	(12.4)	CIS	13,353	11,341	17.7
13,684	16,444	(16.8)	Export sales and sales in CIS	13,684	12,068	13.4
(331)	(1,193)	(72.3)	Less related export duties	(331)	(727)	(54.5)
154,582	167,630	(7.8)	Domestic	154,582	134,440	15.0
264,531	261,980	1.0	Total petroleum products revenue	264,531	233,872	13.1
7,814	9,211	(15.2)	Other revenue	7,814	7,509	4.1
320,010	329,750	(3.0)	Total revenue	320,010	291,895	9.6

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

Sales Volumes

1Q 2014	4Q 2013	Δ, %		1Q 2014	2013	Δ, %
(MMtonnes)			Crude oil	(MMtonnes)		
1.88	2.07	(9.2)	Export	1.88	2.32	(19.0)
0.02	-	-	Sales on international markets	0.02	-	-
0.27	1.15	(76.5)	Export to CIS	0.27	0.98	(72.4)
0.71	0.75	(5.3)	Domestic sales	0.71	0.31	129.0
2.88	3.97	(27.5)	Total crude oil sales	2.88	3.61	(20.2)
(bcm)			Gas	(bcm)		
0.06	0.04	50.0	International markets	0.06	0.06	-
3.21	3.84	(16.4)	Domestic sales	3.21	2.79	15.1
3.27	3.88	(15.7)	Total gas sales	3.27	2.85	14.7
(MMtonnes)			Petroleum products	(MMtonnes)		
4.19	2.98	40.6	Export	4.19	4.16	0.7
0.62	0.90	(31.1)	Sales on international markets	0.62	0.56	10.7
0.48	0.56	(14.3)	Export and sales in CIS	0.48	0.47	2.1
6.16	6.60	(6.7)	Domestic sales	6.16	5.57	10.6
11.45	11.04	3.7	Total petroleum products sales	11.45	10.76	6.4

Average Realized Sales Prices

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
27,716	25,982	6.7	Export	27,716	24,754	12.0
15,430	11,963	29.0	Export and sales in CIS	15,430	12,517	23.3
11,735	10,873	7.9	Domestic sales	11,735	9,561	22.7
(RUB per tonne)			Petroleum products	(RUB per tonne)		
25,717	24,254	6.0	Export	25,717	24,227	6.2
47,002	41,126	14.3	Sales on international markets	47,002	39,530	18.9
28,508	29,364	(2.9)	Export and sales in CIS	28,508	25,677	11.0
25,094	25,398	(1.2)	Domestic sales	25,094	24,136	4.0

Crude Oil Export Sales

- Crude export volumes decreased 19.0% Y-o-Y and 9.2% Q-o-Q due to higher domestic throughput and lower crude purchases in Russia
- Crude export volumes to CIS declined due to reduced exports to Kazakhstan.

Petroleum Products Exports

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,641	0.05	1,399	0.05	17.3	-
Low octane gasoline	557	0.02	1,671	0.06	(66.7)	(66.7)
Naphtha	7,342	0.23	6,076	0.20	20.8	15.0
Diesel	42,102	1.29	27,011	0.88	55.9	46.6
Fuel oil	43,067	2.17	26,583	1.44	62.0	50.7
Jet fuel	5,358	0.16	3,480	0.11	54.0	45.5
Bunker fuel	3,905	0.13	2,694	0.10	45.0	30.0
Other	3,784	0.14	3,362	0.14	12.6	-
Total	107,756	4.19	72,276	2.98	49.1	40.6

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,641	0.05	1,707	0.06	(3.9)	(16.7)
Low octane gasoline	557	0.02	1,919	0.07	(71.0)	(71.4)
Naphtha	7,342	0.23	8,788	0.31	(16.5)	(25.8)
Diesel	42,102	1.29	45,068	1.55	(6.6)	(16.8)
Fuel oil	43,067	2.17	34,762	1.87	23.9	16.0
Jet fuel	5,358	0.16	2,515	0.08	113.0	100.0
Bunker fuel	3,905	0.13	2,876	0.11	35.8	18.2
Other	3,784	0.14	3,148	0.11	20.2	27.3
Total	107,756	4.19	100,783	4.16	6.9	0.7

- Jet fuel export sales volumes doubled Y-o-Y due to expanding presence in foreign airports
- Petroleum products export volumes increased 40.6% Q-o-Q due to market expansion and shift of volumes from domestic market where the demand was lower.

Petroleum Products Export and Sales in CIS

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	6,314	0.22	5,917	0.17	6.7	29.4
Low octane gasoline	744	0.03	984	0.04	(24.4)	(25.0)
Diesel	4,225	0.14	5,156	0.18	(18.1)	(22.2)
Fuel oil	172	0.01	614	0.05	(72.0)	(80.0)
Jet fuel	1,214	0.03	2,284	0.06	(46.9)	(50.0)
Other	1,015	0.05	1,489	0.06	(31.8)	(16.7)
Total	13,684	0.48	16,444	0.56	(16.8)	(14.3)

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	6,314	0.22	4,423	0.16	42.8	37.5
Low octane gasoline	744	0.03	1,068	0.05	(30.3)	(40.0)
Diesel	4,225	0.14	3,380	0.13	25.0	7.7
Fuel oil	172	0.01	472	0.04	(63.6)	(75.0)
Jet fuel	1,214	0.03	1,624	0.04	(25.3)	(25.0)
Other	1,015	0.05	1,101	0.05	(7.8)	-
Total	13,684	0.48	12,068	0.47	13.4	2.1

Domestic Sales of Petroleum Products

	1Q 2014		4Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	62,195	2.04	66,186	2.12	(6.0)	(3.8)
Low octane gasoline	868	0.03	1,642	0.05	(47.1)	(40.0)
Naphtha	-	-	305	0.02	-	-
Diesel	49,169	1.64	51,927	1.75	(5.3)	(6.3)
Fuel oil	4,597	0.46	6,887	0.60	(33.3)	(23.3)
Jet fuel	15,880	0.63	15,927	0.64	(0.3)	(1.6)
Bunker fuel	11,952	0.70	11,159	0.64	7.1	9.4
Other	9,921	0.66	13,597	0.78	(27.0)	(15.4)
Total	154,582	6.16	167,630	6.60	(7.8)	(6.7)

	1Q 2014		1Q 2013		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	62,195	2.04	52,850	1.83	17.7	11.5
Low octane gasoline	868	0.03	1,330	0.05	(34.7)	(40.0)
Diesel	49,169	1.64	43,284	1.53	13.6	7.2
Fuel oil	4,597	0.46	5,448	0.48	(15.6)	(4.2)
Jet fuel	15,880	0.63	14,617	0.59	8.6	6.8
Bunker fuel	11,952	0.70	8,774	0.46	36.2	52.2
Other	9,921	0.66	8,137	0.63	21.9	4.8
Total	154,582	6.16	134,440	5.57	15.0	10.6

- 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 6.8% Y-o-Y due to expansion of sales network, including Russian military airports

- Domestic bunker fuel sales volumes increased 52.2% Y-o-Y driven by expanding sales network in Europe (Estonia and Romania), acquisition of bunkering terminal complex in Novorossiysk and early start of navigation in North-west and Far East regions.

Other Revenue

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

- Other revenue decreased 15.2% Q-o-Q primarily due to volume decreases.

Purchases of Oil, Gas and Petroleum Products

- Purchases of oil, gas and petroleum products increased 7.1% Y-o-Y and decreased 8.4% Q-o-Q due to variations in petroleum products purchases.

Production and Manufacturing Expenses

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	2013	Δ, %
17,820	19,927	(10.6)	Upstream expenses	17,820	16,572	7.5
14,435	15,910	(9.3)	Consolidated subsidiaries	14,435	13,367	8.0
1,302	1,415	(8.0)	<i>RUB per toe</i>	1,302	1,278	1.9
5.08	5.94	(14.4)	<i>USD¹ per boe</i>	5.08	5.73	(11.4)
3,386	4,017	(15.7)	Proportionately consolidated companies	3,386	3,205	5.6
1,511	1,688	(10.5)	<i>RUB per toe</i>	1,511	1,393	8.5
5.90	7.08	(16.7)	<i>USD¹ per boe</i>	5.90	6.25	(5.6)
10,656	10,427	2.2	Downstream expenses	10,656	8,563	24.4
6,073	6,184	(1.8)	Refining expenses at own refineries	6,073	4,552	33.4
699	740	(5.5)	<i>RUB per tonne</i>	699	559	25.0
2.73	3.10	(12.1)	<i>USD¹ per bbl</i>	2.73	2.51	8.7
3,386	2,855	18.6	Refining expenses at refineries of joint ventures	3,386	2,865	18.2
1,575	1,310	20.3	<i>RUB per tonne</i>	1,575	1,291	22.0
6.15	5.49	11.9	<i>USD¹ per bbl</i>	6.15	5.79	6.2
1,197	1,388	(13.8)	Lubricants manufacturing expenses	1,197	1,146	4.5
6,910	6,440	7.3	Transportation expenses to refineries	6,910	4,830	43.1
2,132	2,883	(26.1)	Other operating expenses	2,132	1,564	36.3
37,518	39,677	(5.4)	Total	37,518	31,529	19.0

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 at consolidated subsidiaries increased 8.0% Y-o-Y due to increased hydrocarbon production including new asset additions (Novoportovskoye, Yuzhno-Kinyaminskoye and Baleykinskoye fields) and further development of Muravlenkovskoye gas field
- Upstream expenses per toe at consolidated subsidiaries increased 1.9% Y-o-Y due to:
 - Acquisition of Novoportovskoye field with higher operating costs at pilot stage
 - Higher tariffs of natural monopolies
 - Increasing 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 33.4% Y-o-Y primarily due to higher throughput, higher tariffs of natural monopolies, 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 18.2% Y-o-Y due to startup of new processing units
- Transportation expenses to refineries increased 43.1% Y-o-Y due to termination of oil-substitution contract with TNK-BP.

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 20.4% 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 increased 2.6% Y-o-Y due to higher petroleum products sales.

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 11.7% Y-o-Y in line with increase in depreciable assets driven by capital expenditure.

Taxes Other than Income Tax

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	1Q 2013	Δ, %
60,482	56,762	6.6	Mineral extraction taxes	60,482	50,858	18.9
18,948	18,932	0.1	Excise	18,948	19,308	(1.9)
2,281	2,373	(3.9)	Property tax	2,281	1,829	24.7
3,569	3,105	14.9	Other taxes	3,569	5,307	(32.7)
85,280	81,172	5.1	Total taxes other than income tax	85,280	77,302	10.3

- Mineral extraction tax (MET) expenses increased 18.9% Y-o-Y in line with increased crude oil production by subsidiaries and proportionately consolidated companies and the higher MET rate. While average Urals prices declined 3.9% Y-o-Y, average MET rate for crude oil increased 15.6% as base MET rate rose from 470 RUB/tonne to 493 RUB/tonne and average RUB/USD exchange rate increased 14.9%
- Excise tax expenses declined 1.9% Y-o-Y as rate increases from 1 July 2013 and 1 January 2014 were offset by an increased share of Class 5 gasoline and diesel, which are taxed at lower rates.

Share of Profit of Equity Accounted Investments

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	1Q 2013	Δ, %
933	2,766	(66.3)	Slavneft	933	2,386	(60.9)
(1,159)	(45)	2,475.6	SeverEnergia	(1,159)	(54)	2,046.3
522	691	(24.5)	Other companies	522	5	10,340.0
296	3,412	(91.3)	Share of profit of associates and joint ventures	296	2,337	(87.3)

- Reduction in share of Slavneft profit and increase in share of loss of SeverEnergia Y-o-Y and Q-o-Q were driven primarily by net foreign exchange 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)	1Q		
	2014	2013	Δ %
Net cash provided by operating activities	70,977	43,928	61.6
Net cash used in investing activities	(18,559)	(36,788)	(49.6)
Net cash provided by / (used in) financing activities	54,847	(16,264)	-
Increase / (Decrease) in cash and cash equivalents	107,265	(9,124)	-

Net Cash Provided by Operating Activities

(RUB million)	1Q		
	2014	2013	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	81,917	71,172	15.1
Net changes in working capital	(2,263)	(17,199)	(86.8)
Income tax paid	(5,393)	(7,216)	(25.3)
Interest paid	(3,284)	(3,233)	1.6
Dividends received	-	404	-
Net cash provided by operating activities	70,977	43,928	61.6

- Net cash provided by operating activities increased 61.6% Y-o-Y due to higher EBITDA and better working capital management.

Net Cash Used in Investing Activities

(RUB million)	1Q		
	2014	2013	Δ %
Capital expenditures	(48,458)	(36,857)	31.5
Acquisition of subsidiaries and shares in equity affiliates	(765)	(1,287)	(40.6)
Net changes in deposits	32,638	3,486	836.3
Other transactions	(1,974)	(2,130)	(7.3)
Net cash used in investing activities	(18,559)	(36,788)	(49.6)

- Net cash used in investing activities declined 49.6% Y-o-Y as net decrease in deposits offset higher capital expenditures.

Net Cash Used in Financing Activities

(RUB million)	1Q		
	2014	2013	Δ %
Net changes in debt	56,491	(16,038)	-
Payment of dividends to shareholders	(3)	(3)	-
Acquisition of non-controlling interest in subsidiaries	-	(29)	-
Other transactions	(1,641)	(194)	745.9
Net cash provided by / (used in) financing activities	54,847	(16,264)	-

- In 1Q 2014 Group debt increased by 56,491 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)	1Q		Δ, %
	2014	2013	
Exploration and production	36,322	27,113	34.0
Consolidated subsidiaries	33,336	24,323	37.1
Proportionately consolidated companies	2,986	2,790	7.0
Refining	4,021	5,742	(30.0)
Marketing and distribution	1,962	2,335	(16.0)
Others	1,354	809	67.4
Subtotal capital expenditures	43,659	35,999	21.3
Change in advances issued and material used in capital expenditures	4,799	858	459.3
Total capital expenditures	48,458	36,857	31.5

- Capital expenditure for Exploration and Production increased 34.0% Y-o-Y mostly due to development of Noyabrsk and Orenburg region fields, increased production drilling at Priobskoye field, pilot drilling program on Urmano-Archinsk group of fields and construction of major infrastructure for Novoportovskoye field (arctic terminal, oil collection system, pipelines).

Debt and Liquidity

(RUB million)	2014	2013
Short-term loans and borrowings	56,404	52,413
Long-term loans and borrowings	330,321	261,455
Cash and cash equivalents	(200,259)	(91,077)
Short-term deposits	(6,312)	(36,869)
Net debt	180,154	185,922
Short-term debt / total debt, %	14.6	16.7
Net debt / EBITDA ttm	0.56	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 4.88 years at March 31, 2014
- Average interest rate decreased from 3.68% at December 31, 2013 to 3.20% at March 31, 2014.

Financial Appendix

EBITDA Reconciliation

1Q 2014	4Q 2013	Δ, %	(RUB million)	1Q 2014	2013	Δ, %
39,284	45,581	(13.8)	Profit for the period	39,284	40,527	(3.1)
7,838	10,246	(23.5)	Total income tax expense	7,838	9,424	(16.8)
2,896	2,437	18.8	Finance expense	2,896	3,090	(6.3)
(1,570)	(1,724)	(8.9)	Finance income	(1,570)	(1,511)	3.9
20,095	19,485	3.1	Depreciation, depletion and amortization	20,095	17,993	11.7
7,500	(108)	-	Net foreign exchange (loss) / gain	7,500	1,172	539.9
(307)	4,266	-	Other gain / (loss), net	(307)	943	-
75,736	80,183	(5.5)	EBITDA	75,736	71,638	5.7
(296)	(3,412)	(91.3)	less Share of profit of associates and joint ventures	(296)	(2,337)	(87.3)
8,593	8,062	6.6	add Share of EBITDA of equity accounted investments	8,593	7,392	16.2
84,033	84,833	(0.9)	Adjusted EBITDA	84,033	76,693	9.6

Financial ratios

Profitability

	2014	1Q 2013	Δ, p.p.
Adjusted EBITDA margin, %	26.26	26.27	(0.0)
Net profit margin, %	12.28	13.88	(1.6)
Return on assets (ROA), %	12.07	13.64	(1.6)
Return on equity (ROE), %	18.99	20.67	(1.7)
Return on average capital employed (ROACE), %	17.18	18.35	(1.2)

Liquidity

	2014	1Q 2013	Δ, %
Current ratio	2.25	1.88	19.6
Quick ratio	1.35	0.83	62.6
Cash ratio	0.98	0.42	132.8

Leverage

	2014	1Q 2013	Δ, p.p.
Net debt/ Total Assets, %	10.53	11.40	(0.9)
Net debt/ Equity, %	17.28	17.02	0.3
Gearing, %	15.17	14.87	0.3
			Δ, %
Net debt/ Market Capitalization	0.27	0.25	6.1
Net debt/ EBITDA	0.56	0.52	8.7
Total debt/ EBITDA	1.21	0.77	57.3

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.

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
			International market	(US\$/ barrel)		
108.21	109.24	(0.9)	Brent	108.21	112.57	(3.9)
106.53	108.22	(1.6)	Urals Spot (average Med + NWE)	106.53	110.79	(3.9)
				(US\$/ tonne)		
959.20	942.30	1.8	Premium gasoline (average NWE)	959.20	1,040.53	(7.8)
903.07	918.48	(1.7)	Naphtha (average Med. + NWE)	903.07	932.75	(3.2)
923.51	941.41	(1.9)	Diesel fuel (average NWE)	923.51	972.67	(5.1)
909.09	929.39	(2.2)	Gasoil 0.2% (average Med. + NWE)	909.09	953.80	(4.7)
562.70	570.20	(1.3)	Fuel oil 3.5% (average NWE)	562.70	604.61	(6.9)
			Domestic market	(RUB/ tonne)		
28,739	29,613	(3.0)	High-octane gasoline	28,739	27,220	5.6
25,738	25,644	0.4	Low-octane gasoline	25,738	24,440	5.3
27,154	28,184	(3.7)	Diesel fuel	27,154	26,094	4.1
8,528	8,702	(2.0)	Fuel oil	8,528	8,195	4.1

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.

1Q 2014	4Q 2013		1Q 2014	1Q 2013
2.3	1.8	Change in Consumer Price Index (CPI), %	2.3	1.9
2.3	(1.7)	Change in Producer Price Index (PPI), %	2.3	0.9
35.69	32.73	US\$/ RUB exchange rate as of the end of the period	35.69	31.08
34.96	32.53	Average RUB/US\$ exchange rate for the period	34.96	30.41

Hydrocarbon Taxes

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

1Q 2014	4Q 2013	Δ, %		1Q 2014	2013	Δ, %
			Export customs duty			
						(US\$/ tonne)
390.57	399.33	(2.2)	Crude oil	390.57	406.50	(3.9)
257.73	263.50	(2.2)	Light petroleum products	257.73	268.29	(3.9)
255.13	263.50	(3.2)	Diesel ¹	255.13	268.29	(4.9)
351.47	359.37	(2.2)	Gasoline and naphtha	351.47	365.87	(3.9)
257.73	263.50	(2.2)	Heavy petroleum products	257.73	268.29	(3.9)
			Mineral extraction tax			
6,081	5,471	11.2	Crude oil (RUB/ tonne)	6,081	5,261	15.6
700	622	12.5	Natural gas for owners of Integrated gas-supply system and its subsidiaries (RUB/Mcm)	700	582	20.3
471	402	17.2	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:

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

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 Federal Law # 203-FZ (November 29, 2012) and Russian Federal Law # 269-FZ (September 30, 2013) 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 Federal Law # 307-FZ (November 27, 2010) and Russian Federal Law # 269-FZ (September 30, 2013) established base mineral extraction tax rates for crude oil according to the above formula for the years 2011 to 2013 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

1Q 2014	4Q 2013	Δ, %		1Q 2014	1Q 2013	Δ, %
6,081	5,471	11.1	Nominal crude oil MET rate, RUB/tonne	6,081	5,261	15.6
5,824	5,302	9.8	Effective crude oil MET rate, RUB/tonne	5,824	5,064	15.0
257	169		Difference between nominal and effective rates, RUB/tonne	257	197	
4.2%	3.1%		Difference between nominal and effective rates, %	4.2%	3.7%	

In 1Q 2014 the effective MET rate was 5,824 RUB/tonne, or 257 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 1Q 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 Gazromneft-Vostok (Zapadno-Luginetskiy)
Hard-to-recover factor Kd	OJSC Gazpromneft-Noyabrskneftegaz (Vyngayakhinskoye) LLC Gazpromneft-Khantos (Krasnoleninskoye) LLC Archinskoye (Urmanskoye)
Zero MET rate for fields on Yamal Peninsula, in Yamalo-Nenets Autonomous Okrug Zero MET rate for fields in Sakha Republic (Yakutia)	LLC Gazpromneft Novy Port (Novoportovskoye) LLC Gazpromneft-Angara (Tympuchanskoye)
Profit tax	
16% rate (4% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug)	LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz
17% rate (3% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug)	LLC Magma
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 applied before January 01, 2011 (under regional legislation of Khanty–Mansiysk Autonomous Okrug)	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 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, 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:

1Q 2014	4Q 2013	Δ, %	(RUB per tonne)	1Q 2014	2013	Δ, %
Crude oil						
Export						
1,707.00	1,685.87	1.3	Pipeline	1,707.00	1,620.03	5.4
CIS						
1,159.98	941.04	23.3	Pipeline	1,159.98	1,135.85	2.1
Transportation to Refineries						
513.00	505.53	1.5	ONPZ	513.00	435.91	17.7
1,014.00	967.21	4.8	MNPZ	1,014.00	994.20	2.0
1,096.00	1,096.68	(0.1)	YaNPZ	1,096.00	782.86	40.0
Petroleum products						
Export from ONPZ						
2,368.00	2,971.38	(20.3)	Gasoline	2,368.00	3,169.61	(25.3)
4,165.00	3,723.54	11.9	Fuel oil	4,165.00	4,068.93	2.4
3,158.00	3,474.19	(9.1)	Diesel fuel	3,158.00	3,427.36	(7.9)
Export from MNPZ						
1,646.00	1,598.80	3.0	Gasoline	1,646.00	1,760.46	(6.5)
1,475.00	1,431.98	3.0	Fuel oil	1,475.00	1,475.92	(0.1)
1,890.00	1,830.42	3.3	Diesel fuel	1,890.00	1,628.14	16.1
Export from YaNPZ						
1,137.00	1,142.07	(0.4)	Gasoline	1,137.00	1,234.82	(7.9)
2,028.00	1,689.31	20.0	Fuel oil	2,028.00	1,506.54	34.6
1,441.00	1,458.80	(1.2)	Diesel fuel	1,441.00	1,493.02	(3.5)

In 1Q 2014 the Group exported 34.5% (51.7% in 1Q 2013) of its total crude export through the Primorsk Baltic Sea port (31.3% through Primorsk and 6.2% through Ust-Luga in the 1Q 2013); 9.2% (18.40% in 1Q 2013) was exported through the Druzhba pipeline, principally to the Czech Republic; 21.9% (11.5% in 1Q 2013) was exported through the port of Novorossiysk including 13.8% (11.5% in 1Q 2013) of light crude; 34.4% (18.4% in 1Q 2013) was exported through the ESPO pipeline and the port of Kozmino. Exports of crude to CIS countries in 1Q 2014 was 100.0% (51.6% in 1Q 2013) to Belarus and none (48.4% in 1Q 2013) to Kazakhstan.

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