

## Management's discussion and analysis of financial condition and results of operations

The following report contains a discussion and analysis of the financial condition of OAO LUKOIL as of September 30, 2014 and the results of its operations for the three and nine month periods ended September 30, 2014 and 2013, as well as significant factors that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to OAO LUKOIL and its subsidiaries and equity affiliates. All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil and natural gas liquids produced are translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and actual density of liquids produced at our gas processing plants. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. 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 – 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.*

### Key financial and operational results

	3 <sup>rd</sup> quarter of		Change,	9 months of		Change,
	2014	2013	%	2014	2013	%
	(millions of US dollars)					
Sales.....	39,021	36,737	6.2	112,907	105,560	7.0
Net income attributable to OAO LUKOIL .....	1,620	3,105	(47.8)	5,742	7,790	(26.3)
Adjusted net income attributable to OAO LUKOIL <sup>(1)</sup> ....	1,805	3,105	(41.9)	6,447	7,790	(17.2)
EBITDA .....	5,338	5,472	(2.4)	14,770	14,606	1.1
Adjusted EBITDA <sup>(1)</sup> .....	5,523	5,472	0.9	15,475	14,606	5.9
Taxes other than income taxes, excise and export tariffs	(9,246)	(9,255)	(0.1)	(26,926)	(27,322)	(1.4)
Earning per share of common stock attributable to OAO LUKOIL (US dollars):						
Basic .....	2.15	4.11	(47.8)	7.61	10.32	(26.3)
Diluted .....	2.11	4.02	(47.6)	7.46	10.10	(26.2)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE).....	215,746	200,959	7.4	625,486	598,095	4.6
Daily hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE) .....	2,345	2,184	7.4	2,291	2,191	4.6
Crude oil and natural gas liquids produced by the Group including our share in equity affiliates (thousands of barrels) .....	187,234	172,618	8.5	539,110	509,231	5.9
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters) .....	4,844	4,816	0.6	14,677	15,100	(2.8)
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes) .....	16,678	17,037	(2.1)	47,772	47,998	(0.5)

<sup>(1)</sup>Adjusted for loss on disposal of assets and dry hole related write-offs.

In the third quarter of 2014, net income attributable to OAO LUKOIL decreased by \$1,485 million, or by 47.8%, and our EBITDA decreased by \$134 million, or by 2.4%, compared to the third quarter of 2013. Our net income for the third quarter and nine months of 2014 was affected by a decrease of hydrocarbon prices and currency translation loss. It was also affected by a loss on the expected disposal of our share in Caspian Investment Resources Ltd. in the amount of \$358 million, recognized in the first quarter, and write-offs related to our exploration projects in West Africa in the total amount of \$347 million, of which \$185 million were recognized in the third quarter. Adjusted for non-recurring losses, our net income decreased by \$1,300 million, or by 41.9%, and by \$1,343 million, or by 17.2%, compared to the third quarter and the nine months of 2013, respectively. At the same time, compared to the third quarter and the nine months of 2013, our adjusted EBITDA increased by \$51 million, or by 0.9%, and \$869 million, or by 5.9%, respectively. Both in the third quarter and the nine months of 2014, our EBITDA was supported by commencement of cost compensation at West Qurna-2 project in Iraq.

## **Business overview**

The primary activities of OAO LUKOIL and its subsidiaries are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of a vertically integrated group of companies.

OAO LUKOIL was established in accordance with Presidential Decree No. 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 39 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 17.4 billion BOE as of January 1, 2014 and comprised of 13.5 billion barrels of crude oil and 23.6 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, South America, Northern and Western Africa, Norway and Romania.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

Each of our four main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on page 10, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 20 “Segment information” to our interim consolidated financial statements.

## **Recent developments**

### **Changes in Group structure**

On August 11, 2014, in line with the strategy to optimize downstream portfolio a Group company signed an agreement with AMIC Energy Management GmbH to sell 100% of the Group's interest in LUKOIL Ukraine, a distribution company operating in Ukraine. Closing of the transaction is subject to customary approvals by regulatory authorities.

On August 1, 2014, in line with the strategy to optimize its downstream operations Group companies signed agreements with Slovnaft Česká Republica, Spol. s.r.o. and Norm Benzinkút Kft to sell 100% of shares in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o. These transactions' closing is subject to a number of conditions and is expected before the end of 2014. The selling price consists of two components: fixed component of approximately €100 million and variable component which depends on the amount of the working capital of the abovementioned companies as at the completion date and is subject to certain adjustments.

On April 15, 2014, a Group company entered into a contract with a Sinopec group company, to sell for \$1.2 billion the Group's 50% interest in Caspian Investment Resources Ltd., an exploration and production company operating in Kazakhstan. The transaction's closing is subject to a number of conditions, including approval by the Kazakhstan state authorities, and is expected before the end of 2014.

In December 2013, after approval by European regulatory authorities, the Group acquired the remaining 20% interest in the joint venture which operates the ISAB refinery complex (ISAB) for €446 million (approximately \$613 million) after final adjustments, increasing its stake in the joint venture from 80% to 100%. This transaction was exercised in line with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor, ERG S.p.A., a step-by-step put option to sell its share in the joint venture to the Group. The Group obtained control over ISAB in September 2012, when within this agreement, it acquired a 20% interest in the joint venture for €494 million (approximately \$621 million) and increased its stake to 80%.

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for \$2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in the Samara and Uljanovsk regions of the Russian Federation.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil, an exploration and production company operating in the Perm region of the Russian Federation, for \$400 million increasing the Group's ownership to 100%. As a result of this acquisition, the Group obtained control over ZAO Kama-oil and consolidated it.

### **West Qurna-2 project**

On December 12, 2009, a consortium of a Group company and Statoil won the tender for development of the West Qurna-2 field in Iraq, one of the largest crude oil fields discovered in the world, with estimated recoverable oil reserves of 12.9 billion barrels (1.8 billion tonnes). The service agreement for West Qurna-2 field development and production was signed on January 31, 2010 and then ratified by the Ministry cabinet of the Iraq Republic. After Statoil withdrew from the West Qurna-2 project in May 2012, the parties of the project are Iraq's state-owned South Oil Company and a consortium of contractors, consisting of a Group company (75% interest) and Iraq's state-owned North Oil Company (25% interest).

The Group launched the "Mishrif Early Oil" stage on the West Qurna-2 field and reached the planned production of 120 thousand barrels per day in March 2014. According to the service agreement, costs are compensated after this level of production is achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this term. Therefore, in the nine months of 2014, the Group accrued revenue from the West Qurna-2 project in total amount of \$2,629 million, consisting of cost recovery of \$2,589 million and remuneration fee of \$40 million. In the third quarter of 2014, this revenue amounted to \$1,450 million, of which \$1,426 million represented cost compensation and \$24 million – remuneration fee. This revenue was classified as crude oil sales revenue in the nine months of 2014. Initially, in the second quarter of 2014, this revenue was classified as other sales. In order to conform with the current period's presentation, amounts for the second quarter of 2014 have been reclassified. Attributable amount of 3,902 thousand tonnes of crude oil, or 26,761 thousand barrels, was included in Group's crude oil production for the nine months of 2014 (2,121 thousand tonnes, or 14,543 thousand barrels, in the third quarter of 2014), that represented approximately 58% of total production from the field (53% in the third quarter). Positive impact of cost compensation on Group's EBITDA for the third quarter and the nine months of 2014 amounted to \$1,247 million and \$2,264 million, respectively.

The project's target production level is 1.2 million barrels per day and the total term of the contract is 25 years.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors the risks associated with the projects in Iraq and believes that there is no adverse effect on the Group's financial condition that can be reasonably estimated at present.

### **Sectorial sanctions against the Russian companies**

In July-September 2014, the United States (US), the European Union (EU) and other countries imposed a number of sectorial sanctions on Russian entities, including the Company. These sanctions prohibit the US and the EU companies and individuals from the provision of goods, services or technology (except for financial services to the Company) that can be used on the territory of the Russian Federation in deepwater exploration and production of crude oil, exploration and production of crude oil in Arctic offshore and shale projects. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

## Operational highlights

### Hydrocarbon production

The table below summarizes the results of our exploration and production activities.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
<b>Crude oil and natural gas liquids production<sup>(1)</sup></b>	(thousand BOE per day)			
Consolidated subsidiaries				
Western Siberia .....	966	985	972	997
Timan-Pechora .....	319	301	312	301
Ural region .....	308	297	308	293
Volga region .....	136	138	135	116
Other regions in Russia .....	38	38	38	38
Total in Russia .....	1,767	1,759	1,765	1,745
Iraq <sup>(2)</sup> .....	158	–	98	–
Other regions outside Russia .....	56	64	60	65
Total outside Russia .....	214	64	158	65
<b>Total consolidated subsidiaries .....</b>	<b>1,981</b>	<b>1,823</b>	<b>1,923</b>	<b>1,810</b>
Our share in equity affiliates				
in Russia .....	13	8	10	8
outside Russia .....	41	45	42	47
<b>Total share in equity affiliates.....</b>	<b>54</b>	<b>53</b>	<b>52</b>	<b>55</b>
<b>Total crude oil and natural gas liquids .....</b>	<b>2,035</b>	<b>1,876</b>	<b>1,975</b>	<b>1,865</b>
<b>Natural gas production available for sale<sup>(3)</sup></b>				
Consolidated subsidiaries				
Western Siberia .....	183	175	185	185
Timan-Pechora .....	14	14	14	14
Ural region .....	15	17	17	17
Volga region.....	7	7	6	6
Total in Russia.....	219	213	222	222
Total outside Russia.....	82	85	85	95
<b>Total consolidated subsidiaries .....</b>	<b>301</b>	<b>298</b>	<b>307</b>	<b>317</b>
Share in equity affiliates				
in Russia .....	1	1	1	1
outside Russia.....	8	9	8	8
<b>Total share in production of equity affiliates.....</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>9</b>
<b>Total natural gas available for sale.....</b>	<b>310</b>	<b>308</b>	<b>316</b>	<b>326</b>
<b>Total daily hydrocarbon production .....</b>	<b>2,345</b>	<b>2,184</b>	<b>2,291</b>	<b>2,191</b>
			(US dollar per BOE)	
<b>Hydrocarbon extraction expenses .....</b>	6.12	5.67	5.84	5.52
- in Russia .....	5.56	5.67	5.49	5.54
- outside Russia .....	9.80	5.67	8.69	5.27
			(millions of US dollars)	
<b>Hydrocarbon extraction expenses .....</b>	1,288	1,103	3,558	3,190
- in Russia .....	1,013	1,026	2,970	2,963
- outside Russia.....	275	77	588	227
<b>Exploration expenses .....</b>	207	65	476	203
- in Russia .....	21	32	144	130
- outside Russia .....	186	33	332	73
<b>Mineral extraction tax .....</b>	3,200	3,268	9,369	9,311
- in Russia .....	3,187	3,250	9,323	9,256
- outside Russia.....	13	18	46	55

<sup>(1)</sup> Natural gas liquids produced at the Group gas processing plants.

<sup>(2)</sup> Compensation oil that represents approximately 53% and 58% of production from the West Qurna-2 field in the third quarter and the nine months of 2014, respectively.

<sup>(3)</sup> Including petroleum gas sold to third parties.

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-PERM. Exploration and production outside of Russia is performed by our 100% subsidiary LUKOIL Overseas Holding GmbH. This has stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, and Norway.

**Crude oil production.** In the nine months of 2014, we produced (including the Company's share in equity affiliates) 72.0 million tonnes, or 528.5 million barrels, of crude oil.

The following table represents our crude oil production in the nine months of 2014 and 2013 by major regions.

(thousands of tonnes)	<b>Change to 2013</b>				
	<b>9 months of 2014</b>	<b>Total, %</b>	<b>Change in structure</b>	<b>Organic change</b>	<b>9 months of 2013</b>
Western Siberia .....	35,133	(2.9)	–	(1,056)	36,189
Timan-Pechora .....	11,753	3.5	–	402	11,351
Ural region .....	10,864	4.6	34	444	10,386
Volga region .....	4,931	19.6	657	152	4,122
Other regions in Russia .....	1,431	0.4	–	5	1,426
Crude oil produced in Russia .....	64,112	1.0	691	(53)	63,474
Iraq <sup>(1)</sup> .....	3,902	100.0	–	3,902	–
Other regions outside of Russia .....	2,156	(8.1)	–	(189)	2,345
Crude oil produced internationally .....	6,058	158.3	–	3,713	2,345
<b>Total crude oil produced by consolidated subsidiaries .....</b>	<b>70,170</b>	<b>6.6</b>	<b>691</b>	<b>3,660</b>	<b>65,819</b>
<b>Our share in crude oil produced by equity affiliates:</b>					
in Russia .....	356	30.4	(17)	100	273
outside Russia .....	1,452	(11.4)	–	(187)	1,639
<b>Total crude oil produced .....</b>	<b>71,978</b>	<b>6.3</b>	<b>674</b>	<b>3,573</b>	<b>67,731</b>

<sup>(1)</sup> Compensation oil that represents approximately 53% and 58% of production from the West Qurna-2 field in the third quarter and the nine months of 2014, respectively.

The main oil producing region for the Company is Western Siberia where we produced 50.1% of our crude oil in the nine months of 2014 (55.0% in the nine months of 2013).

Crude oil production in Western Siberia continued to decline due to natural depletion of reserves and an increase in water cut. Nevertheless, this was compensated for by the acquisitions of new upstream properties, development of greenfields, successful employment of new technologies and an increase in drilling footage. As a result, our daily domestic crude oil and natural gas liquids production volumes increased by 1.1%, compared to the nine months of 2013.

The structural increase in our domestic production was a result of the acquisition of a 100% share of ZAO Samara-Nafta and an increase in the Group's ownership in ZAO Kama-oil from 50% to 100% during the second quarter of 2013. At the same time, the transfer of ZAO Kama-oil from affiliates to subsidiaries led to some structural decrease in the affiliates' production in Russia.

The increase in our international production was a result of commencement of commercial production at the West Qurna-2 oilfield in Iraq.

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased on international markets is normally used for trading activities, for supplying our international refineries or for processing at third party refineries.

The tables below set out the volumes of our crude oil purchases in the periods considered.

	<b>3<sup>rd</sup> quarter of</b>			
	<b>2014</b>		<b>2013</b>	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia.....	1,231	168	1,305	178
Purchases for trading internationally.....	34,268	4,675	14,324	1,954
Purchases for refining internationally.....	30,156	4,114	21,879	2,985
<b>Total crude oil purchased.....</b>	<b>65,655</b>	<b>8,957</b>	<b>37,508</b>	<b>5,117</b>

	<b>9 months of</b>			
	<b>2014</b>		<b>2013</b>	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia.....	4,493	613	2,456	335
Purchases for trading internationally.....	90,467	12,342	28,449	3,881
Purchases for refining internationally.....	68,653	9,366	54,402	7,422
<b>Total crude oil purchased.....</b>	<b>163,613</b>	<b>22,321</b>	<b>85,307</b>	<b>11,638</b>

A significant part of our crude oil purchases is for processing. Compared to the nine months of 2013, our purchases for processing at international refineries increased by 26.2% as a result of the increase of crude oil refining at ISAB. Moreover, in the nine months of 2014, our purchases for trading increased three-fold compared to the nine months of 2013, when the level of such purchases was low.

**Production of gas and natural gas liquids.** During the nine months of 2014, we produced 14,677 million cubic meters (86.4 million BOE) of gas available for sale (including our share in equity affiliates), that is 2.8% less than in the nine months of 2013.

Our major gas field is the Nakhodkinskoe field, where we produced 6,150 million cubic meters of natural gas in the nine months of 2014 (6,192 million cubic meters in the nine months of 2013). Our international gas production decreased by 9.8%, compared to the nine months of 2013, largely due to lower production volumes in Uzbekistan.

In the nine months of 2014, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 10.6 million BOE, compared to 9.2 million BOE in the nine months of 2013.

#### **Refining, marketing and trading**

**Refining.** We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Romania and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands.

In December 2013, the Group increased its stake in ISAB to 100% after acquisition of the remaining 20% share. Initially, in December 2008, the Group acquired a 49% interest in ISAB, then increased its interest to 60% in April 2011 and to 80% in September 2012, when control over the refinery was obtained and ISAB became our consolidated subsidiary, rather than an equity affiliate.

Compared to the nine months of 2013, the total volume of refined products produced by the Group (including our share in production at the Zeeland refinery) didn't change significantly. Production volumes at our Russian refineries increased by 0.9%, largely due to an increase of production volumes at our refinery in Perm region against the background of relatively low production volumes in the nine months of 2013. Production of our international refineries decreased by 3.3%. Sharp decrease in production at the Zeeland refinery by 27.9% due to overhaul in the second quarter of 2014 outweighed the increase of production at ISAB.

Along with our own production of refined products we can refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan. At the same time, the volume of our crude oil processing at the third party refineries in Belarus in the nine months of 2014 was lower than in the nine months of 2013, despite the significant increase in processing volumes in the third quarter.

The following table summarizes key figures for our refining activities.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(thousand barrels per day)			
Refinery throughput at the Group refineries .....	1,310	1,314	1,268	1,237
- in Russia .....	926	929	916	907
- outside Russia <sup>(1)</sup> .....	384	385	352	330
Refinery throughput at the Zeeland refinery <sup>(1)</sup> .....	84	89	68	95
Refinery throughput at third party refineries .....	44	32	34	40
<b>Total refinery throughput .....</b>	<b>1,438</b>	<b>1,435</b>	<b>1,370</b>	<b>1,372</b>
	(thousands of tonnes)			
Production of the Group refineries in Russia .....	11,148	11,184	32,695	32,401
Production of the Group refineries outside Russia .....	4,476	4,739	12,535	12,070
Production of the Zeeland refinery .....	1,054	1,114	2,542	3,527
<b>Refined products produced by the Group including our share in the Zeeland refinery .....</b>	<b>16,678</b>	<b>17,037</b>	<b>47,772</b>	<b>47,998</b>
Refined products produced at third party refineries .....	511	371	1,159	1,400
<b>Total refined products produced .....</b>	<b>17,189</b>	<b>17,408</b>	<b>48,931</b>	<b>49,398</b>
	(millions of US dollars)			
Refining expenses at the Group refineries .....	545	540	1,543	1,603
- in Russia .....	305	295	807	845
- outside Russia .....	240	245	736	758
Refining expenses at affiliated refineries outside of Russia .....	44	51	134	169
Refining expenses at third party refineries .....	25	15	51	57
Capital expenditures .....	629	490	1,827	1,464
- in Russia .....	482	259	1,296	951
- outside Russia .....	147	231	531	513

<sup>(1)</sup> Including refined product processed.

**Marketing and trading.** Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the USA, Central and Eastern Europe, the Baltic States and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The Group retails its refined products in 27 countries through nearly 5.6 thousand petrol stations (including franchisees). Most of the stations operate under the LUKOIL brand.

The table below summarizes figures for our trading activities.

	3 <sup>rd</sup> quarter		9 months of	
	2014	2013	2014	2013
	(thousands of tonnes)			
Retail sales .....	4,370	4,226	11,998	11,691
Wholesale sales .....	25,869	25,659	75,474	76,567
<b>Total refined products sales .....</b>	<b>30,239</b>	<b>29,885</b>	<b>87,472</b>	<b>88,258</b>
Refined products purchased in Russia .....	556	461	1,375	1,560
Refined products purchased internationally .....	14,096	14,798	43,306	44,239
<b>Total refined products purchased .....</b>	<b>14,652</b>	<b>15,259</b>	<b>44,681</b>	<b>45,799</b>

In August 2014, in line with the strategy to optimize its downstream operations, Group companies signed agreements with third parties to sell 100% of shares in LUKOIL Ukraine, LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o. that together operate approximately 380 petrol stations.

During the nine months of 2014 political and economic uncertainty in Ukraine has been increasing. As at September 30, 2014, the Group owns downstream assets in Ukraine, consisting of a network of about 240 petrol stations, a petrochemical plant, lubricants distributor, and a jet fuel supplier. Though the Group's assets and operations in Ukraine are not material (during the nine months of 2014, revenues that were derived from our operations in Ukraine comprised less than 1% of our total revenues), the Group monitors the situation and assesses the risks associated with its operations in Ukraine. Management believes that there are no potential losses that can be identified and reasonably estimated with respect to situation in Ukraine at present.



**Exports of crude oil and refined products from Russia.** The volumes of crude oil and refined products exported from Russia by our subsidiaries are summarized as follows:

	3 <sup>rd</sup> quarter of			
	2014	2013		
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil using Transneft export routes .....	43,577	5,945	44,046	6,009
Exports of crude oil bypassing Transneft.....	11,999	1,637	13,127	1,791
<b>Total crude oil exports.....</b>	<b>55,576</b>	<b>7,582</b>	<b>57,173</b>	<b>7,800</b>
<b>Exports of refined products.....</b>		<b>5,284</b>		<b>5,728</b>

	9 months of			
	2014	2013		
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil using Transneft export routes .....	128,488	17,529	139,952	19,093
Exports of crude oil bypassing Transneft.....	34,949	4,768	35,609	4,858
<b>Total crude oil exports.....</b>	<b>163,437</b>	<b>22,297</b>	<b>175,561</b>	<b>23,951</b>
<b>Exports of refined products.....</b>		<b>17,730</b>		<b>17,868</b>

During the nine months of 2014, the volume of our crude oil export from Russia decreased by 6.9%, compared to the nine months of 2013, and we exported 34.8% of our domestic crude oil production (37.7% – during the nine months of 2013). The decrease of crude oil export was a result of higher sales in Russia and increased throughput at our domestic refineries.

Primarily, all the volume of crude oil exported that bypassed Transneft in the periods considered was routed through our own export infrastructure.

During the nine months of 2014, the Company exported 1,099 thousand tonnes of light crude oil through the Eastern Siberia – Pacific Ocean pipeline. This allowed us to preserve the premium quality of crude oil and thus increased the efficiency of export, compared to export to traditional Western markets.

In the nine months of 2014, the volume of our exported refined products from Russia didn't change significantly compared to the nine months of 2013. Primarily, we export from Russia diesel fuel, fuel oil and gasoil. These products accounted for approximately 89% of our exported refined products volumes.

During the nine months of 2014, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to \$15,615 million and \$12,982 million, respectively (\$17,158 million for crude oil and \$13,249 million for refined products in the nine months of 2013).

## Main macroeconomic factors affecting our results of operations

### Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. During the nine months of 2014, the Brent crude oil price fluctuated between \$94 and \$115 per barrel and reached its peak of \$115.32 in the middle of June and its bottom of \$94.58 in the end of September. In the third quarter of 2014, the average Brent crude oil price was 7.1% lower, compared to the second quarter of 2014.

Substantially all the crude oil the Group exports is Urals blend. The following table shows the average crude oil and refined product prices in the respective periods of 2014 and 2013.

	3 <sup>rd</sup> quarter of 2014	2013	Change, %	9 months of 2014	2013	Change, %
(in US dollars per barrel, except for figures in percent)						
Brent crude.....	101.93	110.29	(7.6)	106.52	108.46	(1.8)
Urals crude (CIF Mediterranean) <sup>(1)</sup> .....	101.53	109.85	(7.6)	105.39	107.78	(2.2)
Urals crude (CIF Rotterdam) <sup>(1)</sup> .....	100.73	109.36	(7.9)	104.69	107.29	(2.4)
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil 3.5% (FOB Rotterdam).....	558.95	595.11	(6.1)	569.60	596.15	(4.5)
Diesel fuel 10 ppm (FOB Rotterdam) .....	878.57	948.99	(7.4)	907.96	937.65	(3.2)
High-octane gasoline (FOB Rotterdam).....	974.15	1,007.47	(3.3)	984.34	1,001.95	(1.8)

Source: Platts.

<sup>(1)</sup> The Company sells crude oil on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern Europe markets.

### Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Domestic prices for refined products are determined to some extent by world market prices, but they are also directly affected by local demand and competition.

The table below represents average domestic wholesale prices of refined products in the respective periods of 2014 and 2013.

	3 <sup>rd</sup> quarter of 2014	2013	Change, %	9 months of 2014	2013	Change, %
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil.....	281.00	372.51	(24.6)	274.60	346.22	(20.7)
Diesel fuel.....	777.32	822.90	(5.5)	794.51	847.90	(6.3)
High-octane gasoline (Regular) .....	929.47	869.70	6.9	868.88	827.83	5.0
High-octane gasoline (Premium) .....	940.95	944.24	(0.3)	892.53	886.51	0.7

Source: InfoTEK (excluding VAT).

### Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, an appreciation of the ruble against the US dollar generally causes our costs to increase in US dollar terms, and vice versa. The appreciation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 4.2% in the nine months of 2014, compared to the nine months of 2013.

The following table gives data on inflation in Russia and the change in the ruble-dollar exchange rate.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
Ruble inflation (CPI), % .....	1.4	1.2	6.3	4.7
Average exchange rate for the period (ruble to US dollar) .....	36.19	32.80	35.39	31.62
Exchange rate at the end of the period (ruble to US dollar) .....	39.39	32.35	36.39	32.35

### Tax burden

The following table represents average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

		3 <sup>rd</sup> quarter of		Change, %
		2014	2013	
Export tariffs on crude oil .....	\$/tonne	380.54	383.04	(0.7)
Export tariffs on refined products				
Middle distillates (jet fuel), liquid fuels (fuel oil) and gasoils .....	\$/tonne	251.12	252.74	(0.6)
Light distillates.....	\$/tonne	342.43	344.70	(0.7)
Diesel fuel .....	\$/tonne	247.29	252.74	(2.2)
Mineral extraction tax				
Crude oil .....	RUR/tonne	5,839.93	5,631.24	3.7
Crude oil .....	\$/tonne	161.36	171.70	(6.0)

		9 months of		Change, %
		2014	2013	
Export tariffs on crude oil .....	\$/tonne	384.59	389.70	(1.3)
Export tariffs on refined products				
Middle distillates (jet fuel), liquid fuels (fuel oil) and gasoils .....	\$/tonne	253.80	257.18	(1.3)
Light distillates.....	\$/tonne	346.08	350.73	(1.3)
Diesel fuel .....	\$/tonne	250.38	257.18	(2.6)
Mineral extraction tax				
Crude oil .....	RUR/tonne	6,017.08	5,281.73	13.9
Crude oil .....	\$/tonne	170.03	167.05	1.8

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

**Crude oil extraction tax rate** is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble-dollar 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 \$1.80 per tonne extracted (or \$0.25 per barrel extracted using a conversion factor of 7.33) above the base rate.

During the nine months of 2014, the base rate was 493 rubles per metric tonne extracted (470 rubles in the nine months of 2013).

The crude oil extraction tax rate varies depending on the development, depletion and complexity of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea, the Nenetsky Autonomous District and some other regions, depending on the period and volume of production.

The Group produces crude oil in the Caspian Sea, extra-heavy crude oil in Timan-Pechora and benefits from the application of a zero extraction tax rate.

**Natural gas extraction tax rate.** The mineral extraction tax on natural gas produced by independent producers in Russia was calculated using a flat rate until July 1, 2014. The rate was 471 rubles per thousand cubic meters during the first half of 2014, 265 rubles per thousand cubic meters in the first half of 2013 and 402 rubles – in the second half of 2013.

Starting from July 1, 2014, the base rate amounts to 35 rubles per thousand cubic meters and is adjusted depending on average wholesale natural gas price in Russia, share of gas production in total hydrocarbon production of particular taxpayer, and complexity of particular gas field. In the third quarter of 2014, actual average natural gas extraction tax rate calculated for our major gas field – Nakhodkinskoe in Western Siberia amounted to 134.68 rubles (\$3.72) per thousand cubic meters.

**Crude oil export duty rate** is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately \$15.00 per barrel (\$109.50 per metric tonne). If the Urals blend price is between \$15.00 and \$20.00 per barrel (\$146.00 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$15.00 results in an increase of the crude oil export duty rate by \$0.35 per barrel exported. If the Urals blend price is between \$20.00 and \$25.00 per barrel (\$182.50 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$20.00 results in an increase of the crude oil export duty rate by \$0.45 per barrel exported. Each \$1.00 per barrel increase in the Urals blend price over \$25.00 per barrel results in an increase of the crude oil export duty rate no more than by \$0.65 per barrel exported. From October 1, 2011 to December 31, 2013, the maximum increase of export duty rate was \$0.60 per barrel for each \$1.00 per barrel increase in the Urals blend price. Starting from January 1, 2014 to December 31, 2014, the maximum increase of export duty rate is \$0.59 per barrel for each \$1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. The list of the oilfields where the reduced rate is applied includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea and extra-heavy crude oil fields in Timan-Pechora.

**Export duty rates on refined products** are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	<b>From January 1, 2014 to December 31, 2014</b>	<b>Prior to January 1, 2014</b>
Multiplier for:		
Light distillates (except for gasolines), middle distillates (jet fuel), gasoils, liquid fuels (fuel oil), motor and other oils, other products....	0,660	0,660
Diesel fuel.....	0,650	0,660
Gasolines.....	0,900	0,900

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

**Excise on refined products.** The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

In other countries where the Group operates, excises are paid either by producers or retailers depending on the local legislation.

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for the periods considered are listed below:

		<b>3<sup>rd</sup> quarter of</b>		<b>Change,</b>	<b>9 months of</b>		<b>Change,</b>
		<b>2014</b>	<b>2013</b>	<b>%</b>	<b>2014</b>	<b>2013</b>	<b>%</b>
<b>Gasoline</b>							
Below Euro-3.....	RUR/tonne	11,110.00	10,100.00	10.0	11,110.00	10,100.00	10.0
Euro-3.....	RUR/tonne	10,725.00	9,750.00	10.0	10,725.00	9,750.00	10.0
Euro-4.....	RUR/tonne	9,916.00	8,960.00	10.7	9,916.00	8,694.80	14.0
Euro-5.....	RUR/tonne	6,450.00	5,750.00	12.2	6,450.00	5,347.56	20.6
<b>Diesel fuel</b>							
Below Euro-3.....	RUR/tonne	6,446.00	5,860.00	10.0	6,446.00	5,860.00	10.0
Euro-3.....	RUR/tonne	6,446.00	5,860.00	10.0	6,446.00	5,860.00	10.0
Euro-4.....	RUR/tonne	5,427.00	5,100.00	6.4	5,427.00	4,989.94	8.8
Euro-5.....	RUR/tonne	4,767.00	4,500.00	5.9	4,767.00	4,389.94	8.6
Motor oils.....	RUR/tonne	8,260.00	7,509.00	10.0	8,260.00	7,509.00	10.0
Straight-run gasoline.....	RUR/tonne	11,252.00	10,229.00	10.0	11,252.00	10,229.00	10.0

		3 <sup>rd</sup> quarter of		Change,	9 months of		Change,
		2014	2013	%	2014	2013	%
<b>Gasoline</b>							
Below Euro-3.....	\$/tonne	306.98	307.95	(0.3)	313.95	319.45	(1.7)
Euro-3 .....	\$/tonne	296.35	297.28	(0.3)	303.07	308.38	(1.7)
Euro-4 .....	\$/tonne	273.99	273.19	0.3	280.21	275.00	1.9
Euro-5 .....	\$/tonne	178.22	175.32	1.7	182.26	169.14	7.8
<b>Diesel fuel</b>							
Below Euro-3.....	\$/tonne	178.11	178.67	(0.3)	182.15	185.34	(1.7)
Euro-3 .....	\$/tonne	178.11	178.67	(0.3)	182.15	185.34	(1.7)
Euro-4 .....	\$/tonne	149.95	155.50	(3.6)	153.36	157.82	(2.8)
Euro-5 .....	\$/tonne	131.72	137.20	(4.0)	134.71	138.85	(3.0)
Motor oils.....	\$/tonne	228.23	228.95	(0.3)	233.41	237.50	(1.7)
Straight-run gasoline.....	\$/tonne	310.91	311.88	(0.3)	317.96	323.53	(1.7)

**Income tax.** The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Until January 1, 2012, there were no provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits. Tax losses could be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and pay income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended for any time spent within a CTG when the losses were unavailable for use.

### **Transportation of crude oil and refined products in Russia**

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important macroeconomic factor affecting our net income.

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of the state-owned company, OAO AK Transneft, or by railway transport.

Transportation of refined products in Russia is performed by railway transport and the pipeline system of OAO AK Transnefteproduct. The Russian railway infrastructure is owned and operated by OAO Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System ("UGSS"). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by OAO Gazprom. The Federal Service for Tariffs of the Russian Federation regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

## Three and nine months ended September 30, 2014, compared to three and nine months ended September 30, 2013

The table below sets forth data from our consolidated statements of comprehensive income for the periods indicated.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>Revenues</b>				
Sales (including excise and export tariffs) .....	39,021	36,737	112,907	105,560
<b>Costs and other deductions</b>				
Operating expenses .....	(2,726)	(2,514)	(7,593)	(7,480)
Cost of purchased crude oil, gas and products .....	(18,603)	(17,176)	(54,717)	(48,741)
Transportation expenses .....	(1,510)	(1,503)	(4,620)	(4,715)
Selling, general and administrative expenses .....	(994)	(979)	(2,865)	(2,817)
Depreciation, depletion and amortization .....	(2,788)	(1,545)	(6,785)	(4,358)
Taxes other than income taxes .....	(3,501)	(3,591)	(10,355)	(10,370)
Excise and export tariffs .....	(5,745)	(5,664)	(16,571)	(16,952)
Exploration expense .....	(207)	(65)	(476)	(203)
Loss on disposals and impairments of assets .....	(87)	(43)	(501)	(33)
<b>Income from operating activities .....</b>	<b>2,860</b>	<b>3,657</b>	<b>8,424</b>	<b>9,891</b>
Interest expense .....	(171)	(127)	(466)	(345)
Interest and dividend income .....	74	62	194	181
Equity share in income of affiliates .....	154	133	427	430
Currency translation (loss) gain .....	(347)	57	(615)	(339)
Other non-operating (expense) income .....	(108)	71	(227)	252
<b>Income before income taxes .....</b>	<b>2,462</b>	<b>3,853</b>	<b>7,737</b>	<b>10,070</b>
Current income taxes .....	(828)	(325)	(2,174)	(1,629)
Deferred income taxes .....	(5)	(432)	203	(665)
<b>Total income tax expense .....</b>	<b>(833)</b>	<b>(757)</b>	<b>(1,971)</b>	<b>(2,294)</b>
<b>Net income .....</b>	<b>1,629</b>	<b>3,096</b>	<b>5,766</b>	<b>7,776</b>
Net (income) loss attributable to non-controlling interests .....	(9)	9	(24)	14
<b>Net income attributable to OAO LUKOIL .....</b>	<b>1,620</b>	<b>3,105</b>	<b>5,742</b>	<b>7,790</b>
Earning per share of common stock attributable to OAO LUKOIL (in US dollars):				
Basic .....	2.15	4.11	7.61	10.32
Diluted .....	2.11	4.02	7.46	10.10

The analysis of the main financial indicators of the financial statements is provided below.

## Sales revenues

Sales breakdown	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than Customs				
Union countries.....	9,295	6,135	24,662	16,217
Export and sales to Customs Union countries.....	407	543	1,403	1,308
Domestic sales .....	819	962	2,756	2,158
	<b>10,521</b>	<b>7,640</b>	<b>28,821</b>	<b>19,683</b>
Refined products				
Export and sales on international markets				
Wholesale.....	18,739	19,394	57,152	58,465
Retail.....	2,840	2,931	8,064	8,107
Domestic sales				
Wholesale.....	2,270	2,127	5,743	5,909
Retail.....	2,625	2,506	7,054	6,969
	<b>26,474</b>	<b>26,958</b>	<b>78,013</b>	<b>79,450</b>
Petrochemicals				
Export and sales on international markets .....	188	235	677	707
Domestic sales .....	41	220	212	680
	<b>229</b>	<b>455</b>	<b>889</b>	<b>1,387</b>
Gas and gas products				
Export and sales on international markets .....	559	587	1,650	1,671
Domestic sales .....	305	282	888	827
	<b>864</b>	<b>869</b>	<b>2,538</b>	<b>2,498</b>
Sales of energy and related services				
Sales on international markets .....	117	14	138	52
Domestic sales .....	290	289	1,087	1,036
	<b>407</b>	<b>303</b>	<b>1,225</b>	<b>1,088</b>
Other				
Sales on international markets .....	280	315	763	866
Domestic sales .....	246	197	658	588
	<b>526</b>	<b>512</b>	<b>1,421</b>	<b>1,454</b>
<b>Total sales .....</b>	<b>39,021</b>	<b>36,737</b>	<b>112,907</b>	<b>105,560</b>

Sales volumes	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
Crude oil	(thousands of barrels)			
Export and sales on international markets other than Customs				
Union countries.....	94,220	55,165	239,046	150,602
Export and sales to Customs Union countries.....	8,694	10,225	27,891	25,743
Domestic sales .....	19,337	18,061	58,948	43,621
	<b>122,251</b>	<b>83,451</b>	<b>325,885</b>	<b>219,966</b>
Crude oil	(thousands of tonnes)			
Export and sales on international markets other than Customs				
Union countries.....	12,854	7,526	32,612	20,546
Export and sales to Customs Union countries.....	1,186	1,395	3,805	3,512
Domestic sales .....	2,638	2,464	8,042	5,951
	<b>16,678</b>	<b>11,385</b>	<b>44,459</b>	<b>30,009</b>
Refined products	(thousands of tonnes)			
Export and sales on international markets				
Wholesale.....	22,488	22,553	66,854	68,131
Retail.....	1,724	1,765	4,846	4,928
Domestic sales				
Wholesale.....	3,381	3,106	8,620	8,436
Retail.....	2,646	2,461	7,152	6,763
	<b>30,239</b>	<b>29,885</b>	<b>87,472</b>	<b>88,258</b>
<b>Total sales volume of crude oil and refined products.....</b>	<b>46,917</b>	<b>41,270</b>	<b>131,931</b>	<b>118,267</b>

Realized average sales prices	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
Average realized price international				
Oil (excluding Customs Union countries) .... (\$/barrel)	98.65	111.23	103.17	107.69
Oil (Customs Union countries) ..... (\$/barrel)	46.82	53.05	50.31	50.81
Refined products				
Wholesale ..... (\$/tonne)	833.32	859.92	854.86	858.12
Retail..... (\$/tonne)	1,647.47	1,660.86	1,664.21	1,645.17
Average realized price within Russia				
Oil..... (\$/barrel)	42.35	53.28	46.76	49.47
Refined products				
Wholesale ..... (\$/tonne)	671.49	684.96	666.24	700.48
Retail..... (\$/tonne)	991.56	1,018.02	986.23	1,030.45

During the third quarter of 2014, our revenues increased by \$2,284 million, or by 6.2%, compared to the third quarter of 2013. Our revenues from crude oil sales increased by \$2,881 million, or by 37.7%. Our revenues from sales of refined products decreased by \$484 million, or by 1.8%.

During the nine months of 2014, our revenues increased by \$7,347 million, or by 7.0%, compared to the same period of 2013. Our revenues from crude oil sales increased by \$9,138 million, or by 46.4%. Our revenues from sales of refined products decreased by \$1,437 million, or by 1.8%.

The changes in ruble-nominated revenues against the third quarter and the nine months of 2013 were significantly affected by the nominal ruble devaluation by 9.4% and 10.7%, respectively.

#### *Sales of crude oil*

Our international sales volumes (beyond Customs Union) increased by 5,328 thousand tonnes, or by 70.8%, compared to the third quarter of 2013, and by 12,066 thousand tonnes, or by 58.7%, compared to the nine months of 2013, as a result of increased volumes of crude oil trading and commencement of commercial production from the West Qurna-2 field. At the same time, our international realized crude oil prices decreased by 11.3%, compared to the third quarter of 2013, and by 4.2%, compared to the nine months of 2013. As a result, our international sales revenue increased by 51.5%, or by \$3,160 million, and by 52.1%, or by \$8,445 million, in the third quarter and the nine months of 2014, respectively.

Compared to the third quarter of 2013, our domestic sales volumes increased by 7.1%, which was largely demand driven. Compared to the nine months of 2013, our domestic crude oil sales volumes increased by 35.1%, resulting from the increase in demand and the increase in the volumes of crude oil production in Russia. On the other hand, as a result of the ruble devaluation and the drop of international crude oil prices, our realized domestic crude oil price decreased by 20.5%, compared to the third quarter of 2013, and by 5.5%, compared to the nine months of 2013. As a consequence, in the third quarter and the nine months of 2014, our domestic sales revenue decreased by 14.9%, or by \$143 million, and increased by 27.7%, or by \$598 million, respectively.

In the third quarter and the nine months of 2014, our revenue from crude oil export from Russia both to the Group companies and third parties amounted to \$5,025 million and \$15,615 million, respectively.

#### *Sales of refined products*

Compared to the same periods of 2013, our revenue from the wholesale of refined products outside of Russia decreased by \$655 million, or by 3.4%, in the third quarter of 2014 and by \$1,313 million, or by 2.2%, in the nine months of 2014. The decrease in sales prices by 3.1% in the third quarter of 2014 and by 0.4% in the nine months of 2014 was enhanced by the decrease in sales volumes compared to the respective periods of 2013.

During the third quarter of 2014, our retail prices and volumes outside of Russia decreased by 0.8% and 2.3%, respectively, that resulted in the decrease of retail revenue by \$91 million, or by 3.1%, compared to the third quarter of 2013. During the nine months of 2014, some decrease of retail volumes outside of Russia was compensated by increase in realized retail prices. As a result, our retail sales revenue didn't change significantly to the nine months of 2013.



In the third quarter of 2014, our revenue from the wholesale of refined products on the domestic market increased by 6.7%, or by \$143 million. A decrease in realized prices by 2.0% due to the ruble devaluation was compensated by an increase in sales volumes by 8.9%. In the nine months of 2014, an increase in sales volumes by 184 thousand tonnes, or by 2.2%, was outweighed by a decrease in sales prices by 4.9% caused by ruble devaluation. As a result, our wholesale refined products revenue decreased by \$166 million, or by 2.8%, compared to the nine months of 2013.

Our revenue from retail sales in Russia increased by \$119 million, or by 4.7%, in the third quarter of 2014. Retail sales volumes increased by 7.5% that was partially offset by a decrease in average domestic retail prices by 2.6% as a result of ruble devaluation. In the nine months of 2014, an increase in domestic sales volumes offset the effect of the ruble devaluation, so our domestic retail revenue increased by 1.2%, compared to the nine months of 2013.

In the third quarter and the nine months of 2014, our revenue from export of refined products from Russia both to Group companies and third parties amounted to \$3,645 million and \$12,982 million, respectively.

#### *Sales of petrochemical products*

Our revenue from sales of petrochemical products decreased by \$226 million, or by 49.7%, in the third quarter of 2014 and by \$498 million, or by 35.9%, in the nine months of 2014. This was largely due to a significant decrease of domestic sales volumes, compared to the respective periods of 2013, as a result of cease of production at our plant in Stavropol region of Russia as a consequence of a fire at the plant in the end of February 2014.

#### *Sales of gas and gas products*

Sales of gas and gas refined products did not change significantly compared to the third quarter and the nine months of 2013.

Gas products wholesales revenue increased by \$49 million, or by 17.3%, in the third quarter of 2014 and by \$109 million, or by 13.1%, in the nine months of 2014. Average realized wholesale prices and sales volumes for gas products increased by 0.6% and 16.7% in the third quarter of 2014 and by 4.5% and 8.2%, in the nine months of 2014, respectively.

Retail gas products revenue was flat to the third quarter of 2013, but increased by \$21 million, or by 4.6%, to the nine months of 2013.

Natural gas sales revenue decreased by \$54 million, or by 13.2%, in the third quarter of 2014 and by \$90 million, or by 7.5%, in the nine months of 2014. The decrease was mainly due to lower production in Uzbekistan.

#### *Sales of energy and related services*

Our revenue from sales of electricity, heat and related services increased by \$104 million, or by 34.3%, in the third quarter of 2014 and by \$137 million, or by 12.6%, in the nine months of 2014. The main reason for this increase was the acquisition of power generating company ISAB Energy in Italy in early July 2014. In Russia, the effect of increased of sales volumes was almost offset by the effect of ruble devaluation.

#### *Sales of other products*

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

Revenue from other sales increased by \$14 million, or by 2.7%, in the third quarter of 2014, but decreased by \$33 million, or by 2.3% compared to the nine months of 2013.

## Operating expenses

Operating expenses include the following:

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
Hydrocarbon extraction expenses .....	1,288	1,103	3,558	3,190
Own refining expenses .....	545	540	1,543	1,603
Refining expenses at third parties and affiliated refineries.....	69	66	185	226
Cost of processing operations at ISAB .....	–	47	–	138
Expenses for crude oil transportation to refineries .....	258	307	801	980
Power generation and distribution expenses .....	282	160	643	524
Petrochemical expenses .....	24	79	135	231
Other operating expenses .....	260	212	728	588
<b>Total operating expenses .....</b>	<b>2,726</b>	<b>2,514</b>	<b>7,593</b>	<b>7,480</b>

The method of allocation of operating expenses above differs from the approach used in preparing the data for Note 20 “Segment information” to our interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

The changes in ruble-nominated operating expenses against the third quarter and the nine months of 2013 were significantly affected by the nominal ruble devaluation by 9.4% and 10.7%, respectively.

Compared to the respective periods of 2013, our operating expenses increased by \$212 million, or by 8.4%, in the third quarter of 2014 and by \$113 million, or by 1.5%, in the nine months of 2014.

### *Hydrocarbon extraction expenses*

Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

Our extraction expenses increased by \$185 million, or by 16.8%, in the third quarter of 2014 and by \$368 million, or by 11.5%, in the nine months of 2014. In the third quarter and the nine months of 2014, our extraction expenses included start-up costs and production expenses related to West Qurna-2 project in the amount of \$201 million and \$362 million, respectively. In Russia, the increase in costs was compensated by the ruble devaluation.

Our average hydrocarbon extraction expenses increased from \$5.67 per BOE in the third quarter of 2013 to \$6.12 per BOE in the third quarter of 2014, or by 7.9%, and from \$5.52 per BOE in the nine months of 2013 to \$5.84 per BOE in the nine months of 2014, or by 5.8%. This increase was largely due to write-off of certain start-up costs related to commencement of commercial production at West Qurna-2 oilfield in the third quarter and the nine months of 2014.

### *Own refining expense*

Our own refining expenses increased by \$5 million, or by 0.9%, in the third quarter of 2014, and decreased by \$60 million, or by 3.7%, in the nine months of 2014.

Refining expenses at our domestic refineries increased by 3.4%, or by \$10 million, in the third quarter of 2014, but decreased by \$38 million, or by 4.5%, in the nine months of 2014. The increase of expenses as a result of higher consumption of additives due to increased share of high-octane gasoline production and increased energy costs was outweighed by the rouble devaluation. In the third quarter of 2014, our refining expenses were higher due to overhauls at our refinery in Nizhny Novgorod, Russia.

Refining expenses at our international refineries decreased by 2.0%, or by \$5 million, in the third quarter of 2014, and by 2.9%, or by \$22 million, in the nine months of 2014. In the third quarter and the nine months of 2014, the decrease of expenses was largely against the background of high level of expenses of our Romanian refinery in the respective periods of 2013 due to overhauls which was partially outweighed by the increase of expenses at ISAB.

### *Refining expenses at third party and affiliated refineries*

Along with our own production of refined products we refine crude oil at third party and affiliated refineries both in Russia and abroad.

Refining expenses at third party and affiliated refineries increased by 4.5%, or by \$3 million, in the third quarter of 2014 as a result of the increase of volume of crude oil processing in Belarus compared to the third quarter of 2013, and decreased by 18.1%, or by \$41 million, in the nine months of 2014 due to the decrease in production at the Zeeland refinery that resulted from overhaul in the second quarter of 2014.

### *Expenses for crude oil transportation to refineries*

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to delivery of the Group's own crude oil to refineries for further processing.

Our expenses for crude oil transportation to refineries decreased by \$49 million, or by 16.0%, in the third quarter of 2014 and by \$179 million, or by 18.3%, in the nine months of 2014, due to the decrease in supplies of own crude oil from Russia to ISAB, the effect of ruble devaluation and lower volumes of crude oil processing at third party refineries in Belarus compared to the nine months of 2013.

### *Power generation and distribution expenses*

Our power generation and distribution expenses increased by \$122 million, or by 76.3%, compared to the third quarter of 2013 and by \$119 million, or by 22.7%, compared to the nine months of 2013. The main reason for this increase was the acquisition of power generating company ISAB Energy in Italy in early July 2014.

### *Other operating expenses*

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

Other operating expenses increased by \$48 million, or by 22.6%, in the third quarter of 2014, and by \$140 million, or by 23.8%, in the nine months of 2014, driven largely by changes in estimates of existing asset retirement obligations.

### **Cost of purchased crude oil, gas and products**

Cost of purchased crude oil, gas and products includes the cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

Cost of purchased crude oil, gas and products increased by \$1,427 million, or by 8.3%, in the third quarter of 2014 and by \$5,976 million, or by 12.3%, in the nine months of 2014, largely as a result of the increase in crude oil trading volumes.

In the third quarter of 2014, we recognized a \$594 million net gain from hedging, compared to a \$185 million net loss in the third quarter of 2013. In the nine months of 2014, we recognized a \$485 million net gain from hedging, compared to a net loss of \$104 million in the nine months of 2013.

### **Transportation expenses**

In the third quarter of 2014, our transportation expenses didn't change significantly, compared to the third quarter of the previous year. In the nine months of 2014, transportation expenses decreased by \$95 million, or by 2.0%, compared to the nine months of 2013. The increase of expenses that resulted from increased volumes of crude oil trading, compared to the respective periods of 2013, was offset by the decrease of tariffs.

Our actual transportation tariffs related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed to the nine months of 2013 as follows: crude oil pipeline tariffs decreased by 8.1%, railway tariffs for refined products transportation decreased by 12.0%, crude oil freight rates decreased by 33.7%, and refined products freight rates decreased by 13.2%.

## Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

Our selling, general and administrative expenses increased by \$15 million, or by 1.5%, in the third quarter of 2014 and by \$48 million, or by 1.7%, in the nine months of 2014.

## Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by \$1,243 million, or by 80.5%, compared to the third quarter of 2013, and by \$2,427 million, or by 55.7%, compared to the nine months of 2013. Our depreciation, depletion and amortization expenses for the third quarter and the nine months of 2014 included \$1,225 million and \$2,230 million, respectively, related to the West Qurna-2 field, where we commenced commercial production in the second quarter of 2014. The increase in depreciation, depletion and amortization expenses during the nine months of 2014 was also a result of the acquisition of ZAO Samara-Nafta in April 2013.

## Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in the Netherlands. Our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, and the Zeeland refinery in the Netherlands.

Our share in income of affiliates increased by \$21 million, or by 15.8%, compared to the third quarter of 2013, and decreased by \$3 million, or by 0.7%, compared to the nine months of 2013.

## Taxes other than income taxes

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>In Russia</b>				
Mineral extraction taxes .....	3,187	3,250	9,323	9,256
Social security taxes and contributions .....	101	120	379	427
Property tax .....	119	128	368	397
Other taxes .....	22	19	66	71
<b>Total in Russia .....</b>	<b>3,429</b>	<b>3,517</b>	<b>10,136</b>	<b>10,151</b>
<b>International</b>				
Mineral extraction taxes .....	13	18	46	55
Social security taxes and contributions .....	30	30	93	90
Property tax .....	12	8	29	24
Other taxes .....	17	18	51	50
<b>Total internationally .....</b>	<b>72</b>	<b>74</b>	<b>219</b>	<b>219</b>
<b>Total .....</b>	<b>3,501</b>	<b>3,591</b>	<b>10,355</b>	<b>10,370</b>

Our taxes other than income taxes decreased by \$90 million, or by 2.5%, compared to the third quarter of 2013, but didn't change significantly compared to the nine months of 2013, which was driven largely by the movements of the mineral extraction tax rate. The decrease in social security taxes and contributions and property tax in Russia against the third quarter and the nine months of 2013 was mainly due to the ruble devaluation.

In the third quarter and the nine months of 2014, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to \$599 million and \$1,790 million mineral extraction tax reduction, respectively (\$517 million and \$1,421 million in the third quarter and the nine months of 2013, respectively).

## Excise and export tariffs

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>In Russia</b>				
Excise tax on refined products .....	543	513	1,460	1,438
Crude oil export tariffs .....	2,507	2,613	7,272	7,720
Refined products export tariffs.....	1,481	1,422	4,634	4,629
<b>Total in Russia.....</b>	<b>4,531</b>	<b>4,548</b>	<b>13,366</b>	<b>13,787</b>
<b>International</b>				
Excise tax and sales taxes on refined products.....	1,107	990	2,907	2,741
Crude oil export tariffs .....	42	67	145	188
Refined products export tariffs.....	65	59	153	236
<b>Total internationally .....</b>	<b>1,214</b>	<b>1,116</b>	<b>3,205</b>	<b>3,165</b>
<b>Total .....</b>	<b>5,745</b>	<b>5,664</b>	<b>16,571</b>	<b>16,952</b>

Export tariffs decreased by \$66 million, or by 1.6%, in the third quarter of 2014 and by \$569 million, or by 4.5%, in the nine months of 2014. Compared to the third quarter and the nine months of 2013, the volumes of crude oil export beyond the Customs Union decreased by 2.6% and 4.2%, respectively.

## Exploration expenses

Our exploration expenses, increased by \$142 million, in the third quarter of 2014 and by \$273 million in the nine months of 2014 mostly as a result of dry hole write-offs related to projects in Cote d'Ivoire in the amount of \$95 million and in Ghana in the amount of \$140 million in the first and the third quarters of 2014, respectively. During the nine months of 2013, dry hole costs amounted to \$17 million. The rest of the increase of expenses was due to the growth in volume of seismic in Western Siberia.

## Loss on disposals and impairments of assets

In April 2014, the Group entered into an agreement to sell its 50% share in Caspian Investment Resources Ltd. The loss on expected disposal of this share was estimated at \$358 million. For more details on this agreement, refer to page 3.

Moreover, in the third and the first quarters of 2014, the Group wrote off signing bonuses related to projects in Ghana in the amount of \$45 million and in Sierra Leone and Cote d'Ivoire in the total amount of \$67 million, respectively.

## Income taxes

The maximum statutory rate in Russia is 20%. Nevertheless, the actual effective income tax rate may be higher due to non-deductible expenses or lower due to certain non-taxable gains. Moreover, quarterly deviations of the effective income tax rates from the maximum statutory rate may happen due to currency translation losses and gains reported by Russian subsidiaries, that decrease or increase taxable income in the respective periods.

In the third quarter of 2014, our total income tax expense increased by \$76 million, or by 10.0%, compared to the third quarter of 2013. At the same time, our income before income tax decreased by \$1,391 million, or by 36.1%.

In the nine months of 2014, our total income tax expense decreased by \$323 million, or by 14.1%, compared to the nine months of 2013, while our income before income tax decreased by \$2,333 million, or by 23.2%.

In the third quarter of 2014, our effective income tax rate was 33.8%, compared to 19.6% in the third quarter of 2013. In the nine months of 2014, effective income tax rate was 25.5%, compared to 22.8% in the nine months of 2013. The high level of our effective income tax rate in the third quarter and the nine months of 2014 was a result of taxable currency translation gains reported by Russian subsidiaries as well as non-deductible losses and write-offs related to our international upstream projects.

**Reconciliation of net income to EBITDA (earnings before interest, income taxes, depreciation and amortization)**

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>Net income</b> .....	<b>1,620</b>	<b>3,105</b>	<b>5,742</b>	<b>7,790</b>
Add back:				
Income tax expense .....	833	757	1,971	2,294
Depreciation and amortization .....	2,788	1,545	6,785	4,358
Interest expense.....	171	127	466	345
Interest and dividend income .....	(74)	(62)	(194)	(181)
<b>EBITDA</b> .....	<b>5,338</b>	<b>5,472</b>	<b>14,770</b>	<b>14,606</b>
Add back loss on disposal of assets and dry hole related write-offs.....	185	–	705	–
<b>EBITDA adjusted for one-off items</b> .....	<b>5,523</b>	<b>5,472</b>	<b>15,475</b>	<b>14,606</b>
Including the impact of West Qurna-2 project.....	1,247	–	2,264	–

EBITDA is a non-US GAAP financial measure. EBITDA is defined as net income before interest, taxes and 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 as operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for 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 income, operating income or any other measure of performance under US GAAP. EBITDA does not include our need to replace our capital equipment over time.

## Liquidity and capital resources

	9 months of	
	2014	2013
	(millions of US dollars)	
Net cash provided by operating activities .....	12,198	12,918
Net cash used in investing activities .....	(10,978)	(13,895)
Net cash provided by financing activities .....	434	1,472

### Operating activities

Our primary source of cash flow is funds generated from our operations. During the nine months of 2014, cash generated from operations decreased by 5.6%, compared to the nine months of 2013, and amounted to \$12,198 million.

### Investing activities

In the nine months of 2014, the amount of cash used in investing activities decreased by 21.0% largely against the background of significant acquisitions of licenses and subsidiaries in the nine months of 2013.

Our capital expenditures, including non-cash transactions, amounted to \$11,680 million, which was 8.9% higher than in the nine months of 2013.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>Capital expenditures, including non-cash transactions and prepayments</b>				
Exploration and production				
Russia .....	2,094	1,947	6,534	5,866
International .....	906	841	2,636	2,377
Total exploration and production .....	3,000	2,788	9,170	8,243
Refining, marketing and distribution				
Russia .....	551	487	1,459	1,281
International .....	193	279	624	604
Total refining, marketing and distribution .....	744	766	2,083	1,885
Chemicals				
Russia .....	88	18	168	52
International .....	1	1	1	2
Total chemicals .....	89	19	169	54
Power generation and distribution .....	62	86	140	201
Other .....	63	96	118	345
<b>Total capital expenditures .....</b>	<b>3,958</b>	<b>3,755</b>	<b>11,680</b>	<b>10,728</b>

Capital expenditures in the exploration and production segment increased by \$927 million, or by 11.2%, compared to the nine months of 2013. In Russia, the increase related to higher volumes and cost of production drilling was partially outweighed by the effect of ruble devaluation. Internationally, we increased expenditures in Shakh-Deniz project in Azerbaijan and commenced exploration activities at our new projects in Ghana and Romania.

The increase of capital expenditures in domestic refining, marketing and distribution segment was due to continuing construction of a vacuum gasoil refinery complex at the Volgograd refinery and construction of a heavy residue processing complex and a power generation facility at our refinery in Perm.

Other capital expenditures mostly refer to investments of OAO Arkhangelskgeoldobycha, a Group company, involved in diamond deposits development in the Arkhangelsk region of Russia. The decrease of the respective capital expenditures was due to fulfillment of the most stages of the capital investment program at the deposits.

The table below shows our exploration and production capital expenditures in promising new production regions.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
Yamal.....	76	60	370	268
Caspian region <sup>(1)</sup> .....	349	306	1,057	1,184
Ghana.....	145	7	296	15
Cote d'Ivoire.....	6	20	88	56
Iraq.....	300	431	1,101	1,450
Uzbekistan .....	248	185	549	444
Romania.....	39	1	95	4
<b>Total .....</b>	<b>1,163</b>	<b>1,010</b>	<b>3,556</b>	<b>3,421</b>

<sup>(1)</sup> Russian and international projects.

In 2014, we did not make significant investments in the acquisition of licenses, whereas in the nine months of 2013, a Group company paid \$835 million as a second 50% installment for the acquisition of the subsoil rights for the site that includes the Imilorskoye, West Imilorskoye and Istochnoye fields in Western Siberia. The first 50% payment was made in December 2012.

	3 <sup>rd</sup> quarter of		9 months of	
	2014	2013	2014	2013
	(millions of US dollars)			
<b>Acquisitions of subsidiaries and associates, including prepayments related to acquisitions and non-cash transactions</b>				
Exploration and production				
Russia.....	86	2	99	2,392
International .....	2	–	65	–
Total exploration and production .....	88	2	164	2,392
Refining, marketing and distribution				
Russia.....	66	218	(233)	291
International.....	4	1	40	1
Total refining, marketing and distribution.....	70	219	(193)	292
Less cash acquired .....	–	–	(34)	(15)
<b>Total acquisitions .....</b>	<b>158</b>	<b>221</b>	<b>(63)</b>	<b>2,669</b>

In the nine months of 2014, the Group invested \$92 million in a joint venture with OAO NK Bashneft, \$66 million in a jet fuel operator in Russia and spent \$35 million on the acquisition of ISAB Energy, power generating company in Italy. In the nine months of 2013, the Company spent \$2.1 billion for the acquisition of 100% of the shares of ZAO Samara-Nafta and \$266 million as the final installment within the acquisition of 50% of the shares of ZAO Kama-oil.

Moreover, in the second quarter of 2014, we received back an advance payment in amount of \$367 million, related to planned acquisition in “Refining, marketing and distribution” segment in Russia.

### Financing activities

In the nine months of 2014, net movements of short-term and long-term debt generated an inflow of \$1,787 million, compared to an inflow of \$2,762 million in the nine months of 2013.