



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED JUNE 30, 2014 AND MARCH 31, 2014 AND
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended June 30, 2014 and 2013 and March 31, 2014 (the "**Interim Condensed Consolidated Financial Statements**"). Such terms as "**Rosneft**", "**Company**" and "**Group**" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries and affiliated companies. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

Except as otherwise indicated, oil and gas reserves and production are presented pro-rata for companies accounted for on an equity basis or under the proportionate consolidation method and 100% for fully consolidated companies.

Except as otherwise indicated, all amounts are provided in billions of RUB. All figures are rounded; however, figures per unit of production are provided based on the actual data.

To convert tonnes to barrels a 7.362 ratio is used. To convert thousands of cubic meters of gas to barrels of oil equivalent a 5.883 ratio is used. "Rospan International" gas condensate and natural gas liquids (NGL) volumes are converted to barrels of oil equivalent at 8.3 and 10.6 barrels per ton, respectively.

Overview

Rosneft is a vertically integrated oil and gas company with core activities and assets located principally in Russia. The Company is primarily engaged in exploration and production of hydrocarbons, oil refining and product marketing.

OJSC Rosneft was established in accordance with the Russian Government Decree № 971, issued on September 29, 1995. From its foundation, the Company has expanded significantly through organic growth, consolidation of interests, acquisition of new companies and development of new businesses. Rosneft is now the leader of Russia's petroleum industry in terms of crude oil reserves and production operating in all key regions of the country.

Rosneft is one of the world's largest publicly traded companies in terms of proved hydrocarbon reserves and in terms of hydrocarbon production. According to oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, as of December 31, 2013 proved hydrocarbon reserves amounted to 41.77 billion barrels of oil equivalent, including 30.78 billion barrels of crude oil and NGL and 1,867 billion cubic meters of marketable gas, on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System ("PRMS").

Rosneft's crude oil and natural gas liquids (NGL) production amounts to 5.0 million boe per day and output of natural and associated gas is 13.50 billion cubic meters in the second quarter of 2014.

Rosneft's domestic refinery throughput is 0.23 million tons per day (average for the second quarter of 2014). Current utilization of the refining capacities is close to maximum adjusted for planned turnarounds and unplanned shutdown of Achinsk refinery due to accident. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. Rosneft also holds a 50% stake in Ruhr Oel GmbH (ROG) where the Company processes both own and procured crude oil. Rosneft also processes crude oil, gas and petroleum products at external refineries (which are outside the Group).

Financial and Operating Highlights

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	1,435	1,375	4.4%	2,810	1,988	41.3%
EBITDA	304	289	5.2%	593	357 ¹	66.1%
Net income	172	88	95.5%	260	274 ¹	(5.1)%
Capital expenditures	133	104	27.9%	237	248	(4.4)%
Adjusted free cash flow*	112	121	(7.4)%	233	68	242.6%
Net Debt	1,495	1,586	(5.7)%	1,495	1,862	(19.7)%
Operational results						
Hydrocarbon production (th. boe per day)	5,005	5,051	(0.9)%	5,027	4,804	4.6%
Crude oil and NGL production (th. barrels per day)	4,132	4,189	(1.4)%	4,160	4,183	(0.5)%
Gas production (th. boe per day)	873	862	1.3%	867	621	39.6%
Production of petroleum products in Russia (mln tonnes)	19.87	20.80	(4.5)%	40.67	32.44	25.4%
Production of petroleum products outside Russia (mln tonnes)	3.09	3.21	(3.7)%	6.30	5.66	11.3%

*Excluding the effects of operations with trade securities and one-off effect from prepayments under long term oil contracts of RUB 431 billion in the six months of 2014 and RUB 258 billion in the six months of 2013.

¹Excluding one-off effect from final estimation of the fair value of the acquired assets and liabilities, net income amounted to RUB 137 billion and EBITDA was RUB 371 billion.

Significant events in the second quarter of 2014

Rosneft and BP signed long-term petroleum product and oil supply contract on prepayments basis

Rosneft and BP Oil International Limited signed a set of agreements designed to organize long-term deliveries of oil products and oil on a pre-paid basis. The terms of transaction provide for export deliveries of oil products with possible substitution with oil of up to 12 million tons within 5 years in bulk on a pre-paid basis in an amount of not less than USD 1.5 billion.

Rosneft, Gazprom, NOVATEK, Gazprombank, Sovkomflot, USC and Ministry of Industry and Trade Sign JV Agreement

On June 16, 2014 at the 21st World Petroleum Congress Rosneft, Ministry of Industry and Trade of the Russian Federation, Gazprom, NOVATEK, Gazprombank, Sovkomflot, United Shipbuilding Corporation signed a Joint Venture Agreement in relation to the implementation of vessel, drilling rig and marine equipment construction and design projects.

Company signed an Investment and Cooperation Agreement with Seadrill Limited

In May 2014 at the St. Petersburg International Economic Forum the Company signed an Investment and Cooperation Agreement with Seadrill Limited, leader on services market. The agreement signed to form a long-term partnership with a view to capture the opportunities in developing Rosneft's offshore and onshore projects until at least 2022.

Company signed the sale and purchase agreement with SANORS Holding Limited

In May 2014 Rosneft and SANORS Holding Limited signed agreement of sale and purchase, according to which Rosneft acquired enterprises of SANORS group. The document implies Rosneft's purchase of 100% shares ZAO "Novokuibyshev petrochemical refinery". The transaction is to be completed at the end of the third quarter of 2014.

Achinsk oil refinery –serious accident

On June 15, 2014 there was a serious accident at Achinsk oil refinery. The Company put all its efforts to reconstruct production on a tight schedule. Unplanned repairs are being carried out at refinery at the moment.

Company signed long-term contracts for gas supply in volume of over 30 bcm

Rosneft Group, RUSAL, EuroSibEnergo PLC and Russian Machines signed a set of contracts for gas and oil products supplies. In particular, the contracts envisage Rosneft supplies of gas and coke to Rusal subsidiaries. The agreements for gas are designed for a period till 2029 and presume supplies of over 20 bcm of gas from Rosneft during this period. Rosneft and EuroChem signed a 6-year contract for gas supplies. The agreement envisages a total volume of 9.82 bcm of gas supplies to EuroChem production facilities till the 31st of December 2019.

Events after reporting period

Rosneft Acquires Oil Field Services from Weatherford International plc.

In July 2014, Rosneft and Weatherford International plc. signed an agreement for the acquisition of companies (part of the Weatherford group) involved in drilling operations and repair of wells in Russia and Venezuela.

Macroeconomic factors affecting results of operations

Main factors, affecting Rosneft's results of operations are:

- Changes in crude oil, petroleum product and gas prices;
- RUB/US\$ exchange rate and inflation;
- Taxation including changes in mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Changes of electricity prices.

Changes in prices, export customs duty and transport tariffs may have a significant impact on the mix of products and distribution channels the Company selects seeking to maximise netback prices of the produced crude oil.

Changes in Crude Oil, Petroleum Product and Gas Prices

World crude oil prices are highly volatile and fluctuate depending on the global balance of supply and demand on the world crude oil market, political situation mainly in the oil producing regions of the world and other factors. Crude oil exported by Rosneft via the Transneft's (Russian pipeline monopoly) pipeline system is blended with crude oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via ESPO pipeline is sold at a price which is linked to the price of "Dubai" blend.

Petroleum product prices on international and Russian markets are primarily determined by the level of world prices for crude oil, supply and demand for petroleum products and competition on different markets. Price dynamics is different for different types of petroleum products.

The table below sets forth the average crude oil and petroleum product prices worldwide and in Russia in US\$ and RUB. The prices nominated in US\$ are translated into RUB at average US\$/RUB exchange rate for the respective period.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
World market	(US\$ per barrel)		%	(US\$ per barrel)		%
Brent (dated)	109.6	108.2	1.3%	108.9	107.5	1.3%
Urals (average Med and NWE)	107.7	106.5	1.1%	107.1	106.5	0.6%
Urals (FOB Primorsk)	106.0	105.2	0.8%	105.6	104.8	0.7%
Urals (FOB Novorossiysk)	107.1	105.7	1.3%	106.4	105.6	0.8%
Dubai	106.1	104.4	1.6%	105.3	104.5	0.8%
	(US\$ per tonne)			(US\$ per tonne)		
Naphtha (av. FOB/CIF Med)	922	893	3.2%	908	868	4.6%
Naphtha (av. FOB Rotterdam/CIF NWE)	937	913	2.6%	925	886	4.4%
Naphtha (CFR Japan)	951	935	1.8%	943	910	3.6%
Fuel oil (av. FOB/CIF Med)	581	579	0.3%	580	598	(2.9)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	576	569	1.2%	572	594	(3.7)%
High sulphur fuel oil 180 cst (FOB Singapore)	607	610	(0.5)%	608	629	(3.3)%
Gasoil (av. FOB/CIF Med)	905	909	(0.5)%	907	912	(0.6)%
Gasoil (av. FOB Rotterdam/CIF NWE)	909	914	(0.5)%	911	913	(0.2)%
Gasoil (FOB Singapore)	904	904	0.0%	904	903	0.0%
	(th. RUB per barrel)			(th. RUB per barrel)		
Brent (dated)	3.84	3.78	1.4%	3.81	3.33	14.3%
Urals (average Med and NWE)	3.77	3.72	1.2%	3.75	3.30	13.5%
Urals (FOB Primorsk)	3.71	3.68	0.9%	3.69	3.25	13.6%
Urals (FOB Novorossiysk)	3.75	3.70	1.4%	3.72	3.28	13.6%
Dubai	3.71	3.65	1.7%	3.68	3.24	13.6%
	(th. RUB per tonne)			(th. RUB per tonne)		
Naphtha (av. FOB/CIF Med)	32.3	31.2	3.4%	31.8	26.9	18.0%
Naphtha (av. FOB Rotterdam/CIF NWE)	32.8	31.9	2.8%	32.3	27.5	17.7%
Naphtha (CFR Japan)	33.3	32.7	1.9%	33.0	28.2	16.9%
Fuel oil (av. FOB/CIF Med)	20.3	20.3	0.4%	20.3	18.5	9.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	20.2	19.9	1.3%	20.0	18.4	8.6%
High sulphur fuel oil 180 cst (FOB Singapore)	21.2	21.3	(0.4)%	21.3	19.5	9.1%
Gasoil (av. FOB/CIF Med)	31.7	31.8	(0.3)%	31.7	28.3	12.1%
Gasoil (av. FOB Rotterdam/CIF NWE)	31.8	32.0	(0.4)%	31.9	28.3	12.6%
Gasoil (FOB Singapore)	31.6	31.6	0.1%	31.6	28.0	12.8%
Russian market	(th. RUB per tonne)			(th. RUB per tonne)		
(net of VAT, including excise tax)						
Crude oil	12.2	11.7	4.5%	11.9	10.1	18.0%
Fuel oil	9.7	8.6	12.4%	9.1	8.3	9.5%
Summer diesel	27.3	26.0	5.0%	26.6	24.7	7.9%
Winter diesel	28.2	28.4	(0.7)%	28.3	27.2	4.1%
Jet fuel	23.7	25.3	(6.4)%	24.5	23.2	5.8%
High octane gasoline	30.2	28.4	6.1%	29.3	25.6	14.4%
Low octane gasoline	27.5	25.7	6.8%	26.6	24.3	9.6%

Sources: average prices were calculated based on analytical agencies data

The difference between price movements denominated in US\$ and those denominated in RUB is explained by slight nominal RUB depreciation against US\$ by 0.1 % in the second quarter of 2014 compared to the first quarter of 2014 and nominal RUB depreciation against US\$ by 12.8% in the six months of 2014 compared to the six months of 2013.

The Russian Government regulates the price of the gas sold in Russia by Gazprom. While the regulated price is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below this level.

The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average gas sales price (net of VAT) was RUB 3.13 thousand per thousand cubic meters and RUB 2.86 thousand per thousand cubic meters in the second quarter of 2014 and first quarter of 2014, respectively.

In the six months of 2014 and 2013 the average gas sale price (net of VAT) was RUB 2.98 thousand and RUB 2.10 thousand per thousand cubic meters, respectively.

US\$/RUB and EUR/RUB Exchange Rates and Inflation

The US\$/RUB and EUR/RUB exchange rates and inflation in Russian Federation affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in US\$, while most of the Company's expenses are denominated in RUB. Thus, the depreciation of the rouble positively affects Rosneft's operating income, while rouble appreciation has a negative effect.

The table below provides information on the exchange rates movements and inflation during the periods analyzed:

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
Rouble inflation (CPI) for the period	2.5%	2.3%	4.8%	3.5%
Average RUB/US\$ exchange rate for the period	35.00	34.96	34.98	31.02
RUB/US\$ exchange rate at the end of the period	33.63	35.69	33.63	32.71
Average RUB/EUR exchange rate for the period	48.03	47.95	47.99	40.74
RUB/EUR exchange rate at the end of the period	45.83	49.05	45.83	42.72

Source: Central Bank of Russian Federation.

Taxation

The table below provides information on the average enacted tax rates specific to the Russian oil industry:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
Mineral extraction tax						
Crude oil (RUB per tonne)	6,135	6,078	0.9%	6,107	5,108	19.6%
Natural gas (RUB per th. cubic meters)*	471	471	-	471	265	77.7%
Associated gas (RUB per th. cubic meters)	0	0	-	0	0	-
Export customs duty for crude oil						
Crude oil (US\$ per tonne)	382.6	390.7	(2.1)%	386.6	393.1	(1.6)%
Crude oil (RUB per tonne)	13,392	13,659	(2.0)%	13,525	12,193	10.9%
Crude oil (RUB per barrel)	1,819	1,855	(2.0)%	1,837	1,667	10.2%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	12,052	12,291	(2.0)%	12,171	10,974	10.9%
Naphtha (RUB per tonne)	12,052	12,291	(2.0)%	12,171	10,974	10.9%
Light and middle distillates (RUB per tonne)	8,838	9,013	(1.9)%	8,925	8,047	10.9%
Diesel (RUB per tonne)	8,703	8,924	(2.5)%	8,698	8,047	8.1%
Liquid fuels (fuel oil) (RUB per tonne)	8,838	9,013	(1.9)%	8,925	8,047	10.9%

* Starting from July 1, 2013 mineral extraction tax on natural gas was increased. Starting from July 1, 2014 mineral extraction tax on natural gas will be revised according to the Tax Code.

According to the legislation the excise tax rates on the petroleum products are linked to the environmental characteristics of the products.

Excise on petroleum products	From January 1	From July 1	2014	2015
	until June 30, 2013	until December 31, 2013		
High octane gasoline (RUB per tonne)				
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	10,100	10,100	11,110	13,332
High octane gasoline euro-3 (RUB per tonne)	9,750	9,750	10,725	12,879
High octane gasoline euro-4 (RUB per tonne)	8,560	8,960	9,916	10,858
High octane gasoline euro-5 (RUB per tonne)	5,143	5,750	6,450	7,750
Naphtha (RUB per tonne)	10,229	10,229	11,252	13,502
Diesel (RUB per tonne)				
Diesel below euro-3,4,5 (RUB per tonne)	5,860	5,860	6,446	7,735
Diesel euro-3 (RUB per tonne)	5,860	5,860	6,446	7,735
Diesel euro-4 (RUB per tonne)	4,934	5,100	5,427	5,970
Diesel euro-5 (RUB per tonne)	4,334	4,500	4,767	5,244
Lubricants (RUB per tonne)	7,509	7,509	8,260	9,086

Rosneft pays a significant portion of its revenues in taxes, as set out in the following table:

	For 3 months ended		For 6 months ended	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
	RUB billion		RUB billion	
Total revenues	1,435	1,375	2,810	1,988
Total taxes*	787	738	1,525	1,070
Effective tax burden, %	54.8%	53.7%	54.3%	53.8%

* Including export customs duty, mineral extraction tax, excise tax, income tax and other taxes.

The mineral extraction tax and the export customs duty accounted for approximately 48.3% and 48.0% of Rosneft's total revenues in the second quarter of 2014 and in the first quarter of 2014, respectively. In the six months of 2014 and 2013 the mineral extraction tax and the export customs duty accounted for approximately 48.2% and 48.1% of Rosneft's total revenues, respectively.

Mineral Extraction Tax

The rate of mineral extraction tax (MET) for crude oil is linked to the Urals price in the international market and changes every month. It is calculated in US\$ per barrel of crude oil produced using average exchange rate established by the Central Bank of Russia for the respective month.

The mineral extraction tax rate in 2014 was calculated by multiplying the base rate of **RUB 493** (in 2013 base rate was **RUB 470**, in 2015 base rate will be – **RUB 530**, in 2016 – **RUB 559**) by the adjustment ratio of $((P - 15) \times \text{Exchange rate} / 261)$, where “P” is the average Urals price per barrel and “Exchange rate” is the average RUB/US\$ exchange rate established by the Central Bank of Russia in the respective month, as well as factors which characterize the degree of depletion of a particular field, reserves of a particular field and the degree of difficulty of extraction.

The Russian Tax Code provides for reduced or zero mineral extraction tax rate for crude oil produced at certain fields:

- the reduced rate is applicable to crude oil produced at the fields with reserve depletion rate of over 80%; for calculation of the reduced rate a special adjustment ratio $(3.8 - 3.5 \times \text{reserve depletion rate})$ is applied; the reduced rate therefore varies from 0.3 to 1.0 of the standard rate;
- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable during specific time period for specific volumes of production (depending on what is achieved earlier) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, Yamal Peninsula, Azov, Caspian and Black seas, sea of Okhotsk, offshore fields located to the north of the Arctic Circle (the exact time period and volume vary by region where the field is located);
- the reduced tax rate is applicable to crude oil produced at the fields with the volume of initial recoverable reserves being less than 5 million tonne and depletion level of reserves less or equal 0.05. For the calculation of reduced tax rate special coefficient characterising the volume of reserves for a specific field $(0.125 \times \text{value of initial oil recoverable reserves} + 0.375)$ should be used;
- the zero tax rate is applicable at fields: Bazhenov, Abalak, Khadum, Domanic formations and the reduced rate is applicable at fields with permeability less than 2×10^{-3} square micrometres and Tyumen formation.

Rosneft benefits from the reduced mineral extraction tax rate as it has several fields with reserve depletion rate of over 80%.

Moreover its fields in Irkutsk Region, the Republic of Sakha (Yakutia) and Krasnoyarsk Territory are subject to the zero mineral extraction tax rate which is applicable for the first 25 million tonnes of production if not more than 10 years period for a production license and not more than 15 years period for an exploration and production license, on the territory of the Nenets Autonomous district, Yamalo-Nenets Autonomous district for the first 15 million tonnes of production if not more than 7 years period for a production license and not more than 12 years period for an exploration and production license.

In February 2014 accumulated production at Verkhnechonsk fields exceeded 25 million tonnes and starting from March 2014 the regular MET rate is applied.

The zero MET rate is applied for a number of Rosneft fields containing extra-viscous oil.

Rosneft has exploration projects in the Azov, Okhotsk, Caspian, Barents, Kara, Laptev, East Siberian, Chukchi and Black seas and participates in the Sakhalin-1 PSA which is subject to a special tax regime exempting the Company from paying mineral extraction tax.

The Company has exploration and production licenses for the fields with hard to recover reserves. In accordance with the Federal Law № 213-FZ of July 23, 2013, starting from September 2013, special tax regime for these reserves was approved, which provide for tax exemption for the projects at the fields with hard to recover reserves, including Bazhenov, Abalak, Khadum, Domanic formations, and reduced tax rate for crude oil from deposits with permeability of less than 2×10^{-3} square micrometres and Tyumen formation.

On September 30, 2013 the amendments to tax law specifying tax regime for offshore projects in Russian Federation were approved. Following new tax amendments the offshore projects are categorised into one of four groups depending on its complexity and specifies MET rates for each project group ranging from 5% to 30% of hydrocarbon prices (natural gas projects of 3 and 4 groups of difficulty – 1.3% and 1%, respectively).

Changes in mineral tax rate starting from July 1, 2014

Starting from July 1, 2014 new formula is applied for MET rate calculation on fuel natural gas and gas condensate.

In accordance with Tax Code of Russian Federation, base rate of MET for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 thousand cubic metres. Base rates are multiplied by basic rate of standard fuel unit (Sfu) and coefficient of degree of the complexity to recover natural gas and gas condensate. Starting from January 1, 2015 the indicator of natural gas transportation costs will be included into MET calculation.

Tax rate calculated as described above, will be rounded to rouble. Fixed rate of mineral extraction tax for fuel natural gas and gas condensate is valid until July 1, 2014.

Export Customs Duty on Crude Oil

The rate of export customs duty on crude oil is linked to the Urals price in the international market and is denominated in US\$ per tonne.

The table below sets forth the calculation of the ordinary export customs duty for crude oil:

<i>Urals price (US\$ per tonne)</i>	<i>Export customs duty(US\$ per tonne)</i>
Below and including 109.5 (15 US\$ per barrel)	Export customs duty is not levied
Above 109.5 to and including 146 (15 to 20 US\$ per barrel)	35% of the difference between the average Urals price in US\$ per tonne and US\$ 109.5
Above 146 to and including 182.5 (20 to 25 US\$ per barrel)	US\$ 12.78 <i>plus</i> 45% of the difference between the average Urals price in US\$ per tonne and US\$ 146
Above 182.5 (25 US\$ per barrel)	US\$ 29.2 <i>plus</i> 60% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 (since October 1, 2011 till December 31, 2013)
	US\$ 29.2 <i>plus</i> 59% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 (since January 1 till December 31, 2014)
	US\$ 29.2 <i>plus</i> 57% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 (since January 1 till December 31, 2015)
	US\$ 29.2 <i>plus</i> 55% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 (since January 1, 2016)

Starting from October 2011 the marginal export duty rate was reduced from 65% to 60% and is valid up to date. Starting from January 2014 the marginal export duty rate decreased to 59%.

The export customs duty is changed every month and the duty for the next month is based on the average Urals price for crude oil for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

The law on the introduction of a special tax regime in respect of projects on the continental shelf of the Russian Federation provides a full exemption of hydrocarbons produced at offshore fields from the export customs duties, which commercial production will start from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

In accordance with Federal law № 5003-1 of May 21, 1993 the government of the Russian Federation is entitled to establish special formulas for calculating the rates of export customs duties on crude oil in respect of:

- high-viscous oil for a 10 years period starting from the date of application of the reduced export duty rate, but not later than January 1, 2023. The export customs duty rate is set at 10% of the established marginal export duty rate on oil.

- crude oil with special physical and chemical characteristics produced at certain crude oil fields located in Irkutsk, Krasnoyarsk regions, on shores and off shores. The export customs duty rate is set at 45% of the difference between the average Urals price denominated in US\$ per tonne and the amount of US\$ 365 per tonne.

Export customs duty on crude oil export to CIS

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. Starting from January 1, 2012 zero export duty rate is applicable to the crude oil exports to Belarus as for export to Kazakhstan. No new amendments were introduced in 2014 in respect of regime of export customs duty on crude oil export to CIS.

Export Customs Duty on Petroleum Products

Export customs duty on petroleum products (except liquefied petroleum gas, (LPG)) is set every month as the marginal export customs duty rate on crude oil multiplied by the estimated ratio depending on the type of petroleum product.

Export customs duty on LPG is based on the average price of LPG at Poland board (DAF Brest) denominated in US\$ per tonne for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

Starting from May 1, 2011 the Russian Government introduced a special export duty for gasoline equivalent to 90% of the export duty for crude oil. Starting from June 1, 2011 the Russian Government introduced a special export duty for naphtha equivalent to 90% of the export duty for crude oil.

Starting from October 2011 the export duty for light petroleum products (excluding gasoline and nafta) was lowered from 67% to 66% of export duty for crude oil. Starting from October, 2011 the export duty rate for dark petroleum products has been increased from 46.7% to 66% of export duty for crude oil. Export duty for naphtha and gasoline remained at 90% of crude oil export duty.

Starting from January 1, 2014 calculation of the export duty rate for diesel fuel applies lower factor 0.65 instead of 0.66.

Changes in Transport Tariffs of Pipeline and Railway Monopolies

Rosneft transports most of its crude oil and petroleum products via pipeline network owned and operated by JSC “AK “Transneft” (“Transneft”), which is a natural state-owned pipeline monopoly. Rosneft also transports crude oil and petroleum products via railway network owned and operated by Russian railways (RZD), another natural state-owned monopoly.

The Federal Tariff Service (“FTS”), a governmental body regulating natural monopolies, sets Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FTS. The tariffs are set in roubles and are not linked to the exchange rate.

The FTS sets tariffs for each separate route of the pipeline networks depending on the length of the relevant routes, transportation direction and other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation often depend on the type of cargo and the transportation route.

Recent changes of Transneft transportation tariffs

Petroleum products

There were no significant changes in export tariffs in the six months of 2014.

Starting from November 8, 2013 a special multiplying ratio of 1.134 was introduced on the export transportation of stable natural gasoline via land border in the direction of the Baltic countries.

Crude oil

Starting from March 2, 2014 investment tariff for Purpe-Samotlor transportation in the amount RUB 108.2 for 1 tone (excluding VAT) was implemented. The tariff is agreed by Transneft and Rosneft for 36 months period from the effective date of FTS decision about establishment of the tariff. (This tariff does not impact current tariffs for oil transportation by the branch of ESPO pipeline to China).

Starting from February 1, 2014 Transneft increased tariffs for crude oil transportation by 8.9% on average in Belarus. In February 2013 Transneft increased tariffs for crude oil transportation by 9.7% on average in Belarus.

Recent changes in railroad transportation tariffs

There were no significant changes in railroad tariffs inside Russia in the six months of 2014.

Starting from August 2014 there is expected increase in tariffs for export transportation by 13.4% (except diesel, LPG and transportation via Kaliningrad district). Tariffs of diesel transportation in all direction (excluding transportation on Far East domestic market) will increase by 12.5%.

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes denominated in RUB for the respective periods:

	<i>for 3 months ended</i>		<i>Change</i>	<i>for 6 months ended</i>		<i>Change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	(th. RUB/tonne)		(%)	(th. RUB/tonne)		
CRUDE OIL						
Domestic						
<i>Pipeline</i>						
Yuganskneftegaz – Samara refineries	0.85	0.85	–	0.85	0.85	–
Samaraneftegaz – Samara refineries	0.05	0.05	–	0.05	0.05	–
Purpe – Tuapse refinery	1.65	1.65	–	1.65	1.65	–
Samotlorneftegaz (Samotlor via Omsk) – Achinsk refinery	0.94	0.94	–	0.94	–	–
	0.53	0.53	–	0.53	–	–
Varieganeftegaz (Bahilovskoe) – Achinsky refinery						
Orenburgneft (Krotovka)– Saratov refinery	0.27	0.27	–	0.27	0.27	–
Orenburgneft (Pokrovka) – Saratov refinery	0.34	0.34	–	0.34	0.34	–
Samotlor – Ryazan	1.23	1.23	–	1.23	1.26	(2.0)%
RN-Uvatneftegaz – Ryazan	1.06	1.06	–	1.06	1.06	–
Samotlor – Komsomolsk refinery (short route)	0.54	0.54	–	0.54	0.59	(7.0)%
Samotlor – Angarsk refinery (short route)	0.94	0.94	–	0.94	1.09	(13.4)%
			–			
<i>Pipeline and railroad</i>						
Purneftegaz – Komsomolsk refinery (short route)	4.42	4.42	–	4.42	–	–
Samotlor – Komsomolsk refinery	4.52	4.52	–	4.52	–	–
Yuganskneftegaz –Ryazanskaya NPK	1.15	1.15	–	1.15	1.15	–
Export						
<i>Pipeline</i>						
Yuganskneftegaz – Primorsk	1.60	1.60	–	1.60	1.60	–
Yuganskneftegaz – Novorossiysk	1.59	1.59	–	1.59	1.59	–
Yuganskneftegaz – Ust-Luga	1.65	1.65	–	1.65	–	–
Samaraneftegaz – Novorossiysk	0.85	0.85	–	0.85	0.85	–
Vankor (Purpe)-Kozmino	2.08	2.08	–	2.08	2.08	–
Vankor (Purpe)- China	2.19	2.12	3.3%	2.15	2.08	3.5%
Yuganskneftegaz – Germany	1.62	1.62	–	1.62	1.60	1.1%
Yuganskneftegaz – Poland	1.55	1.55	–	1.55	1.53	1.1%
Yuganskneftegaz – Belarus (Naftan) (South Balyk)	1.49	1.49	–	1.49	1.48	0.5%
Yuganskneftegaz – Belarus (Naftan) (Karkateevy)	1.51	1.51	–	1.51	–	–
Verkhnechonskneftegaz – Kozmino	2.08	2.08	–	2.08	2.08	–
<i>Railroad and mixed transportation</i>						
Stavropolneftegaz – CPC	0.72	0.72	–	0.72	0.72	–

	<i>for 3 months ended</i>			<i>for 6 months ended</i>		
	<i>June 30,</i>	<i>March 31,</i>	<i>Change</i>	<i>June 30,</i>	<i>June 30,</i>	<i>Change</i>
	2014	2014		2014	2013	
	(th. RUB/tonne)		(%)	(th. RUB/tonne)		
PETROLEUM PRODUCTS EXPORT						
Diesel						
Samara refineries – Ventspils	2.13	2.13	–	2.13	2.00	5.2%
Angarsk refinery – Nakhodka	4.52	4.52	–	4.52	4.44	1.8%
Komsomolsk refinery – Nakhodka	1.77	1.77	–	1.77	1.74	1.9%
Achinsk refinery – Tuapse	5.10	5.10	–	5.10	5.01	1.8%
RNPK – Ventspils	1.91	1.89	1.1%	1.90	1.8	5.1%
RNPK – Primorsk	1.95	1.88	3.6%	1.91	1.92	(0.2)%
YANOS – Primorsk	1.70	1.65	2.8%	1.68	1.65	1.8%
Fuel oil						
Samara group refineries - Odessa	2.05	2.05	–	2.05	–	–
Angarsk refinery – Nakhodka	4.51	4.51	–	4.51	4.43	1.7%
Komsomolsk refinery – Nakhodka	1.69	1.69	–	1.69	1.67	1.6%
Achinsk refinery – Nakhodka	5.77	5.77	–	5.77	5.68	1.7%
Ryazansky NPK – Ust-Luga	1.69	1.69	–	1.69	1.69	–
Ryazansky NPK – Estonia	1.95	1.95	–	1.95	1.95	–
SNPZ – Kerch	1.80	1.80	–	1.80	1.80	–
YANOS – Estonia	1.41	1.41	–	1.41	1.41	–
Naphtha						
Samara refineries – Tuapse	2.10	2.10	–	2.10	2.07	1.9%
Achinsk refinery – Tuapse	4.94	4.94	–	4.94	4.86	1.8%
Angarsk refinery – Nakhodka	4.27	4.27	–	4.27	4.19	1.8%
Komsomolsk refinery – Nakhodka	1.74	1.74	–	1.74	1.71	1.9%

Source: Transneft, RZD, Rosneft. The data is provided for major routes at each direction. Mixed export tariffs include transshipment at non-Rosneft terminals.

Rosneft operates proprietary transportation and transshipment facilities. This allows optimisation of Company's logistics (netbacks). These facilities include: the Arkhangelsk, De-Kastri, Tuapse and Nakhodka export terminals, the Okha – Komsomolsk-on-Amur pipeline, Vankor-Purpe pipeline and the Caspian Pipeline Consortium ("CPC"). In CPC Rosneft has a 7.5% stake through a joint venture "Rosneft Shell Caspian Ventures Ltd" (Cyprus) (Rosneft owns 51%).

Business Segments and Intersegment sales

Substantially most of all of Rosneft's operations and assets are located in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, Rosneft does not present geographical segments separately. Rosneft also carries out projects outside Russia, including exploration and production projects in Algeria, the Gudautsky area in the Black Sea territorial waters of Abkhazia, United Arab Emirates, Canada, Brazil, Vietnam, Venezuela and USA and also stakes in refineries in Germany and Italy.

Operating Segments

As at the reporting date the activities of Rosneft are divided into two main operating segments, based on the nature of their operations:

- Exploration and production (upstream). Geological exploration and development of fields and crude oil and gas production on the onshore and offshore of the territory of Russia and abroad and oil service Group companies; and
- Refining and distribution (downstream). Refining of crude oil, as well as the purchase, transportation, sale of crude oil and petroleum products to the third parties in Russia and abroad.

The Company is currently working towards a separate disclosure of gas segment indicators. At the moment, all the activity of the gas segment related to business segments Upstream. Other activities included in the "Corporate" segment and include banking, financial services and other activities.

Intersegment Sales

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, Upstream Group companies provide operator services for Downstream Group companies segment, which sale part of crude oil on the domestic market or outside of Russia, and the remaining part is processed at own refineries or at refineries of affiliates and third parties. Refined petroleum products are then either sold by the Company through wholesale sales in international or domestic markets or sold to the Company's sale subsidiaries for subsequent wholesale and retail sale in Russia.

Intercompany sales present financial activity of segments as if the segments operate separately from each other within the vertically integrated company by using of transfer prices for settlements between segments. For the estimation of upstream revenues within vertical integrated company the price of Upstream (and the purchase price of Downstream) was recalculated using the export market price minus transport cost, minus export duty, dispatches and other expenses relating to current sales. As the result segments use the price established at oil gathering facility (point of sales) where Upstream dispatches the oil to Downstream.

Financial performance by segments for the periods: second and first quarters of 2014

	Upstream		Downstream		Corporate		Total	
	Quarter II, 2014	Quarter I, 2014	Quarter II, 2014	Quarter I, 2014	Quarter II, 2014	Quarter I, 2014	Quarter II, 2014	Quarter I, 2014
Revenues and equity share in profits of associates and joint ventures								
Oil and gas sales	–	–	757	729	–	–	757	729
Petroleum products and petrochemicals sales	–	–	654	632	–	–	654	632
Support services and other revenues	–	–	–	–	18	16	18	16
Equity share in profits of associates and joint ventures	6	(2)	–	–	–	–	6	(2)
<i>Intersegment turnover</i>	596	568	–	–	–	–	–	–
Total revenues and equity share in profits of associates and joint ventures	602	566	1,411	1,361	18	16	1,435	1,375
Costs and expenses								
Production and operating expenses	62	55	47	36	9	7	118	98
Cost of purchased oil, gas and petroleum products and refining costs	3	5	115	119	–	–	118	124
<i>Intersegment turnover</i>	–	–	596	568	–	–	–	–
General and administrative expenses	7	8	5	4	15	15	27	27
Pipeline tariffs and transportation costs	3	6	115	111	–	–	118	117
Exploration expenses	5	4	–	–	–	–	5	4
Depreciation, depletion and amortisation	89	86	15	17	5	2	109	105
Taxes other than income tax	272	256	39	42	4	3	315	301
Export customs duty	–	–	430	415	–	–	430	415
Total cost and expenses	441	420	1,362	1,312	33	27	1,240	1,191
Operating income	161	146	49	49	(15)	(11)	195	184
Finance income	–	–	–	–	6	6	6	6
Finance expenses	–	–	–	–	(10)	(41)	(10)	(41)
Other income	–	–	–	–	4	58	4	58
Other expenses	–	–	–	–	(10)	(13)	(10)	(13)
Foreign exchange differences	–	–	–	–	29	(84)	29	(84)
Income before income tax	161	146	49	49	4	(85)	214	110
Income tax	(32)	(29)	(10)	(10)	–	17	(42)	(22)
Net income	129	117	39	39	4	(68)	172	88
EBITDA	250	232	64	66	(10)	(9)	304	289

Financial performance by segments for the periods: six months ended of June 30, 2014 and 2013

	Upstream		Downstream		Corporate		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues and equity share in profits of associates and joint ventures								
Oil and gas sales	-	-	1,486	1,025	-	-	1,486	1,025
Petroleum products and petrochemicals sales	-	-	1,286	928	-	-	1,286	928
Support services and other revenues	-	-	-	-	34	26	34	26
Equity share in profits of associates and joint ventures	4	9	-	-	-	-	4	9
<i>Intersegment turnover</i>	<i>1,164</i>	<i>799</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total revenues and equity share in profits of associates and joint ventures	1,168	808	2,772	1,953	34	26	2,810	1,988
Costs and expenses								
Production and operating expenses	117	83	83	70	16	16	216	169
Cost of purchased oil, gas and petroleum products and refining costs	8	-	234	188	-	-	242	188
<i>Intersegment turnover</i>	<i>-</i>	<i>-</i>	<i>1,164</i>	<i>799</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
General and administrative expenses	15	8	9	9	30	29	54	46
Pipeline tariffs and transportation costs	9	-	226	173	-	-	235	173
Exploration expenses	9	6	-	-	-	-	9	6
Depreciation, depletion and amortisation	175	132	32	24	7	4	214	160
Taxes other than income tax	528	375	81	66	7	6	616	447
Export customs duty	-	-	845	602	-	-	845	602
Total cost and expenses	861	604	2,674	1,931	60	55	2,431	1,791
Operating income	307	204	98	22	(26)	(29)	379	197
Finance income	-	-	-	-	12	7	12	7
Finance expenses	-	-	-	-	(51)	(29)	(51)	(29)
Other income	-	-	-	-	62	206	62	206
Other expenses	-	-	-	-	(23)	(20)	(23)	(20)
Foreign exchange differences	-	-	-	-	(55)	(66)	(55)	(66)
Income before income tax	307	204	98	22	(81)	69	324	295
Income tax	(61)	(41)	(20)	(4)	17	24	(64)	(21)
Net income	246	163	78	18	(64)	93	260	274
EBITDA	482	336	130	46	(19)	(25)	593	357

Upstream Operating Results

The segment includes Rosneft Group companies that provide operating services, the independent enterprises that produce oil, gas and gas condensate in Russia and abroad, the joint venture, and exploration units in Russia and abroad. The segment includes revenues generated by the transfer of petroleum products, gas and NGL to downstream segment for subsequent sale to a third party, and all operating costs associated with production and exploration.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
Operational results						
Hydrocarbon production (th. boe per day)	5,005	5,051	(0.9)%	5,027	4,804	4.6%
Crude oil and NGL production (th. barrels per day)	4,132	4,189	(1.4)%	4,160	4,183	(0.5)%
Gas production (th.boe per day)	873	862	1.3%	867	621	39.6%
Hydrocarbon production (mln boe) ¹	423.0	419.7	0.8%	842.7	657.4	28.2%
Financial results, RUB billion						
EBITDA	250	232	7.8%	482	336	43.5%
Capital expenditures ²	88	75	17.3%	163	157	3.8%
Upstream operating expenses	61.7	55.4	11.4%	117.1	82.7	41.6%
Indicators per boe						
EBITDA, RUB/boe	591	553	6.9%	572	511	11.9%
Capital expenditures, RUB/boe	208	179	16.2%	193	239	(19.2)%
Upstream operating expenses, RUB/boe	146	132	10.6%	139	126	10.3%
Upstream operating expenses, USD/boe	4.2	3.8	10.5%	4.0	4.1	(2.4)%

¹Excluding affiliates

²Refer to "Capital expenditures"

Operating indicators

Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Udmurtneft – 49.54%, Polar Lights – 50.0% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam and Venezuela.

The following table sets forth Rosneft’s crude oil and NGL production¹:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	<i>(million of barrels)</i>		<i>(%)</i>	<i>(million of barrels)</i>		<i>(%)</i>
Yuganskneftegaz (Western Siberia)	118.4	118.5	(0.1)%	236.9	242.3	(2.2)%
Samaraneftegaz (Central Russia)	21.1	21.0	0.5%	42.1	39.7	6.0%
Purneftegaz (Western Siberia)	11.2	11.1	0.9%	22.3	23.8	(6.3)%
Vankorneft (Eastern Siberia)	40.4	39.9	1.3%	80.3	77.4	3.7%
Severnaya Neft (Timan Pechora)	5.2	5.2	–	10.4	11.6	(10.3)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.6	2.4	8.3%	5.0	4.1	22.0%
Tomskneft (Western Siberia)	9.0	9.0	–	18.0	18.4	(2.2)%
Samotlorneftegas (Western Siberia)	40.2	41.3	(2.7)%	81.5	48.9	66.7%
Orenburgneft (Central Russia)	36.8	36.8	–	73.6	42.3	74.0%
Verkhnechonskneftegaz (Eastern Siberia)	14.9	14.4	3.5%	29.3	15.8	85.4%
RN-Uvatneftegaz (Western Siberia)	18.4	17.6	4.5%	36.0	17.8	102.2%
Varyeganneftegaz (Western Siberia)	12.2	13.0	(6.2)%	25.2	15.5	62.6%
RN-Nyaganneftegaz (Western Siberia)	11.5	11.9	(3.4)%	23.4	13.2	77.3%
Taas-Yuriakh	1.8	1.6	12.5%	3.4	–	100.0%
Other	8.2	9.3	(11.8)%	17.5	16.7	4.8%
Total crude oil and NGL production by fully and proportionately consolidated enterprises	351.9	353.0	(0.3)%	704.9	587.5	20.0%
Udmurtneft (Central Russia)	5.9	5.8	1.7%	11.7	11.7	–
Polar Lights (Timan Pechora)	0.4	0.4	–	0.8	0.8	–
Verkhnechonskneftegaz (Eastern Siberia) ²	–	–	–	–	3.1	(100.0)%
Slavneft	15.0	14.9	0.7%	29.9	17.4	71.8%
Other	2.8	2.9	(3.4)%	5.7	3.3	72.7%
Total share in production of associates	24.1	24.0	0.4%	48.1	36.3	32.5%
Total crude oil and NGL production	376.0	377.0	(0.3)%	753.0	623.8	20.7%
Daily crude oil production (th. barrels per day)	4,132	4,189	(1.4)%	4,160	4,183	(0.5)%

¹ For information: in 2013 all production volumes of new assets are included from the acquisition date.

² Before the date of acquisition of TNK-BP assets.

In the second quarter of 2014 daily crude oil and NGL production decreased by 1.4% and amounted to 4,132 th.barrels per day mainly due to sale of Yugragazpererabotka’s stake.

Rosneft is targeting at effective exploration and research at on-shores and off-shores in Karskoe, Okhotsk and Caspian seas in cooperation with major international and domestic oil partners. Unique ice –resistant drilling platform “Berkut” designed especially for working in harsh subarctic conditions was installed at Arkutun-Dagi field as part of Sakhalin-1 project. The platform’s drilling rig provides extended reach drilling with a step-out of at least 7 kilometers. “Berkut” is largest well pad which provides drilling of 45 oil wells.

Company successfully put into operation new oil and gas production units at Priobskoye Field in Yuganskneftegaz that accelerate drilling progress.

In the first half of 2014 oil and NGL production was driven mainly at Vankorneft, Uvatneftegaz, Verkhnechonskneftegaz, Samaraneft by employment of new oil recovery increase technologies, including massive implementation of horizontal wells with multi-stage hydrofracturing.

Production of Gas

The table below sets forth Rosneft's commercial gas* production¹:

	For 3 months ended			For 6 months ended		Change
	June 30, 2014	March 31, 2014	Change	June 30, 2014	June 30, 2013	
	(bcm)	(bcm)		(%)	(%)	
Purneftegaz (Western Siberia)	1.14	1.09	4.6%	2.23	2.05	8.8%
Yuganskneftegaz (Western Siberia)	1.09	1.05	3.8%	2.14	1.73	23.7%
Krasnodarneftegaz (Southern Russia)	0.69	0.79	(12.7)%	1.48	1.48	-
Samaraneftegaz (Central Russia)	0.10	0.09	11.1%	0.19	0.25	(24.0)%
Severnaya Neft (Timan Pechora)	0.06	0.06	-	0.12	0.13	(7.7)%
Vankorneft (Eastern Siberia) ²	1.20	0.45	166.7%	1.65	0.25	>100.0%
Sakhalin-1 (Far East) (net of royalty and government share)	0.09	0.13	(30.8)%	0.22	0.21	4.8%
Tomskneft (Western Siberia)	0.23	0.20	15.0%	0.43	0.43	-
NGK ITERA (Western Siberia)	2.68	2.73	(1.8)%	5.41	-	100.0%
Samotlorneftegaz (Western Siberia)	1.44	1.38	4.3%	2.82	1.53	84.3%
Rospan International (Western Siberia)	0.97	1.00	(3.0)%	1.97	1.04	89.4%
Orenburgneft (Central Russia)	0.73	0.76	(3.9)%	1.49	0.74	>100.0%
Varyeganneftegaz (Western Siberia)	0.78	0.74	5.4%	1.52	0.83	83.1%
RN-Nyaganneftegaz (Western Siberia)	0.38	0.35	8.6%	0.73	0.38	92.1%
Other	0.51	0.52	(1.9)%	1.03	0.83	24.1%
Total gas production by fully and proportionately consolidated enterprises	12.09	11.34	6.6%	23.43	11.88	97.2%
Purgaz (NGK ITERA)	1.26	1.71	(26.3)	2.97	1.84	61.4%
Sibneftegaz (NGK ITERA)	-	-	-	-	1.37	(100.0)%
Slavneft	0.11	0.09	22.2%	0.20	0.11	81.8%
Other	0.04	0.04	-	0.08	0.08	33.3%
Total share in production of joint ventures	1.41	1.84	(23.4)%	3.25	3.40	(4.4)%
Total gas production	13.50	13.18	2.4%	26.68	15.28	74.6%
Natural gas	6.51	7.14	(8.8)%	13.65	7.14	91.2%
Associated gas	6.99	6.04	15.7%	13.03	8.14	60.1%

* Production volume equals extracted volume minus flared volume and gas used for NGL production.

¹ For information: in 2013 all production volumes of acquired assets are included from acquisition date.

² Including gas injection to maintain reservoir pressure

In the second quarter of 2014 gas production was 13.50 bcm, increase by 2.4% compared to the first quarter of 2014. Significant gas production growth was due to launch of two gas compressor units at Kharampurskoe field at Purneftegaz and due to accelerated launch of gas-pipeline section at Maysky fields at Yuganskneftegaz.

The Company continues to implement the program to increase a useful utilization rate of associated gas at current Company's fields. As part of design decisions of the field development, there have been commissioned gas compressor units of high-pressure gas compressor station and there have been launched gas-pipeline at Vankor field that provides gas supply to Gazprom unified gas supply system and its subsequent gas sales from this field up to 2.8 bcm in the current year.

Gas portfolio of the Company is aimed at a target level of production at 100 bcm as late as 2020. Currently, the development of the gas segment is one of the priority objectives of the Company.

In the six months of 2014 the gas production increased by 74.6% compared to the six months of 2013 that is mainly due to acquisition of new assets and implementation of program aimed at increasing associated gas utilisation rate.

Financial indicators

Equity share in profits/(losses) of associates and joint ventures

The equity share in profits of associates and joint ventures amounted to RUB 6 billion in the second quarter of 2014 in comparison with the loss in the amount of RUB 2 billion in the first quarter of 2014 mainly due to increased financial incomes at some joint ventures.

In the six months of 2014 the equity share in profits of associates and joint ventures significantly decreased in comparison with the six months of 2013. The decrease was mainly due to exemption of Verkhnechonskneftegaz equity results and incorporation of total Verkhnechonskneftegaz results into Company's consolidation from the date of acquisition.

Upstream production and operating cost

Upstream production and operating expenses include materials and supplies, equipment maintenance and repairs, wages and salaries, activities to enhance oil recovery, procurement of fuel and lubricants, electricity and other costs of Rosneft's consolidated exploration and production units.

Upstream production and operating expenses increased by 11.4% in the second quarter of 2014 compared with the first quarter of 2014 and amounted to RUB 61.7 billion. The increase in operating expenses was due to increased volumes of geological and engineering activities, increase in equipment maintenance and repairs and other operating expenses.

In the six months of 2014 upstream production and operating expenses increased significantly compared with the six months of 2013 due to the incorporation of operating expenses of the acquired production units from the date of acquisition and increased electricity expenses.

Upstream ecological reserves

In the fourth quarter of 2013 the Company revised the estimates of ecological reserves. The result of the revision amounted to RUB 1.7 billion year-to-date. These costs are shown separately from the regular production and business activities. There were no significant changes in the ecological reserves in the six months of 2014.

Gas procurement

In the second quarter of 2014 gas procurement that refers to resale on domestic and international markets amounted to RUB 3 billion in comparison with RUB 5 billion in the first quarter of 2014. The decrease in gas procurement is due to full supply from Company's resources.

Exploration Expenses

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalised if commercial reserves of crude oil and gas are discovered or expensed in the current period in the event of unsuccessful exploration results.

In the second quarter of 2014 exploration expenses amounts to RUB 5 billion in comparison with RUB 4 billion in the first quarter of 2014.

In the six months of 2014 exploration expenses increased by 50.0 % compared with the six months of 2013 due to the incorporation of new assets expenses from the acquisition date.

Mineral extraction tax

The amount of mineral extraction tax was RUB 263 billion in the second quarter of 2014 compared with RUB 246 billion in the first quarter of 2014. The increase in mineral extraction tax was mainly due to cancelling of tax break at Verkhnechonskneftegaz and indexation of the base rate.

The following table sets actual mineral extraction tax rates per tonne of crude oil and per tonne of oil equivalent produced for the periods analysed:

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2014	March 31, 2014	<i>change</i>	June 30, 2014	June 30, 2013	<i>change</i>
	RUB th.		%	RUB th.		%
Average enacted mineral extraction tax rate	6.14	6.08	1.0%	6.11	5.11	19.6%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	4.55	4.38	3.9%	4.50	4.04	11.4%

*Including total production volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analysed periods primarily due to the reduced rates for crude oil produced at fields with reserve depletion of over 80% and the volume of hard-to-recover oil, also due to application of zero mineral extraction tax rate in the Irkutsk and the Krasnoyarsk regions until its accumulated production exceeds 25 million tonnes. The difference between the enacted rate and actual rate is also affected by the normal delay in the inventory turnover.

Downstream Operating Results

The segment includes Group companies that provide services for oil and gas processing, petrochemical production in Russia and abroad, the joint ventures, sales units of oil, gas and petroleum to counterparts in Russia and abroad. The segment includes revenue generated from the sale of oil, gas, petrochemical products, petroleum products to a third party, and all operating costs associated with the processing, trading and logistics.

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2014	March 31, 2014	<i>Change, %</i>	June 30, 2014	June 30, 2013	<i>Change, %</i>
Operating results						
Crude oil processing at Company's refineries in Russia, mln. tn	20.56	21.58	(4.7)%	42.14	33.74	24.9%
<i>Processing at Company's own refineries in Russia</i>	18.77	19.74	(4.9)%	38.51	31.77	21.2%
Crude oil processing outside Russia, mln.tn	3.06	3.29	(7.0)%	6.35	5.71	11.2%
Financial results, RUB billion						
EBITDA	64	66	(3.0)%	130	46	182.6%
Capital expenditures ¹	42	24	75.0%	66	77	(14.3)%
Operating expenses for processing in Russia	16.1	15.0	7.3%	31.1	23.7	31.2%
Operating expenses for processing outside Russia	4.4	4.0	10.0%	8.4	8.6	(2.3)%
Indicators per tonne of the output						
EBITDA, RUB per tn	3,019	2,948	2.4%	2,982	1,412	111.2%
Capital expenditure, RUB per tn	1,982	1,072	84.9%	1,514	2,091	(27.6)%
Operating expenses for processing in Russia, RUB per tn ²	857	758	13.1%	806	747	7.9%
Operating expenses for processing outside Russia, RUB per tn ²	1,808	1,509	19.8%	1,652	1,698	(2.7)%

¹ Refer to "Capital expenditures",

² Calculated from unrounded data

Operating indicators

Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region (European part of Russia), the Saratov refinery and Ryazan refinery. Rosneft also owns production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany. The Company also processes and procured crude oil outside Russia, in Belarus.

The following table sets forth Rosneft's crude oil processing and petroleum product output volumes.¹

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	<i>(million of tonnes)</i>		<i>(%)</i>	<i>(million of tonnes)</i>		<i>(%)</i>
Crude oil processing at Rosneft's own refineries in Russia	20.56	21.58	(4.7)%	42.14	33.74	24.9%
Crude oil processing at refineries outside Russia	3.06	3.29	(7.0)%	6.35	5.71	11.2%
<i>including crude oil processing at Ruhr Oel GmbH (ROG)</i>	2.43	2.65	(8.3)%	5.08	5.06	0.4%
<i>including crude oil processing in Belarus</i>	0.63	0.64	(1.6)%	1.27	0.65	95.4%
Total group crude oil processing	23.62	24.87	(5.0)%	48.49	39.45	22.9%
Petroleum product output:						
High octane gasoline	2.26	2.86	(21.0)%	5.12	4.29	19.3%
Low octane gasoline	0.03	0.04	(25.0)%	0.07	0.09	(22.2)%
Naphtha	1.43	1.32	8.3%	2.75	1.94	41.8%
Diesel	6.36	6.79	(6.3)%	13.15	10.51	25.1%
Fuel oil	6.72	7.11	(5.5)%	13.83	11.05	25.2%
Jet fuel	0.87	0.73	19.2%	1.60	1.23	30.1%
Petrochemicals	0.20	0.20	-	0.40	0.33	21.2%
Other*	2.00	1.75	14.3%	3.75	3.00	25.0%
Product output at Rosneft's own refineries in Russia	19.87	20.80	(4.5)%	40.67	32.44	25.4%
Product output at refineries outside Russia	3.09	3.21	(3.7)%	6.30	5.66	11.3%
<i>including crude oil output at Ruhr Oel GmbH (ROG)</i>	2.51	2.62	(4.2)%	5.13	5.06	1.4%
<i>including product output in Belarus</i>	0.58	0.59	(1.7)%	1.17	0.60	95.0%
Total group product output	22.96	24.01	(4.4)%	46.97	38.10	23.3%

*including production of petroleum products at gas refineries

¹ For information: in 2013 all production volumes of acquired assets are included from acquisition date.

In the second quarter of 2014 Rosneft's total refinery throughput amounts to 23.62 mln tons, lower by 5.0 % compared with the first quarter of 2014. The refinery throughput inside Russia decreased by 4.7% mainly due to increased planned turnarounds at refineries, including Kuibyshev refinery and Syzran refinery and unplanned shut down of Achinsk refinery resulted from fire accident in the second quarter of 2014. The Company put all its efforts to reconstruct production on a tight schedule. Launch of primary crude oil processing at Achinsk refinery and basis production of petroleum product is planned to take place in autumn 2014.

In the second quarter of 2014 processing volume at German refineries decreased by 8.3% compared to the first quarter of 2014 due planned turnaround of production unit in June 2014.

The volume of crude oil processing increased by 24.9% at Rosneft's refineries in Russia in the six months 2014 compared to the six months of 2013, due to large-scale upgrade refinery program and new assets acquisition.

Financial indicators

Revenues and equity share in profits of associates and joint ventures¹

In the second quarter of 2014 revenues and equity share in profits/(losses) of associates and joint ventures amounted to RUB 1,435 billion or upturn 4.4% in comparison with the first quarter of 2014, due to increase in crude oil and petroleum products export volumes.

In the six months of 2014 revenues and equity share in profits/(losses) of associates and joint ventures increased by 41.3% compared to the same period of 2013, which was driven by export sale growth due to acquisition of new assets and increase in prices denominated in RUB.

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues in billions of RUB*:

	<i>For 3 months ended</i>			<i>change</i>	<i>For 6 months ended</i>			<i>change</i>		
	June 30, 2014		March 31, 2014		June 30, 2014		June 30, 2013			
		% of total revenue			% of total revenue		% of total revenue			% of total revenue
Crude oil										
International Sales to non-CIS	666	46.4%	628	45.5%	6.1%	1,294	46.2%	912	45.7%	41.9%
Europe and other directions	457	31.8%	412	29.8%	10.9%	869	31.1%	679	34.0%	28.0%
Asia	209	14.6%	216	15.7%	(3.2)%	425	15.1%	233	11.7%	82.4%
International sales to CIS	30	2.1%	27	2.0%	11.1%	57	2.0%	51	2.6%	11.8%
Domestic	25	1.7%	33	2.4%	(24.2)%	58	2.1%	35	1.8%	65.7%
Total crude oil	721	50.2%	688	49.9%	4.8%	1,409	50.3%	998	50.1%	41.2%
Gas	36	2.5%	41	3.0%	(12.2)%	77	2.7%	27	1.4%	185.2%
Petroleum products										
International Sales to non-CIS	395	27.5%	366	26.7%	7.9%	761	27.1%	507	25.5%	50.1%
Europe and other directions	309	21.5%	279	20.4%	10.8%	588	20.9%	371	18.7%	58.5%
Asia	86	6.0%	87	6.3%	(1.1)%	173	6.2%	136	6.8%	27.2%
International Sales to CIS	10	0.7%	25	1.8%	(60.0)%	35	1.2%	27	1.4%	29.6%
Domestic	202	14.1%	197	14.3%	2.5%	399	14.2%	325	16.3%	22.8%
Wholesale	107	7.5%	111	8.0%	(3.6)%	218	7.8%	182	9.1%	19.8%
Retail	95	6.6%	86	6.3%	10.5%	181	6.4%	143	7.2%	26.6%
Sales of bunker fuel to end-users	19	1.3%	15	1.1%	26.7%	34	1.2%	24	1.2%	41.7%
Total petroleum products	626	43.6%	603	43.9%	3.8%	1,229	43.7%	883	44.4%	39.2%
Petrochemical products	28	2.0%	29	2.1%	(3.4)%	57	2.0%	45	2.3%	26.7%
International sales	23	1.7%	25	1.8%	(8.0)%	48	1.7%	39	2.0%	23.1%
Domestic	5	0.3%	4	0.3%	25.0%	9	0.3%	6	0.3%	50.0%
Support services and other revenues	18	1.3%	16	1.2%	12.5%	34	1.2%	26	1.3%	30.8%
Equity share in profits (losses) of associates and joint ventures	6	0.4%	(2)	(0.1)%	400.0%	4	0.1%	9	0.5%	(55.6)%
Total sales	1,435	100.0%	1,375	100.0%	4.4%	2,810	100.0%	1,988	100.0%	41.3%

*The difference between percentages presented in the above table and other section is a result of rounding

¹ Under IFRS consolidated financial statements

Sales Volumes

The table below analyses crude oil, gas, petroleum and petrochemical product sales volumes:

	<i>For 3 months ended</i>		<i>Change</i>			<i>For 6 months ended</i>		<i>Change</i>		
	June 30, 2014		March 31, 2014		%	June 30, 2014		June 30, 2013		%
	mln bbls	% of total volume	mln bbls	% of total volume		mln bbls	% of total volume	mln bbls	% of total volume	
Crude oil										
International Sales to non-CIS	184.0	47.3%	173.7	45.7%	5.9%	357.8	46.5%	292.2	46.1%	22.5%
Europe and other directions	124.4	32.0%	112.6	29.6%	10.5%	237.1	30.8%	212.0	33.5%	11.8%
Asia	59.6	15.3%	61.1	16.1%	(2.5)%	120.7	15.7%	80.2	12.6%	50.5%
International Sales to CIS	15.5	4.0%	14.0	3.7%	10.7%	29.4	3.8%	33.1	5.2%	(11.2)%
Domestic	12.5	3.2%	18.4	4.8%	(32.1)%	30.9	4.0%	24.3	3.8%	27.2%
Total crude oil	212.0	54.5%	206.1	54.2%	2.9%	418.1	54.3%	349.6	55.1%	19.6%
Crude oil			mln tonnes					mln tonnes		
International Sales to non-CIS	25.0	47.3%	23.6	45.7%	5.9%	48.6	46.5%	39.7	46.1%	22.5%
Europe and other directions	16.9	32.0%	15.3	29.6%	10.5%	32.2	30.8%	28.8	33.5%	11.8%
Asia	8.1	15.3%	8.3	16.1%	(2.5)%	16.4	15.7%	10.9	12.6%	50.5%
International Sales to CIS	2.1	4.0%	1.9	3.7%	10.7%	4.0	3.8%	4.5	5.2%	(11.2)%
Domestic	1.7	3.2%	2.5	4.8%	(32.1)%	4.2	4.0%	3.3	3.8%	27.2%
Total crude oil	28.8	54.5%	28.0	54.2%	2.9%	56.8	54.3%	47.5	55.1%	19.6%
Petroleum products										
International Sales to non-CIS	14.5	27.3%	13.3	25.8%	9.0%	27.8	26.7%	21.4	24.9%	29.9%
Europe and other directions	11.6	21.8%	10.2	19.8%	13.7%	21.8	21.0%	15.7	18.3%	38.9%
Asia	2.9	5.5%	3.1	6.0%	(6.5)%	6.0	5.7%	5.7	6.6%	5.3%
International Sales to CIS	0.3	0.6%	1.0	1.9%	(70.0)%	1.3	1.2%	1.1	1.3%	18.2%
Domestic	7.5	14.2%	7.7	14.9%	(2.6)%	15.2	14.5%	13.3	15.4%	14.3%
Wholesale	4.7	8.9%	5.2	10.1%	(9.6)%	9.9	9.4%	8.9	10.3%	11.2%
Retail	2.8	5.3%	2.5	4.8%	12.0%	5.3	5.1%	4.4	5.1%	20.5%
Sales of bunker fuel to end-users	1.0	1.9%	0.8	1.5%	25.0%	1.8	1.7%	1.4	1.6%	28.6%
Total petroleum products	23.3	44.0%	22.8	44.1%	2.2%	46.1	44.1%	37.2	43.2%	23.9%
Petrochemical products	0.8	1.5%	0.9	1.7%	(11.1)%	1.7	1.6%	1.5	1.7%	13.3%
International sales	0.6	1.1%	0.6	1.1%	0.0%	1.2	1.1%	1.1	1.2%	9.1%
Domestic	0.2	0.4%	0.3	0.6%	(33.3)%	0.5	0.5%	0.4	0.5%	25.0%
Total crude oil and products	52.9	100.0%	51.7	100.0%	2.3%	104.6	100.0%	86.2	100.0%	21.3%
Gas			bcm					bcm		
Sales Volumes	11.32		14.44		(21.6)%	25.76		12.62		104.1%

Average Crude Oil and Petroleum Product Sales Prices

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas and petroleum products (the average sales prices may differ from official market prices provided by specialized agencies due to different quality of products and sales terms):

	<i>For 3 months ended</i>					<i>change</i>	<i>For 6 months ended</i>				<i>change</i>
	June 30, 2014		March 31, 2014		June 30, 2014		June 30, 2013				
	(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	%		(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	
Average prices on foreign markets											
Crude oil, excluding CIS	3.63	26.7	3.61	26.6	0.4%	3.62	26.6	3.12	23.0	15.7%	
Europe and other directions	3.69	27.1	3.66	27.0	0.4%	3.68	27.1	3.20	23.6	14.8%	
Asia	3.51	25.8	3.51	25.9	(0.4)%	3.51	25.8	2.90	21.4	20.6%	
Crude oil, CIS	1.94	14.3	1.92	14.1	1.4%	1.93	14.2	1.57	11.6	22.4%	
Petroleum products, non- CIS		27.4		27.5	(0.4)%		27.4		23.7	15.6%	
Europe and other directions		26.9		27.2	(1.1)%		27.1		23.6	14.8%	
Asia		29.1		28.4	2.5%		28.7		24.0	19.6%	
Petroleum products, CIS		34.2		23.9	43.1%		26.2		24.3	7.8%	
Average domestic prices											
Crude oil	1.90	14.0	1.82	13.4	4.5%	1.85	13.7	1.46	10.7	28.0%	
Petroleum products		27.3		25.4	7.5%		26.3		24.5	7.3%	
Wholesale		23.3		21.2	9.9%		22.2		20.4	8.8%	
Retail		34.0		34.0	0.0%		34.0		32.7	4.0%	
Gas (th.rub. /th. cubic meter)		3.13		2.86	9.4%		2.98		2.10	41.9%	
Sales of bunker fuel to end-users		18.9		17.9	5.6%		18.5		17.7	4.5%	
Petrochemical products		34.1		32.1	6.2%		33.0		30.1	9.6%	
International sales		41.1		39.4	4.3%		40.2		35.2	14.2%	
Domestic		19.1		14.5	31.7%		16.7		15.8	5.7%	

**average price is calculated from unrounded figures*

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the second quarter of 2014 amounted to RUB 666 billion compared to RUB 628 billion in the first quarter of 2014. Revenue growth of RUB 37 billion was due to increase in sales volumes by 5.9% and was accompanied by upturn of average crude oil price by 0.4% (positive effect on revenue of RUB 1 billion).

In the six months of 2014 revenues from international crude oil sales to non-CIS countries increased by 41.9% or RUB 382 billion compared to the six months of 2013. Sales volumes growth was 22.5% (positive impact on revenues of RUB 205 billion) and was accompanied by an increase in average prices by 15.7% (favourable impact on revenues of RUB 177 billion).

The deviation between sales prices on the Asian markets and average world market prices (Dubai) in the second quarter of 2014 was due to deliveries to Transneft of 6.0 million tonnes (44.17 million barrels) of crude oil per year under the contract signed in 2009. These volumes are sold to Transneft for further delivery to China, under the basis of equal profitability with Company's direct export to China. These volumes are included in total Company's international crude oil sales to non-CIS, at price that is free from export custom duty.

Share of sales to Transneft in the total volume of oil supplies to the Asian region decreased in the second quarter of 2014. Excluding revenues from crude oil sales to Transneft (RUB 21 billion) in the second quarter of 2014 the average sales price on the Asian markets in comparison with the first quarter of 2014 decreased by 0.4% and amounted to RUB 3.83 thousand per barrel.

In the six months of 2014 compared with the six months of 2013 the average sale price on the Asian markets excluding revenues from crude oil sales to Transneft increased by 14.1%.

International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the second quarter of 2014 increased by 11.1% compared to the first quarter of 2014 and amounted to RUB 30 billion. The growth was due to sale volumes upturn of 10.7%.

In the six months of 2014 revenues from international crude oil sales to CIS countries increased by 11.8% in comparison with the six months of 2013, which is mainly attributable to average price upturn of 22.4% (favourable impact on revenues of RUB 12 billion) and was partially offset by downturn of sales volume of crude oil by 11.2% (unfavourable impact on revenues of RUB 6 billion).

Domestic Sales of Crude Oil

Revenue from domestic sales of crude oil in the second quarter of 2014 decreased by 24.2% compared to the first quarter 2013 and amounted to RUB 25 billion. The decrease in sales volume on the domestic market by 32.1% (negative impact on revenues of RUB 11 billion) was partially offset by upturn of average crude oil price by 4.5% (favourable impact on revenues of RUB 3 billion).

In the six months of 2014 revenues from domestic sales of crude oil were 65.7% higher compared to the six months of 2013 and amounted to RUB 58 billion. Sales volumes growth was 27.2% (positive impact on revenues of RUB 10 billion) and was accompanied by an increase in average prices by 28.0% (favourable impact on revenues of RUB 13 billion).

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries in the second and first quarters of 2014:

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2014			March 31, 2014			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	4	0.1	33.9	9	0.3	32.4	(55.6)%	(66.7)%	4.6%
Low octane gasoline	1	0.0	34.8	1	0.0	34.6	0.0%	–	0.6%
Naphtha	33	1.0	33.0	28	0.9	32.0	17.9%	11.1%	3.1%
Diesel (Gasoil)	132	4.3	31.6	118	3.7	31.9	11.9%	16.2%	(0.9)%
Fuel oil	136	6.3	21.8	126	5.7	22.0	7.9%	10.5%	(0.9)%
Jet fuel	0	0.0	35.9	0	0.0	38.8	–	–	(7.5)%
Other	21	0.7	31.0	16	0.5	31.0	31.3%	40.0%	0.0%
Total petroleum products exported to non-CIS	327	12.4	26.8	298	11.1	26.8	9.7%	11.7%	0.0%
<i>Petroleum products sold from ROG refineries</i>	65	2.0	32.0	64	2.1	30.8	1.6%	(4.8)%	3.9%
<i>Petroleum products purchased and sold outside Russia</i>	3	0.1	31.8	4	0.1	31.9	(25.0)%	0.0%	(0.3)%
Total	395	14.5	27.4	366	13.3	27.5	7.9%	9.0%	(0.4)%

Revenue from the international sales of petroleum products to non-CIS countries were RUB 395 billion in the second quarter of 2014, which is 7.9% higher compared to the first quarter of 2014 (positive effect of RUB 29 billion). The increase resulted from sales volumes upturn of 9.0% (favourable impact of RUB 33 billion), that was partially offset by downturn of average price denominated in RUB by 0.4% (unfavourable impact of RUB 4 billion).

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries in the six months of 2014 and 2013:

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2014			June 30, 2013			RUB billion	million of tonnes	Average price th.RUB/Tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne			
High octane gasoline	13	0.4	32.9	7	0.2	28.5	85.7%	100.0%	15.4%
Low octane gasoline	2	0.0	34.7	1	0.0	35.3	100.0%	–	(1.7)%
Naphtha	61	1.9	32.5	53	1.9	27.2	15.1%	0.0%	19.5%
Diesel (Gasoil)	250	8.0	31.7	144	5.2	27.9	73.6%	53.8%	13.6%
Fuel oil	262	12.0	21.9	169	9.2	18.4	55.0%	30.4%	19.0%
Jet fuel	0	0.0	37.4	1	0.0	37.4	(100.0)%	–	0.0%
Other	37	1.2	31.0	14	0.6	24.4	164.3%	100.0%	27.0%
Total petroleum products exported to non-CIS	625	23.5	26.7	389	17.1	22.7	60.7%	37.4%	17.6%
<i>Petroleum products sold from ROG refineries</i>	129	4.1	31.4	112	4.1	27.4	15.2%	0.0%	14.6%
<i>Petroleum products purchased and sold outside Russia</i>	7	0.2	31.9	6	0.2	29.3	16.7%	0.0%	8.9%
Total	761	27.8	27.4	507	21.4	23.7	50.1%	29.9%	15.6%

In the six months of 2014 revenues from the export of petroleum products to non-CIS countries were 50.1% higher compared to the six months of 2013. Increase in sales volumes by 29.9 % (favourable impact on revenues of RUB 152 billion) was accompanied by upturn in average price by 15.6% (positive impact on revenues of RUB 102 billion).

Domestic Sales of Petroleum Products

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia in the second quarter of 2014 and first quarter of 2014:

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2014			March 31, 2014			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	92	2.7	34.7	89	2.7	32.1	3.4%	0.0%	8.1%
Low octane gasoline	1	0.0	30.5	1	0.0	28.1	0.0%	–	8.5%
Diesel (Gasoil)	65	2.2	30.2	69	2.3	30.0	(5.8)%	(4.3)%	0.7%
Fuel oil	6	0.6	11.0	5	0.6	9.3	20.0%	0.0%	18.3%
Jet fuel	23	0.8	27.5	19	0.7	28.1	21.1%	14.3%	(2.1)%
Other	15	1.2	12.8	14	1.4	10.0	7.1%	(14.3)%	28.0%
Total	202	7.5	27.3	197	7.7	25.4	2.5%	(2.6)%	7.5%

Revenues from sales of petroleum products on the domestic market were RUB 202 billion in the second quarter of 2014, which is 2.5% higher compared to the first quarter of 2014. Growth of average prices is compensated by slight decrease in sales volumes of petroleum products due to seasonal factors.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia in the six months of 2014 and six months of 2013:

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2014			June 30, 2013			RUB billion	million of tonnes	Average price th.RUB/tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne			
High octane gasoline	181	5.4	33.4	141	4.6	30.5	28.4%	17.4%	9.5%
Low octane gasoline	2	0.0	29.0	2	0.1	23.2	0.0%	(100.0)%	25.0%
Diesel (Gasoil)	134	4.5	30.1	128	4.7	27.6	4.7%	(4.3)%	9.1%
Fuel oil	11	1.2	10.2	7	0.7	9.8	57.1%	71.4%	4.1%
Jet fuel	42	1.5	27.8	27	1.1	24.5	55.6%	36.4%	13.5%
Other	29	2.6	11.3	20	2.1	9.8	45.0%	23.8%	15.3%
Total	399	15.2	26.3	325	13.3	24.5	22.8%	14.3%	7.3%

Revenues from sales of petroleum products on the domestic market in the six months of 2014 were 22.8% or RUB 74 billion higher than in the six months of 2013. The increase was due to sales volumes growth of 14.3% (favorable impact on revenues of RUB 47 billion) and 7.3% upturn in average prices (positive impact on revenues of RUB 27 billion).

The Company extended its customer base of jet fuelling (high premium margin sales) due to effect of new assets acquisition. The sales volume of jet fuel in the six months of 2014 has increased by 36,4% in comparison with the same period in 2013.

Sales of bunker fuel

The Company sells bunker fuel (fuel oil, low-viscosity marine fuel and diesel fuel) in the seaport (the Far East, the North and South of the European part of Russia) and river ports (the Volga-don basin and in the rivers of Western Siberia) of the Russian Federation and in ports outside the Russian Federation.

Revenues from sales of bunker fuel in the second quarter of 2014 were RUB 19 billion, an increase of 26.7 % in comparison with the first quarter of 2014, which is mainly attributable to start of navigation period.

Revenues from sales of bunker fuel in the six months of 2014 increased by 41.7% or RUB 10 billion in comparison with the six months of 2013.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the second quarter of 2014 were RUB 28 billion. The decrease was 3.4 % or RUB 1 billion compared to the first quarter of 2014, which resulted from decrease in sales volume, mainly domestic sales volume downturn by 33.3%, and partially offset by average price upturn of 6.2%. The sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) in the second quarter 2014 in comparison to the first quarter 2014 remain unchanged and equaled to 0.5 mln tonnes.

In the six months of 2014, revenues from sales of petrochemical products increased by 26.7% compared to the six months of 2013, due to the sales volume growth of 13.3% (positive impact on revenues of RUB 6 billion) and upturn of average price of 9.6% (favorable impact on revenues of RUB 6 billion). In the six months of 2014 sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) slightly decreased and amounted to 1.0 mln tonnes in comparison with 1.1 mln tonnes in the six months of 2013.

Gas Sales

The Company strategy envisages gas business expansion on Russian domestic market. Rosneft's supply of gas has been limited to date. Gazprom is dominant gas supplier and controls the Uniform Gas Supply System with the domestic market share of more than 70%.

In order to increase its share on the domestic market Rosneft is currently implementing gas monetization program aimed at extension of contracts portfolio and effective diversification of distribution channels. Consolidation of NGK "Itera" LLC contributed to entering the market of end-users in the premium Russian regions and resulted in the increase in gas supply to final industrial and household consumers.

The table below sets forth revenues, volumes and average price of gas sales by Rosneft*:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
Revenue	(RUB billion)		%	(RUB billion)		%
Western Siberia	16.1	25.8	(37.6)%	41.9	13.0	222.3%
South Russia	2.4	2.7	(11.1)%	5.1	4.3	18.6%
Far East	0.3	0.5	(40.0)%	0.8	0.7	14.3%
European part of Russia and other directions	16.0	11.7	36.8%	27.7	8.2	237.8%
Outside Russian Federation	0.7	0.6	16.7%	1.3	0.7	85.7%
Total	35.5	41.3	(14.0)%	76.8	26.9	185.5%
Sales volumes	(bcm)		%	(bcm)		%
Western Siberia	5.36	9.71	(44.8)%	15.07	7.54	99.9%
South Russia	0.69	0.82	(15.9)%	1.51	1.51	0.0%
Far East	0.13	0.18	(27.8)%	0.31	0.32	(3.1)%
European part of Russia and other directions	4.93	3.55	38.9%	8.48	3.01	181.7%
Outside Russian Federation	0.21	0.18	16.7%	0.39	0.24	62.5%
Total	11.32	14.44	(21.6)%	25.76	12.62	104.1%
Average price	(th. RUB/th. cubic metres)		%	(th. RUB/th. cubic metres)		%
Western Siberia	3.00	2.66	12.8%	2.78	1.72	61.6%
South Russia	3.40	3.35	1.5%	3.37	2.86	17.8%
Far East	2.51	2.55	(1.6)%	2.53	2.21	14.5%
European part of Russia and other directions	3.24	3.29	(1.5)%	3.26	2.60	25.4%
Outside Russian Federation	3.42	3.36	1.8%	3.39	3.00	13.0%
Average group price	3.13	2.86	9.4%	2.98	2.10	41.9%

*average price is calculated from unrounded figures

In the second quarter of 2014 revenues from gas sales decreased in comparison with first quarter 2014 and amounted to RUB 35.5 billion. The decrease in sales volume due to seasonal factor on 21.6% (unfavourable impact of RUB 8.9 billion) was partially offset by growth of average price by 9.4% (favorable impact on revenues of RUB 3.1 billion). Price fluctuation in the second quarter of 2014 in comparison with the first quarter of 2014 was also due to changes in sales structure during summer period.

Gas sales growth of RUB 49.9 billion in the six months of 2014 in comparison with the six months of 2013 was driven by gas monetisation programm and by the acquisition NGK "Itera" LLC assets.

Support Services and Other Revenues

Rosneft owns service companies which render drilling, construction, repair and other services mainly to the companies within the Group. Revenues from services rendered to third parties are reported in the consolidated statements of income and comprehensive income.

The following table sets forth Rosneft's other revenues for the periods analysed:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>				
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013					
	% of total revenue	% of total revenue		%	% of total revenue		%			
	(RUB billion, except %)									
Drilling services	3.2	17.6%	0.9	5.7%	255.6%	4.1	12.1%	1.0	3.9%	310.0%
Sales of materials	5.8	31.9%	4.6	29.3%	26.1%	10.4	30.7%	6.1	23.6%	70.5%
Repairs and maintenance services	0.8	4.4%	0.5	3.2%	60.0%	1.3	3.8%	0.4	1.5%	225.0%
Rent services	0.7	3.8%	1.0	6.4%	(30.0)%	1.7	5.0%	1.5	5.8%	13.3%
Construction services	0.2	1.1%	0.1	0.6%	100.0%	0.3	0.9%	0.2	0.8%	50.0%
Transport services	2.6	14.3%	2.5	15.9%	4.0%	5.1	15.0%	4.4	17.0%	15.9%
Sales of electric and heat power	1.9	10.4%	2.6	16.6%	(26.9)%	4.5	13.3%	2.3	8.9%	95.7%
Other revenues	3.0	16.5%	3.5	22.3%	(14.3)%	6.5	19.2%	10.0	38.5%	(35.0)%
Total	18.2	100.0%	15.7	100.0%	15.9%	33.9	100.0%	25.9	100.0%	30.9%

Support services and other revenues were 15.9% higher in the second quarter of 2014 compared to the first quarter of 2014 and amounted to RUB 18.2 billion. Support services and other revenues were 30.9% higher in the six months of 2014 compared with the six months of 2013.

Downstream production and operating cost

Downstream operating expenses increased by 30.6% in the second quarter of 2014 compared with the first quarter of 2014 and amounted to RUB 47 billion mainly due to seasonal sale of intragroup inventories (according to the accounting principles operating expenses are adjusted for all the expenses associated with the change in intragroup inventories).

The table below shows operating expenses at Rosneft's refineries.

	<i>For 3 months ended</i>		<i>Change, %</i>	<i>For 6 months ended</i>		<i>Change, %</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
Operating expenses at refineries in Russia (RUB billion)	16.09	14.96	7.6%	31.05	23.74	30.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	886	784	13.0%	834	777	7.3%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	857	758	13.1%	806	747	7.9%
Operating expenses at refineries outside Russia (RUB billion)*	4.39	4.00	9.8%	8.39	8.60	(2.4)%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,749	1,527	14.5%	1,636	1,699	(3.7)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,808	1,509	19.8%	1,652	1,698	(2.7)%
Total operating expenses at Rosneft's refineries (RUB billion)	20.48	18.96	8.0%	39.44	32.34	22.0%

*Refineries outside Russia also procured for processing additives and materials: in the second quarter of 2014 – RUB 9.56 billion, in the first quarter of 2014 – in the amount of RUB 8.32 billion, in the six months of 2014 – RUB 17.88 billion, in the six months of 2013 – RUB 15.90 billion.

Operating expenses of Rosneft's refineries were RUB 20.48 billion in the second quarter of 2014, which is an increase of 8.0% compared with the first quarter of 2014.

In comparison with the six months of 2013 operating expenses of Rosneft's refineries in the six months of 2014 increased by 22.0% due to incorporation of expenses of new assets from the acquisition date in 2013.

Operating expenses of Rosneft's refineries in Russia were RUR 16.09 billion in the second quarter of 2014 and increased by 7.6% compared with the first quarter of 2014. The increase resulted mainly from maintenance expenses growth.

In the six months of 2014 operating expenses of Rosneft's refineries in Russia increased by 30.8% in comparison with RUB 23.74 billion in the six months of 2013, mainly as a result of incorporation of expenses of new assets from the acquisition date in 2013.

Operating expenses of Rosneft's refineries outside of Russia increased in the second quarter of 2014 by 9.8% in comparison with the first quarter of 2014 due to increase in maintenance expenses of production unit at one of German refineries.

Operating expenses of Rosneft's refineries outside of Russia decreased in the six months of 2014 by 2.4% in comparison with the six months of 2013 due decrease in maintenance expenses.

Operating costs per tonne of crude oil throughput of Rosneft's refineries outside Russia due to more wide range of produced petroleum products and specifically petrochemicals, and also higher Nelson index (more complicated technological production process).

Operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia in the six months of 2014 increased by 7.9% compared with the six months of 2013 and amounted to RUB 806 RUB per tonne. Growth was mainly due to increased electricity expenses.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were 1,652 RUB per tonne in the six months of 2014 which is a decrease of 2.7 % compared with the six months of 2013. The decrease in operating expenses per tonne of crude oil throughput was mainly due to unplanned turnarounds at Ruhr Oel GmbH refineries in the six months of 2013.

Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs¹

The following table shows Rosneft's crude oil, gas and petroleum products procurement costs and volumes and third-party refining costs:

	For 3 months ended			For 6 months ended		
	June 30, 2014	March 31, 2014	change %	June 30, 2014	June 30, 2013	change %
Crude oil procurement						
Cost of crude oil procured (RUB billion)	97	100	(3.0)%	197	143	38.8%
including Domestic market	37	35	5.7%	72	41	75.6%
International market	60	65	(7.7)%	125	102	22.6%
Volume of crude oil procured (million of barrels)	38.8	38.5	0.8%	77.3	61.0	26.7%
including Domestic market	23.2	21.6	7.4%	44.8	31.5	42.2%
International market	15.6	16.9	(7.7)%	32.5	29.5	10.2%
Inventory revaluation write-off (RUB billion)	-	-	-	-	14.0	(100.0)%
Gas procurement ²						
Cost of gas procured (RUB billion)	3.5	9.3	(62.4)%	12.8	4.4	>100.0%
Volume of gas procured (bcm)	2.10	4.70	(55.3)%	6.80	3.04	>100.0%
Petroleum products procurement						
Cost of petroleum product procured (RUB billion)	10	10	-	20	21	(4.8)%
Volume of petroleum product procured (million of tonnes)	0.35	0.37	(5.4)%	0.72	0.76	(5.3)%
Crude oil, gas and petroleum products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.3	5.1	43.1%	12.4	5.6	121.4%
Volumes of crude oil refined under processing agreements (million of tonnes)	0.8	0.7	14.3%	1.5	2.6	(42.3)%
Volumes of refining of gas under processing agreements (bcm)	2.6	1.2	116.7%	3.8	2.2	72.7%
Volumes of refining of petroleum products under processing agreements (million of tonnes)	1.9	2.1	(9.5)%	4.0	-	100.0%
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	118	124	(4.8)%	242	188	28.7%

³ Average procurement price of petroleum products from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

¹ Cost of purchases under IFRS consolidated financial statements

² See also the disclosure of gas procurement in section "Upstream .Financial indicators. Gas procurement".

Crude oil procurement

Rosneft purchases crude oil primarily from its associates to process it at own refineries and also to export. Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH (ROG) refineries.

The structure of crude oil purchases is provided in the table below:

	For 3 months ended			For 6 months ended		
	June 30, 2014	March 31, 2014	change (%)	June 30, 2014	June 30, 2013	change (%)
	million bbl			million bbl		
International market	15.6	16.9	(7.7)%	32.5	29.5	10.2%
Udmurtneft	6.6	5.3	24.5%	11.9	8.9	33.7%
Slavneft	12.5	12.6	(0.8)%	25.1	17.5	43.4%
Others	4.1	3.7	10.8%	7.8	5.1	52.9%
Total	38.8	38.5	0.8%	77.3	61.0	26.7%

Rosneft performed oil swap operations till August 2013 in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations were shown on a net basis in the "Pipeline tariffs and Transportation costs" line of the consolidated statement of comprehensive income in previous periods.

In the first half of 2014 the volume of swap was 0.49 mln tons. Effect from swap operations in the amount of RUB 0.8 billion is presented on a net basis in the "Pipeline tariffs and Transportation costs" of comprehensive income.

Petroleum products procurement

Petroleum products from third parties are procured primarily to cover current needs of Rosneft's retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations of volumes and mix. Procurement prices may significantly vary depending on regional markets. Petroleum products outside Russia are purchased primarily for sale in Germany.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties:

<i>Petroleum products procurement in Russia</i>	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2014			March 31, 2014			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	2	0.08	31.7	1	0.04	31.3	100.0%	100.0%	1.3%
Diesel	3	0.10	28.3	3	0.10	28.3	-	-	-
Fuel oil	1	0.03	13.6	1	0.07	13.0	-	(57.1)%	4.6%
Jet fuel	0	0.00	27.3	1	0.02	27.3	-	(100.0)%	-
Other	0	0.01	29.6	0	0.01	29.6	-	-	-
<i>Petroleum products procured outside Russia</i>	4	0.13	32.1	4	0.13	31.8	-	-	0.9%
Total	10	0.35	29.1	10	0.37	27.0	-	(5.4)%	7.8%

The volume of petroleum product procured in the second quarter of 2014 decreased slightly due to full supply from own resources.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the six months of 2014 and 2013:

<i>Petroleum products procurement in Russia</i>	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2014			June 30, 2013			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	3	0.12	31.6	4	0.14	26.8	(25.0)%	(14.3)%	17.9%
Diesel	6	0.20	28.3	2	0.08	27.4	>100.0%	>100.0%	3.3%
Fuel oil	2	0.10	13.2	0	0.01	12.1	>100.0%	>100.0%	9.1%
Jet fuel	1	0.02	27.3	1	0.04	26.1	100.0%	100.0%	4.6%
Other	0	0.02	29.6	2	0.07	24.2	(100.0)%	>(100.0)%	22.3%
<i>Petroleum products procured outside Russia</i>	8	0.26	31.9	12	0.42	27.9	(33.3)%	(38.1)%	14.3%
Total	20	0.72	28.1	21	0.76	27.1	(4.8)%	(5.3)%	3.7%

Average purchase prices may be different from average sale prices depending on different regional structure of purchases (mix structure) and sales and difference in quality of the petroleum products.

Petroleum products procurement outside Russia

Petroleum products procured outside Russia amounted to RUB 4 billion (0.13 million tonnes) and RUB 4 billion (0.13 million tonnes) in the second quarter of 2014 and the first quarter of 2014, respectively. Additional petroleum products procurement mostly depends on demand fluctuations on the international market.

Petroleum products purchased outside Russia in the six months of 2014 was RUB 8 billion (0.26 mln tonnes) in comparison with RUB 12 billion (0.42 million tonnes) in the six months of 2013.

Gas procurement and crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to Sibur Holding and purchases of dry stripped gas from "Sibur" are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 3.4 bln. Gas purchases amounted to RUB 3.5 billion in the second quarter of 2014, a decrease of 62.4 % compared with the first quarter of 2014 due to implementation of a new commercial scheme of operations with Sibur Company provided increase in processing of associated gas volumes.

In the second quarter of 2014 the structure of the external processing volumes has changed: share of crude oil processing increased and share of petroleum products processing decreased due to planned turnaround at Yanos refinery in the March and April of 2014. The crude oil processing services are rendered mostly by Yanos and Mozyr refineries.

Crude oil and gas processing expenses increased in the six months of 2014 in comparison with the six months of 2013 by 121.4% due to incorporation of new assets expenses.

Inventory revaluation write-off (surplus effect)

Inventory estimation was performed as part of general estimation of TNK fair value at the date of acquisition. The results of final assessment of new acquired assets were recognized retrospectively in the six months of 2013. Revalued inventory was written off in the course of ordinary business activity to the current expenses.

Pipeline Tariffs and Transportation Costs

Transportation costs are costs incurred by Rosneft to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

In the second quarter of 2014 Rosneft's transportation costs insignificantly increased and amounted to RUB 118 billion compared to the first quarter of 2014.

In the six months of 2014 Rosneft's transportation costs increased by 35.8% compared to the six months of 2013. The growth in transportation costs was due to transportation volumes growth.

The table below sets forth comparison on quarter-on-quarter basis for costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway:

	<i>For 3 months ended</i>								<i>% change</i>		
	June 30, 2014				March 31, 2014				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t			
CRUDE OIL											
International sales	25.7	94.8%	41.1	1.60	23.9	93.7%	38.3	1.60	7.5%	7.3%	0.0%
Pipeline	1.4	5.2%	3.6	2.67	1.6	6.3%	4.1	2.55	(12.5)%	(12.2)%	4.7%
Railroad and mixed											
Transportation to refineries	21.4		17.6	0.82	23.2		19.0	0.82	(7.8)%	(7.4)%	0.0%
Pipeline ¹	1.7		7.0	4.04	1.6		6.9	4.28	6.3%	1.4%	(5.6)%
Railroad and mixed											
PETROLEUM PRODUCTS											
International sales											
Pipeline	1.1	6.8%	2.4	2.23	1.0	6.4%	2.2	2.18	10.0%	9.1%	2.3%
Railroad and mixed	12.9	79.6%	28.0	2.16	13.0	83.3%	30.6	2.35	(0.8)%	(8.5)%	(8.1)%
Pipeline and FCA ²	2.2	13.6%			1.6	10.3%			37.5%		
Other transportation expenses ³			18				16			12.5%	
Total	66.4		118		65.9		117		0.8%	0.9%	

¹ Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

² Rosneft exported part of petroleum products in the first and second quarters of 2014 through its own pipeline in the town of Tuapse, and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

³ Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations.

Crude oil pipeline transportation cost per tonne of international sales remained unchanged in the second quarter of 2014 compared to the first quarter of 2014.

The increase in crude oil railroad and mixed transportation cost per tonne of international sales was 4.7% due to change in mix of transportation routes.

Crude oil pipeline transportation cost per tonne of supplies to refineries remained unchanged in the second quarter of 2014 compared to the first quarter of 2014.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the second quarter of 2014 decreased by 5.6% compared to the first quarter of 2014 due to increased logistic efficiency.

The increase in pipeline cost per tonne of petroleum product international sales was 2.3% in the second quarter of 2014 compared to the previous quarter mainly due to change in transportation structure.

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 8.1% in the second quarter of 2014 compared to the first quarter of 2014 due to increased dispatches by river following river navigation start and decreased share of more expensive railroad routes.

The table below sets forth comparison on quarter-to-quarter basis for costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway:

	<i>For 6 months ended</i>								<i>% change</i>		
	June 30, 2014				June 30, 2013				Volume	Cost	Cost per tonne
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne, th.RUB/t	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne, th.RUB/t			
CRUDE OIL											
International sales											
Pipeline	49.6	94.3%	79.4	1.60	42.2	95.5%	70.6	1.67	17.5%	12.5%	(4.2)%
Railroad and mixed	3.0	5.7%	7.7	2.61	2.0	4.5%	3.6	1.91	50.0%	113.9%	36.6%
Transportation to refineries											
Pipeline ¹	44.6		36.6	0.82	28.3		18.2	0.64	57.6%	101.1%	28.1%
Railroad and mixed	3.3		13.9	4.16	3.1		11.1	3.54	6.5%	25.2%	17.5%
PETROLEUM PRODUCTS											
International sales											
Pipeline	2.1	6.6%	4.6	2.20	1.8	7.3%	4.0	2.27	16.7%	15.0%	(3.1)%
Railroad and mixed	25.9	81.4%	58.6	2.25	17.6	71.8%	32.3	1.83	47.2%	81.4%	23.0%
Pipeline and FCA ²	3.8	11.9%			5.1	20.8%			(25.5)%		
Other transportation expenses ³											
			34				33			3.0%	
Total	132.3		235		100.1		173		32.2%	35.8%	

¹ Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH.

² Rosneft exported part of petroleum products in the six months of 2014 and six months of 2013 through its own Tuapse pipeline and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

³ Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations. Other transportation expenses also include Rosneft expenses on crude oil swap deals excluding economy in price.

In the six months of 2014 the decrease in crude oil pipeline transportation cost per tonne of international sales was 4.2% in comparison with the six months of 2013 due increase in share of short routes.

In the six months of 2014 crude oil railroad and mixed transportation cost per tonne of international sales increased by 36.6% in comparison with the six months of 2013 which was due to sales volumes growth and change in structure of railroad transportation routes.

In the six months of 2014 crude oil pipeline transportation cost per tonne of supplies to refineries increased by 28.1% as a result of change in structure of transportation routes.

In the six months of 2014 the increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 17.5%, due to change in transportation mix.

In the six months of 2014 the decrease in pipeline cost per tonne of petroleum product international sales was 3.1% as a result of change in logistics.

The increase in the six months of 2014 in railroad and mixed cost per tonne of petroleum product international sales was 23.0% in comparison with the six months of 2013 due to volumes growth and change in structure of transformation routes.

Excise tax

In the second quarter of 2014 excise tax was RUB 33 billion in comparison with RUB 35 billion in the first quarter of 2014. The decrease was due to lower sales volume of petroleum products subject to excise tax.

Excises amount in the six months of 2014 was RUB 68 billion increased by 19.3% in comparison with the six months of 2013 due to sale growth of excise oil products and increased excise base rate.

Export Customs Duty

Export customs duties include crude oil and petroleum product export customs duties. The export customs duties are also discussed above under "Macroeconomic Factors Affecting Results of Operations—Taxation—Mineral Extraction Tax and Export Customs Duty".

The following table sets forth Rosneft's export customs duties for the periods analysed:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	RUB billion		%	RUB billion		%
Export customs duty for crude oil	315	302	4.3%	617	451	36.8%
Export customs duty for petroleum products	115	113	1.8%	228	151	51.0%
Total export customs duties	430	415	3.6%	845	602	40.4%

Export custom duty growth of 3.6 % in the second quarter of 2014 was due to export volumes increase partially offset by time lag effect. In the six months of 2014 export custom duty growth was 40.4 % compared to the six months of 2013 due to increase in export volumes and custom duty rate.

The following table sets forth certain information about the export customs duty:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	RUB th/tonne		%	RUB th/tonne		%
Average Urals price	27.50	27.42	0.3%	27.35	24.23	12.9%
Average enacted export customs duty	13.39	13.66	(2.0)%	13.53	12.19	10.9%
Hypothetical export customs duty*	13.55	13.30	1.9%	13.43	12.03	11.6%
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/tonne)	13.38	13.69	(2.3)%	13.54	12.23	10.7%

*Hypothetical customs duty is calculated using the average Urals price for the period (i.e. without time lag).

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes.

Operating results of segment “Corporate and others”

Segment includes the Group companies that provide services to corporate services, as well as banks and other.

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2014	March 31, 2014	<i>change</i>	June 30, 2014	June 30, 2013	<i>change</i>
	RUB billion		%	RUB billion		%
Financial results, RUB billion						
EBITDA	(10)	(9)	(11.1)%	(19)	(25)	(24.0)%
Operating cost ¹	9	7	18.7%	16	16	–
Capital expenditures ²	2	4	(50.0)%	6	9	(33.3)%

¹ Change % calculated from unrounded data,

² Refer to “Capital expenditures”

Financial indicators

Operating cost of the segment “Corporate and others”

Production and operating expenses related to the segment «Corporate» increased by 18.7% in the second quarter of 2014 compared to the first quarter of 2014 due to higher volumes of sales of materials, repairs and maintenance services and drilling services provided to the third parties.

Selected indicators of the consolidated financial statement

Costs and Expenses

General and Administrative Expenses

General and administrative expenses include wages and salaries and social benefits (except for wages of technical staff of production and refining entities), banking commissions, third-party fees for professional services, insurance expenses (except for insurance of oil and gas production and refining entities), maintenance of social infrastructure, lease expenses, allowances for doubtful accounts and other general expenses.

The company strengthened control over administrative expenses. General and administrative expenses in the second quarter of 2014 remained unchanged compared to the first quarter 2014 and amounted to RUB 27 billion.

In the six months of 2014 general and administrative expenses were RUB 54 billion, that higher by 17.4% than in the six months of 2013 due to incorporation of expenses of the acquired assets in 2013 from the date of acquisition.

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation include depreciation of crude oil and gas producing assets, and other production and corporate assets.

Depreciation, depletion and amortisation were RUB 109 billion in the second quarter of 2014 compared to RUB 105 billion in the first quarter of 2014. The increase in RUB 4 billion was due to put into operations of new oil and processing fixed assets.

In the six months of 2014 depreciation, depletion and amortisation increased by 33.8% compared with the six months of 2013 due to the incorporation of new acquired assets from the acquisition date. Taking into consideration the retrospective recognition of final assessment of new acquired assets in the six months of 2013 depreciation and depletion expenses included additional RUB 11 billion.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under “—Macroeconomic Factors Affecting Results of Operations—Mineral Extraction Tax” above.

The following table sets forth Rosneft’s taxes other than income tax (excluding export duties) for the periods analysed:

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	<i>June 30,</i>	<i>March 31,</i>	<i>change</i>	<i>June 30,</i>	<i>June 30,</i>	<i>change</i>
	<i>2014</i>	<i>2014</i>		<i>2014</i>	<i>2013</i>	
	RUB billion		%	RUB billion	%	
Mineral extraction tax	263	246	6.9%	509	361	41.0%
Excise tax	33	35	(5.7)%	68	57	19.3%
Social security tax	11	11	-	22	16	37.5%
Property tax	7	7	-	14	10	40.0%
Interest, penalties and other payments to budget	1	2	(50.0)%	3	3	-
Total taxes other than income tax	315	301	4.6%	616	447	37.8%

Taxes other than income tax were RUB 315 billion and increased by 4.6% in the second quarter of 2014, compared with RUB 301 billion in the first quarter of 2014 mainly due to cancelling of mineral extraction tax break at Verkhnechonsk fields.

Taxes other than income tax in the six months of 2014 was RUB 616 billion in comparison with RUB 447 billion in the six months of 2013. The increase was mostly due to indexation of the base rate of mineral extraction tax in 2014 and consolidation of new assets in 2013 from the date of acquisition.

Finance Income and Expenses

Finance income and expenses include interest received on deposits, deposit certificates and loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets measured at fair value, results from operations with derivative financial instruments, increase in provision due to the unwinding of discount, results from disposal of financial assets and other finance income and expenses.

In the second quarter of 2014 net finance expenses amounted to RUB 4 billion. Net finance expenses decreased by RUB 31 billion in the second quarter of 2014 compared to the first quarter of 2014 mainly due to positive changes in fair value of cross-currency rate swap and forward contracts. In the second quarter of 2014 net gain from operations with derivative financial instruments in the amount of RUB 11 billion includes an unrealized gain from changes in fair value measurements in the amount of RUB 9 billion and a realized gain in the form of net payments in the amount of RUB 2 billion. The gain from changes in fair value of derivative financial instruments is due to RUB appreciation¹ against USD at the end of the period.

Net finance expenses increased by RUB 17 billion in the six months of 2014 compared to the six months of 2013. The increase is mainly attributable to increase in interest expenses, including interest expenses for the use of funds under terms of prepayment agreements.

¹ Fair value is estimated at the closing date exchange rate.

Other income and other expenses

In the second quarter of 2014 other income amounted to RUB 4 billion compared to RUB 58 billion in the first quarter of 2014. Significant increase in other income in the first quarter of 2014 was related with the income from the sale of a 49% stake of LLC Yugragazpererabotka.

In the six months of 2014 other income amounted to RUB 62 billion. In the six months of 2013 other income was RUB 206 billion including final fair value estimation of new acquired assets.

In the second quarter of 2014 other expenses amounted to RUB 10 billion compared to RUB 13 billion in the first quarter of 2014. Other expenses mainly include expenses on liquidation of fixed assets in the course of operating activities and other expenses.

In the six months of 2014 and 2013 other expenses amounted to RUB 23 billion and RUB 20 billion respectively.

Foreign Exchange Gain / (Loss)

Foreign exchange effect is mostly attributed to monthly revaluation of assets and liabilities denominated in foreign currency at the exchange rate at the end of the period.

Foreign exchange gain was RUB 29 billion in the second quarter of 2014 compared with foreign exchange loss of RUB 84 billion in the first quarter of 2014. This change was attributed to revaluation of assets and obligations denominated in foreign currency as a result of the significant strengthening of the RUB against the US\$ in the second quarter of 2014.

Foreign exchange loss in the six months of 2014 was RUB 55 billion in comparison with foreign exchange loss in the amount of RUB 66 billion in the six months of 2013.

Income Tax

The following table sets forth the Company's effective income tax rate under IFRS for the periods analysed:

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
Effective income tax rate for Rosneft under IFRS	19.6%	20.0%	19.7%	23.3%*

**Excluding the effect of fair value estimation and initial revaluation surplus of non-controlling interests in Verkhnechonskneftegaz.*

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. The effective tax rate is calculated as the ratio of income tax expense to income before tax. The effective tax rate in the second quarter of 2014 was 19.6 %.

The income tax expense amounted to RUB 42 billion in the second quarter of 2014 compared to 22 RUB billion in the first quarter of 2014.

In accordance with Income statement, in the six months of 2014 the income tax expense was RUB 64 billion and RUB 21 billion in the six months of 2013.

Net Income

As a result of the factors discussed above, net income amounted to RUB 172 billion compared to the net income of RUB 88 billion in the first quarter of 2014. Net income was impacted by the growth of operating profit, positive effect from currency liabilities revaluation, and decrease in finance expenses.

Net income amounted to RUB 260 billion in the six months of 2014. In the six months of 2013 net income was RUB 274 billion including the effect of final estimation of fair value of new acquired assets. Excluding this one off effect net income amounted to RUB 137 billion.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the periods analysed are as follows:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	(RUB billion)		times	(RUB billion)		times
Net cash provided by operating activities	244	658	0.37	902	573	1.57
Net cash used in investing activities	(282)	(345)	0.82	(627)	(1,570)	0.40
Net cash from/(used in) financing activities	(37)	(404)	0.09	(441)	1,031	–

Operating Cash Flow

Net cash provided by operating activities amounted to RUB 244 billion in the second quarter of 2014 compared to RUB 658 billion in the first quarter of 2014. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net outflow of RUB 1 billion in the second quarter of 2014 and net inflow of RUB 1 billion in the first quarter of 2014).

The adjusted for the above operations net cash provided by operating activity amounted to RUB 245 billion in the second quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 1 billion), RUB 656 billion in the first quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 2 billion).

Net cash provided by operating activities amounted to RUB 901 billion in the six months of 2014 (adjusted for operations with trading securities in the amount of RUB 1 billion) in comparison with RUB 571 billion in the six months of 2013 (adjusted for operations with trading securities in the amount of RUB 2 billion).

Net cash provided by operating activity through the presented periods is given in the table below:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	June 30, 2014	March 31, 2014		June 30, 2014	June 30, 2013	
	(RUB billion)		times	(RUB billion)		times
Net cash provided by operating activity	244	658	0.37	902	573	1.57
Effect from operation with trading securities	1	(2)	–	(1)	(2)	0.50
Adjusted net cash provided by operating activity	245	656	0.37	901	571	1.58
One off effect from receipts under long term oil contracts	-	431	–	431	258	1.67
Adjusted net cash provided by operating activity before change in working capital	245	225	1.09	470	313	1.50

The increase in the operating cash flow quarter-on-quarter primarily resulted from the significant change in working capital due to the following factors:

- decrease in receivables mainly due to system of early payment started from May, 2014;
- increase in payables partially compensated by decrease in tax liability.

Investing Activities

Net cash used in investing activities was RUB 282 billion in the second quarter of 2014, compared to RUB 345 billion in the first quarter of 2014. The decrease in cash used in investing activities was due to decrease in acquisition of short-term financial assets compensated by increase in capital expenditures and financing of joint venture in the second quarter of 2014 compared to the first quarter of 2014.

Net cash used in investing activities was RUB 627 billion in the six months of 2014 and RUB 1,570 billion in the six months of 2013 including cash used for TNK acquisition of RUB 1,195 billion in 2013.

Capital Expenditures

The table below sets forth Rosneft's capital expenditures and license acquisition costs:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 6 months ended</i>		<i>change</i>
	<i>June 30,</i>	<i>March 31,</i>		<i>June 30,</i>	<i>June 30,</i>	
	<i>2014</i>	<i>2014</i>		<i>2014</i>	<i>2013</i>	
	<i>(RUB billion)</i>		<i>%</i>	<i>(RUB billion)</i>		<i>%</i>
LLC "RN-Yuganskneftegaz"	25	23	8.7%	48	47	2.1%
JSC "Vankorneft"	7	8	(12.5)%	15	40	(62.5)%
LLC "RN- Uvatneftegaz"	5*	7	(28.6)%	12	7	71.4%
JSC "Orenburgneft"	7	5	40.0%	12	8	50.0%
JSC "Samotlomeftegaz"	5	3	66.7%	8	4	100.0%
LLC "RN-Purneftegaz"	5	2	150.0%	7	9	(22.2)%
JSC "Samaraneftegaz"	3	3	–	6	6	–
JSC "Verkhnechonskneftegaz"	5	3	66.7%	8	4	100.0%
JSC "Tomskneft" VNK	2	2	–	4	4	–
JSC "Rospan International"	3	4	(25.0)%	7	2	250.0%
LLC "RN-Severnaya Neft"	2	1	100.0%	3	2	50.0%
JSC "RN- Nyaganneftegaz"	2	1	100.0%	3	1	200.0%
LLC "JV "Vanyoganneft"	–	1	(100.0)%	1	1	–
Other	17	12	41.7%	29	22	31.8%
Total upstream segment	88*	75	17.3%	163	157	3.8%
JSC "NK "Rosneft"	–	–	–	–	–	–
Tuapse refinery	16	5	220.0%	21	25	(16.0)%
Novokuibyshevsk refinery	4	3	33.3%	7	9	(22.2)%
Kuibyshev refinery	4	3	33.3%	7	7	–
Angarsk refinery	2	2	–	4	6	(33.3)%
Achinsk refinery	3	2	50.0%	5	6	(16.7)%
Syzran refinery	4	3	33.3%	7	8	(12.5)%
Ryazan refinery	3	1	200.0%	4	3	33.3%
Saratov refinery	1	–	–	1	1	–
Komsomolsk refinery	3	2	50.0%	5	3	66.7%
Other refineries	2	3	(33.3)%	5	9	(44.4)%
Marketing Business Units and others	1	1	–	2	5	(60.0)%
Total downstream segment	43	25	72.0%	68	82	(17.1)%
Other activities	2	4	(50.0)%	6	9	(33.3)%
Total capital expenditures	133*	104	27.9%	237	248	(4.4)%
License acquisition costs	–	2	(100.0)%	2	5	(60.0)%

* Including government grants in the amount of RUB 1 billion, which reduced capital expenditures.

In the second quarter of 2014 total capital expenditures (including construction material purchases), increased by 27.9% to RUB 133 billion compared with RUB 104 billion in the first quarter of 2014 due to seasonal factor.

In the six months of 2014 total capital expenditures (including construction material purchases) were RUB 237 billion in comparison with RUB 248 billion in the six months of 2013.

In the second quarter of 2014 upstream capital expenditures (including construction material purchases), increased by 17.3% to RUB 88 billion compared with RUB 75 billion in the first quarter of 2014. The growth of capital expenditure in the second quarter of 2014 was mainly due to a seasonal factor and calendar cycle of placing contracts and work execution. In the six months of 2014 upstream capital expenditures amounted to RUB 163 billion compared with RUB 157 billion in the six months of 2013. Works performed in the six months of 2014 were mainly related to development of oil field infrastructure on the continental shelf, development of gas projects and development of new projects in Western Siberia.

Downstream capital expenditures increased by 72.0% to RUB 43 billion in the second quarter of 2014, compared with RUB 25 billion in the first quarter of 2014. Capital expenditures of refineries increased by 75.0% to RUB 42 billion compared with RUB 24 billion in the first quarter of 2014 due to large-scale upgrade program at Russian refineries and a seasonal factor.

Downstream capital expenditures in the six months of 2014 were RUB 68 billion, including capital expenditures of refineries in the amount of RUB 66 billion, in comparison with RUB 82 billion, including capital expenditures of refineries in the amount of RUB 77 billion, in the six months of 2013. Works performed in the six months of 2014 mainly related to continued programme for capacity upgrade and expansion at Rosneft's refineries in order to completely switch to production of the Euro-5 motor fuels, including extension of capacities of Tuapse refinery and preliminary works at VNHK.

Capital expenditures for other activities that were related to planned acquisition of transportation and other equipment, decreased to RUB 2 billion in the second quarter of 2014, compared with RUB 4 billion in the first quarter of 2014. Capital expenditures for other activities were RUB 6 billion in the six months of 2014 compared with RUB 9 billion in the six months of 2013.

The Company retrospectively changed the presentation of changes in stock of materials for capital expenditure. The changes in stock of materials for capital expenditure were reclassified from the line "Increase/(decrease) in stock of materials for capital expenditure" to the line presenting capital expenditures of respective subsidiary of the Company, which holds these materials. The amounts reclassified are presented below:

	<i>For 6 months ended</i>
	June 30, 2013
	RUB billion
Upstream segment	(3)
Downstream segment	2
Other activities	(1)
Total increase/(decrease) in stock of materials for capital expenditure	(2)

The license acquisition costs in the six months of 2014 in the amount of RUB 2 billion refer to acquisition of licenses for research, exploration and production at blocks located in the Nenets Autonomous Area, the Khanty-Mansi Autonomous Area, Krasnoyarsk region and in the Okhotsk Sea.

Financing activities

Net cash used in financing activities was RUB 37 billion in the second quarter of 2014 compared to RUB 404 billion of net cash provided by financing activities in the first quarter of 2014. In the first quarter of 2014 Company made repayments of loans drawn down for the acquisition of TNK assets in the amount of RUB 193 billion (including RUB 28 billion of early debt repayment) and set off RUB 153 billion in cash to the former shareholders of RN Holding for the purchase of its shares.

Net cash used in financing activities in the six months of 2014 was RUB 441 billion compared with RUB 1,031 billion of net cash provided by financing activities in the six months of 2013 that was as a result of raising funds to finance the acquisition of assets of TNK-BP in the amount of USD 31.04 billion.

Debt Obligations

Rosneft net debt amounts was RUB 1,495 billion as of June 30, 2014 compared to RUB 1,586 billion as of March 31, 2014. The Company is reducing the debt burden.

Rosneft's total loans and borrowings was RUB 2,179 billion as of June 30, 2014 compared to RUB 2,303 billion as of March 31, 2014. The decrease was mainly attributable to planned repayments of the loans and effect of revaluation of debt denominated in foreign currency.

Portion of Rosneft's long-term loans are secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provided the lender with an express right of claim for contractual revenue in the amount of failing loan repayments.

As of June 30, 2014, March 31, 2014 and June 30, 2013: 26.1%, 26.4%, 23.4% respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of June 30, 2014, March 31, 2014 and June 30, 2013 pledged oil exports constituted 4.2%, 4.3% and 6.8%, respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

The calculation of the net debt is disclosed in the following table:

As of the date	June 30, 2014	March 31, 2014	June 30, 2013
		RUB billion	
Short term debt	862	864	496
Other short term liabilities	-	-	12
Long term debt	1,317	1,439	1,878
Total debt	2,179	2,303	2,386
Cash and cash equivalents	142	220	346
Short-term Financial assets	542	497	178
Net debt	1,495	1,586	1,862*

Key Financial Ratios

Rosneft monitors and evaluates its activities on an ongoing basis. Key financial ratios for the periods indicated are set forth below:

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
EBITDA margin	21.2%	21.0%	21.1%	18.3%
Net income margin	12.0%	6.4%	9.3%	13.8%
Net debt to annualised EBITDA*	1.28	1.47*	1.28	1.79*
Current ratio	1.05	1.20	1.05	1.21
	RUB per bbl			
EBITDA/bbl	864	819	841	618
Upstream capital expenditure/bbl	250	212	231	267
Upstream operating expenses/bbl	175	157	166	141
Free cash flow before interest/bbl	318	343	331	115
	RUB per boe			
EBITDA/boe	719	689	704	553
Upstream capital expenditure/boe	208	179	193	239
Upstream operating expenses/boe	146	132	139	126
Free cash flow before interest/boe	265	288	276	103

* Revised due to incorporation of short term liabilities of new assets.

The Company considers EBITDA/bbl, upstream operating expenses/bbl, upstream operating expenses/boe and the related indicators as important measures of its operating performance. In addition, these measures are frequently used by financial analysts, investors and other interested parties in the evaluation of oil and gas companies. These measures have limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS.

All the 'per unit of production' indicators are calculated by dividing the total amount in RUB by the total production volume in bbl or boe (in mln bbl or mln boe) and are not adjusted for the effect of changes in inventories.

The following tables set forth relevant numbers relating to these measures for and as of the periods indicated:

Calculation of Adjusted Free Cash Flow

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
	RUB billion			
Net cash provided by operating activities	244	658	902	573
Capital expenditures	(133)	(104)	(237)	(248)
Trading securities operations*	1	(2)	(1)	1
One-off effect from receipts under long term oil contracts	-	(431)	(431)	(258)
Adjusted free cash flow	112	121	233	68

*In accordance with Interim consolidated statement of cash flows "Acquisition and proceeds from trading security".

Calculation of adjusted EBITDA Margin

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013¹
	RUB billion, except %			
Operating income	195	184	379	197
Depreciation, depletion and amortisation	109	105	214	160
EBITDA	304	289	593	357
One off effect	-	-	-	6
Adjusted EBITDA	304	289	593	363
Sales revenues	1,435	1,375	2,810	1,988
Adjusted EBITDA margin	21.2%	21.0%	21.1%	18.3%

¹ Including effect from retrospective estimation of new assets acquisition.

Calculation of Net Income Margin

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013¹
	RUB billion, except %			
Net income	172	88	260	274
Revenues	1,435	1,375	2,810	1,988
Net income margin	12.0%	6.4%	9.3%	13.8%

¹ Including effect from retrospective estimation of new assets acquisition.

Current ratio

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2014	March 31, 2014	June 30, 2014	June 30, 2013
	RUB billion, except ratio			
Current assets	1,710	1,786	1,710	1,307
Current liabilities	1,622	1,489	1,622	1,080
Current ratio	1.05	1.20	1.05	1.21