

**Management's Discussion and Analysis of Financial Condition and Results
of Operations for the three months ended June 30 and March 31, 2015 and six months
ended June 30, 2014 and 2015**

Definitions and Conversions

The following discussion is intended to assist you in understanding the Group financial position as of June 30, 2015 and results of operations for the three months ended June 30 and March 31, 2015 and six months ended June 30 2015 and 2014 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 proportionally consolidated entities (Joint operations as defined in IFRS 11) ("Tomskneft", "Salym petroleum development" (SPD) and Yuzhno-Priobskiy GPZ). The term "Joint ventures" represents entities accounted for by the 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 6,000 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 2015	1Q 2015	Δ, %		6m		
				2015	2014	Δ, %
Financial results (RUB million)						
423,225	380,035	11.4	Sales ¹	803,260	814,508	(1.4)
106,379	93,387	13.9	Adjusted EBITDA ²	199,766	178,383	12.0
5,380.8	5,119.9	5.1	RUB per toe of production	5,255.6	5,602.5	(6.2)
13.8	11.1	23.8	USD ³ per boe of production	12.3	21.8	(43.3)
73,225	39,129	87.1	Profit attributable to Gazprom Neft	112,354	87,599	28.3
450,347	461,806	(2.5)	Net debt	450,347	216,604	107.9
Operational results						
146.92	135.14	8.7	Hydrocarbon production including our share in joint ventures (MMboe)	282.06	234.18	20.5
19.77	18.24	8.4	Hydrocarbon production including our share in joint ventures (MMtoe)	38.01	31.84	19.4
1.61	1.50	7.3	Daily hydrocarbon production (MMboepd)	1.56	1.29	20.9
103.25	99.46	3.8	Crude oil and condensate production including our share in joint ventures (MMbbl)	202.71	186.72	8.6
262.07	214.06	22.4	Gas production including our share in joint ventures (bcf)	476.13	284.74	67.2
10.93	10.39	5.2	Refining throughput at own refineries and joint ventures (MMtonnes)	21.32	21.99	(3.1)

¹ Sales includes export duties and sales related excise tax

² EBITDA is a non-IFRS measure. A reconciliation of adjusted EBITDA to profit before income taxes is provided in the appendix

³ Translated to USD at the average exchange rate for the period

6m 2015 Highlights

- In March obtained control over Gazprom Resource Northgas LLC, which holds 50% of Northgas CJSC, increasing share in Northgas from 9.1% to 50%
- Began production from Yaro-Yakhinskoye, third SeverEnergiya (Arcticgas) oilfield
- In April received first shipment of Kirkuk oil in compensation for expenses at Badra
- Awarded exploration and production licenses for Maloyuganskiy, Zapadno-Zimniy, Panlorskiy 5 and Nyalinskiy areas
- China's largest independent rating credit agency, Dagong Global Credit Rating Company Limited, awarded Gazprom neft a strong long term credit rating for liabilities denominated in Russian rubles: AA with stable outlook.

Results for 6m 2015 compared with 6m 2014

- Total hydrocarbon production including our share in joint ventures increased 19.4% to 38.01 MMtonnes on continued production growth at Orenburg region fields and SeverEnergiya (Arcticgas), startup of Prirazlomnoye, increasing Northgas share to 50%
- The Group optimized crude processing volumes relative to oil and oil products prices and demand conditions. Total refining throughput declined 3.1%, while output of light products remained unchanged from 2014. Reforming plant repairs at Moscow refinery in June 2015 negatively affected throughput
- Lower oil and oil products prices on international market resulted in 1.4% decrease in sales
- Increased hydrocarbon production and sales through premium channels, management actions to offset negative effects of tax manoeuvre effective January 2015, and negative export duty lag resulted in 12% increase in adjusted EBITDA
- Larger increase in profit attributable to Gazprom neft (28.3%) vs. EBITDA (12%) resulted from positive impact of revaluing non-ruble debt at current foreign exchange rates.

Results for 2Q 2015 compared with 1Q 2015

- Daily hydrocarbon production including our share in joint ventures increased to 1.61 MMboepd
- Total hydrocarbon production including our share in joint ventures increased 8.7% (in boe) due to startup of gas processing complex at Yaro-Yakhinskoye field in April 2015, and increasing Northgas share to 50%
- Refining throughput increased 5.2% due to more efficient operations at Moscow and Omsk refineries
- Revenue increased by 17.9% as Group increased its market share and realized higher prices on domestic oil products market.
- Increased hydrocarbon production, positive export duty lag effect, and management actions resulted in 13.9% increase in adjusted EBITDA
- Net profit attributable to Gazprom neft was RUB 73 billion compared to RUB 39 billion in 1Q 2015. Profit attributable to Gazprom neft was positively affected by revaluation of non-ruble debt at current foreign exchange rates and writing off Company's RUB 16.1 billion share in liability at JSC Tomskneft.

Operational Data and Analysis

Production Drilling

2Q 2015	1Q 2015	Δ, %		6m		Δ, %
				2015	2014	
Consolidated subsidiaries						
804	650	23.8	Production drilling ('000 meters)	1,454	1,489	(2.4)
200	186	7.5	New production wells	386	397	(2.8)
34.14	36.31	(6.0)	Average new well flow (tonnes per day)	35.22	40.18	(12.4)
Proportionally consolidated companies						
226	168	34.5	Production drilling ('000 meters)	394	287	37.1
52	49	6.1	New production wells	101	79	27.9
Joint ventures						
311	261	18.8	Production drilling ('000 meters)	572	514	11.3
64	45	42.2	New production wells	109	92	18.5

- Production drilling increased Q-o-Q due to:
 - Reduced drilling activity in 1Q 2015 due to poor weather conditions
 - Increased drilling at Novoport and planned drilling increases in Noyabrsk region in 2Q 2015
 - Drilling at self-contained fields at Messoyakha project.
- Production drilling by consolidated subsidiaries decreased 2.4% Y-o-Y due to greater share of horizontal wells which are drilled more slowly than deviated wells.

Production

2Q 2015	1Q 2015	Δ, %		6m 2015	2014	Δ, %
(MMtonnes)			Crude oil and condensate	(MMtonnes)		
3.61	3.58	0.8	Noyabrskneftegaz	7.19	7.44	(3.4)
3.57	3.52	1.4	Khantos	7.09	6.74	5.2
1.25	1.23	1.6	Tomskneft	2.48	2.43	2.1
0.76	0.77	(1.3)	SPD	1.53	1.66	(7.8)
0.64	0.64	-	Orenburg	1.28	1.12	14.3
0.29	0.28	3.6	NIS	0.57	0.61	(6.6)
0.38	0.35	8.6	Vostok**	0.73	0.71	2.8
0.09	0.07	28.6	Novy Port	0.16	0.03	433.3
0.16	0.14	14.3	Prirazlomnoye	0.30	-	-
0.10	0.07	42.9	Badra & Kurdistan	0.17	-	-
0.05	0.09	(44.4)	Others	0.14	0.39	(64.1)
10.90	10.74	1.5	Total production by subsidiaries and proportionally consolidated companies	21.64	21.13	2.4
1.93	1.94	(0.5)	Share in Slavneft	3.87	4.04	(4.2)
0.82	0.64	28.1	Share in SeverEnergiya (Arcticgas)	1.46	0.19	668.4
0.16	0.05	220.0	Share in Northgas	0.21	-	-
2.91	2.63	10.7	Share in production of joint ventures	5.54	4.23	31.0
13.81	13.37	3.3	Total crude oil and condensate production MMtonnes	27.18	25.36	7.2
(bcm)			Gas*	(bcm)		
2.30	2.49	(7.6)	Noyabrskneftegaz	4.79	4.80	(0.2)
0.15	0.16	(6.3)	Khantos	0.31	0.21	47.6
0.18	0.25	(28.0)	Tomskneft	0.43	0.43	-
0.03	0.03	-	SPD	0.06	0.07	(14.3)
0.49	0.51	(3.9)	Orenburg	1.00	0.90	11.1
0.14	0.14	-	NIS	0.28	0.28	-
0.02	0.02	-	Vostok	0.04	0.04	-
0.02	0.01	100.0	Others	0.03	0.02	50.0
3.33	3.61	(7.8)	Total production by subsidiaries and proportionally consolidated companies	6.94	6.75	2.8
0.11	0.11	-	Share in Slavneft	0.22	0.21	4.8
2.61	1.93	35.2	Share in SeverEnergiya (Arcticgas)	4.54	1.10	312.7
1.37	0.41	234.2	Share in Northgas	1.78	-	-
4.09	2.45	66.9	Share in production of joint ventures	6.54	1.31	399.2
7.42	6.06	22.4	Total gas production	13.48	8.06	67.3
(MMtoe)			Hydrocarbons	(MMtoe)		
13.57	13.64	(0.5)	Total production by subsidiaries and proportionally consolidated companies	27.21	26.55	2.5
6.20	4.60	34.8	Share in production of joint ventures	10.80	5.29	104.2
19.77	18.24	8.4	Total hydrocarbon production MMtoe	38.01	31.84	19.4
146.92	135.14	8.7	MMboe	282.06	234.18	20.5
1.61	1.50	7.3	Daily hydrocarbon production (MMboepd)	1.56	1.29	20.9

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

** Production for Archinskoye and Urmanskoye fields is presented in Gazpromneft – Vostok effective 1 June 2015 due merger of LLC Archinskoye into Gazpromneft-Vostok in June 2015

- Daily hydrocarbon production in tonnes of oil equivalent increased 20.9% Y-o-Y and 7.3% Q-o-Q
- Group oil production increased 7.2% Y-o-Y to 27.18 MMtoe, driven by increased production at SeverEnergiya (Arcticgas), startups at Prirazlomnoye and Iraq, continued growth at Orenburg region fields, and higher share of Northgas

- Group natural gas production increased 67.3% Y-o-Y and 22.4% Q-o-Q primarily as a result of higher production at Urengoykoye field, startup at Yaro-Yakhinskoye field (SeverEnergiya (Arcticgas)) and higher share of Northgas.

Crude Oil Purchases

2Q	1Q			6m		
2015	2015	Δ, %	(MMtonnes)	2015	2014	Δ, %
2.16	1.37	57.7	Crude oil purchases in Russia *	3.53	1.97	79.2
-	-	-	Crude oil purchases internationally	-	1.07	-
2.16	1.37	57.7	Total crude purchased	3.53	3.04	16.1

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

- Crude oil purchases in Russia increased 57.7% Q-o-Q and 79.2% Y-o-Y due to more effective domestic trading operations.

Refining

2Q	1Q			6m		
2015	2015	Δ, %	(MMtonnes)	2015	2014	Δ, %
5.41	5.21	3.8	Omsk	10.62	10.44	1.7
2.94	2.58	14.0	Moscow	5.52	6.02	(8.3)
0.73	0.61	19.7	Pancevo	1.34	1.31	2.3
9.08	8.40	8.1	Total throughput at refineries owned by subsidiaries	17.48	17.77	(1.6)
1.74	1.90	(8.4)	Share in Yaroslavl	3.64	3.62	0.6
0.11	0.09	22.2	Share in Mozyr	0.20	0.60	(66.7)
10.93	10.39	5.2	Total refining throughput	21.32	21.99	(3.1)

Production of petroleum products

2.27	2.31	(1.7)	Gasoline	4.58	4.47	2.5
-	0.02	-	Class 2 and below	0.02	-	-
-	-	-	Class 3	-	0.05	-
0.11	0.15	(26.7)	Class 4	0.26	0.38	(31.6)
2.16	2.14	0.9	Class 5	4.30	4.04	6.4
0.36	0.37	(2.7)	Naphtha	0.73	0.67	9.0
2.93	2.93	-	Diesel	5.86	6.25	(6.2)
0.03	0.01	200.0	Class 2 and below	0.04	0.04	-
-	-	-	Class 3	-	0.14	-
-	-	-	Class 4	-	0.24	-
2.90	2.92	(0.7)	Class 5	5.82	5.83	(0.2)
1.51	1.91	(20.9)	Fuel oil	3.42	4.06	(15.8)
0.83	0.63	31.8	Jet fuel	1.46	1.47	(0.7)
1.05	0.84	25.0	Bunker fuel	1.89	1.84	2.7
0.64	0.19	236.8	Bitumen	0.83	0.85	(2.0)
0.09	0.10	(10.0)	Lubricants	0.19	0.17	13.8
0.76	0.64	18.8	Other	1.40	1.27	10.6
10.44	9.92	5.2	Total production	20.36	21.04	(3.2)

- Total throughput declined 3.1% Y-o-Y due to repairs at Moscow reforming plant in June 2015 and planned repairs to hydrocracking plant at Yaroslavl in April 2015. The Group optimized refining throughput relative to oil and oil products price and demand conditions. Total light products output changed little from 2014; the most significant production decrease was in fuel oil (-15.8%)
- Refining throughput increased 5.2% Q-o-Q due to efficiency improvements at Moscow and Omsk refineries
- Increased bunker fuel production 2.7% Y-o-Y and 25.0% Y-o-Y in response to higher market demand for low-friction type E bunker fuel, with corresponding reductions in diesel and fuel oil production
- Diesel production decreased 6.2% Y-o-Y due to hydrocleaning plant repairs in May-June 2015 and increase in bunker oil production

- Jet fuel production increased 31.8% Y-o-Y and bitumen production increased 236.8% Y-o-Y due to seasonal factors
- Gasoline production decreased 1.7% Q-o-Q due to reduced production at Yaroslavl as a result of repairs to hydrocracking plant in April 2015.

Petroleum Products Purchases on International Markets

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Diesel	3,387	0.12	791	0.02	328.2	500.0
Fuel oil	61	0.00	-	-	-	-
Jet fuel	2,327	0.07	2,705	0.07	(14.0)	-
Bunker fuel	1,143	0.04	1,874	0.07	(39.0)	(42.9)
Lubricants	323	0.00	260	0.00	24.2	-
Total	7,241	0.23	5,630	0.16	28.6	43.8

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
Naphtha	-	-	1,603	0.05	-	-
Diesel	4,178	0.14	15,475	0.47	(73.0)	(70.2)
Fuel oil	61	0.00	17,266	0.87	(99.7)	-
Jet fuel	5,032	0.14	5,505	0.16	(8.6)	(12.5)
Bunker fuel	3,017	0.11	124	0.01	2,333.1	1,000.0
Lubricants	583	0.00	485	0.01	20.2	-
Total	12,871	0.39	40,458	1.57	(68.2)	(75.2)

- Purchases on international markets declined Y-o-Y due to decrease in transactions based on purchased petroleum products.

Petroleum Products Purchases in CIS

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	628	0.02	216	0.00	190.7	-
Low octane gasoline	15	0.00	8	0.00	87.5	-
Diesel	518	0.02	223	0.01	132.3	100.0
Other	152	0.00	143	0.01	6.3	-
Total	1,313	0.04	590	0.02	122.5	100.0

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	844	0.02	1,398	0.06	(39.6)	(66.7)
Low octane gasoline	23	0.00	89	0.01	(74.2)	-
Diesel	741	0.03	667	0.03	11.1	-
Fuel oil	-	-	165	0.01	-	-
Other	295	0.01	151	0.01	95.4	-
Total	1,903	0.06	2,470	0.12	(23.0)	(50.0)

Domestic Purchases of Petroleum Products

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	9,025	0.30	7,643	0.27	18.1	11.1
Diesel	4,088	0.13	3,720	0.12	9.9	8.3
Fuel oil	314	0.03	379	0.04	(17.2)	(25.0)
Jet fuel	3,021	0.11	1,383	0.06	118.4	83.3
Bunker fuel	659	0.04	465	0.02	41.7	100.0
Lubricants	177	0.00	44	0.00	302.3	-
Other	513	0.02	212	0.01	142.0	100.0
Total	17,797	0.63	13,846	0.52	28.5	21.2

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	16,668	0.57	16,040	0.55	3.9	3.6
Diesel	7,808	0.25	6,470	0.21	20.7	19.1
Fuel oil	693	0.07	437	0.03	58.6	133.3
Jet fuel	4,404	0.17	8,118	0.31	(45.8)	(45.2)
Bunker fuel	1,124	0.06	-	-	-	-
Lubricants	221	0.00	72	0.00	206.9	-
Petrochemicals	-	-	133	0.00	-	-
Other	725	0.03	492	0.03	47.4	-
Total	31,643	1.15	31,762	1.13	(0.4)	1.8

- Domestic jet fuel purchases decreased Y-o-Y due to lower consumption and discontinuing exports to Kyrgyzstan
- Domestic jet fuel purchases increased Q-o-Q due to seasonal demand
- Domestic bunker fuel purchases increased Q-o-Q due to purchases of ultra-low sulfur fuel oil ULS FO connected with adoption of MARPOL standards in the Baltic Sea resulting in increased demand.

Products Marketing

2Q 2015	1Q 2015	Δ, %		6m 2015	6m 2014	Δ, %
	(units)		Active retail stations		(units)	
1,161	1,156	0.4	In Russia	1,161	1,086	6.9
249	249	-	In CIS	249	232	7.3
422	420	0.4	In Eastern Europe	422	416	1.4
1,832	1,825	0.4	Total retail stations (as at the end of the period)	1,832	1,734	5.6
18.7	17.8	4.8	Average daily sales per retail site in Russia (tonnes per day)	18.3	18.7	(2.2)
	(MMtonnes)		Sales volume through premium channels		(MMtonnes)	
4.74	4.11	15.3	Gasoline and Diesel	8.85	8.78	0.8
0.80	0.62	29.0	Jet	1.42	1.39	2.2
1.02	0.92	10.9	Bunkering	1.94	1.94	-
0.06	0.05	20.0	Lubricants	0.11	0.09	22.2
6.62	5.70	16.1	Total sales volume through premium channels	12.32	12.20	1.0

- Total number of active retail stations increased 5.6% Y-o-Y
- Average daily sales per retail site in Russia decreased 2.2% Y-o-Y due to decline in consumption of premium diesel in Company's market area
- Q-o-Q 4.8% increase in average daily sales per retail site in Russia due to seasonal factors
- Sales volume through premium channels increased 1.0% Y-o-Y as:

- Management actions increased market share in all premium channels under conditions of weakening demand
- Jet fuel sales increased due to expanded sales network within and outside Russia, including Russian military airports and 100% ownership of Gazpromneft-Aero Sheremetyevo since March 2014;
- Bunkering sales remained essentially unchanged as higher market share in Far East and Black Sea markets offset impact of weaker total market demand
- Sales volumes through premium channels increased 16.1% Q-o-Q primarily due to seasonal demand
- Lubricants production increased 22.2% Y-o-Y due to full-period operation of the Omsk lubricants plant (Russia's largest) in 2015 compared to operation since April startup in 2014.

Results of Operations

2Q 2015	1Q 2015	Δ, %	(RUB million)	6m		
				2015	2014	Δ, %
423,225	380,035	11.4	Sales*	803,260	814,508	(1.4)
(36,378)	(51,788)	(29.8)	Less export duties and excise tax**	(88,166)	(126,080)	(30.1)
386,847	328,247	17.9	Total revenue	715,094	688,428	3.9
Costs and other deductions						
(98,291)	(62,553)	57.1	Purchases of oil, gas and petroleum products	(160,844)	(180,587)	(10.9)
(50,950)	(46,143)	10.4	Production and manufacturing expenses	(97,093)	(81,170)	19.6
(23,438)	(21,407)	9.5	Selling, general and administrative expenses	(44,845)	(37,850)	18.5
(34,458)	(31,311)	10.1	Transportation expenses	(65,769)	(55,765)	17.9
(23,670)	(22,197)	6.6	Depreciation, depletion and amortization	(45,867)	(41,215)	11.3
(95,383)	(92,354)	3.3	Taxes other than income tax	(187,737)	(174,059)	7.9
(159)	(143)	11.2	Exploration expenses	(302)	(618)	(51.1)
(326,349)	(276,108)	18.2	Total operating expenses	(602,457)	(571,264)	5.5
15,177	(2,035)	-	Other gain / (loss), net	13,142	(1,505)	-
75,675	50,104	51.0	Operating profit	125,779	115,659	8.7
10,618	6,647	59.7	Share of profit of associates and joint ventures	17,265	4,492	284.3
8,087	(8,830)	-	Net foreign exchange gain / (loss)	(743)	(5,311)	(86.0)
3,524	3,422	3.0	Finance income	6,946	2,635	163.6
(6,815)	(6,923)	(1.6)	Finance expense	(13,738)	(5,842)	135.2
15,414	(5,684)	-	Total other income / (expense)	9,730	(4,026)	-
91,089	44,420	105.1	(Loss) / Profit before income tax	135,509	111,633	21.4
(7,987)	(7,059)	13.1	Current income tax benefit / (expense)	(15,046)	(18,758)	(19.8)
(7,563)	304	-	Deferred income tax (expense) / benefit	(7,259)	(2,375)	205.6
(15,550)	(6,755)	130.2	Total income tax benefit / (expense)	(22,305)	(21,133)	5.5
75,539	37,665	100.6	(Loss) / Profit for the period	113,204	90,500	25.1
(2,314)	1,464	-	Less: Profit attributable to non-controlling interest	(850)	(2,901)	(70.7)
73,225	39,129	87.1	Profit attributable to Gazprom Neft	112,354	87,599	28.3

* Sales includes export duties and sales related excise tax

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

Revenues

2Q	1Q			6m		
2015	2015	Δ, %	(RUB million)	2015	2014	Δ, %
Crude oil						
31,927	22,191	43.9	Export	54,118	57,663	(6.1)
45,808	38,259	19.7	Export sales	84,067	105,359	(20.2)
(13,881)	(16,068)	(13.6)	Less related export duties	(29,949)	(47,696)	(37.2)
1,718	1,494	15.0	International markets	3,212	1,063	202.2
8,848	7,991	10.7	Export to CIS	16,839	8,331	102.1
8,897	8,328	6.8	Export sales and sales in CIS	17,225	8,331	106.8
(49)	(337)	(85.5)	Less related export duties	(386)	-	-
21,181	21,250	(0.3)	Domestic	42,431	18,707	126.8
63,674	52,926	20.3	Total crude oil revenue	116,600	85,764	36.0
Gas						
950	1,630	(41.7)	International markets	2,580	866	197.9
8,394	6,290	33.4	Domestic	14,684	12,027	22.1
9,344	7,920	18.0	Total gas revenue	17,264	12,893	33.9
Petroleum products						
59,430	56,783	4.7	Export	116,213	154,141	(24.6)
68,471	79,038	(13.4)	Export sales	147,509	214,786	(31.3)
(9,041)	(22,255)	(59.4)	Less related export duties	(31,296)	(60,645)	(48.4)
25,420	23,539	8.0	International markets	48,959	47,226	3.7
38,815	36,640	5.9	Sales on international markets	75,455	64,567	16.9
(13,395)	(13,101)	2.2	Less excise*	(26,496)	(17,341)	52.8
18,067	17,121	5.5	CIS	35,188	27,799	26.6
18,079	17,148	5.4	Export sales and sales in CIS	35,227	28,197	24.9
(12)	(27)	(55.6)	Less related export duties	(39)	(398)	(90.2)
189,680	156,593	21.1	Domestic	346,273	339,416	2.0
292,597	254,036	15.2	Total petroleum products revenue	546,633	568,582	(3.9)
21,232	13,365	58.9	Other revenue	34,597	21,189	63.3
386,847	328,247	17.9	Total revenue	715,094	688,428	3.9

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

Sales Volumes

2Q	1Q			6m		
2015	2015	Δ, %		2015	2014	Δ, %
(MMtonnes)			Crude oil			
1.96	1.60	22.5	Export	3.56	3.80	(6.3)
0.09	0.07	28.6	Sales on international markets*	0.16	0.04	300.0
0.54	0.55	(1.8)	Export to CIS	1.09	0.56	94.6
1.42	1.57	(9.6)	Domestic sales	2.99	1.56	91.7
4.01	3.79	5.8	Total crude oil sales	7.80	5.96	30.9
(bcm)			Gas			
0.06	0.10	(40.0)	International markets	0.16	0.08	100.0
4.01	3.13	28.1	Domestic sales	7.14	6.20	15.2
4.07	3.23	26.0	Total gas sales	7.30	6.28	16.2
(MMtonnes)			Petroleum products			
2.99	3.25	(8.0)	Export	6.24	8.30	(24.8)
0.78	0.68	14.7	Sales on international markets	1.46	1.39	5.0
0.57	0.44	29.5	Export and sales in CIS	1.01	1.02	(1.0)
7.17	6.13	17.0	Domestic sales	13.30	13.36	(0.4)
11.51	10.50	9.6	Total petroleum products sales	22.01	24.07	(8.6)

* Including production sharing agreement (PSA)

Average Realized Sales Prices

2Q 2015	1Q 2015	Δ, %		6m 2015	2014	Δ, %
(RUB per tonne)			Crude oil	(RUB per tonne)		
23,372	23,912	(2.3)	Export	23,615	27,726	(14.8)
16,381	14,529	12.7	Export and sales in CIS	15,447	14,877	3.8
14,916	13,535	10.2	Domestic sales	14,191	11,992	18.3
(RUB per tonne)			Petroleum products	(RUB per tonne)		
22,900	24,319	(5.8)	Export	23,639	25,878	(8.7)
49,763	53,882	(7.6)	Sales on international markets	51,682	46,451	11.3
31,716	38,973	(18.6)	Export and sales in CIS	34,877	27,644	26.2
26,455	25,545	3.6	Domestic sales	26,036	25,405	2.5

Crude Oil Sales

- Crude export volumes decreased 6.3% Y-o-Y due to a shift to domestic sales at improved market prices
- Crude export volumes increased 22.5% Q-o-Q due to timing of crude sales from Arctic fields (Prirazlomnoye and Novoport)
- Crude export volumes to CIS increased 94.6% Y-o-Y due to beginning exports to Uzbekistan
- Domestic crude volumes increased 91.7% Y-o-Y due to more effective domestic trading operations.

Gas sales

- Domestic gas sales increased 28.1% Q-o-Q and 15.2% Y-o-Y due to increased production and purchases at SeverEnergiya (Arcticgas) and Northgas.

Petroleum Products Exports

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	458	0.02	1,057	0.03	(56.7)	(33.3)
Low octane gasoline	201	0.00	441	0.02	(54.4)	-
Naphtha	8,356	0.31	6,365	0.24	31.3	29.2
Diesel	25,284	0.85	30,657	0.95	(17.5)	(10.5)
Fuel oil	19,761	1.22	24,092	1.46	(18.0)	(16.4)
Jet fuel	4,918	0.20	5,880	0.13	(16.4)	53.9
Bunker fuel	4,760	0.18	6,915	0.28	(31.2)	(35.7)
Bitumen	162	0.01	34	0.00	376.5	-
Lubricants	548	0.02	1,022	0.03	(46.4)	(33.3)
Petrochemicals	3,792	0.17	2,098	0.10	80.7	70.0
Other	231	0.01	477	0.01	(51.6)	-
Total	68,471	2.99	79,038	3.25	(13.4)	(8.0)

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	1,515	0.05	2,564	0.08	(40.9)	(37.5)
Low octane gasoline	642	0.02	1,020	0.03	(37.1)	(33.3)
Naphtha	14,721	0.55	17,799	0.55	(17.3)	-
Diesel	55,941	1.80	84,142	2.59	(33.5)	(30.5)
Fuel oil	43,853	2.68	81,072	4.05	(45.9)	(33.8)
Jet fuel	10,798	0.33	11,058	0.33	(2.4)	-
Bunker fuel	11,675	0.46	9,841	0.37	18.6	24.3
Bitumen	196	0.01	519	0.03	(62.2)	(66.7)
Lubricants	1,570	0.05	1,725	0.04	(9.0)	25.0
Petrochemicals	5,890	0.27	4,415	0.20	33.4	35.0
Other	708	0.02	631	0.03	12.2	(33.3)
Total	147,509	6.24	214,786	8.30	(31.3)	(24.8)

- Total petroleum products export volumes declined 8% Q-o-Q due to increase in petroleum products sales to domestic market
- Total petroleum products export volumes declined 24.8% Y-o-Y due to lower international transactions based on purchased petroleum products
- Increased bunker fuel exports and reduced fuel oil exports Y-o-Y due to product mix changes at Omsk refinery.

Petroleum Products Export and Sales in CIS

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	8,022	0.23	8,009	0.18	0.2	27.8
Low octane gasoline	1,071	0.03	1,136	0.03	(5.7)	-
Diesel	5,887	0.17	5,482	0.13	7.4	30.8
Fuel oil	32	0.01	-	-	-	-
Jet fuel	917	0.03	1,036	0.03	(11.5)	-
Bitumen	794	0.06	365	0.02	117.5	200.0
Lubricants	655	0.01	571	0.02	14.7	(50.0)
Petrochemicals	382	0.02	172	0.01	122.1	100.0
Other	319	0.01	377	0.02	(15.4)	(50.0)
Total	18,079	0.57	17,148	0.44	5.4	29.5

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	16,031	0.41	12,082	0.41	32.7	-
Low octane gasoline	2,207	0.06	1,539	0.06	43.4	-
Diesel	11,369	0.30	9,553	0.33	19.0	(9.1)
Fuel oil	32	0.01	295	0.03	(89.2)	(66.7)
Jet fuel	1,953	0.06	1,922	0.06	1.6	-
Bitumen	1,159	0.08	686	0.05	69.0	60.0
Lubricants	1,226	0.03	954	0.03	28.5	-
Petrochemicals	554	0.03	547	0.03	1.3	-
Other	696	0.03	619	0.02	12.4	50.0
Total	35,227	1.01	28,197	1.02	24.9	(1.0)

Domestic Sales of Petroleum Products

	2Q 2015		1Q 2015		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	77,037	2.29	67,353	2.08	14.4	10.1
Low octane gasoline	561	0.02	448	0.02	25.2	-
Diesel	58,421	1.90	47,913	1.57	21.9	21.0
Fuel oil	2,467	0.30	3,884	0.49	(36.5)	(38.8)
Jet fuel	19,723	0.75	15,403	0.59	28.1	27.1
Bunker fuel	15,919	0.90	11,428	0.70	39.3	28.6
Bitumen	4,841	0.54	1,212	0.17	299.4	217.7
Lubricants	2,701	0.02	2,152	0.09	25.5	(77.8)
Petrochemicals	5,355	0.27	4,200	0.25	27.5	8.0
Other	2,655	0.18	2,600	0.17	2.1	5.9
Total	189,680	7.17	156,593	6.13	21.1	17.0

	6m 2015		6m 2014		Δ, %	
	RUB million	MMtonnes	RUB million	MMtonnes	RUB million	MMtonnes
High octane gasoline	144,390	4.37	134,213	4.23	7.6	3.3
Low octane gasoline	1,009	0.04	1,739	0.06	(42.0)	(33.3)
Diesel	106,334	3.47	104,461	3.52	1.8	(1.4)
Fuel oil	6,351	0.79	8,103	0.80	(21.6)	(1.3)
Jet fuel	35,126	1.34	38,452	1.50	(8.7)	(10.7)
Bunker fuel	27,347	1.60	28,104	1.59	(2.7)	0.6
Bitumen	6,053	0.71	6,575	0.70	(7.9)	1.4
Lubricants	4,853	0.11	3,404	0.10	42.6	10.0
Petrochemicals	9,555	0.52	9,858	0.52	(3.1)	-
Other	5,255	0.35	4,507	0.34	16.6	2.9
Total	346,273	13.30	339,416	13.36	2.0	(0.4)

- Domestic jet fuel volumes increased 27.1% Q-o-Q due to seasonal factors and expansion of airport network in Russia, including cooperation with military airports
- Bunker fuel and bitumen sales volumes increased due to seasonal factors
- Domestic jet fuel volumes decreased 10.7% Y-o-Y due to market conditions.

Other Revenue

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

- Other revenue increased 63.3% Y-o-Y primarily due to an increase in operating services provided by the Group to Messoyakha.

Purchases of Oil, Gas and Petroleum Products

- Purchases of oil, gas, and petroleum products declined 10.9% Y-o-Y due to oil price decline
- Purchases of oil, gas, and petroleum products increased 57.1% Q-o-Q due to increased crude oil purchase volumes.

Production and Manufacturing Expenses

2Q	1Q			6m		
2015	2015	Δ, %	(RUB million)	2015	2014	Δ, %
23,490	22,347	5.1	Upstream expenses	45,837	37,976	20.7
17,405	16,832	3.4	Consolidated subsidiaries inside Russia including	34,237	29,147	17.5
14,420	13,938	3.5	Brownfields	28,358	26,401	7.4
1,491	1,394	7.0	RUB per toe	1,472	1,364	7.9
3.86	3.06	26.4	USD* per boe	3.50	5.32	(34.3)
2,985	2,894	3.1	Greenfields	5,879	2,746	114.1
			Consolidated subsidiaries outside Russia (including PSA)**	3,379	1,419	138.1
1,683	1,696	(0.8)	Proportionally consolidated companies	8,221	7,410	10.9
4,402	3,819	15.3	RUB per toe	1,868	1,650	13.2
2,019	1,720	17.4	USD* per boe	4.44	6.44	(31.0)
5.23	3.77	38.6				
12,059	12,276	(1.8)	Downstream expenses	24,335	21,310	14.2
6,727	7,001	(3.9)	Refining expenses at own refineries	13,728	12,101	13.4
741	833	(11.1)	RUB per tonne	785	681	15.3
1.92	1.83	5.0	USD* per bbl	1.87	2.66	(29.7)
3,238	3,551	(8.8)	Refining expenses at refineries of joint ventures	6,789	6,662	1.9
1,750	1,784	(1.9)	RUB per tonne	1,768	1,579	12.0
4.53	3.91	15.9	USD* per bbl	4.20	6.16	(31.7)
2,094	1,724	21.5	Lubricants manufacturing expenses	3,818	2,547	49.9
6,764	6,576	2.9	Transportation expenses to refineries	13,340	13,879	(3.9)
8,637	4,944	74.7	Other operating expenses	13,581	8,005	69.7
50,950	46,143	10.4	Total	97,093	81,170	19.6

* Translated to USD at average exchange rate for the period

** PSA refers to production sharing agreement

- Upstream expenses include expenditures for raw materials and supplies, maintenance and repairs of producing 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 in Russia increased 17.5% Y-o-Y due to including Prirazlomnoye field in consolidation and expanded activities to increase yields
- Upstream expenses per toe at Brownfields increased 7.9% Y-o-Y due to:
 - Increase in workovers and other activities to maintain crude production levels
 - Increase in total liquids production volumes and watercut at mature fields
 - Launch of electric submersible pump (ESP) rental program (over time, savings from pump purchases and ownership costs will offset rental expense)
 - Higher tariffs of natural monopolies and inflationary pressures, which were partially offset by cost optimization measures
- Upstream expenses at consolidated subsidiaries outside Russia increased 138.1% Y-o-Y due to production startups in Iraq (Badra) and Kurdistan
- 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 13.4% Y-o-Y primarily due to:
 - Higher tariffs of natural monopolies
 - Higher expenditures for materials and supplies due to inflationary pressures
 - Higher expenditures related to pipeline transport of higher quality diesel
 - Increased ecologic program expenses
- Refining expenses at refineries of joint ventures increased 1.9% Y-o-Y due to higher expenditures for materials and supplies due to inflationary pressures and planned reconstruction of gasoline blending units at Yaroslavl refinery in 2Q 2014

- Refining expenses at refineries of joint ventures declined 8.8% Q-o-Q primarily due to 8.4% throughput reduction at Yaroslavl connected with planned repair of hydrocracking plant in April 2015
- Transportation expenses to refineries decreased 3.9% Y-o-Y due to lower throughput and increasing volumes covered by swap contracts
- Transportation expenses to refineries increased 2.9% Q-o-Q due to higher throughput
- Other operating expenses more than doubled due to increase in operating services provided by the Group to Messoyakha.

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 by 18.5% Y-o-Y, driven by:
 - Higher expenses at foreign subsidiaries due to weakening of Russian ruble
 - Consolidation of new entities (GPN-Shelf, GPN-Aero, etc.)
 - 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 17.9% Y-o-Y due to higher tariffs of natural monopolies and weakening Russian ruble, which affected transportation costs for crude and oil product exports.

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 11.3% Y-o-Y in line with increase in depreciable assets driven by capital expenditure.

Taxes Other than Income Tax

2Q	1Q			6m		
2015	2015	Δ, %	(RUB million)	2015	2014	Δ, %
70,608	68,666	2.8	Mineral extraction taxes	139,274	122,245	13.9
17,752	15,989	11.0	Excise	33,741	40,247	(16.2)
3,176	2,334	36.1	Property tax	5,510	4,587	20.1
3,847	5,365	(28.3)	Other taxes	9,212	6,980	32.0
95,383	92,354	3.3	Total taxes other than income tax	187,737	174,059	7.9

- Taxes other than Income tax increased 7.9% Y-o-Y due to increase in mineral extraction taxes (13.9% Y-o-Y) due to negative impact of tax manoeuvre effective January 2015 and increased production at subsidiaries and proportionally consolidated companies, partly offset by 16.2% Y-o-Y reduction in excise tax expenses.

Share of Profit of Equity Accounted Investments

2Q	1Q			6m		
2015	2015	Δ, %	(RUB million)	2015	2014	Δ, %
4,876	3,316	47.0	Slavneft	8,192	5,694	43.9
4,131	2,625	57.4	SeverEnergiya (Arcticgas)	6,756	(2,005)	-
890	381	133.6	Nortgaz	1,271	-	-
721	325	121.8	Other companies	1,046	803	30.3
10,618	6,647	59.7	Share of profit of associates and joint ventures	17,265	4,492	284.3

- Share of Slavneft profit increased Y-o-Y and Q-o-Q due to foreign exchange gain in 2Q 2015, effect of revaluing debt portfolio primarily denominated in USD, and positive impact on operating profit in 6 months 2015 of tax manoeuvre effective January 2015
- Share of SeverEnergiya (Arcticgas) profit for 6 months 2015 increased due to start up of main SeverEnergiya (Arcticgas) fields.

Other gain

- Other income in 2Q 2015 and 6 months 2015 is primary due to writing off Company's RUB 16 billion share in liability at JSC Tomskneft.

Other Financial Items

- Foreign exchange gains/losses were mainly due to revaluation of portion of Group debt portfolio that is denominated in foreign currencies.

Liquidity and Capital Resources

Cash Flows

(RUB million)	6m		
	2015	2014	Δ %
Net cash provided by operating activities	143,998	145,559	(1.1)
Net cash used in investing activities	(161,193)	(148,595)	8.5
Net cash provided by financing activities	18,136	48,794	(62.8)
Increase in cash and cash equivalents	941	45,758	(97.9)

Net Cash Provided by Operating Activities

(RUB million)	6m		
	2015	2014	Δ %
Net cash provided by operating activities before changes in working capital, income tax, interest and dividends	153,305	156,858	(2.3)
Net changes in working capital	14,914	10,423	43.1
Income tax paid	(12,726)	(15,432)	(17.5)
Interest paid	(13,314)	(7,846)	69.7
Dividends received	1,819	1,556	16.9
Net cash provided by operating activities	143,998	145,559	(1.1)

- Adjusted net cash provided by operating activities decreased 1.1 % Y-o-Y due to changes in working capital and increased interest paid.

Net Cash Used in Investing Activities

(RUB million)	6m		
	2015	2014	Δ %
Capital expenditures	(148,084)	(107,585)	37.6
Acquisition of subsidiaries, shares in joint operations and equity affiliates	303	(52,198)	-
Net changes in deposits	15,825	14,977	5.7
Other transactions	(29,237)	(3,789)	671.6
Net cash used in investing activities	(161,193)	(148,595)	8.5

- Net cash used in investing activities increased 8.5% Y-o-Y due to higher capital expenditures and higher new project financing (Messoyakha).

Net Cash Used in Financing Activities

(RUB million)	6m		Δ %
	2015	2014	
Net changes in debt	20,763	57,969	(64.2)
Payment of dividends to shareholders	(2,395)	(6,826)	(64.9)
Acquisition of non-controlling interest in subsidiaries	-	(485)	-
Other transactions	(232)	(1,864)	(87.6)
Net cash provided by financing activities	18,136	48,794	(62.8)

- Net cash provided by financing activities declined 62.8% due to reduced borrowing.

Capital Expenditure

(RUB million)	6m		Δ, %
	2015	2014	
Exploration and production	105,704	79,403	33.1
Consolidated subsidiaries	97,011	72,825	33.2
Proportionally consolidated companies	8,693	6,578	32.2
Refining	9,358	10,274	(8.9)
Marketing and distribution	5,059	3,380	49.7
Others	6,630	3,128	112.0
Subtotal capital expenditures	126,751	96,185	31.8
Change in advances issued and material used in capital expenditures	21,333	11,400	87.1
Total capital expenditures	148,084	107,585	37.6

- Capital expenditure for Exploration and Production increased 33.1% Y-o-Y due primarily to
 - Construction of major infrastructure for Novoport
 - Exploration expenses in Iraq and Kurdistan
 - Purchase of new licenses in Orenburg and Khanty-Mansiysk regions
 - Increased production drilling at Priobskoye
 - Capital expenditures at Prirazlomnoye field.

Debt and Liquidity

(RUB million)	June 30, 2015	December 31, 2014
Short-term loans and borrowings	95,695	61,121
Long-term loans and borrowings	473,780	502,306
Cash and cash equivalents	(52,659)	(53,167)
Short-term deposits	(66,469)	(76,658)
Net debt	450,347	433,602
Short-term debt / total debt, %	16.8	10.8
Net debt / EBITDA ttm	1.44	1.44

- The Group's diversified debt structure includes syndicated and bilateral loans, bonds, and other instruments
- Average debt maturity decreased from 4.49 years at December 31, 2014 to 4.12 years at June 30, 2015.
- Average interest rate increased from 3.48% at December 31, 2014 to 4.22% at June 30, 2015.

Financial Appendix

EBITDA Reconciliation

2Q	1Q			6m		
2015	2015	Δ, %	(RUB million)	2015	2014	Δ, %
75,539	37,665	100.6	Profit for the period	113,204	90,500	25.1
15,550	6,755	130.2	Total income tax benefit / (expense)	22,305	21,133	5.5
6,815	6,923	(1.6)	Finance expense	13,738	5,842	135.2
(3,524)	(3,422)	3.0	Finance income	(6,946)	(2,635)	163.6
23,670	22,197	6.6	Depreciation, depletion and amortization	45,867	41,215	11.3
(8,087)	8,830	-	Net foreign exchange gain / (loss)	743	5,311	(86.0)
(15,177)	2,035	-	Other gain / (loss), net	(13,142)	1,505	-
94,786	80,983	17.0	EBITDA	175,769	162,871	7.9
(10,618)	(6,647)	59.7	less Share of profit of associates and joint ventures	(17,265)	(4,492)	284.3
22,211	19,051	16.6	add Share of EBITDA of equity accounted investments	41,262	20,004	106.3
106,379	93,387	13.9	Adjusted EBITDA	199,766	178,383	12.0

Financial ratios

Profitability

	6m		
	2015	2014	Δ, p.p.
Adjusted EBITDA margin, %	27.94	25.91	2.0
Net profit margin, %	15.83	13.15	2.7
Return on assets (ROA), %	7.59	12.46	(4.9)
Return on equity (ROE), %	13.03	19.99	(7.0)
Return on average capital employed (ROACE), %	13.61	17.68	(4.1)

Liquidity

	6m		
	2015	2014	Δ, %
Current ratio	1.62	1.86	(12.9)
Quick ratio	0.83	1.00	(16.8)
Cash ratio	0.42	0.63	(33.6)

Leverage

	6m		
	2015	2014	Δ, p.p.
Net debt/ Total Assets, %	20.40	12.52	7.9
Net debt/ Equity, %	36.53	20.43	16.1
Gearing, %	29.54	18.41	11.1
			Δ, %
Net debt/ Market Capitalization	0.70	0.31	130.1
Net debt/ EBITDA	1.44	0.64	124.8
Total debt/ EBITDA	1.82	1.09	66.6

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.

The sharp drop in oil and oil products prices on international markets in US dollar terms since 2014 negatively affected Group results, but oil price declines were largely offset by changes in the exchange rate for the US dollar relative to the Russian ruble.

2Q 2015	1Q 2015	Δ, %		6m 2015	2014	Δ, %
			International market	(US\$/ barrel)		
61.88	53.94	14.7	Brent	57.84	108.93	(46.9)
61.73	52.92	16.6	Urals Spot (average Med + NWE)	57.26	107.09	(46.5)
				(US\$/ tonne)		
671.00	548.78	22.3	Premium gasoline (average NWE)	608.90	989.69	(38.5)
525.60	455.23	15.5	Naphtha (average Med. + NWE)	489.85	916.18	(46.5)
580.66	528.11	10.0	Diesel fuel (average NWE)	553.96	922.03	(39.9)
570.63	508.77	12.2	Gasoil 0.2% (average Med.)	539.20	906.95	(40.5)
314.81	266.83	18.0	Fuel oil 3.5% (average NWE)	290.43	566.58	(48.7)
			Domestic market	(RUB/ tonne)		
31,497	29,254	7.7	High-octane gasoline	30,382	29,879	1.7
27,188	26,341	3.2	Low-octane gasoline	26,767	26,622	0.5
29,279	27,474	6.6	Diesel fuel	28,381	27,443	3.4
8,383	7,444	12.6	Fuel oil	7,916	9,117	(13.2)

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 2015	1Q 2015		6m 2015	2014
1.0	7.4	Change in Consumer Price Index (CPI), %	8.4	4.8
2.3	9.2	Change in Producer Price Index (PPI), %	11.5	4.3
55.52	58.46	US\$/ RUB exchange rate as of the end of the period	55.52	33.63
52.65	62.19	Average RUB/US\$ exchange rate for the period	57.40	34.98

Hydrocarbon Taxes

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

2Q 2015	1Q 2015	Δ, %		6m		Δ, %
				2015	2014	
			Export customs duty	(US\$/ tonne)		
130.57	129.63	0.7	Crude oil	130.10	386.64	(66.4)
62.63	62.13	0.8	Light petroleum products	62.38	255.15	(75.6)
62.63	62.13	0.8	Diesel	62.38	251.92	(75.2)
101.80	101.07	0.7	Gasoline	101.44	347.94	(70.8)
110.93	110.13	0.7	Naphtha	110.53	347.94	(68.2)
99.20	98.50	0.7	Heavy petroleum products	98.85	255.15	(61.3)
			Mineral extraction tax			
7,072	6,873	2.9	Crude oil (RUB/ tonne)	6,972	6,109	14.1

Crude and oil products export duty rates

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.

Crude oil export customs duty rate

a) According to Russian Federal Law # 5003-1 (May 21, 1993) clause 3.1. subclause 4, amended by Russian Federal Law # 366-FZ (November 24, 2014) export custom duty rates should not exceed the marginal export duty rates calculated 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 + 42.0% * (P – 182.50) for 2015
	29.20 + 36.0% * (P – 182.50) for 2016
	29.20 + 30.0% * (P – 182.50) from 2017

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

b) Under Federal Law # 239-FZ (December 3, 2012) the Government of the Russian Federation established 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)

Russian Federal Law # 366-FZ (November 24, 2014) and Resolution of the Russian Government # 1274 (November 29, 2014) amended the formulas described above. Under the new standards the reduced custom duty rates for specified crudes are calculated according to the following formula:

$$Ct = (P - 182.5) * K - 56.57 - 0.14 * P$$

Where P is the Urals price (USD/tonne) and K is an incremental coefficient equal to 42% for 2015, 36% for 2016, and 30% from 2017.

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, and Yamalo-Nenets Autonomous Okrug north of Latitude 65°.

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

c) Under Federal Law # 5003-1 (May 12, 1993) "Custom tariffs" crude oil produced from new offshore fields is exempted from export duties until:

- March 31, 2032 – for offshore fields located entirely in the Azov Sea, or located 50% or more in the Baltic Sea, Black Sea (at water depths less than 100 meters), Pechora Sea, White Sea, Sea of Okhotsk (south of 55° N), or the Caspian Sea
- March 31, 2042 – for offshore fields located 50% or more in the Black Sea (at depths exceeding 100 meters), Sea of Okhotsk (north of 55°), Barents Sea (south of 72°N)
- Indefinitely – for offshore fields situated 50% or more in the Kara Sea, Barents Sea (north of 72° N), or the Eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

According to the Russian Federation Tax Code clause 11.1 subclause 5, a new offshore field is a field where commercial hydrocarbon production commences no earlier than 1 January 2016. The taxpayer may elect to designate any offshore field as a "new offshore field" provided no more than 1% of hydrocarbons (not including associated gas) have been produced from the field.

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, Belarus) 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 exports of petroleum products to Tadzhikistan within the indicative limits are not subject to customs duties.

According to Resolution of the Russian Government # 276 (March 29, 2013) the export customs duty rate on petroleum products is calculated using the following formula:

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

Under Resolution of the Russian Government #2 (January 3, 2014), the coefficient K is set at 0.65 for diesel fuel, 0.90 for gasoline and naphtha, and 0.66 for other oil products.

From 1 January 2015, in accordance with Federal Law # 366-FZ (November 24, 2014) and Resolution of the Russian Government #1274 (November 24, 2014), the coefficients K for different petroleum products are as follows:

	2015	2016	from 2017
Light and middle distillates			
Diesel	0.48	0.4	0.3
Lubricants oil			
Naphtha	0.85	0.71	0.55
Gasoline	0.78	0.61	0.3

Excise duties on petroleum products

In Russia, excise duties are paid by the producers of refined products. Excise duties are also applied to petroleum products imported into Russia.

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

	2014	2015	2016	2017
Gasoline				
Below Class 3	11 110	7 300	7 530	5 830
Class 3	10 725	7 300	7 530	5 830
Class 4	9 916	7 300	7 530	5 830
Class 5	6 450	5 530	7 530	5 830
Naphtha	11 252	11 300	10 500	9 700
Diesel fuel				
Below Class 3	6 446	3 450	4 150	3 950
Class 3	6 446	3 450	4 150	3 950
Class 4	5 427	3 450	4 150	3 950
Class 5	4 767	3 450	4 150	3 950
Heating oil	6 446	3 000	3 000	2 800
Motor oil	8 260	6 500	6 000	5 400

Mineral extraction tax (MET) on crude oil.

According to Tax code RF clause 342 (version Federal Law # 366-FZ November 24, 2014) the mineral extraction tax rate on crude oil (R) is calculated using the following general formula:

	2014	2015	2016	2017
MET oil - R	$493 * Kc * Kv * Kz * Kd * Kdv$	$766 * Kc - Dm$	$857 * Kc - Dm$	$919 * Kc - Dm$

$Dm = 530 * Kc * (1 - Kv * Kz * Kd * Kdv * Kkan)$, where

$Kmet = 530$ for 2015 FY, 559 starting from 2016 FY.

Kc reflects the volatility of crude oil prices on the global market. $Kc = (P - 15) * D / 261$, 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.

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

Kz characterizes the relative size of the field (by reserves) and provides lower tax rates for small fields. For fields with initial reserves (designated by V_3 , defined as ABC1 + C2 reserves volume at January 1 of the year proceeding 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, $Kz = 0.125 * V_3 + 0.375$

Kd characterizes the effort required to recover oil. It varies between 0.2 and 1 depending on recovery complexity from the deposit as follows:

- 0.2 – for oil produced from deposits with permeability no greater than $2 * 10^{-3} \mu^2$ and effective formation thickness no greater than 10 meters

- 0.4 – for oil produced from deposits with permeability no greater than $2 \cdot 10^{-3} \mu^2$ 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.

Kdv characterizes the degree of depletion of the deposit, providing lower tax rates for highly depleted deposits. Depletion is measured by Ndv/Vdv , where Ndv is cumulative production volume from the deposit and Vdv 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, $Kdv = 3.8 - 3.5 \cdot Ndv / Vdv$. Where depletion is greater than 1, Kdv is 0.3. In all other cases $Kdv = 1$. For deposits containing hard-to-recover reserves the coefficient Kv is equal to 1.

Kkan characterizes the oil production region and oil quality. This coefficient provides lower tax rates for fields located partly or completely in regions with challenging climate and geological conditions (specifically, Yamal Peninsula in Yamalo-Nenets Autonomous Okrug, Irkutsk Oblast, and Sakha Republic (Yakutia)). Coefficient $Kkan$ is set at 0 until the first day of the month following the month when one of the following conditions is met:

- 1) Achieving maximum cumulative stipulated production from the field;
- 2) Expiration of the stipulated term.

When the tax exemption term expires $Kkan$ is equal to 1.

b) According to the Russian Federation Tax Code clause 342 subclause 2.1 and clause 338 subclause 6 the following ad valorem MET rates should be used for oil produced from new offshore fields (as a % of price):

- 30% from start of commercial hydrocarbon production until a five-year termination period, but not later than 31 March 2022 – for fields located entirely in the Sea of Azov or for fields located more than 50% in the Baltic Sea
- 15% from start of commercial hydrocarbon production until a seven-year termination period, but not later than 31 March 2032 – for fields located more than 50% in the Black Sea (at water depths less than 100 meters), the Sea of Japan, Pechora Sea, White Sea, Sea of Okhotsk (south of $55^\circ N$), Caspian Sea
- 10% from start of commercial hydrocarbon production until a ten-year termination period, but not later than 31 March 2037 – for fields located more than 50% in the Sea of Okhotsk (north of $55^\circ N$), Black Sea (at depths exceeding 100 meters), Barents Sea (south of $72^\circ N$)
- 5% from start of commercial hydrocarbon production until a 15-year termination period, but not later than 31 March 2042 – for fields located more than 50% in the Kara Sea, Barents Sea (north of $72^\circ N$), and eastern Arctic (Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea).

Russian Federation tax law also provides for a zero rate of MET on oil produced from deposits classified in the state mineral reserves balance as related to the Bazhenov formation, provided all other Tax Code conditions are met.

Group effective MET rate

2Q 2015	1Q 2015	Δ , %		6m 2015	2014	Δ , %
7,072	6,873	2.9	Nominal crude oil MET rate, RUB/tonne	6,972	6,109	14.1
6,682	6,545	2.1	Effective crude oil MET rate, RUB/tonne	6,545	5,824	12.4
			Difference between nominal and effective rates, RUB/tonne	427	285	
390	328					

In 6 months 2015 the Group's effective MET rate was 6,545 RUB/tonne, or 427 RUB/tonne lower than the nominal MET rate established 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

Tax code RF clause 342 (version Federal Law # 366-FZ November 24, 2014) established mineral extraction tax rates for natural gas and gas condensate as follows:

	2014 (January - June)	2014 (July - December)	2015
MET on natural gas (RUB/mcm)	471* 700	35 * Eut * Kc	35 * Eut * Kc + Tg
MET on gas condensate (RUB/tonne)	647	42 * Eut * Kc	42 * Eut * Kc * Kkm

* 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.

Eut is the base rate per fuel-equivalent unit calculated by the taxpayer depending on natural gas and gas condensate prices and their relative production amounts.

Kc characterizes the effort required to recover hydrocarbons from the particular deposit. The coefficient is designed to reduce the tax rate on natural gas and gas condensate and is equal to the lowest of the following concessionary coefficients: Kr – depending on location, Kvg – for highly depleted deposits, Kgz – for deposits at depths of more than 1,700 meters, Kas – for deposits related to the regional gas supply system and Korz – for deposits classified as Turonian formations.

Tg reflects gas transportation costs (set at zero for 2015 according to Federal Tariff Service of the Russian Federation).

Kkm is a correction coefficient that for 2015 is equal to 4.4.

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 during 6 m 2015	Subsidiaries (oil fields) belonging to the Group
MET for Oil	
Small fields factor Kz	OJSC Gazpromneft-Noyabrskneftegaz (Vorgentskoye, Vostochno-Vyngayakhinskoye, Severo-Karamovskoye, Valyntoyskoye, Yuzhno-Purpeyskoye)) LLC Zhivoy Istok (Baleykinskoye)
Depletion factor Kv	OJSC Gazpromneft-Noyabrskneftegaz (Pogranichnoye, Kholmogorskoye, Chatilkinskoye, Muravlenkovskoye, Sugmutskoye) LLC Gazpromneft-Vostok (Zapadno-Luginetskiy area, Shinginskoye) OJSC Yuzhuralneftegas (Kapitonovskoye)
Hard-to-recover factor Kd	OJSC Gazpromneft-Noyabrskneftegaz (Vyngayakhinskoye, Etu-Purovskoye, Zapadno-Noyabrskoye, Kraynee) LLC Archinskoye (Urmanskoye, Archinskoye) LLC Zapolyarneft (Vyngapurovskoye, Novogodnee) LLC Gazpromneft-Khantos (Priobskoye)
Oil production region and oil quality factor Knan	LLC Gazpromneft-Angara (Tympychikanskoye, Ignyalinskoye) LLC Novy-Port (Novoport)

<p>Zero MET rate for fields classified as belonging to Bazhenov formation Lower MET rate for new offshore fields in the Pechora Sea</p>	<p>LLC Gazpromneft-Khantos (Krasnoleninskoye) LLC Gazpromneft-Shelf (Prirazlomnoye)</p>
<p>MET for Gas</p> <p>Hard-to-recover factor Kc</p>	<p>LLC Novy Port (Novoport) CJSC Gazpromneft Orenburg (East part of Orenburg oilfield)</p>
<p>Profit tax</p> <p>16% rate (4% concession under regional legislation of Khanty–Mansiysk Autonomous Okrug)</p> <p>15.5% rate (4.5% concession under regional legislation of Yamalo-Nenets Autonomous Okrug)</p>	<p>LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz OJSC Gazpromneft-Noyabrskneftegaz</p>
<p>Property tax</p> <p>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)</p> <p>1.1% rate on property purchased/constructed for investment projects in Yamalo-Nenets Autonomous Okrug (under regional legislation of Yamalo-Nenets Autonomous Okrug)</p> <p>Exemption from property tax for investment projects in Orenburg region (according to the Orenburg regional legislation)</p>	<p>LLC Gazpromneft-Khantos OJSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft CJSC Gazpromneft Orenburg</p>

Transportation of Crude Oil and Petroleum Products

Transportation tariff policies are established by the state authorities to ensure a balance between the interests of the state and all participants in the transportation process. Transportation tariffs for natural monopolies are set by the Federal Tariff Service of the Russian Federation (FTS). 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		
2015	2015	Δ, %	(RUB per tonne)	2015	2014	Δ, %
Crude oil						
Export						
1,574	1,846	(14.7)	Pipeline	1,709	1,702	0.4
CIS						
1,118	1,247	(10.3)	Pipeline	1,182	1,168	1.3
Transportation to Refineries						
402	487	(17.4)	ONPZ	444	514	(13.5)
1,047	1,187	(11.8)	MNPZ	1,117	1,024	9.0
1,139	914	24.6	YaNPZ	1,027	1,069	(3.9)
Petroleum products						
Export from ONPZ						
2,749	2,792	(1.6)	Gasoline	2,771	2,336	18.6
4,684	4,371	7.2	Fuel oil	4,528	3,986	13.6
4,500	3,876	16.1	Diesel fuel	4,190	3,302	26.9
Export from MNPZ						
1,885	1,916	(1.6)	Gasoline	1,901	1,643	15.7
2,787	1,947	43.1	Fuel oil	2,369	1,460	62.3
1,801	2,142	(15.9)	Diesel fuel	1,971	1,854	6.3
Export from YaNPZ						
1,389	1,387	0.1	Gasoline	1,388	1,133	22.5
1,809	1,843	(1.9)	Fuel oil	1,826	1,742	4.8
1,801	1,687	6.8	Diesel fuel	1,744	1,473	18.4

The Group's crude oil export route mix (tonnes) in 6 months 2015 and 6 months 2014 is presented below:

	6m	
	2015	2014
Crude oil exports		
Primorsk Baltic Sea port	5.5%	34.5%
Druzhba pipeline	15.4%	9.2%
Port of Novorossiysk	36.4%	21.9%
ESPO pipeline and the port of Kozmino	37.2%	34.4%
Exported without using Transneft system, including:	5.5%	0.0%
Prirazlomnoye	3.7%	0.0%
Novoport	1.8%	0.0%
Total	100.0%	100.0%
Crude oil exports to CIS countries		
Belarus	95.2%	100.0%
Uzbekistan	4.8%	0.0%
Total	100.0%	100.0%

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