MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2015

Content

The following discussion should be read in conjunction with the unaudited consolidated interim condensed financial statements prepared in accordance with IFRS and the related notes, published simultaneously with this Management's Discussion and Analysis of financial condition and results of operations (MD&A). This discussion includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward looking statements as a result of numerous factors, including certain factors discussed later in this MD&A.

For financial reporting purposes, Tatneft converts metric tonnes of crude oil to barrels using a conversion factor of 7.123. This factor represents a blend of varying conversion factors specific to each of Tatneft's fields. Because the proportion of actual production by field varies from period to period, total reserves and production volumes for the Group in barrels converted from tonnes using the blended rate may differ from total reserves and production calculated on a field by field basis. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet into BOE at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statements" on page 23 for a discussion of some factors that could cause actual results to differ materially.

Background

PAO Tatneft (the "Company") and its subsidiaries (jointly referred to as the "Group" or "Tatneft") is one of the largest vertically integrated oil companies in Russia in terms of crude oil production and proved oil reserves. The Company is a public joint-stock company organized under the laws of the Russian Federation with the headquarters located in City of Almetyevsk, Tatarstan. The principal business of the Group is to explore for, develop, produce and market crude oil and refined products. The Group is also involved in petrochemicals', mainly tires, production and marketing.

As of 30 June 2015 and 31 December 2014 the government of Tatarstan, including through its wholly owned company AO Svyazinvestnefteknim, controls approximately 36% of the Company's voting stock. These shares were contributed to AO Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Commission of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term.

The majority of the Group's crude oil and gas production, refining capacity and other operations are located in Tatarstan, a republic of the Russian Federation, situated between the Volga River and the Ural Mountains, approximately 750 kilometers southeast of Moscow.

The Group currently holds most of the exploration and production licenses and produces substantially all its crude oil in Tatarstan.

Key financial and operational results

	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
Financial results						
Sales, net (RR million)	144,450	135,061	*7.0*	279,511	244,862	*14.2*
Profit attributable to Group shareholders (RR million)	29,462	26,569	*10.9*	56,031	51,565	*8.7*
EBITDA[(1)] (RR million)	45,823	44,469	*3.0*	90,292	79,270	*13.9*
Additions to property, plant and equipment (RR million)	20,937	13,246	*58.1*	34,183	21,923	*55.9*
Free Cash Flow (RR million)	33,578	8,589	*290.9*	42,167	46,798	*(9.9)*
Net debt[(3)] (RR million)	(4,217)	5,827	*n/a*	(4,217)	7,197	*n/a*
Basic and Diluted net profit per share of common stock (RR)						
Common	12.97	11.70	*10.9*	24.67	22.71	*8.6*
Preferred	12.94	11.70	*10.6*	24.64	22.68	*8.6*
Operational results						
Crude oil production by the Group (th. tonnes)	6,689	6,569	*1.8*	13,258	13,136	*0.9*
Crude oil production by the Group (th. barrels)	47,647	46,788	*1.8*	94,435	93,567	*0.9*
Crude oil daily production (th. barrels per day)	523.6	519.9	*0.7*	521.7	516.9	*0.9*
Gas production by the Group (million cubic meters)	233.8	229.3	*2.0*	463.1	459.9	*0.7*
Gas daily production (th. boe per day)	15.1	15.0	*0.7*	15.1	15.0	*0.7*
Refined products produced (th. tonnes)	2,277.7	2,164.6	*5.2*	4,442.4	4,484.9	*(0.9)*
Gas products produced[(4)] (th. tonnes)	284.1	273.6	*3.8*	557.7	552.3	*1.0*
Refining throughput (th. barrels per day)	179.4	178.4	*0.6*	178.9	184.7	*(3.1)*
Production of tires (million tires)	3.1	2.8	*10.7*	5.9	5.6	*5.4*
Number of petrol (gas) stations in Russia[(2) (3)]	553	544		553	528	
Number of petrol (gas) stations outside of Russia[(2) (3)]	123	124		123	122	

(1) *As defined on page 13*
(2) *Including leased stations*
(3) *At the end of the period*
(4) *Including Natural Stable Gasoline (Naphtha), produced by division Tatneftgaspererabotka*

Our net profit in the second quarter of 2015 increased by RR 2,893 million in comparison to the first quarter of 2015.

Our net profit in the six months of 2015 was RR 56,031 million, which is RR 4,466 million, or 8.7%, more than in the corresponding period of 2014. Higher net revenues due to lower export duties partially offset by current income tax expense were the main factor behind an increase of our profit in the six months of 2015 compared to the corresponding period of 2014 (for more detailed presentation of various factors affecting the results of our operations as well as period-to-period comparison, please see page 6).

In the second quarter of 2015 the Group (including consolidated subsidiaries OOO Tatneft-Samara, OOO Tatneft-Severny) produced 6.7 million metric tonnes of crude oil which is 1.8% higher than in the first quarter of 2015. Our gas production in the second quarter of 2015 was 233.8 million cubic meters which is 2.0% higher than in the first quarter of 2015.

In the six months of 2015 the Group produced 13.3 million metric tonnes of crude oil which is 0.9% higher than in the six months of 2014. Our gas production in the six months of 2015 was 463.1 million cubic meters which is 0.7% higher than in the corresponding period of 2014.

The following table sets forth TANECO's refined product output volumes.

TANECO operational results	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
	(in thousand tonnes)			(in thousand tonnes)		
Refined products output:	**2,220.1**	**2,111.7**	***5.1***	**4,331.8**	**4,111.0**	***5.4***
Middle distillates	662.5	600.4	*10.3*	1,262.9	1,335.7	*(5.5)*
Fuel oil	587.8	537.1	*9.4*	1,124.9	1,036.9	*8.5*
Naphtha	454.0	465.4	*(2.4)*	919.4	804.7	*14.3*
Diesel fuel	325.4	345.7	*(5.9)*	671.1	447.4	*50.0*
Vacuum gasoil	72.8	76.2	*(4.5)*	149.0	265.6	*(43.9)*
Kerosene	42.5	44.2	*(3.8)*	86.7	73.0	*18.8*
Visbreaker naphtha	2.2	4.7	*(53.2)*	6.9	45.2	*(84.7)*
Jet fuel	16.2	-	*n/a*	16.2	-	*n/a*
Other	56.7	38.0	*49.2*	94.7	102.5	*(7.6)*

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, as well as production subsidiaries, geological, engineering and reservoir oil yield improvement subdivisions, pumping equipment repair centers, and other ancillary oilfield services' operations. Most oil and gas exploration and production activities are concentrated within the Company.

- **Refining and marketing** – consists of the Company's sales and marketing division (URNiN), a refining and petrochemical complex in Nizhnekamsk, Tatarstan, operated by OAO TANECO ("TANECO"), as well as the Company's construction projects management division; our gas production, transportation and refining division Tatneftegaspererabotka; OOO Tatneft-AZS Center, OOO Tatneft-AZS-Zapad, and OOO Tatneft-AZS-Yug which manage the Tatneft branded gas stations network in Russia and carry out refined products wholesale sales; and certain other oil trading and ancillary companies.

- **Petrochemicals -** our petrochemicals segment has been consolidated under a management company, Tatneft-Neftekhim which manages PAO Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including AO Nizhnekamsk Industrial Carbon Plant, AO Yarpolymermash-Tatneft, AO Nizhnekamskiy Mekhanicheskiy Zavod, OOO Nizhnekamskiy Zavod Gruzovykh Shin and OOO Nizhnekamskiy Zavod Shin CMK. OOO Tatneft-Neftekhimsnab and OOO Trading House Kama are responsible for procuring supplies and marketing products produced by the companies within this segment, respectively.

These segments are determined by the way management recognizes the segments within the Group for making operating decisions and how they are evident from the Group structure.

Results of Group operations for the three and six months ended 30 June 2015 compared to the three months ended 31 March 2015 and six months ended 30 June 2014

The following table sets forth the consolidated statement of profit or loss both in absolute values and respective change (where relevant) over the analyzed periods:

(RR million)	Three months ended 30 June 2015 (unaudited)	Three months ended 31 March 2015 (unaudited)	Change, %	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)	Change, %
Sales and other operating revenues, net	**144,450**	**135,061**	***7.0***	**279,511**	**244,862**	***14.2***
Costs and other deductions						
Operating	(23,887)	(22,020)	*8.5*	(45,907)	(42,398)	*8.3*
Purchased oil and refined products	(15,099)	(12,107)	*24.7*	(27,206)	(26,279)	*3.5*
Exploration	(420)	(502)	*(16.3)*	(922)	(828)	*11.4*
Transportation	(7,148)	(8,457)	*(15.5)*	(15,605)	(11,645)	*34.0*
Selling, general and administrative	(12,543)	(10,486)	*19.6*	(23,029)	(20,064)	*14.8*
Depreciation, depletion and amortization	(5,822)	(5,709)	*2.0*	(11,531)	(10,232)	*12.7*
Loss on disposals of property, plant and equipment, investments and impairments	(83)	(76)	*9.2*	(159)	(857)	*(81.4)*
Taxes other than income taxes	(38,227)	(35,823)	*6.7*	(74,050)	(61,712)	*20.0*
Maintenance of social infrastructure and transfer of social assets	(1,220)	(1,121)	*8.8*	(2,341)	(1,809)	*29.4*
Total costs and other deductions	**(104,449)**	**(96,301)**	***8.5***	**(200,750)**	**(175,824)**	***14.2***
Foreign exchange loss	(183)	(2,594)	*(92.9)*	(2,777)	(803)	*245.8*
Interest income	3,491	2,934	*19.0*	6,425	3,173	*102.5*
Interest expense, net of amounts capitalized	(1,608)	(1,693)	*(5.0)*	(3,301)	(2,873)	*14.9*
(Losses)/ earnings from equity investments	(376)	(286)	*31.5*	(662)	40	*n/a*
Other expense, net	(481)	(125)	*284.8*	(606)	(318)	*90.6*
Total other income/ (expenses)	**843**	**(1,764)**	***n/a***	**(921)**	**(781)**	***17.9***
Profit before income taxes	**40,844**	**36,996**	***10.4***	**77,840**	**68,257**	***14.0***
Current income tax expense	(7,806)	(10,809)	*(27.8)*	(18,615)	(12,342)	*50.8*
Deferred income tax (expense)/ benefit	(1,611)	1,914	*n/a*	303	(1,308)	*n/a*
Total income tax expense	**(9,417)**	**(8,895)**	***5.9***	**(18,312)**	**(13,650)**	***34.2***
Profit for the period	**31,427**	**28,101**	***11.8***	**59,528**	**54,607**	***9.0***
Less: Profit attributable to non-controlling interest	(1,965)	(1,532)	*28.3*	(3,497)	(3,042)	*15.0*
Profit attributable to Group shareholders	**29,462**	**26,569**	***10.9***	**56,031**	**51,565**	***8.7***

Sales and other operating revenues

A breakdown of sales and other operating revenues (by product type) is provided in the following table:

(RR million)	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
Crude oil						
Sales	*89,306*	*90,692*	*(1.5)*	*179,998*	*174,221*	*3.3*
Less related export duties	*(16,066)*	*(21,888)*	*(26.6)*	*(37,954)*	*(56,077)*	*(32.3)*
	73,240	68,804	6.4	142,044	118,144	*20.2*
Refined products						
Sales	*63,394*	*60,723*	*4.4*	*124,117*	*126,792*	*(2.1)*
Less related export duties and excise taxes	*(7,181)*	*(8,794)*	*(18.3)*	*(15,975)*	*(27,037)*	*(40.9)*
	56,213	51,929	8.2	108,142	99,755	*8.4*
Petrochemicals	8,769	7,834	11.9	16,603	14,398	*15.3*
Corporate and other sales	6,228	6,494	(4.1)	12,722	12,565	*1.2*
Total Sales and other operating revenues, net	**144,450**	**135,061**	**7.0**	**279,511**	**244,862**	***14.2***

Increase in sales and other operating revenues in the second quarter of 2015 in comparison to the first quarter of 2015 was mainly due to increased sales of refined products as well as the effect of decreased export duties paid on refined products and crude oil sales in the current period.

Increase in sales and other operating revenues in the six months of 2015 in comparison to the corresponding period of 2014 was mostly due to the effect of decreased export duties paid on crude oil and refined products sales in the current period.

In the second quarter of 2015 export duties, paid by the Group, decreased by 25.1% to RR 22,169 million compared to the first quarter of 2015 due to lower volumes of crude oil and refined products sold on export in the current period.

In the first half of 2015 export duties, paid by the Group, decreased by 35.8% to RR 51,781 million compared to the first half of 2014. The decrease was attributable to lower export duty rates in the current period.

Our expenses on excise taxes in the second quarter of 2015 was almost at the same level as in the first quarter of 2015 and amounted to RR 1,078 million compared to RR 1,070 million in the first quarter of 2015.

Our expenses on excise taxes in the first half of 2015 decreased to RR 2,148 million compared to the RR 2,516 million in the first half of 2014 due to decrease in excise tax rates in the current period.

Export of crude oil and refined products from Russia

For crude oil export the Group is using transportation services of AO AK Transneft ("Transneft"), the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines.

Three months ended 30 June 2015

During the second quarter of 2015, the Group exported approximately 58% of all its crude oil sold compared to approximately 65% in the first quarter of 2015.

In the second quarter of 2015 the Company delivered 36% (45% in the first quarter of 2015) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Hungary and Slovakia); 17% (16% in the first quarter of 2015) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 47% (39% in the first quarter of 2015) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). (*)

In the second quarter of 2015 the Group exported 1,364 thousand tonnes of refined products (including 16 thousand tonnes of purchased refined products) in comparison to 1,493 thousand tonnes in the first quarter of 2015 (including 10 thousand tonnes of purchased refined products).

Six months ended 30 June 2015

During the first half of 2015, the Group exported approximately 62% of all its crude oil sold compared to approximately 52% in the corresponding period of 2014.

In the first half of 2015 the Company delivered 40% (42% in the first half of 2014) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Slovakia and Hungary); 17% (37% in the first half of 2014) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 43% (21% in the first half of 2014) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk). [*]

In the first half of 2015 the Group exported 2,857 thousand tonnes of refined products (including 27 thousand tonnes of purchased refined products) in comparison to 2,616 thousand tonnes in the corresponding period of 2014 (including 30 thousand tonnes of purchased refined products).

[*] *Sales to CIS were excluded in the calculation of figures in percent in the paragraphs above*

Sales breakdown

Sales revenues

(RR million)	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
Crude oil						
Non-CIS						
Export sales	57,443	65,359	*(12.1)*	122,802	119,331	*2.9*
Less related export duties	(16,066)	(21,888)	*(26.6)*	(37,954)	(56,077)	*(32.3)*
CIS sales[1]	5,091	5,156	*(1.3)*	10,247	4,957	*106.7*
Domestic sales	26,772	20,177	*32.7*	46,949	49,933	*(6.0)*
	73,240	**68,804**	***6.4***	**142,044**	**118,144**	***20.2***
Refined products						
Non-CIS export sales						
Export sales	27,064	31,703	*(14.6)*	58,767	63,077	*(6.8)*
Less related export duties	(6,086)	(7,709)	*(21.1)*	(13,795)	(24,259)	*(43.1)*
CIS sales						
CIS sales	2,940	3,507	*(16.2)*	6,447	3,830	*68.3*
Less related export duties	(17)	(15)	*13.3*	(32)	(262)	*(87.8)*
Domestic sales						
Domestic sales	33,390	25,513	*30.9*	58,903	59,885	*(1.6)*
Less related excise taxes	(1,078)	(1,070)	*0.7*	(2,148)	(2,516)	*(14.6)*
	56,213	**51,929**	***8.2***	**108,142**	**99,755**	***8.4***
Petrochemical products						
Tires sales	8,398	7,375	*13.9*	15,773	13,526	*16.6*
Other petrochemicals sales	371	459	*(19.2)*	830	872	*(4.8)*
	8,769	**7,834**	***11.9***	**16,603**	**14,398**	***15.3***
Other sales	**6,228**	**6,494**	***(4.1)***	**12,722**	**12,565**	***1.2***

[1] *CIS is an abbreviation for Commonwealth of Independent States*

Sales volumes

(thousand tonnes)	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
Crude oil						
Non-CIS export sales	2,561	2,833	*(9.6)*	5,394	4,462	*20.9*
CIS sales	314	337	*(6.8)*	651	362	*79.8*
Domestic sales	2,052	1,679	*22.2*	3,731	4,386	*(14.9)*
	4,927	**4,849**	***1.6***	**9,776**	**9,210**	***6.1***
Refined products						
Non-CIS export sales	1,248	1,343	*(7.1)*	2,591	2,444	*6.0*
CIS sales	116	150	*(22.7)*	266	172	*54.7*
Domestic sales	1,383	1,126	*22.8*	2,509	2,760	*(9.1)*
	2,747	**2,619**	***4.9***	**5,366**	**5,376**	***(0.2)***

Realized average sales prices

(th. RR per tonne)	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %
Crude oil						
Non-CIS export sales	*22.43*	*23.07*	*(2.8)*	*22.77*	*26.74*	*(14.8)*
CIS sales	*16.21*	*15.30*	*5.9*	*15.74*	*13.69*	*15.0*
Domestic sales	*13.05*	*12.02*	*8.6*	*12.58*	*11.38*	*10.5*
Refined products						
Non-CIS export sales	*21.69*	*23.61*	*(8.1)*	*22.68*	*25.81*	*(12.1)*
CIS sales	*25.34*	*23.38*	*8.4*	*24.24*	*22.27*	*8.8*
Domestic sales	*24.14*	*22.66*	*6.5*	*23.48*	*21.70*	*8.2*

Sales of crude oil

In the second quarter of 2015 in comparison to the first quarter of 2015 sales of crude oil decreased by 1.5% to RR 89,306 million mainly due to lower volumes and average prices of crude oil sold on Non-CIS market in the current period.

In the first half of 2015 increase in sales of crude oil by 3.3% to RR 179,998 million from RR 174,221 million in the corresponding period of 2014 was mainly due to higher volumes of crude oil sold.

Sales of refined products

In the second quarter of 2015 increase in sales of refined products by 4.4% to RR 63,394 million from RR 60,723 million in the first quarter of 2015 was due to higher volumes and average prices of refined products sold on domestic market in the current period.

In the first half of 2015 decrease in sales of refined products by 2.1% to RR 124,117 million from RR 126,792 million in the corresponding period of 2014 was mainly due to lower volumes of refined products sold on domestic market the current period.

Non-CIS export sales	Three months ended 30 June 2015 RR mln	30 June 2015 mln tonnes	31 March 2015 RR mln	31 March 2015 mln tonnes	Change*, % Sales	Change*, % Volumes	Six months ended 30 June 2015 RR mln	30 June 2015 mln tonnes	30 June 2014 RR mln	30 June 2014 mln tonnes	Change*, % Sales	Change*, % Volumes
Vacuum gasoil	1,573	0.06	2,105	0.08	*(25.3)*	*(25.0)*	3,678	0.14	7,712	0.29	*(52.3)*	*(51.7)*
Fuel oil	7,351	0.51	5,472	0.38	*34.3*	*34.2*	12,823	0.89	16,197	0.88	*(20.8)*	*1.1*
Naphtha	11,384	0.42	11,924	0.43	*(4.5)*	*(2.3)*	23,308	0.85	25,552	0.80	*(8.8)*	*6.3*
Gas products	337	0.02	456	0.02	*(26.1)*	*0.0*	793	0.04	1,513	0.06	*(47.6)*	*(33.3)*
Middle distillates	4,108	0.15	6,710	0.24	*(38.8)*	*(37.5)*	10,818	0.39	6,220	0.20	*73.9*	*95.0*
Diesel fuel	1,834	0.07	4,519	0.15	*(59.4)*	*(53.3)*	6,353	0.22	4,659	0.15	*36.4*	*46.7*
Other	477	0.02	517	0.04	*(7.7)*	*(50.0)*	994	0.06	1,224	0.06	*(18.8)*	*0.0*
Total	**27,064**	**1.25**	**31,703**	**1.34**	***(14.6)***	***(6.7)***	**58,767**	**2.59**	**63,077**	**2.44**	***(6.8)***	***6.1***

CIS export sales	Three months ended 30 June 2015 RR mln	30 June 2015 mln tonnes	31 March 2015 RR mln	31 March 2015 mln tonnes	Change*, % Sales	Change*, % Volumes	Six months ended 30 June 2015 RR mln	30 June 2015 mln tonnes	30 June 2014 RR mln	30 June 2014 mln tonnes	Change*, % Sales	Change*, % Volumes
Fuel oil	-	-	59	0.00	*n/a*	*n/a*	59	0.00	256	0.02	*(77.0)*	*(100.0)*
Gas products	248	0.01	252	0.02	*(1.6)*	*(50.0)*	500	0.03	559	0.03	*(10.6)*	*0.0*
Naphtha	1,539	0.08	1,914	0.09	*(19.6)*	*(11.1)*	3,453	0.17	1,496	0.08	*130.8*	*112.5*
Diesel fuel	771	0.02	990	0.03	*(22.1)*	*(33.3)*	1,761	0.05	768	0.02	*129.3*	*150.0*
Other	382	0.01	292	0.01	*30.8*	*0.0*	674	0.02	751	0.02	*(10.3)*	*0.0*
Total	**2,940**	**0.12**	**3,507**	**0.15**	***(16.2)***	***(20.0)***	**6,447**	**0.27**	**3,830**	**0.17**	***68.3***	***58.8***

Domestic sales	Three months ended				Change*, %		Six months ended				Change*, %	
	30 June 2015		31 March 2015				30 June 2015		30 June 2014			
	RR mln	mln tonnes	RR mln	mln tonnes	Sales	Volumes	RR mln	mln tonnes	RR mln	mln tonnes	Sales	Volumes
Middle distillates	12,054	0.53	8,748	0.38	*37.8*	*39.5*	20,802	0.91	24,230	1.15	*(14.1)*	*(20.9)*
Petrol fuel	7,641	0.22	6,177	0.18	*23.7*	*22.2*	13,818	0.40	13,554	0.43	*1.9*	*(7.0)*
Diesel fuel	9,277	0.32	7,477	0.26	*24.1*	*23.1*	16,754	0.58	12,971	0.47	*29.2*	*23.4*
Gas products	2,366	0.20	2,098	0.16	*12.8*	*25.0*	4,464	0.36	4,909	0.35	*(9.1)*	*2.9*
Other	2,052	0.11	1,013	0.15	*102.6*	*(26.7)*	3,065	0.26	4,221	0.36	*(27.4)*	*(27.8)*
Total	**33,390**	**1.38**	**25,513**	**1.13**	***30.9***	***22.1***	**58,903**	**2.51**	**59,885**	**2.76**	***(1.6)***	***(9.1)***

** The difference between percents presented here and in the sections is a result of rounding*

Sales of petrochemical products

In the second quarter and the first half of 2015 sales of petrochemical products increased by 11.9% and 15.3% to 8,769 and 16,603, respectively, compared to the first quarter of 2015 and the first half of 2014 primarily due to the higher volumes of tires sold in the current periods.

The Group's production of tires in the second quarter and in the first half of 2015 increased by 10.7% and 5.4% and amounted to 3.1 million and 5.9 million tires, respectively, compared to the first quarter of 2015 and the first half of 2014.

Other sales

Other sales primarily represent sales of materials and equipment, various oilfield services (such as drilling, well construction and repairs, and geophysical works) and sales of energy, water and steam by the Group entities to third parties.

In the second quarter of 2015 other sales decreased by 4.1% to RR 6,228 million from RR 6,494 million in the first quarter of 2015.

In the first half of 2015 other sales increased by 1.2% to RR 12,722 million from RR 12,565 million in the corresponding period of 2014.

Costs and other deductions

Operating expenses. Operating expenses include the following costs:

(RR million)	Three months ended		Six months ended	
	30 June 2015	31 March 2015	30 June 2015	30 June 2014
Crude oil extraction expenses	11,570	11,166	22,736	22,185
Refining expenses	2,718	1,996	4,714	3,863
Petrochemical production expenses	6,996	6,596	13,592	12,154
Other operating expenses	2,368	2,078	4,446	4,189
Operating expenses not attributed to the revenue in the current period(1)	235	184	419	7
Total operating expenses	**23,887**	**22,020**	**45,907**	**42,398**

(1) This change includes extraction expenses related to crude oil produced by the Group in one period but sold to third parties in the different reporting period.

Crude oil extraction expenses. The Group's extraction ("lifting") expenses related to crude oil production are incurred by the Company's oil and gas producing divisions and subsidiaries. They include expenditures related to maintenance services, repairs and insurance of extraction equipment, labour costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, materials and goods consumed in crude oil production, and other similar costs.

The Company's crude oil production units' and subsidiaries' costs of purchased services and goods that are unrelated to their core activities and the change in crude oil and refined products inventory, have been excluded from extraction expenses and are included in other operating costs.

In the second quarter of 2015 lifting expenses averaged to RR 242.8 per barrel compared to RR 238.7 per barrel in the first quarter of 2015.

In the first half of 2015 lifting expenses averaged to RR 240.8 per barrel compared to RR 237.1 per barrel in the corresponding period of 2014.

Higher oil and gas collection and transportation costs were the primary reason for the increase in lifting expenses in the second quarter of 2015 compared to the first quarter of 2015.

Higher injection costs and expenses on artificial stimulation of reservoirs were the primary reason for the increase in lifting expenses in the first half of 2015 compared to the first half of 2014.

Refining expenses. Refining expenses mostly consist of expenses related to the production of refined products at our TANECO refinery and primarily include expenditures of raw materials and supplies, maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs.

The refining expenses incurred at TANECO in the second quarter of 2015 were RR 1,172.5 per tonne of crude oil throughput (RR 1,220.2 per tonne of products output) compared to RR 906.2 per tonne of crude oil throughput (RR 945.2 per tonne of products output) in the first quarter of 2015.

The refining expenses incurred at TANECO in the first half of 2015 were RR 1,042.5 per tonne of crude oil throughput (RR 1,086.2 per tonne of products output) compared to RR 856.0 per tonne of crude oil throughput (RR 889.1 per tonne of products output) in the corresponding period of 2014.

Increase in costs spent on other raw materials and water and steam were the main reasons for the increase in refining expenses in the second quarter of 2015 and the first half of 2015 compared to the first quarter of 2015 and first half of 2014, respectively.

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products.

Cost of petrochemical products increased in the second quarter of 2015 by 6.1% to RR 6,996 million and in the first half of 2015 by 11.8% to RR 13,592 million compared to the first quarter of 2015 and the first half of 2014, respectively, primarily due to increase in volumes of petrochemicals produced in current periods.

Other operating expenses include costs of other services, goods and materials not related to the core production activities of the Group.

In the second quarter of 2015 and in the first half of 2015 other operating expenses increased by 14% and 6.1% to RR 2,368 million and RR 4,446 million, respectively, compared to first quarter of 2015 and the first half of 2014, mostly due to increase in sales volumes of other services, goods and materials.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products in the respective periods of 2015 and 2014 were as follows:

	Three months ended		Six months ended	
	30 June 2015	**31 March 2015**	**30 June 2015**	**30 June 2014**
Purchased crude oil (RR million)	6,722	5,607	12,329	12,368
Volume (thousand tonnes)	*404*	*307*	*711*	*750*
Average price (th. RR per tonne)	*16.64*	*18.26*	*17.34*	*16.49*
Purchased refined products (RR million)	8,377	6,500	14,877	13,911
Volume (thousand tonnes)	*297*	*249*	*546*	*498*
Average price (th. RR per tonne)	*28.21*	*26.10*	*27.25*	*27.93*
Total purchased oil and refined products	**15,099**	**12,107**	**27,206**	**26,279**

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties.

In the second quarter of 2015 and in the first half of 2015 exploration expenses amounted to RR 420 million and RR 922 million compared to RR 502 million and RR 828 million in the first quarter of 2015 and the first half of 2014, respectively.

Transportation expenses. Transportation of the Group's crude oil and refined products, including purchased crude oil and refined products, are mostly carried out using the Transneft trunk pipeline system and the railway.

Decrease of transportation expense in the second quarter of 2015 by 15.5% to RR 7,148 million compared to RR 8,457 million in the first quarter of 2015 was due to decrease in crude oil and refined products export sales in the current period.

Increase of transportation expense in the first half of 2015 by 34% to RR 15,605 million compared to RR 11,645 million in the first half of 2014 was mostly due to an increase in crude oil and refined products' transportation tariffs as well as an increase in crude oil and refined products volumes sold on export in the current period.

Selling, general and administrative expenses. Certain selling, general and administrative expenses by nature are fixed costs which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions.

In the second quarter of 2015 selling, general and administrative expenses increased by 19.6% compared to the first quarter of 2015 and amounted to RR 12,543 million which was attributed to an increase in other selling, general and administrative expenses including, among other factors, expenses on commission, audit and information services.

Increase in selling, general and administrative expenses by RR 2,965 million to RR 23,029 million in the first half of 2015 compared to the corresponding period of 2014 was mainly attributed, among other factors, to an increase in bad debt provision and charitable expenses.

Loss on disposals of property, plant and equipment and impairment of investments. Loss for the first half of 2015 was attributable to the loss on disposal of some of our fixed assets.

Taxes other than income taxes. Taxes other than income taxes include the following:

	Three months ended		Six months ended	
(RR million)	**30 June 2015**	**31 March 2015**	**30 June 2015**	**30 June 2014**
Mineral extraction tax	36,286	33,886	70,172	58,598
Property tax	1,483	1,488	2,971	2,501
Penalties and interest	31	57	88	32
Other	427	392	819	581
Total taxes other than income taxes	**38,227**	**35,823**	**74,050**	**61,712**

Taxes other than income taxes increased in the second quarter of 2015 in comparison to the first quarter of 2015 by 6.7% due to higher mineral extraction tax in the current period mostly due to increase in crude oil market prices to which the tax rates are linked.

Taxes other than income taxes increased in the first half of 2015 in comparison to the first half of 2014 by 20% due to higher mineral extraction tax mostly due to an increase in base tax rate and devaluation of Ruble against US Dollar. From 1 January 2015 the base mineral extraction tax rate was increased to RR 766 per tonne from RR 493 per tonne in 2014. Other taxes include land tax and non-recoverable VAT.

Effective 1 January 2007, the tax rate formula for mineral extraction tax was modified to provide for fields a depletion rate of which is 80% or above as determined under Russian reserves classification. Under these rules, the Group benefits for each percent of depletion within the limits of 80% to 100% per field. The Group's largest field – Romashkinskoye and, certain other fields are more than 80% depleted. The Group's benefit in the second quarter of 2015 and the first half of 2015 in the amounts to RR 6.7 billion and RR 13.1 billion, respectively (in comparison to RR 6.4 billion and RR 15.4 billion, in the first quarter of 2015 and the first half of 2014, respectively).

Tax benefits also apply to the Group's production of highly viscous crude oil from the Ashalchinskoye and some other fields. Related tax benefits in the second quarter of 2015 and the first half of 2015 amounted to RR 1.1 billion and RR 2.1 billion, respectively, in comparison to RR 1.0 billion and RR 1.7 billion in the first quarter of 2015 and the first half of 2014, respectively (also see p. 21).

Maintenance of social infrastructure and transfer of social assets. In the second quarter of 2015 and the first half of 2015 maintenance of social infrastructure expenses and transfer of social assets increased to RR 1,220 million and RR 2,341 million, respectively, from RR 1,121 million and RR 1,809 million, in the first quarter of 2015 and the first half of 2014, respectively. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

Foreign exchange loss. In the second quarter of 2015 and the first half of 2015 the Group recorded a foreign exchange losses amounted to RR 183 million and RR 2,777 million, respectively, compared to a foreign exchange losses of RR 2,594 million and RR 803 million in the first quarter of 2015 and the first half of 2014, respectively, which were due to volatility of Ruble to US Dollar exchange rate in the reporting periods, resulting in the corresponding revaluation of US Dollars denominated debt under the long-term credit facilities of the Group.

Interest income in the second quarter of 2015 and the first half of 2015 increased by 19% and 102.5% compared to the first quarter of 2015 and the first half of 2014, and amounted to RR 3,491 million and RR 6,425 million, respectively, due to increase in interest income received from the certificates of deposit.

Interest expense, net of amounts capitalized, includes among other things an unwinding of the discount on the provision for the future costs of decommissioning of oil and gas assets.

In the second quarter of 2015 interest expense, net of amounts capitalized, was almost at the same level as in the first quarter of 2015 and amounted to RR 1,608 million compared to RR 1,693 million in the first quarter of 2015.

In the first half of 2015 interest expense, net of amounts capitalized, increased by 14.9% to RR 3,301 million, compared to the corresponding period of 2014 due to increase in unwinding amount of present value discount for decommissioning of oil and gas assets.

(Losses)/ earnings from equity investments. In the second quarter of 2015 the Group recorded a loss from equity investments in the amount of RR 376 million compared to RR 286 million loss in the first quarter of 2015. The increase in loss in the second quarter of 2015 was mainly due to lower gain received from certain investments of the Group's holdings in the amount of RR 23 million compared to a RR 134 million gain in the first quarter of 2015.

In the first half of 2015 the Group recorded a loss from equity investments in the amount of RR 662 million compared to RR 40 million gain in the corresponding period of 2014. The loss from equity investments was mainly due to a loss incurred from the Group's investment in Bank Zenit in the first half of 2015 in the amount of RR 833 million in comparison to RR 87 million gain earned in the corresponding period of 2014.

Other expense. Other expense, net, in the second quarter of 2015 in the amount of RR 481 million compared to RR 125 million of other expense, net, in the first quarter of 2015.

In the first half of 2015 the Group recorded other expense, net, in the amount of RR 606 million compared to RR 318 million of other expense, net, in the corresponding period of 2014.

Income taxes

The Group's effective income tax rate in the first half of 2015 was 23.5%, compared to the statutory tax rate of 20% in the Russian Federation.

EBITDA reconciliation

	Three months ended		**Six months ended**	
(RR million)	**30 June 2015**	**31 March 2015**	**30 June 2015**	**30 June 2014**
Sales and other operating revenues, net	144,450	135,061	279,511	244,862
Costs and other deductions	(104,449)	(96,301)	(200,750)	(175,824)
Depreciation, depletion and amortization	5,822	5,709	11,531	10,232
EBITDA	**45,823**	**44,469**	**90,292**	**79,270**

EBITDA is a non-IFRS financial measure, defined as earnings before interest, taxes, depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as a basis by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net profit, operating income or any other measure of performance under IFRS. EBITDA does not consider our need to replace our capital equipment over time.

Financial Condition Summary Information

The following table shows certain key financial indicators:

(RR million)	At 30 June 2015	At 31 December 2014
Current assets	216,937	180,602
Long-term assets	577,725	552,332
Total assets	**794,662**	**732,934**
Current liabilities	96,005	68,464
Long-term liabilities	82,931	82,226
Total liabilities	**178,936**	**150,690**
Shareholders' equity	**615,726**	**582,244**
Working capital	120,932	112,138

Working capital position

As of 30 June 2015 working capital of the Group amounted to RR 120,932 million compared to RR 112,138 million as of 31 December 2014. The increase in the working capital as at 30 June 2015 in comparison to 31 December 2014 was attributable to an increase in current assets (mainly short-term investments and accounts receivable).

Liquidity and Capital Resources

The following table shows a summary from the Consolidated Statement of Cash Flows:

(RR million)	Six months ended 30 June 2015	Six months ended 30 June 2014
Net cash provided by operating activities	76,350	68,721
Net cash used in investment activities	(84,150)	(54,539)
Net cash used in financing activities	(10,004)	(25,156)
Net change in cash and cash equivalents	(17,804)	(10,974)

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities increased by 11.1% to RR 76,350 million in the first half of 2015 from RR 68,721 million in the corresponding period of 2014 which is explained primarily by higher profit attributable to Group shareholders earned in the first six months of 2015.

Net cash used in investing activities

Net cash used in investing activities increased by 54.3% to RR 84,150 million in the first half of 2015 from RR 54,539 million in the corresponding period of 2014, which was primarily due to increase in cash used to purchase certificates of deposit.

Net cash used in financing activities

Decrease in cash flow used in financing activities of RR 10,004 million in the first half of 2015 in comparison to RR 25,156 million used in the corresponding period of 2014 was in line with net debt repayments of RR 9,331 million in the first six months of 2015 compared to net debt repayments of RR 24,454 million in the corresponding period of 2014.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in the respective periods of 2015 an 2014:

	Three months ended		Six months ended	
(RR million)	**30 June 2015**	**31 March 2015**	**30 June 2015**	**30 June 2014**
Exploration and production	11,458	4,930	16,388	7,933
Refining and marketing	8,784	7,375	16,159	8,313
Petrochemicals	14	12	26	886
Corporate and other	681	929	1,610	4,791
Total additions to property, plant and equipment	**20,937**	**13,246**	**34,183**	**21,923**

Calculation of Free Cash Flow

	Three months ended		Six months ended	
(RR million)	**30 June 2015**	**31 March 2015**	**30 June 2015**	**30 June 2014**
Net cash provided by operating activities	54,515	21,835	76,350	68,721
Additions to property, plant and equipment	(20,937)	(13,246)	(34,183)	(21,923)
Free Cash Flow	**33,578**	**8,589**	**42,167**	**46,798**

Analysis of Debt

At 30 June 2015, long-term debt, net of current portion, amounted to RR 11,334 million as compared to RR 12,888 million at 31 December 2014.

The decrease in total debt outstanding in the current period was due to revaluation of loans denominated in foreign currencies resulted from Ruble devaluation partly offset by the scheduled repayments under a triple (3, 5 and 7 year) tranches secured credit facility for up to US$ 2 billion arranged in June 2010.

Under the US$ 2 billion facility the undiscounted amounts outstanding, including the current portion, as of 30 June of 2015 and 31 December of 2014 were RR 3,651 million (US$ 66 million) and RR 11,513 million (US$ 205 million), respectively.

In November 2011, TANECO entered into a US$ 75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 30 June of 2015 and 31 December 2014 were RR 2,707 million (US$ 49 million) and RR 2,954 million (US$ 53 million), respectively.

Also in November 2011, TANECO entered into a US$ 144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date on 15 May 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amounts outstanding under this credit facility, including the current portion, as of 30 June of 2015 and 31 December 2014 were RR 3,983 million (US$ 72 million) and RR 4,273 million (US$ 76 million), respectively.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The undiscounted amount outstanding under this credit facility, including the current portion, as of 30 June of 2015 and 31 December 2014 was RR 3,276 million (EUR 53 million) and RR 3,521 million (EUR 52 million), respectively.

The aggregate maturities of long-term debt (based on the discounted contractual cash flows) in the respective periods were as follows:

(RR million)	At 30 June 2015	At 31 December 2014
Due for repayment:		
Between one and two years	2,778	2,848
Between two and five years	5,372	5,021
After five years	3,184	5,019
Total long-term debt, net of current portion	**11,334**	**12,888**

Calculation of Net Debt

(RR million)	At 30 June 2015	At 31 December 2014
Short term debt	8,144	15,859
Long term debt, net of current portion	11,334	12,888
Total debt	**19,478**	**28,747**
Cash and cash equivalents	23,695	41,548
Net Debt	**(4,217)**	**(12,801)**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

The Group has no outstanding guarantees at 30 June 2015 and 31 December 2014.

Commitments and Contingent Liabilities

The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Ukrtatnafta

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of 27 November 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest.

Libya

As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations in that country and evacuate all its personnel. In February 2013 the Group started the process of resuming its activities in Libya, including the return of its personnel to a branch in Tripoli and recommencement of some exploration activities. Due to the deterioration of security situation in Libya in the second half of 2014 the Group had to suspend all of its operations and announced a force-majeure under the Exploration and Production Sharing Agreements, acknowledged by the National Oil Company, which is continuing as of the date of this report. The Group is constantly monitoring the security and political situation in Libya, and plans to resume its operations once the conditions permit to do so.

Social commitments

The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Certain Macroeconomic and Other Factors Affecting the Group's Results of Operations

The Group's results of operations and the period-to-period changes therein have been and will continue to be impacted by various factors outlined below.

Crude oil and refined products prices

The primary driver of our revenue is the selling price of crude oil and refined products. During the second quarter of 2015, Brent crude oil price fluctuated between $54 and $67 per barrel and averaged $61.9 per barrel in comparison to average $54.0 per barrel in the first quarter of 2015.

During the first half of 2015, Brent crude oil price fluctuated between $45 and $67 per barrel and averaged $57.9 per barrel in comparison to average $108.9 per barrel in the corresponding period of 2014.

Substantially all the crude oil we sell is Urals blend. Tables below show for average crude oil and refined products prices for the respective periods in US Dollars and RUB. The prices nominated in US Dollar are translated into RUB at average US Dollar/RUB exchange rate for the respective period.

	Average for the 3 months ended		Change,	Average for the 6 months ended		Change,
	30 June 2015	**31 March 2015**	**%**	**30 June 2015**	**30 June 2014**	**%**
World market (1)	(in US$ per barrel, except for figures in percent)					
Brent crude	61.9	54.0	*14.6*	57.9	108.9	*(46.8)*
Urals crude *(CIF Mediterranean)*	62.3	53.3	*16.9*	57.8	107.4	*(46.2)*
Urals crude *(CIF Rotterdam)*	61.2	52.6	*16.3*	56.9	106.8	*(46.7)*
	(in US$ per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	585.0	517.3	*13.1*	551.1	911.7	*(39.6)*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	320.3	273.2	*17.2*	296.7	572.6	*(48.2)*
Fuel oil 3.5% *(FOB Med (Italy))*	323.1	274.7	*17.6*	298.9	573.4	*(47.9)*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	536.2	466.0	*15.1*	501.1	924.6	*(45.8)*
Naphtha *(FOB Med)*	506.6	435.0	*16.5*	470.8	900.7	*(47.7)*
Naphtha *(FOB Med+CIF Med)*	515.6	444.4	*16.0*	480.0	907.9	*(47.1)*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	433.5	384.0	*12.9*	408.8	777.9	*(47.4)*
Diesel fuel 10 ppm *(CIF NWE/Basis ARA+ FOB Rotterdam)*	551.2	533.6	*3.3*	538.0	926.5	*(41.9)*

Source: Platts

	Average for the 3 months ended		Change,	Average for the 6 months ended		Change,
	30 June 2015	**31 March 2015**	**%**	**30 June 2015**	**30 June 2014**	**%**
World market [(1)]	(in th. RR per tonne, except for figures in percent)					
Brent crude	23.21	23.91	*(2.9)*	23.67	27.13	*(12.8)*
Urals crude *(CIF Mediterranean)*	23.36	23.61	*(1.1)*	23.63	26.76	*(11.7)*
Urals crude *(CIF Rotterdam)*	22.95	23.32	*(1.6)*	23.26	26.61	*(12.6)*
	(in th. RR per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	30.80	32.17	*(4.3)*	31.63	31.89	*(0.8)*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	16.86	16.99	*(0.8)*	17.03	20.03	*(15.0)*
Fuel oil 3.5% *(FOB Med (Italy))*	17.01	17.08	*(0.4)*	17.16	20.06	*(14.5)*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	28.23	28.98	*(2.6)*	28.76	32.34	*(11.1)*
Naphtha *(FOB Med)*	26.67	27.05	*(1.4)*	27.02	31.51	*(14.2)*
Naphtha *(FOB Med+CIF Med)*	27.15	27.64	*(1.8)*	27.55	31.76	*(13.3)*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	22.82	23.88	*(4.4)*	23.47	27.21	*(13.7)*
Diesel fuel 10 ppm *(CIF NWE/Basis ARA+ FOB Rotterdam)*	29.02	33.18	*(12.5)*	30.88	32.41	*(4.7)*

Source: Platts

	Average for the 3 months ended		Change,	Average for the 6 months ended		Change,
	30 June 2015	**31 March 2015**	**%**	**30 June 2015**	**30 June 2014**	**%**
Russian market [(1)]	(in th. RR per tonne (incl. excise tax and VAT), except for figures in percent)					
Crude oil	16.16	15.69	*3.0*	15.95	14.16	*12.6*
Diesel (summer)	33.71	31.21	*8.0*	32.53	30.98	*5.0*
Diesel (winter)	34.14	33.27	*2.6*	33.73	32.08	*5.1*
Fuel oil	8.32	6.89	*20.8*	7.64	9.39	*(18.6)*

Source: Kortes

[(1)] The Company sells crude oil for export and in the domestic market on various delivery terms. Therefore, our average realized sales prices differ from average reported prices

There is no independent nor uniform market price for crude oil and oil products in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. Crude oil that is not exported from Russia, refined by the producer or sold on previously agreed terms, offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. However, there may be significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Inflation and foreign currency exchange rate fluctuations

A significant part of the Group's revenues are derived from export sales of crude oil and refined products which are denominated in US Dollars. The Group's operating costs are primarily denominated in Rubles. Accordingly, the relative movements of Ruble inflation and Ruble/US Dollar exchange rates can significantly affect the results of operations of the Group. For instance, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because in the inflatory economy this will generally cause costs to increase relative to revenues. The Group has not historically used financial instruments to hedge against foreign currency exchange rate fluctuations.

The following table shows the rates of inflation in Russia, the period-end and average Ruble/US Dollar exchange rates for the periods indicated.

	Three months ended		Six months ended	
	30 June 2015	31 March 2015	30 June 2015	30 June 2014
Ruble inflation, %	1.1	7.4	8.5	4.8
Period-end exchange rate (Ruble to US$)	55.52	58.46	55.52	33.63
Average exchange rate (Ruble to US$)	52.65	62.19	57.40	34.98

Sources: Federal Service of State Statistics and the Central Bank of Russia

At present, the Ruble is not a freely convertible currency outside the Commonwealth of Independent States. Certain exchange restrictions and controls still exist related to converting Rubles into other currencies.

Taxation

The tables below present a summary of statutory tax rates that the Company and the majority of its subsidiaries were subject to in the respective periods:

Tax	Three months ended 30 June 2015	Three months ended 31 March 2015	Change, %	Six months ended 30 June 2015	Six months ended 30 June 2014	Change, %	Taxable base
Income tax – maximum rate	20%	20%	-	20%	20%	-	Taxable income
Value Added Tax (VAT)	18%	18%	-	18%	18%	-	Sales from goods/services
Property tax – maximum rate	2.2%	2.2%	-	2.2%	2.2%	-	Taxable property
	(in RR per tonne, except for figures in percent)						
Mineral extraction tax, average rates[1]	7,072	6,873	*2.9*	6,972	6,109	*14.1*	Tonne produced (crude oil)
	(in US $ per tonne, except for figures in percent)						
Crude oil export duty, average rates	130.6	129.6	*0.8*	130.1	386.6	*(66.3)*	Tonne exported
Refined products export duty average rates:							Tonne exported
Gasoline	101.8	101.1	*0.7*	101.4	347.9	*(70.9)*	
Straight-run gasoline	110.9	110.1	*0.7*	110.4	347.9	*(68.3)*	
Diesel fuel	62.6	62.1	*0.8*	62.4	251.9	*(75.2)*	
Light and middle distillates	62.6	62.1	*0.8*	62.4	255.2	*(75.5)*	
Fuel oil (mazut)	99.2	98.5	*0.7*	98.9	255.2	*(61.2)*	

[1] *Without taking into account differentiated taxation*

The rates of mineral extraction tax and export duties for crude oil and refined products are linked to international crude oil prices and are changed in line with them. Below are presented tax rates calculation approach.

Starting from 1 January 2015, the method for calculation of certain tax and duty rates applied to oil companies in Russian Federation was amended. The mineral extraction tax rate increased significantly along with simultaneous decrease of export duty rates and excises.

Mineral extraction tax (MET) rate. The base tax rate for the production of oil for 2015 is set at RR 766 per tonne (an increase from RUR 493 base tax rate applied in 2014) and is adjusted depending on the international market price of Urals blend and the Ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase of the tax rate by $2.93 per tonne extracted.

The MET rate is applied with a discount based on the level of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Group receives benefits for each percent of depletion within the limits of 80% to 100% per field. Benefit is calculated using the rate of RR 530. As Romashkinskoye field, the Group's largest, along with certain other fields, is more than 80% depleted, the Group received a benefit related to crude oil production from these fields in the second quarter of 2015 and the first half of

2015 in the amounts of RR 6.7 billion and RR 13.1 billion, respectively (in comparison to RR 6.4 billion and RR 15.4 billion, in the first quarter of 2015 and the first half of 2014, respectively).

Tax benefits apply to the production of highly viscous crude oil of 200 – 10 000 Megapascal x S in reservoir conditions. A zero MET rate applies to the production of highly viscous crude oil of more than 10 000 Megapascal x S in reservoir conditions. Tax benefits from the Group's production of highly viscous crude oil from the Ashalchinskoye and some other fields amount to RR 1.1 billion in the second quarter of 2015 and RR 2.1 billion in the the first half of 2015 in comparison to RR 1.0 billion in the first quarter of 2015 and RR 1.7 billion in the first half of 2014.

At the end of November 2011 amendments to the Tax Code of the Russian Federation were signed into law, which provide for a possibility to decrease the mineral extraction tax payable on production of crude oil until 2016 from certain fields located entirely or partially in Tatarstan.

Crude oil export duties. The Government determines the export duty rate, which is dependent on the average Urals price for the monitoring period and cannot exceed the following levels:

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 59.0% * (P - 182.50) (from 1 January 2014 till 31 December 2014) US$ 29.20 + 42.0% * (P - 182.50) (from 1 January 2015 till 31 December 2015)

The crude oil export duty rate is revised monthly on the basis of monitoring of crude oil prices for preceding one-month period between the 15^{th} day of each calendar month and the 14^{th} day of the following calendar month (inclusive).

Effective from 1 October 2011 the Government sets the export duty for crude oil at a marginal rate of 60% of the Urals crude oil price during the monitoring period. Starting from January 2014 the marginal export duty rate decreased to 59%. From 1 January 2015 to 31 December 2015 the marginal export duty rate on crude oil decreased to 42%.

In accordance with the amendments to the Russian Federation law on customs tariffs, with effect from 1 April 2013 the Government established formulas for calculation of the export customs duties on crude oil based on international oil prices (reflecting the levels described above and providing for special formulas with respect to extra-viscous oil and oil with special physical and chemical characteristics). With effect from 1 April 2013 specific crude oil export customs duties are calculated and published by the Russian Ministry of Economic Development in accordance with the established formulas.

Refined products export duties. Export customs duty on refined products is set every month by the Government simultaneously with the export customs duty on crude oil and is denominated in US$ per tonne. The rate of the export customs duty on refined products is linked to the crude oil export duty rate. At the moment, the rate of the export customs duty is the same for all types of refined products with the exception of gasoline, straight-run gasoline and diesel fuel and is calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	From 1 January till 31 December 2015	From 1 January till 31 December 2014
Light, middle distillates; oil lubricants	0.48	0.66
Diesel fuel	0.48	0.65
Fuel oil	0.76	0.66
Gasoline	0.78	0.90
Straight-run gasoline	0.85	0.90

With effect from 1 April 2013 specific rates are calculated and published by the Russian Ministry of Economic Development.

Crude oil and refined products exported to the member countries of the Custom Union – Belarus and Kazakhstan are not subject to export duties.

Excise tax on refined products. According to the legislation introduced in December 2010 the excise tax rates on the refined products were increased and linked to the environmental characteristics of the products. The responsibility to pay excise taxes on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). The excise tax is paid per metric tonne produced and sold domestically. The table below shows average excise tax rates on refined products for indicated periods.

	Three months ended		**Six months ended**	
(RR per tonne)	**30 June 2015**	**31 March 2015**	**30 June 2015**	**30 June 2014**
Gasoline:				
High octane gasoline below Euro-3,4,5	7,300	7,300	7,300	11,110
High octane gasoline Euro-3	7,300	7,300	7,300	10,725
High octane gasoline Euro-4	7,300	7,300	7,300	9,916
High octane gasoline Euro-5	5,530	5,530	5,530	6,450
Straight-run gasoline	11,300	11,300	11,300	11,252
Diesel fuel:				
Diesel below Euro- 3,4,5	3,450	3,450	3,450	6,446
Diesel Euro-3	3,450	3,450	3,450	6,446
Diesel Euro-4	3,450	3,450	3,450	5,427
Diesel Euro-5	3,450	3,450	3,450	4,767
Motor oils	6,500	6,500	6,500	8,260
Heating oil	3,000	3,000	3,000	6,446
Jet fuel	2,300	2,300	2,300	-
Benzol, paraxylene	2,300	2,300	2,300	-

Property tax. The maximum property tax rate in Russia is 2.2%. Exact tax rates are set by the regional authorities.

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most sales. The Group's results of operations exclude the impact of VAT.

Income tax. The total income tax rate of 20% includes federal part of 2.0%, and the regional part, which varies between 13.5% and 18.0%.

Transportation of crude oil and refined products

Due to the fact that majority of Russian crude oil production regions are remote from the main crude oil and refined products markets oil companies are dependent on the extent of diversification of transport infrastructure and access to it. Thus, transportation cost is an important factor affecting our operations and financial results.

The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft.

Transportation of crude oil is based on contracts with Transneft and its subsidiaries, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's oil with oil of other producers. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals. The Group benefits from this blending since the quality of its crude oil is generally lower than that produced by some other oil companies due to the relatively high sulfur content.

A significant portion of crude oil transported by pipeline is delivered to marine terminals for onward transportation. There are constraints present in Russia's oil shipment terminals due to geographic location, weather conditions, and port capacity limitations. However, government sponsored and private programs are seeking to improve port facilities.

Transneft collects on prepayment terms a Ruble tariff on domestic shipments and an additional US Dollar tariff on exports.

Transportation of refined products in Russia is mostly performed by railway transport. The Russian railway infrastructure is owned and operated by OAO Russian Railways.

Transneft and OAO Russian Railways are state-owned companies. As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Service for Tariffs of the Russian Federation ("FST") and are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by the FST at least annually.

Critical accounting policies

The preparation of consolidated financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of our significant accounting policies, please refer to Note 2 of our consolidated financial statements.

Forward-looking statements

Certain statements in this document are not historical facts and are ''forward-looking'' (as such term is defined in the US Private Securities Litigation Reform Act of 1995). We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- projections of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Words such as ''believes,'' ''anticipates,'' ''expects,'' ''intends'' and ''plans'' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate, and exchange rate fluctuations;
- the price of oil;
- the effect of, and changes in, Russian or Tatarstan government policy;
- the effect of terrorist attack or other geopolitical instability, either within Russia or elsewhere;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share and control expenses;
- acquisitions or divestitures;
- technological changes.

This list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to our shares, American Depositary Shares (ADSs) or other securities, investors and others should carefully consider the foregoing factors and other uncertainties and events, especially in light of the difficult political, economic, social and legal environment in which we operate. Such forward-looking statements speak only at the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.