OAO NOVATEK

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS
ENDED 30 SEPTEMBER 2015 AND 2014

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General Provisions

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2015 and 2014 together with our unaudited consolidated interim condensed financial statements as of and for the three and nine months ended 30 September 2015. The unaudited consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These consolidated interim condensed financial statements should be read together with the audited consolidated financial statements for the year ended 31 December 2014 prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of OAO NOVATEK, its consolidated subsidiaries and joint ventures (hereinafter jointly referred to as "we" or the "Group").

Overview

We are Russia's largest independent natural gas producer and the second-largest producer of natural gas in Russia according to the Central Dispatch Administration of the Fuel and Energy Complex (commonly referred to as "CDU-TEK") for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after PAO Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

Our exploration and development, production and processing of natural gas, gas condensate and crude oil are conducted within the Russian Federation.

In accordance with Russian law, we currently sell all of our produced natural gas volumes exclusively in the Russian domestic market.

In 2014, OAO Yamal LNG, the Group's joint venture, and several wholly owned subsidiaries of the Group (OOO Arctic LNG 1, OOO Arctic LNG 2, and OOO Arctic LNG 3) received licenses to export liquefied natural gas ("LNG"). The aforementioned subsidiaries hold licenses for exploration and production on the Salmanovskoye (Utrenneye) and Geofizicheskoye fields, and the North-Obskiy and Trekhbugorniy license areas located on the Gydan peninsula and the Gulf of Ob.

We deliver our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant (the "Purovsky Plant") for processing into stable gas condensate and liquefied petroleum gas ("LPG"). Effective May 2015, we exceeded the Purovsky Plant's nameplate processing capacity and are able to process over 12 million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea (the "Ust-Luga Complex"). The Ust-Luga Complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process more than six million tons of stable gas condensate annually, and we reached the complex's nameplate refining capacity in January 2015.

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are partially sold on the domestic market with the remaining portion delivered to international markets from the Port of Ust-Luga on the Baltic Sea or to European markets by rail.

Effective June 2014, the majority of our LPG produced at the Purovsky Plant is dispatched via pipeline to the refining capacities of OOO Tobolsk-Neftekhim. The remaining volumes are sold directly from the plant without incurring additional transportation expenses. After processing at Tobolsk-Neftekhim we receive LPG with higher added value, the majority of which are transported by rail to end-customers in the domestic and international markets.

We deliver our crude oil to both domestic and international markets.

The Group, jointly with TOTAL S.A. and China National Petroleum Corporation, through our joint venture OAO Yamal LNG, undertakes a large-scale project on constructing a liquefied natural gas plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula (the “Yamal LNG project”). The Yamal LNG project also requires the construction of transportation infrastructure, including the seaport and the international airport. Commercial launch of the LNG plant and start of liquefied natural gas shipments is planned in 2017. It is expected that the produced LNG will be sold mainly to the Asian-Pacific Region (“APR”) and to the European market.

RECENT DEVELOPMENTS

Increase of production and utilization of refining capacity

In September 2014, OOO SeverEnergia, the Group’s joint venture with OAO Gazprom Neft, launched the third phase of the Samburgskoye field. In December 2014, SeverEnergia reached the nameplate production capacity of the first phase and launched the second phase of the Urengoyskoye field (the nameplate production capacity was reached in February 2015). Overall capacity of the two stages of the Urengoyskoye field is approximately 13 billion cubic meters (bcm) of natural gas and 4.7 million tons of gas condensate per annum. As a result, the Group’s gas condensate production has increased significantly enabling us to fully utilize the processing facilities of our Ust-Luga Complex effective January 2015.

In April 2015, SeverEnergia launched the Yaro-Yakhinskoye field and in June 2015, the field reached the nameplate production capacity of 7.7 bcm of natural gas and 1.3 million tons of gas condensate per annum.

In May 2015, ZAO Terneftegas, the Group’s joint venture with TOTAL S.A., commenced commercial production at the Termokarstovoye gas and gas condensate field located in the Yamal-Nenets Autonomous region (“YNAO”). The nameplate production capacity of 2.4 bcm of natural gas and 0.8 million tons of gas condensate per annum was reached in June 2015.

The launch of additional production facilities at the end of 2014 and in the first half of 2015, allowed us to fully utilize the gas condensate processing facilities at our Purovsky Plant commencing from May 2015.

Implementation of the Yamal LNG project

On 3 September 2015, NOVATEK and China’s Silk Road Fund Co. Ltd. (“SRF”) signed a framework agreement on acquisition of a 9.9% equity stake in Yamal LNG by SRF. The transaction is scheduled to close subject to a number of conditions precedent, including changes to the agreement between the governments of the Russian Federation and the People’s Republic of China concerning Yamal LNG and the receipt of other necessary approvals.

In June 2015, we concluded long-term contracts with the companies of the ENGIE Group and the Royal Dutch Shell Group for the supply of one million and 0.9 million tons of liquefied natural gas per annum, respectively. The supply of LNG under these contracts will be conducted through the Groups’ wholly owned subsidiary Novatek Gas & Power GmbH, which will purchase LNG from Yamal LNG.

In January 2015, Yamal LNG concluded a long-term contract with PAO Gazprom for the supply of 2.9 million tons of LNG per annum for a period of not less than 20 years.

Management believes that the conclusion of long-term LNG supply agreements by the Group and Yamal LNG is an important step in the implementation of the Yamal LNG project. Currently, more than 95% of LNG volumes which will be produced within the Yamal LNG project are contracted under long-term agreements.

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund for financing the Yamal LNG project through the purchase of interest bearing bonds from OAO Yamal LNG. In February 2015, the Ministry of Finance subscribed for and purchased the first tranche of Yamal LNG’s bonds in the amount of RR 75 billion (nominal amount of USD 1.21 billion). The bonds will be repaid in Russian roubles at the US dollar exchange rate at the date of payment in equal installments from 2022 to 2030. Interest is paid semi-annually starting from September 2015. The funds received by Yamal LNG from the bonds placement were fully invested in the Yamal LNG project.

In December 2014, a Boeing 737 airplane landed at the Sabetta airport for the first time. In February 2015, the airport in Sabetta (part of the transportation infrastructure of the Yamal LNG project) was officially launched. The launch of the Sabetta airport is an important step in the realization of the Yamal LNG project providing reliable delivery of specialists and equipment to the South-Tambeyskoye field.

Group's acquisitions and disposals

In July 2015, NOVATEK and Gazprom Neft approved the next stage of restructuring procedures to achieve parity shareholdings in SeverEnergia, in which the parties hold participation interests through their joint ventures, Yamal Development and Artic Russia B.V. In August 2015, NOVATEK contributed a 6.4% ownership interest in Artic Russia B.V. to the capital of Yamal Development. Simultaneously, the Group and Gazprom Neft made contributions to the capital of Yamal Development by converting loans and accrued interest in the amount of RR 2.5 billion and RR 14.9 billion, respectively. As a result of these transactions the Group's effective participation interest in SeverEnergia decreased from 54.9% to 53.3%. It is expected that further procedures towards achieving parity shareholdings in SeverEnergia will be completed by the end of 2016.

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergo (renamed to OOO NOVATEK-Energo in September 2015) that provides repair and maintenance services of energy generating equipment for servicing the Group's production facilities located in the YNAO.

Extension and conclusion of new natural gas supply contracts

In October 2015, NOVATEK concluded a contract with PAO Enel Russia for the supply of approximately 2.0 bcm of natural gas per annum for a period of three years starting from January 2016.

In August 2015, the Group concluded a number of contracts with the companies of the Novolipetsk Steel Group for the supply of 2.8 bcm of natural gas per annum for a period of five years starting from January 2016.

In April 2015, we extended the natural gas supply contract with OAO Mosenergo for an additional four years until the end of 2019, with annual supply volumes of approximately 9.1 bcm.

The contract extension and conclusion of new agreements are important steps for maintaining and increasing our client base.

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 30 September: 2015	2014	Change %
Financial results			
Total revenues [(1)]	117,367	84,733	38.5%
Operating expenses	(85,096)	(55,870)	52.3%
EBITDA [(2)]	53,563	38,757	38.2%
Normalized EBITDA [(3)]	52,574	38,757	35.7%
Profit (loss) attributable to shareholders of OAO NOVATEK	(12,416)	7,627	n/a
Normalized profit attributable to shareholders of OAO NOVATEK [(3)], excluding the effect of foreign exchange gains (losses)	31,904	24,258	31.5%
Earnings (loss) per share (in Russian roubles)	(4.11)	2.53	n/a
Normalized earnings per share [(3)], excluding the effect of foreign exchange gains (losses) (in Russian roubles)	10.56	8.03	31.5%
Net debt [(4)]	258,212	147,580	75.0%
Production volumes [(5)]			
Hydrocarbons production (million barrels of oil equivalent)	131.8	112.3	17.4%
Daily production (million barrels of oil equivalent per day)	1.43	1.22	17.4%
Operating results			
Natural gas sales volumes (million cubic meters)	14,272	14,944	(4.5%)
Naphtha sales volumes (thousand tons)	979	736	33.0%
Stable gas condensate sales volumes (thousand tons)	975	67	n/a
Other gas condensate refined products (thousand tons) [(6)]	634	289	119.4%
Liquefied petroleum gas sales volumes (thousand tons)	632	361	75.1%
Crude oil sales volumes (thousand tons)	251	241	4.1%
Cash flow results			
Net cash provided by operating activities	16,772	18,980	(11.6%)
Capital expenditures [(7)]	14,534	12,284	18.3%
Free cash flow [(8)]	2,238	6,696	(66.6%)

(1) Net of VAT, export duties, excise and fuel taxes.

(2) EBITDA represents profit (loss) attributable to shareholders adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.

(3) Excluding the effect from the disposal of interests in joint ventures.

(4) Net Debt represents our total debt net of cash and cash equivalents.

(5) Hydrocarbons production and daily production are calculated based on net production, including our proportionate share in the production of our joint ventures.

(6) Other gas condensate refined products include jet fuel, gasoil and fuel oil.

(7) Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses and acquisitions of subsidiaries.

(8) Free cash flow represents the excess of Net cash provided by operating activities over Capital expenditures.

In the third quarter of 2015, our financial results were negatively impacted by significant non-cash foreign exchange losses as a result of the Russian rouble depreciation relative to the US dollar and Euro by 19% and 21%, respectively. These losses primarily related to the US dollar- and Euro-denominated borrowings of Yamal LNG, our joint venture. We believe the effects of currency movements arising in relation to debt portfolio of Yamal LNG will be fully mitigated by its foreign currency denominated revenues once commercial production commences as all liquefied natural gas volumes will be delivered to international markets.

In the three months ended 30 September 2015, we recorded a loss attributable to shareholders of OAO NOVATEK of RR 12,416 million, while in the corresponding period in 2014, we recorded a profit of RR 7,627 million. Excluding the one-off effect from the disposal of interests in joint ventures and the effect of foreign exchange gains and losses, the Group's profit attributable to shareholders of OAO NOVATEK increased by 31.5% to RR 31,904 million, which is relatively consistent with our normalized EBITDA growth.

Reconciliation of EBITDA and normalized EBITDA to profit (loss) attributable to shareholders of OAO NOVATEK is as follows:

millions of Russian roubles	**Three months ended 30 September: 2015**	**2014**	**Change %**
Profit (loss) attributable to shareholders of OAO NOVATEK	**(12,416)**	**7,627**	**n/a**
Depreciation, depletion and amortization	4,883	4,316	13.1%
Net impairment reversals (expenses)	(16)	11	n/a
Loss (income) from changes in fair value of derivative financial instruments	(176)	715	n/a
Total finance expense (income)	6,174	6,019	2.6%
Total income tax expense	4,942	3,664	34.9%
Share of loss (profit) of joint ventures, net of income tax	34,713	11,777	194.8%
EBITDA from subsidiaries	**38,104**	**34,129**	**11.6%**
Share in EBITDA of joint ventures	15,459	4,628	234.0%
EBITDA	**53,563**	**38,757**	**38.2%**
Net loss (gain) on disposal of interests in joint ventures	(989)	-	n/a
Normalized EBITDA	**52,574**	**38,757**	**35.7%**

Our normalized EBITDA increased by 35.7% to RR 52,574 million mainly due to a significant increase in liquid hydrocarbons sales volumes.

Our daily hydrocarbons production including our proportionate share in the production of joint ventures increased by 17.4% to 1.43 million boe per day as a result of the launch of additional production capacities in our joint ventures at the end of 2014 and the first half of 2015, and, accordingly, our total revenues increased by 38.5% to RR 117,367 million mainly due to an increase in sales volumes of liquid hydrocarbons, as well as an increase in the average realized natural gas prices.

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit [(1)]	Three months ended 30 September: 2015	2014	Change %
US dollar (USD)			
Average for the period	62.98	36.19	74.0%
At the beginning of the period	55.52	33.63	65.1%
At the end of the period	66.24	39.39	68.2%
Depreciation (appreciation) of Russian rouble to US dollar	19.3%	17.1%	n/a
Euro			
Average for the period	70.11	47.99	46.1%
At the beginning of the period	61.52	45.83	34.2%
At the end of the period	74.58	49.95	49.3%
Depreciation (appreciation) of Russian rouble to Euro	21.2%	9.0%	n/a

[(1)] Based on the data from the Central Bank of Russian Federation (CBR). The average rates for the period are calculated as the average of the daily exchange rates on each business day (rate is announced by the CBR) and on each non-business day (rate is equal to the exchange rate on the previous business day).

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Average for the period	Three months ended 30 September: 2015	2014	Change %
Benchmark crude oil prices [(2)]			
Brent, USD per barrel	50.5	101.9	(50.4%)
Urals, USD per barrel	49.6	101.1	(50.9%)
Urals, Russian roubles per barrel	3,124	3,659	(14.6%)
Benchmark crude oil prices excluding export duties [(3)]			
Urals, USD per barrel	32.0	49.0	(34.7%)
Urals, Russian roubles per barrel	2,015	1,773	13.6%
World market prices for oil products [(4)] **and liquefied petroleum gas** [(5)]**, USD per ton**			
Naphtha Japan	462	913	(49.4%)
Naphtha CIF NWE	431	882	(51.1%)
Jet fuel	503	938	(46.4%)
Gasoil	480	869	(44.8%)
Fuel oil	253	584	(56.7%)
Liquefied petroleum gas	352	794	(55.7%)
Export duties, USD per ton [(6)]			
Crude oil, stable gas condensate	128.5	380.4	(66.2%)
Liquefied petroleum gas	0.0	152.7	(100.0%)
Naphtha	109.2	342.3	(68.1%)
Jet fuel	61.6	251.0	(75.5%)
Gasoil	61.6	247.2	(75.1%)
Fuel oil	97.6	251.0	(61.1%)

[(2)] Based on Brent (dtd) and Russian Urals CIF Rotterdam spot assessments prices as provided by Platts.

[(3)] Export duties per barrel were calculated based on export duties per ton divided by the coefficient 7.3.

[(4)] Based on Naphtha C+F (cost plus freight) Japan, Naphtha CIF NWE, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices provided by Platts.

[(5)] Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest) as provided by Argus.

[(6)] Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles (see “Our tax burden and obligatory payments” below).

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic conditions

Political events in Ukraine in the beginning of 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. In July 2014, OAO NOVATEK was included on the OFAC's Sectoral Sanctions Identification List (the "List") which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 90 days. Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place on its territory. Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group's business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and exchange listed shares and debt, and does not have a material effect on the Group's financial position.

Simultaneously, during 2014, the Russian economy began experiencing signs of weakness which became especially apparent during the fourth quarter of 2014: the severe devaluation of the Russian rouble, contraction of the Country's gross domestic product, a significant increase in the Central Bank's lending rates, increased inflation and other factors. The domestic market situation was further exasperated by the rapid commodity price decline in global oil markets. As a result, in January and February 2015, both Standard & Poor's (S&P) and Moody's downgraded the Russian sovereign rating to below investment rating status as well as made the corresponding downward adjustments to Russian issuers, including OAO NOVATEK. We strongly disagree with the position taken by both S&P and Moody's regarding our credit rating because our operating results and cash flow generating capabilities to support our liquidity position remain strong. As of this date, the aforementioned downgrades have not had a negative effect on our exchange listed shares.

During the nine months ended 30 September 2015, the Russian rouble exchange rates relative to world currencies and benchmark commodity prices in international markets remained volatile, while the Central Bank's lending rates gradually decreased.

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business.

We have reviewed our capital expenditure program and existing debt obligations and have concluded that the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

We together with our international partners, TOTAL S.A. and China National Petroleum Corporation, are undertaking all necessary actions to implement the investment projects on time as planned, including, but not limited to, attraction of financing from domestic and non-US capital markets.

Natural gas prices

The Group's natural gas prices on the domestic market are strongly influenced by the prices set by a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation (the "Regulator"), as well as present market conditions. During 2014 and the first half of 2015, the Federal Tariffs Service ("FTS") fulfilled the Regulator's role. In July 2015, a Decree of the President of the Russian Federation became effective abolishing the FTS and transferring its functions to the Federal Anti-Monopoly Service.

During 2014 and the first half of 2015, natural gas prices for sales to all customer categories on the domestic market (excluding residential customers) did not change and were calculated using a price formula based on parameters set in December 2013.

Effective 1 July 2015, the FTS adjusted the parameters used in the formula for wholesale natural gas prices calculation and, as a result, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by 7.5%. The increase in the wholesale natural gas prices corresponds to the main parameters of the "Forecast of Socio-economic Development of the Russian Federation for 2015 and planned period 2016 and 2017" prepared by the Ministry of Economic Development of the Russian Federation and published in September 2014 (the "Forecast of the Ministry of Economic Development").

In May 2015, the Ministry of Economic Development of the Russian Federation published "Scenario conditions, basic parameters of the Forecast of Socio-economic Development of the Russian Federation and overall price (tariff) level for services provided by the companies of infrastructure sector for 2016 and planned period 2017 and 2018" based on which wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2016, 2017 and 2018 will be increased by an average of 7.5%, 7.0% and 6.2%, respectively. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

Based on changes to the Tax Code of the Russian Federation, effective 1 July 2014, adjustments to the natural gas prices together with transportation expenses effective 1 January 2015 are taken into account as main parameters for the calculation of UPT rates for natural gas (see "Our tax burden and obligatory payments" below). Therefore, future potential deviations of natural gas prices and transportation tariffs from the parameters as defined in the current Forecasts of the Ministry of Economic Development will be considered in the determination of UPT rates, thus smoothing fluctuations and decreasing the volatility of gross profits of independent natural gas producers.

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes are sold directly to end-customers in the regions of natural gas consumption, so transportation tariff to the end customer's location is included in the contract sales price. The remaining small volumes of natural gas we sell "ex-field" to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

We deliver natural gas to residential customers in the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices through our subsidiaries OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Kostroma, respectively. We disclose such residential sales within our end-customers category.

In addition, from time to time, based on market situation we sell natural gas at the Saint-Petersburg International Mercantile Commodities Exchange. We disclose such sales within our sales to end-customers category.

In the three months ended 30 September 2015, our average natural gas price on end-customers sales increased by 6.3% due to an increase in the average regulated FTS price by 7.5% effective 1 July 2015 partially offset by an increase in the proportion of sales to our end-customers located closer to our production fields in the current reporting period as compared to the respective period in 2014. The change in the sales geography also reduced our average transportation expense per mcm by 1.2% despite a 2.0% increase in the natural gas transportation tariff set by the FTS effective 1 July 2015 (see "Transportation tariffs" delow). As a result, the average natural gas price on end-customers sales excluding transportation expenses increased by 11.9%.

The following table shows our average realized natural gas sales prices (net of VAT):

Russian roubles per mcm	Three months ended 30 September: 2015	2014	Change %
Average natural gas price to end-customers [1]	3,849	3,620	6.3%
Average natural gas transportation expense for sales to end-customers	(1,519)	(1,538)	(1.2%)
Average natural gas price on end-customer sales excluding transportation expense	2,331	2,083	11.9%
Average natural gas price ex-field (wholesale traders)	2,051	1,832	12.0%
Total average natural gas price excluding transportation expense	**2,314**	**2,069**	**11.8%**

(1) Includes cost of transportation.

Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices

Crude oil, stable gas condensate, LPG and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters.

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the contract prices we receive for our liquids sales volumes.

In addition, our actual realized net export prices for crude oil, stable gas condensate and its refined products are affected by the so-called “export duty lag effect”. This effect is due to the differences between actual crude oil prices for a certain period and crude oil prices based on which export duty rate is calculated for the same period (see “Our tax burden and obligatory payments” below). In periods when crude oil prices are rising, the duty lag effect normally has a positive impact on the Group's financial results, as the export duty rates are set on the basis of lower crude oil prices compared to the actual prices. Conversely, in periods of crude oil prices decline, the export duty rate is calculated based on higher prices compared to the actual prices which results in a negative financial impact.

Our crude oil is transported through the pipeline system where it is blended with other producers’ crude oil of varying qualities. Depending on the route of transportation we export different grades of crude oil (“Urals” until the end of 2014, and from the third quarter of 2014 – low-sulfur “Siberian Light Crude Oil” (SILCO)), which are commonly traded with a discount to the international benchmark Brent crude oil. Our crude oil domestic prices are set on an individual transaction basis.

Most of our liquid hydrocarbons sales prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery. The remaining small part of our liquids volumes is sold without additional transportation expenses (ex-works sales of liquefied petroleum gas from Purovsky Plant and Tobolsk-Neftekhim refining facilities, as well as certain other types of sales).

Stable gas condensate and refined products

In 2014, nearly all our stable gas condensate volumes produced at the Purovsky Plant were transferred to the Ust-Luga Complex for the processing into higher value added gas condensate refined products. The remaining minor volumes of stable gas condensate were sold domestically. As a result, there were no sales of stable gas condensate to export markets in 2014.

Following the full capacity utilization of our Ust-Luga Complex effective in the first quarter of 2015, we commenced export sales of stable gas condensate. In the three months ended 30 September 2015, we sold 607 thousand tons of stable gas condensate at an average realized export contract price, including export duties, of USD 388 per ton and our average realized net export price, excluding export duties, amounted to USD 267.1 per ton. We will continue to export stable gas condensate to the extent that the volumes received from the processing at the Purovsky Plant exceed the processing ability at the Ust-Luga Complex and domestic sales volumes.

In the three months ended 30 September 2015, our average realized export contract prices for naphtha and other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 446 and USD 368 per ton, or 49.6% and 44.6%, to approximately USD 454 and USD 458 per ton, respectively. The decrease in our average realized export contract prices was as a result of a decrease in the underlying commodity prices of the respective products on the international markets used in the price calculation (see "Selected macro-economic data" above).

At the same time our average realized net export prices, excluding export duties, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in the three months ended 30 September 2015, decreased to a lesser extent, by USD 217.6 and USD 196.6 per ton, or 38.9% and 34.1%, and amounted to USD 341.9 and USD 380.3 per ton, respectively, due to a significant decrease in average export duties (see "Selected macro-economic data" above). Our average realized net export prices for naphtha and other gas condensate refined products in Russian roubles increased by 1.4% and 12.0%, respectively, due to a 74.0% increase in the average exchange rate of the US dollar to the Russian rouble in the three months ended 30 September 2015 compared to the corresponding period in 2014.

Our sales to international markets were conducted at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), delivery to the port of destination ex-ship (DES), delivery at point of destination (DAP), or free on board (FOB) (only in the third quarter of 2015).

In the three months ended 30 September 2015, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically at an average price of RR 18,930 per ton (excluding VAT). We expect that we will continue to sell some volumes of other gas condensate refined products domestically.

The following table shows our average realized stable gas condensate and refined products sales prices. Prices are shown net of VAT and export duties, where applicable:

	Three months ended 30 September:		**Change**
Russian roubles or US dollars per ton	**2015**	**2014**	**%**
Stable gas condensate			
Net export price, RR per ton	16,547	-	n/a
Net export price, USD per ton	267.1	-	n/a
Domestic price, RR per ton	14,063	12,955	8.6%
Naphtha			
Net export price, RR per ton	20,429	20,154	1.4%
Net export price, USD per ton	341.9	559.5	(38.9%)
Other gas condensate refined products			
Net export price, RR per ton	23,247	20,751	12.0%
Net export price, USD per ton	380.3	576.9	(34.1%)
Domestic price, RR per ton	18,930	-	n/a

Liquefied petroleum gas

In the three months ended 30 September 2015, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, significantly decreased by USD 401 per ton, or 43.8%, and was approximately USD 515 per ton compared to USD 916 per ton in the corresponding period in 2014. The decrease in our average realized contract price was due to a significant decrease in the underlying benchmark prices for LPG on international markets used in price calculation (see "Selected macro-economic data" above).

At the same time our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, decreased to a lesser extent, by USD 227.4 per ton, or 36.5%, to USD 395.6 per ton from USD 623.0 per ton due to setting a zero export duty rate by the Russian Federation government from February 2015 (see “Selected macro-economic data” above). Despite a decrease in the average realized net export price in US dollars, our average realized LPG net export price in Russian roubles increased by 10.5% due to a 74.0% increase in average exchange rate of US dollar to Russian rouble in the three months ended 30 September 2015 compared to the corresponding period in 2014.

In both reporting periods our LPG export delivery terms were DAP at the border of the customer’s country or free carrier (FCA) at terminal points in Poland.

In the three months ended 30 September 2015, our average realized LPG domestic price decreased by RR 3,564 per ton, or 24.0%, to RR 11,307 per ton from RR 14,871 per ton in the corresponding period in 2014 mainly due to the reallocation of our LPG sales volumes in favor of ex-works Purovsky Plant and Tobolsk-Neftekhim refining facilities sales with no additional associated transportation expenses.

The following table shows our average realized LPG sales prices, excluding trading activities. Prices are shown net of VAT, export duties, excise and fuel taxes expense, where applicable. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

	Three months ended 30 September:		**Change**
Russian roubles or US dollars per ton	**2015**	**2014**	**%**
LPG			
Net export price, RR per ton	24,912	22,546	10.5%
Net export price, USD per ton	395.6	623.0	(36.5%)
Domestic price, RR per ton	11,307	14,871	(24.0%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 376 per ton, or 52.4%, and was approximately USD 342 per ton compared to USD 718 per ton in the corresponding period in 2014. The decrease in our average crude oil contract price was a result of a decrease in Brent benchmark crude oil price on the international markets used as the base for price setting (see “Selected macro-economic data” above).

At the same time our average realized crude oil net export price, excluding export duties, decreased to a lesser extent, by USD 111.2 per ton, or 33.1%, to USD 224.9 per ton from USD 336.1 per ton in the corresponding period in 2014 due to a significant decrease of 66.2% in the average export duty per ton set by the Russian Federation government (see “Selected macro-economic data” above). Our average realized crude oil net export price in Russian roubles increased by 15.3% due to a 74.0% increase in average exchange rate of US dollar to Russian rouble in the three months ended 30 September 2015 compared to the corresponding period in 2014.

In the three months ended 30 September 2015, as well as in the corresponding period in 2014, we exported our crude oil via the port of Novorossiysk under FOB delivery terms. In addition, in the third quarter of 2014, we sold our crude oil under DAP (Budkovtse, Slovakia) delivery terms.

In the three months ended 30 September 2015, our average realized crude oil domestic price was RR 13,557 per ton (excluding VAT) representing an increase of RR 1,072 per ton, or 8.6%, from RR 12,485 per ton (excluding VAT) in the corresponding period in 2014 as a result of an increase in crude oil deliveries to more distant regions, as well as an increase in transportation tariff set by the FTS which is included in the sales price.

The following table shows our average realized crude oil sales prices. Prices are shown net of VAT and export duties, where applicable:

Russian roubles or US dollars per ton	Three months ended 30 September: 2015	2014	Change %
Crude oil			
Net export price, RR per ton	14,229	12,338	15.3%
Net export price, USD per ton	224.9	336.1	(33.1%)
Domestic price, RR per ton	13,557	12,485	8.6%

Transportation tariffs

Natural gas

We transport our natural gas through our own pipelines into the Unified Gas Supply System ("UGSS"), which is owned and operated by PAO Gazprom, a Russian Federation government controlled monopoly. Transportation tariffs for the use of the Gas Transmission System ("GTS"), as part of the UGSS, by independent producers are set by the Regulator (see "Terms and abbreviations" below).

In accordance with the existing methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (km). The rate for utilization of the trunk pipeline is based on an "input/output" function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

Effective 1 August 2013, the transportation rate was set at RR 12.79 (excluding VAT) per mcm per 100 km, and the rate for utilization of the trunk pipeline was set between RR 57.18 to RR 2,048.11 (excluding VAT) per mcm. The transportation tariffs for natural gas did not change in 2014 and during the first half of 2015.

Effective 1 July 2015, the tariff for natural gas transportation through the trunk pipeline was increased in average by 2.0%. As a result, the transportation rate was increased to RR 13.04 (excluding VAT) per mcm per 100 km and the rate for utilization of the trunk pipeline was set between RR 62.57 to RR 2,014.16 (excluding VAT) per mcm.

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in September 2014, the increase in transportation tariffs for natural gas produced by independent producers in 2016 and 2017 will not exceed the increase in wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

We transport stable gas condensate produced at the Purovsky Plant and LPG received from the processing at the Tobolsk-Neftekhim by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

The railroad transportation tariffs are set by the Regulator (see "Terms and abbreviations" below) and vary depending on the type of a product, direction and the length of the transport route.

According to the existing rules of railroad transportation tariffs regulation within the territory of the Russian Federation, the Regulator sets the range of railroad tariffs (the maximum and minimum range) for the transportation of all types of goods transported by the railroad system and for certain segments of railroad services within which RZD may vary railroad transportation tariffs based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

In 2014, the FTS did not change railroad transportation tariffs. However, effective 9 August 2014, RZD, within the range of railroad tariffs set by the FTS, increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%.

Effective 1 January 2015, the FTS increased railroad freight transportation tariffs for all types of hydrocarbons by 10% in accordance with the Ministry of Economic Development Forecast published in September 2014.

In 2014 and 2015, we apply the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the Port of Ust-Luga and to end-customers on the domestic market. The discount coefficient was set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD.

In 2014, for our stable gas condensate and LPG transportation we used our own rail cars and rail cars provided by independent Russian transportation companies. At the end of 2014, as a result of the optimization of our LPG transportation and sales, we sold our own rail cars.

Stable gas condensate and refined products by tankers

We deliver part of stable gas condensate and substantially all stable gas condensate refined products to international markets by chartered tankers via the Port of Ust-Luga on the Baltic Sea. The tanker transportation cost is determined by standard shipping terms, the distance to the final port of destination, tanker availability and seasonality of deliveries.

Crude oil

We transport nearly all of our crude oil through the pipeline network owned by Transneft, Russia’s state-owned monopoly crude oil pipeline operator. The Regulator (see “Terms and abbreviations” below) sets tariffs for transportation of crude oil through Transneft’s pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

During 2014, crude oil transportation tariffs within the Russian Federation territory did not change. Effective 1 January 2015, the FTS increased crude oil transportation tariffs within the Russian Federation territory through pipeline network by an average of 6.75%.

Our tax burden and obligatory payments

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes and obligatory payments to which we are subject include VAT, unified natural resources production tax (“UPT”, commonly referred as “MET” – mineral extraction tax), export duties, property tax and social contributions to non-budget funds.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

UPT – natural gas and gas condensate

According to the Tax Code of the Russian Federation, from 1 January to 1 July 2014 the UPT rates for natural gas and gas condensate were set at a fixed rate and amounted to RR 471 per mcm of natural gas extracted by independent producers (determined by a stated base rate and a reducing coefficient for independent natural gas producers) and to RR 647 per ton of extracted gas condensate.

Effective 1 July 2014, as a result of changes in the Tax Code of the Russian Federation, the UPT rates for natural gas and gas condensate are calculated monthly according to a formula based on which the base UPT rate is multiplied by the base value of a standard fuel equivalent and a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The base UPT rate is set at RR 35 per one thousand cubic meters of extracted natural gas and at RR 42 per one ton of extracted gas condensate. The base value of a standard fuel equivalent is calculated monthly and depends primarily on natural gas prices, Urals crude oil prices and crude oil export duty rate. A coefficient characterizing the difficulty of extracting natural gas and gas condensate defined as a minimum value from the coefficients characterizing either the reserves' depletion, the field's geographical location, the deposit's (or reservoir's) depth, assignment of the field to the regional gas supply chain or particular features of certain field deposits development.

From 1 January 2015, the UPT rate for natural gas also depends on the excess of the set average transportation tariff for the prior year over the 2013 tariff adjusted to the change in consumer prices.

In November 2014, as part of the tax maneuver in the oil industry, a federal law №366-FZ "Concerning introducing changes to the second part of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation" was adopted which envisages the increase in national budgetary income as a result of the phased (during three years) increases in UPT rates with a simultaneous decrease in excise taxes and export duties. As a result, the formula for gas condensate UPT rate calculation was adjusted by a coefficient that increased the tax rate by 4.4, 5.5 and 6.5 times from 1 January 2015, 2016 and 2017, respectively, in relation to the UPT rate set from 1 July 2014.

UPT – crude oil

The UPT rate for crude oil is calculated monthly in US dollars and translated into Russian roubles using the monthly average exchange rate established by the Central Bank of Russian Federation.

During 2014, the UPT rate for crude oil was calculated by multiplying the base UPT rate and coefficients characterizing crude oil world price dynamics and production peculiarities for a particular field and particular hydrocarbon deposit (reserves volumes and reserves depletion for a particular field, extracting complexity and reserve depletion of a particular hydrocarbon deposit). From 1 January 2014, the base crude oil UPT rate was set at RR 493 per ton.

As part of the tax maneuver in the oil industry (see above) effective from 1 January 2015, the formula for the crude oil UPT rate calculation was adjusted. The UPT rate is calculated as the base UPT rate multiplied by a coefficient characterizing the dynamics of world crude oil prices, and the resulting product is further decreased by a parameter characterizing crude oil production peculiarities. The base crude oil UPT rate in 2015 was set as RR 766 and will be increased to RR 857 and RR 919 per ton effective from 1 January 2016 and 2017, respectively.

In 2014, in accordance with the Tax Code of the Russian Federation, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. From 1 January 2015, as a result of the changes in the Tax Code of the Russian Federation, the UPT rate for crude oil produced at the abovementioned fields is calculated using an effective rate of RR 236 per ton (the rate will increase to RR 298 and RR 360 per ton from 1 January 2016 and 2017, respectively) multiplied by a coefficient characterizing the dynamics of world crude oil prices.

Export duties

According to the Law of the Russian Federation "Concerning the Customs Tariff" we are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG and crude oil). Formulas for export duty rates calculation are set by the Russian Federation government. Based on the set formulas the Ministry of Economic Development calculates and publishes export duty rates on a monthly basis (see "Selected macro-economic data" above).

The export duty rate for stable gas condensate and crude oil for the next calendar month is calculated based on the average Urals crude oil price for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month. In 2014, calculation of the export duty rate when the average Urals crude oil price is more than USD 182.5 per ton was set as follows: USD 29.2 plus 59% of the difference between the average Urals crude oil price and USD 182.5 per ton. As part of the tax maneuver in oil industry (see above) effective 1 January 2015, the set percentage was decreased from 59% to 42%, and effective 1 January 2016 and 2017 the set percentage should be further decreased to 36% and 30%, respectively. However, in order to increase state budget income in 2016 in the anticipation of a lower crude oil price environment, the Russian Federation government is currently considering not to adjust the formula for crude oil export duty rate calculation in 2016 and to keep a set percentage at the 2015 level of 42%.

The export duty rate for oil products is calculated based on the export duty rate for crude oil which is adjusted by a coefficient set for each category of oil products. The export duty rates for our exported gas condensate refined products as a percentage of the crude oil export duty rate are presented below:

% from the crude oil export duty rate	**2014**	**2015**	**2016**	**2017 and further**
Naphtha	90%	85%	71%	55%
Jet fuel	66%	48%	40%	30%
Gasoil	65%	48%	40%	30%
Fuel oil	66%	76%	82%	100%

The phased decrease in export duty rates for crude oil and oil products (except fuel oil) is implemented as part of the tax maneuver in the oil industry with a simultaneous increase in the UPT rates for gas condensate and crude oil (see above).

The export duty rate for LPG for the next calendar month is calculated based on the average LPG price at the Polish border (DAF, Brest) for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month. The rate is calculated as the difference between the average LPG price and USD 490, USD 640 or USD 740 (the one the LPG price is exceeding) multiplied by a coefficient 0.5, 0.6 or 0.7 and then increased by USD 0, USD 75 or USD 135, respectively. If the average LPG price is less than USD 490 per ton the export duty rate is set to zero.

Social contributions

In 2014 and 2015, the rates for social contributions to the Pension Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund of the Russian Federation paid by the employer on behalf of employees did not change and are set at 22.0%, 5.1% and 2.9%, respectively, for a cumulative social burden of 30.0%.

In 2014, the maximum taxable base for social contributions at these rates per employee was set at RR 624 thousand of annual income. For annual income above the maximum base the rate for the excess amount was set at 10.0% to the Pension Fund and nil for the other funds.

Effective from January 2015, the maximum base is only applied for contributions to the Pension Fund of the Russian Federation (increased to RR 711 thousand of annual income) and to the Social Insurance Fund (increased to RR 670 thousand of annual income). Contributions to the Federal Compulsory Medical Insurance Fund in 2015 are accrued at a 5.1% tax rate regardless of the employee's annual income.

OPERATIONAL HIGHLIGHTS

Hydrocarbon production and sales volumes

Our natural gas sales volumes in the three months ended 30 September 2015, slightly decreased by 672 mmcm, or 4.5%, due to lower demand for natural gas from end-customers. Natural gas production volumes at our main fields marginally decreased, but were completely offset by an increase in the production of our joint ventures.

Our liquids sales volumes increased significantly by 1,777 thousand tons, or 104.7%, primarily due to an increase in production of gas condensate in our joint ventures.

Natural gas production volumes

As a result of increased production of our joint ventures, in the three months ended 30 September 2015, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 1,865 mmcm, or 12.3%, to 17,061 mmcm from 15,196 mmcm in the corresponding period in 2014.

millions of cubic meters	**Three months ended 30 September: 2015**	**2014**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	8,743	9,492	(7.9%)
East-Tarkosalinskoye field	2,136	2,407	(11.3%)
Khancheyskoye field	597	703	(15.1%)
Other fields	392	299	31.1%
Total natural gas production by subsidiaries	**11,868**	**12,901**	**(8.0%)**
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	3,613	1,025	252.5%
Nortgas	1,297	1,270	2.1%
Terneftegas	283	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**5,193**	**2,295**	**126.3%**
Total natural gas production including proportionate share in the production of joint ventures	**17,061**	**15,196**	**12.3%**

In the three months ended 30 September 2015, the combined total volumes of natural gas produced by our subsidiaries decreased by 1,033 mmcm, or 8.0%, to 11,868 mmcm from 12,901 mmcm in the corresponding period in 2014 due to natural decline in the reservoir pressure at the current gas producing horizons at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye). The decrease in production was partially offset by the launch of the North-Khancheyskoye field at the end of 2014, as well as an increase in production at the Dobrovolskoye field due to new wells drilled at the end of 2014, production of which is included in the line "Other fields" in the table above.

In the three months ended 30 September 2015, our proportionate share in the production of our joint ventures increased by 2,898 mmcm, or 126.3%, to 5,193 mmcm from 2,295 mmcm in the corresponding period in 2014 primarily as a result of the production growth in SeverEnergia. The production of SeverEnergia significantly increased due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, effective May 2015 our joint venture Terneftegas commenced production at the Termokarstovoye field (see "Recent Developments" above).

Natural gas sales volumes

In the three months ended 30 September 2015, our total natural gas sales volumes decreased by 672 mmcm, or 4.5%, to 14,272 mmcm from 14,944 mmcm in the corresponding period in 2014 as a result of the lower demand for natural gas from end-customers. In addition, during the third quarter of 2015, we increased our natural gas inventory balances build up by 9.6% as compared to the corresponding period in 2014 for sales in peak winter season.

	Three months ended 30 September:		**Change**
millions of cubic meters	**2015**	**2014**	**%**
Production by subsidiaries	11,868	12,901	(8.0%)
Purchases from the Group's joint ventures	1,851	1,270	45.7%
Other purchases	1,699	1,815	(6.4%)
Total production and purchases	**15,418**	**15,986**	**(3.6%)**
Purovsky Plant, own usage and methanol production	(50)	(42)	19.0%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(1,096)	(1,000)	9.6%
Total natural gas sales volumes	**14,272**	**14,944**	**(4.5%)**
Sold to end-customers	*13,435*	*14,107*	*(4.8%)*
Sold ex-field	*837*	*837*	*0.0%*

In the three months ended 30 September 2015, natural gas purchases from our joint ventures increased by 581 mmcm, or 45.7%, to 1,851 mmcm from 1,270 mmcm in the corresponding period in 2014 primarily due to the commencement of purchases from Terneftegas as a result of the launch of the Termokarstovoye field in May 2015.

Other natural gas purchases decreased by 116 mmcm, or 6.4%, due to decreased purchases from PAO SIBUR. Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing end-customers' portfolios.

In the three months ended 30 September 2015, as well as in the corresponding period in 2014, we used 19 mmcm of natural gas as feedstock for the production of methanol. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

Liquids production volumes

In the three months ended 30 September 2015, our total liquids production (including our proportionate share in the production of joint ventures) increased by 813 thousand tons, or 53.0%, to 2,346 thousand tons from 1,533 thousand tons in the corresponding period in 2014 primarily due to a significant increase in the production of our joint ventures.

thousands of tons	Three months ended 30 September: 2015	2014	Change %
Production by subsidiaries from:			
Yurkharovskoye field	520	609	(14.6%)
East-Tarkosalinskoye field	325	319	1.9%
Khancheyskoye field	91	112	(18.8%)
Other fields	33	25	32.0%
Total liquids production by subsidiaries	**969**	**1,065**	**(9.0%)**
including gas condensate	*671*	*792*	*(15.3%)*
including crude oil	*298*	*273*	*9.2%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	1,127	319	253.3%
Nortgas	148	149	(0.7%)
Terneftegas	102	-	n/a
Total Group's proportionate share in the liquids production of joint ventures	**1,377**	**468**	**194.2%**
Total liquids production including proportionate share in the production of joint ventures	**2,346**	**1,533**	**53.0%**

In the three months ended 30 September 2015, the volumes of liquids produced by our subsidiaries slightly decreased by 96 thousand tons, or 9.0%, whereby the decrease in gas condensate production was partially offset by an increase in crude oil production. In the 2015 reporting period, we ramped up crude oil production due to new wells drilled and technological works performed to increase the crude oil production flow rates at the East-Tarkosalinskoye field. Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

In the three months ended 30 September 2015, our proportionate share in liquids production of joint ventures increased by 909 thousand tons, or 194.2%, to 1,377 thousand tons from 468 thousand tons in the corresponding period in 2014 mainly as a result of the production growth in SeverEnergia. The production of SeverEnergia increased due to reaching the nameplate production capacity of the first phase and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, our joint venture Terneftegas commenced production at the Termokarstovoye field from May 2015.

Liquids sales volumes

In the three months ended 30 September 2015, our total liquids sales volumes increased significantly by 1,777 thousand tons, or 104.7%, to 3,474 thousand tons from 1,697 thousand tons in the corresponding period in 2014 primarily due to an increase in the production of gas condensate in our joint ventures.

thousands of tons	**Three months ended 30 September: 2015**	**2014**	**Change %**
Production by subsidiaries	969	1,065	(9.0%)
Purchases from the Group's joint ventures	2,555	879	190.7%
Other purchases	37	33	12.1%
Total production and purchases	**3,561**	**1,977**	**80.1%**
Losses [(1)] and own usage [(2)]	(67)	(84)	(20.2%)
Decreases (increases) in liquids inventory balances	(20)	(196)	(89.8%)
Total liquids sales volumes	**3,474**	**1,697**	**104.7%**
Naphtha export	*979*	*736*	*33.0%*
Other gas condensate refined products export	*616*	*289*	*113.1%*
Other gas condensate refined products domestic	*18*	*-*	*n/a*
Subtotal gas condensate refined products	***1,613***	***1,025***	***57.4%***
Stable gas condensate export	*607*	*-*	*n/a*
Stable gas condensate domestic	*368*	*67*	*n/a*
Subtotal stable gas condensate	***975***	***67***	***n/a***
LPG export	*138*	*142*	*(2.8%)*
LPG domestic	*494*	*219*	*125.6%*
Subtotal LPG	***632***	***361***	***75.1%***
Crude oil export	*108*	*84*	*28.6%*
Crude oil domestic	*143*	*157*	*(8.9%)*
Subtotal crude oil	***251***	***241***	***4.1%***
Other oil products domestic	*3*	*3*	*0.0%*
Subtotal other oil products	***3***	***3***	***0.0%***

(1) Losses associated with processing at the Purovsky Plant, the Ust-Luga Complex and Tobolsk-Neftekhim, as well as during railroad, trunk pipeline and tanker transportation.

(2) Own usage associated primarily with the maintaining of refining process at the Ust-Luga Complex, as well as bunkering of charted tankers.

In the three months ended 30 September 2015, our purchases of liquid hydrocarbons from joint ventures increased significantly by 1,676 thousand tons, or 190.7%, due to a significant increase in our purchases of gas condensate from SeverEnergia resulting from the launch of additional production facilities at the end of 2014 and in April 2015 (see "Liquids production volumes" above). In addition, effective May 2015, we commenced purchases of gas condensate from our joint venture Terneftegas as a result of the launch of the Termokarstovoye field.

In 2014, most of our stable gas condensate produced at the Purovsky Plant was sent as raw material feedstock to the Ust-Luga Complex for further processing. As a result, there were no stable gas condensate sales to export markets. Due to the full refining capacity utilization of our Ust-Luga Complex we commenced stable gas condensate deliveries to export markets from the first quarter of 2015. In addition, our sales volumes of stable gas condensate increased in the current reporting period due to planned maintenance works performed at the first train of the Ust-Luga Complex in September 2015; therefore, a portion of our stable gas condensate volumes was not sent for further processing and instead was exported as stable gas condensate via the Port of Ust-Luga.

Sales volumes of jet fuel, gasoil and fuel oil received from the processing of stable gas condensate are disclosed in lines "Other gas condensate refined products export" and "Other gas condensate refined products domestic".

In the 2015 reporting period, our liquids inventory balances increased by 20 thousand tons to 831 thousand tons as of 30 September 2015 as compared to an increase in inventory balances by 196 thousand tons to 666 thousand tons in the corresponding period in 2014. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations of stable gas condensate and its refined products shipments (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2015 COMPARED TO THE CORRESPONDING PERIOD IN 2014

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2015 and 2014. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 September:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Total revenues [(1)]	**117,367**	***100.0%***	**84,733**	***100.0%***
including:				
natural gas sales	53,425	*45.5%*	52,608	*62.1%*
liquids' sales	62,787	*53.5%*	31,482	*37.2%*
Operating expenses	(85,096)	*(72.5%)*	(55,870)	*(65.9%)*
Other operating income (loss)	158	*0.1%*	100	*0.1%*
Profit from operations before disposals of interests in joint ventures	**32,429**	***27.6%***	**28,963**	***34.2%***
Net gain (loss) on disposal of interests in joint ventures	989	*0.9%*	-	*n/a*
Profit from operations	**33,418**	***28.5%***	**28,963**	***34.2%***
Finance income (expense)	(6,174)	*(5.3%)*	(6,019)	*(7.1%)*
Share of profit (loss) of joint ventures, net of income tax	(34,713)	*(29.6%)*	(11,777)	*(13.9%)*
Profit (loss) before income tax	**(7,469)**	***(6.4%)***	**11,167**	***13.2%***
Total income tax expense	(4,942)	*(4.2%)*	(3,664)	*(4.3%)*
Profit (loss)	**(12,411)**	***(10.6%)***	**7,503**	***8.9%***
Less: profit (loss) attributable to non-controlling interest	(5)	*(0.0%)*	124	*0.1%*
Profit (loss) attributable to shareholders of OAO NOVATEK	**(12,416)**	***(10.6%)***	**7,627**	***9.0%***
Normalized profit attributable to shareholders of OAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**31,904**	***27.2%***	**24,258**	***28.6%***

(1) Net of VAT, export and import duties, excise and fuel taxes expense, where applicable.

Total revenues

The following table sets forth our sales (net of VAT, export duties, excise and fuel taxes expense, where applicable) for the three months ended 30 September 2015 and 2014:

millions of Russian roubles	Three months ended 30 September: 2015	2014	Change %
Natural gas sales	**53,425**	**52,608**	**1.6%**
End-customers	*51,708*	*51,074*	*1.2%*
Ex-field sales	*1,717*	*1,534*	*11.9%*
Gas condensate refined products sales	**34,644**	**20,828**	**66.3%**
Export – naphtha	*19,993*	*14,840*	*34.7%*
Export – other refined products	*14,310*	*5,988*	*139.0%*
Domestic – other refined products	*341*	-	*n/a*
Stable gas condensate sales	**15,213**	**865**	**n/a**
Export	*10,041*	-	*n/a*
Domestic	*5,172*	*865*	*n/a*
Liquefied petroleum gas sales	**9,337**	**6,677**	**39.8%**
Export	*3,445*	*3,363*	*2.4%*
Domestic	*5,892*	*3,314*	*77.8%*
Crude oil sales	**3,473**	**2,999**	**15.8%**
Export	*1,535*	*1,034*	*48.5%*
Domestic	*1,938*	*1,965*	*(1.4%)*
Other products sales	**120**	**113**	**6.2%**
Domestic	*120*	*113*	*6.2%*
Total oil and gas sales	**116,212**	**84,090**	**38.2%**
Other revenues	1,155	643	79.6%
Total revenues	**117,367**	**84,733**	**38.5%**

Natural gas sales

In the three months ended 30 September 2015, despite a decrease in sales volumes our revenues from sales of natural gas increased by RR 817 million, or 1.6%, compared to the corresponding period in 2014 due to an increase in average sales prices. The increase in our natural gas average sales prices was due to an increase in the average regulated FTS price by 7.5% effective 1 July 2015 that was partially offset by an increase in the proportion of sales to our end-customers located closer to our production fields in the current reporting period as compared to the reporting period of the prior year (see "Natural gas prices" above).

Our proportion of natural gas sold to end-customers to total natural gas sales volumes amounted to 94.1% in the three months ended 30 September 2015 as compared to 94.4% in the corresponding period in 2014.

Gas condensate refined products sales

Gas condensate refined products sales represent revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced from our stable gas condensate at the Ust-Luga Complex.

In the three months ended 30 September 2015, our revenues from sales of gas condensate refined products increased by RR 13,816 million, or 66.3%, as compared to the corresponding period in 2014 due to an increase in sales volumes and, to a lesser extent, average realized net export prices in Russian roubles.

In the three months ended 30 September 2015, our revenues from sales of naphtha increased by RR 5,153 million, or 34.7%, as compared to the corresponding period in 2014 primarily due to an increase in sales volumes by 33.0%.

In the three months ended 30 September 2015 and 2014, we exported 979 thousand and 736 thousand tons of naphtha, respectively. Our average realized net export price, excluding export duties, increased by RR 275 per ton, or 1.4%, to RR 20,429 per ton (CFR, CIF, DES, DAP and FOB) from RR 20,154 per ton (CIF, CFR, DAP and DES) in the corresponding period in 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

In the three months ended 30 September 2015, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 8,663 million, or 144.7%, as compared to the corresponding period in 2014 due primarily to an increase in sales volumes and, to a lesser extent, average realized net export prices in Russian roubles. In the three months ended 30 September 2015 and 2014, we exported in aggregate 616 thousand and 289 thousand tons of these products to the European markets, or 97.2% and 100.0% of total sales volumes on the domestic and export markets, respectively. Our average realized net export price, excluding export duties, increased by RR 2,496 per ton, or 12.0%, to RR 23,247 per ton (CIF, FOB and DES) from RR 20,751 per ton (CIF) in the corresponding period in 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Stable gas condensate sales

In the three months ended 30 September 2015, our revenues from sales of stable gas condensate significantly increased by RR 14,348 million, or 17.6 times, compared to the corresponding period in 2014 due to the significant increase in volumes sold (see “Hydrocarbon production and sales volumes” above).

In the three months ended 30 September 2015, we sold 607 thousand tons of stable gas condensate, or 62.3% of our total sales volumes, to the APR and European markets at an average realized net export price, excluding export duties, of RR 16,547 per ton (CFR, DAP, CIF and DES).

In the three months ended 30 September 2015, we sold 368 thousand tons of stable gas condensate on the domestic market compared to 67 thousand tons in the corresponding period in 2014. Our average realized price for stable gas condensate sales on the domestic market in the three months ended 30 September 2015 amounted to RR 14,063 per ton (net of VAT), representing an increase of RR 1,108 per ton, or 8.6%, as compared to the corresponding period in 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Liquefied petroleum gas sales

In the three months ended 30 September 2015, our revenues from sales of LPG increased by RR 2,660 million, or 39.8%, compared to the corresponding period in 2014 due to an increase in total sales volumes that was partially offset by the reallocation of sales volumes in favor of the domestic market with lower average realized prices compared to net export sales prices (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

In the three months ended 30 September 2015, we sold 138 thousand tons of LPG, or 21.8% of our total LPG sales volumes, to export markets as compared to sales of 142 thousand tons, or 39.3%, in the corresponding period in 2014. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 1,267 per ton, or 5.4%.

In both reporting periods we sold nearly all export volumes of LPG to the markets of Poland and Finland.

In the three months ended 30 September 2015, we sold 494 thousand tons of LPG on the domestic market compared to sales of 219 thousand tons in the corresponding period in 2014. Our average realized LPG domestic price, including trading activities, in the three months ended 30 September 2015, was RR 11,932 per ton representing a decrease of RR 3,207 per ton, or 21.2%, compared to the corresponding period in 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Crude oil sales

In the three months ended 30 September 2015, revenues from crude oil sales increased by RR 474 million, or 15.8%, compared to the corresponding period in 2014 due to an increase in average realized prices in Russian roubles and, to a lesser extent, sales volumes. Our crude oil sales volumes increased by 10 thousand tons, or 4.1%, to 251 thousand tons from 241 thousand tons in the corresponding period in 2014 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In the three months ended 30 September 2015, we sold 57.0% of our total crude oil volumes domestically at an average price of RR 13,557 per ton (excluding VAT) representing an increase of RR 1,072 per ton, or 8.6%, as compared to the corresponding period in 2014.

The remaining 43.0% of our crude oil volumes were sold to export markets at an average price of RR 14,229 per ton (FOB, excluding export duties) representing an increase of RR 1,891 per ton, or 15.3%, as compared to the corresponding period in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Other products sales

Other products sales represent our revenues from the domestic sales of methanol, oil products (diesel fuel and petrol) purchased for the resale and sold through our retail stations and other liquid hydrocarbons. In the three months ended 30 September 2015, our revenues from other products sales increased marginally by RR seven million, or 6.2%, to RR 120 million from RR 113 million in the corresponding period in 2014.

Other revenues

Other revenues include revenue from geological and geophysical research services, rent, sublease, repair and maintenance of energy equipment services, as well as other services. In the three months ended 30 September 2015, other revenues increased by RR 512 million, or 79.6%, to RR 1,155 million from RR 643 million in the corresponding period in 2014 primarily due to an increase in revenues from the sublease of tankers by RR 611 million. The related sublease of tankers expenses are included in our transportation expenses in line "Gas condensate refined products and stable gas condensate transportation by tankers".

In addition, in the three months ended 30 September 2015, other revenues increased by RR 93 million due to revenues from repair and maintenance of energy equipment services provided by our subsidiary NOVATEK-Energo.

Operating expenses

In the three months ended 30 September 2015, our total operating expenses increased by RR 29,226 million, or 52.3%, to RR 85,096 million compared to RR 55,870 million in the corresponding period in 2014, and our total operating expenses as a percentage of total revenues increased to 72.5% from 65.9% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures that in turn allowed us to sell increased volumes of hydrocarbons to both domestic and international markets (see “Purchases of natural gas and liquid hydrocarbons” below), and, to a lesser extent, an increase in transportation expenses.

	Three months ended 30 September:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	32,892	*28.0%*	14,532	*17.2%*
Transportation expenses	32,546	*27.7%*	26,643	*31.4%*
Taxes other than income tax	9,054	*7.7%*	7,198	*8.5%*
Depreciation, depletion and amortization	4,883	*4.2%*	4,316	*5.1%*
Materials, services and other	3,626	*3.1%*	3,014	*3.6%*
General and administrative expenses	2,930	*2.5%*	2,543	*3.0%*
Exploration expenses	439	*0.4%*	101	*0.1%*
Net impairment expenses (reversals)	(16)	*n/a*	11	*n/a*
Change in natural gas, liquid hydrocarbons and work-in-progress	(1,258)	*n/a*	(2,488)	*n/a*
Total operating expenses	**85,096**	***72.5%***	**55,870**	***65.9%***

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 September 2015, our purchases of natural gas and liquid hydrocarbons significantly increased by RR 18,360 million, or 126.3%, to RR 32,892 million from RR 14,532 million in the corresponding period in 2014.

	Three months ended 30 September:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Unstable gas condensate	24,856	7,668	224.2%
Natural gas	7,379	6,147	20.0%
Other liquid hydrocarbons	657	717	(8.4%)
Total purchases of natural gas and liquid hydrocarbons	**32,892**	**14,532**	**126.3%**

In the three months ended 30 September 2015, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 17,188 million, or 224.2%, as compared to the corresponding period in 2014 and were mainly due to an increase in purchases from SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) as a result of the launch of additional production capacities at the end of 2014 and in April 2015 (see “Recent Developments” above).

In the three months ended 30 September 2015, our purchases of natural gas increased by RR 1,232 million, or 20.0%, as compared to the corresponding period in 2014 primarily as a result of the commencement of purchases from our joint venture Terneftegas effective May 2015.

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In the three months ended 30 September 2015, our purchases of other liquid hydrocarbons decreased by RR 60 million, or 8.4%, as compared to the corresponding period in 2014.

Transportation expenses

In the three months ended 30 September 2015, our total transportation expenses increased by RR 5,903 million, or 22.2%, to RR 32,546 million as compared to RR 26,643 million in the corresponding period in 2014.

millions of Russian roubles	**Three months ended 30 September: 2015**	**2014**	**Change %**
Natural gas transportation by trunk and low-pressure pipelines	20,395	21,686	(6.0%)
Stable gas condensate and liquefied petroleum gas transportation by rail	7,749	3,659	111.8%
Gas condensate refined products and stable gas condensate transportation by tankers	3,975	978	306.4%
Crude oil transportation by trunk pipelines	387	314	23.2%
Other	40	6	n/a
Total transportation expenses	**32,546**	**26,643**	**22.2%**

In the three months ended 30 September 2015, despite an average 2.0% increase in the natural gas transportation tariff set by the FTS effective 1 July 2015 (see “Transportation tariffs” above), our expenses for natural gas transportation decreased by RR 1,291 million, or 6.0%, to RR 20,395 million from RR 21,686 million in the corresponding period in 2014 due to a 4.8% decrease in our natural gas sales volumes to end-customers, for which we incurred transportation expenses, and a slight decrease in our average transportation distance. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and specificity of transportation routes.

In the three months ended 30 September 2015, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 4,090 million, or 111.8%, to RR 7,749 million from RR 3,659 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via rail by 113.3%.

Despite an increase in the railroad transportation tariffs (see “Transportation tariffs” above) our weighted average transportation cost per unit for stable gas condensate and LPG delivered by rail marginally decreased, by 0.7%, due to a decrease in the share of LPG volumes transported in total volumes (as a result of an increase in LPG volumes sold ex-works Purovsky Plant and Tobolsk-Neftekhim without transportation expenses) and the length of the transportation route. The regulated railroad transportation tariffs for LPG are higher than for our other liquid hydrocarbons.

In the three months ended 30 September 2015, our total transportation expenses for liquids delivered by tankers to international markets increased by RR 2,997 million, or 306.4%, to RR 3,975 million from RR 978 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via tankers by 100.2%, as well as an increase in the average exchange rate of US dollar to Russian rouble by 74.0% in the three months ended 30 September 2015 compared to the corresponding period in 2014 since all our tankers transportation expenses are US dollar denominated.

The effect of increased sales volumes and increased US dollar exchange rate on the tankers transportation expenses was partially mitigated by the change in the geography of stable gas condensate and refined products shipments. Our tanker transportation expenses per ton for transportation to the markets of the APR, as well as to North and South America are significantly higher compared to the transportation costs to European markets. In the three months ended 30 September 2015, we increased the share of volumes shipped to Europe from 38.2% to 50.5%, while the share of volumes shipped to North America decreased from 19.8% to 5.2%. The share of deliveries to the APR changed insignificantly from 42.0% to 44.3% of total stable gas condensate and refined products export sales volumes.

In the three months ended 30 September 2015, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 73 million, or 23.2%, to RR 387 million from RR 314 million in the corresponding period in 2014 primarily due to a 4.0% increase in volumes transported, as well as due to an increase in the transportation tariff set by the FTS (by 6.75% effective January 2015) and a significant increase in the share of deliveries to more distant regions.

Other transportation expenses include liquid hydrocarbons motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other insignificant expenses.

Taxes other than income tax

In the three months ended 30 September 2015, taxes other than income tax increased by RR 1,856 million, or 25.8%, to RR 9,054 million from RR 7,198 million in the corresponding period in 2014 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	**Three months ended 30 September:**		**Change**
	2015	**2014**	**%**
Unified natural resources production tax (UPT)	8,148	6,650	22.5%
Property tax	807	487	65.7%
Other taxes	99	61	62.3%
Total taxes other than income tax	**9,054**	**7,198**	**25.8%**

In the three months ended 30 September 2015, our unified natural resources production tax expense increased by RR 1,498 million, or 22.5%, to RR 8,148 million from RR 6,650 million in the corresponding period in 2014 primarily due to a significant increase in the UPT rate for gas condensate. From 1 January 2015, as a part of the tax maneuver in the oil industry, the formula used for gas condensate UPT rate calculation applied from 1 July 2014 was adjusted by a coefficient that increased the rate by 4.4 times.

In addition, from 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields at an effective rate of RR 236 per ton multiplied by a coefficient characterizing the dynamics of world crude oil price. In 2014, we applied a zero UPT rate for crude oil produced at these fields (see "Our tax burden and obligatory payments" above).

In the three months ended 30 September 2015, our property tax expense increased by RR 320 million, or 65.7%, to RR 807 million from RR 487 million in the corresponding period in 2014 primarily due to additions to property, plant and equipment at our production subsidiaries, as well as an insignificant additional tax charge for prior periods.

Depreciation, depletion and amortization

In the three months ended 30 September 2015, our depreciation, depletion and amortization ("DDA") expense increased by RR 567 million, or 13.1%, to RR 4,883 million from RR 4,316 million in the corresponding period in 2014 mainly due to additions of property, plant and equipment at our production subsidiaries during the 12 months preceding the reporting period. We accrue depreciation and depletion using the "units-of-production" method for our oil and gas assets and using a straight-line method for other facilities.

Materials, services and other

In the three months ended 30 September 2015, our materials, services and other expenses increased by RR 612 million, or 20.3%, to RR 3,626 million compared to RR 3,014 million in the corresponding period in 2014. The main components of this expense category were repair and maintenance services, as well as employee compensation, which on aggregate comprised 57.0% and 55.7% of total materials, services and other expenses in the three months ended 30 September 2015 and 2014, respectively.

	Three months ended 30 September:		Change
millions of Russian roubles	2015	2014	%
Employee compensation	1,441	1,149	25.4%
Repair and maintenance	626	531	17.9%
Complex of services for preparation, transportation and processing of hydrocarbons	406	269	50.9%
Materials and supplies	356	217	64.1%
LPG volumes reservation expenses	217	24	n/a
Electricity and fuel	210	198	6.1%
Transportation services	115	150	(23.3%)
Security services	110	99	11.1%
Rent expenses	15	231	(93.5%)
Other	130	146	(11.0%)
Total materials, services and other	**3,626**	**3,014**	**20.3%**

Operating employee compensation increased by RR 292 million, or 25.4%, to RR 1,441 million compared to RR 1,149 million in the corresponding period in 2014. The increase was due to an increase in the average number of employees primarily as a result of the acquisition of a 100% equity stake in NovaEnergo at the end of 2014, an increase in the effective rate for compulsory social contributions effective from 1 January 2015, as well as an indexation of base salaries effective from 1 July 2015.

Repair and maintenance services expenses increased by RR 95 million, or 17.9%, to RR 626 million in the three months ended 30 September 2015 compared to RR 531 million in the corresponding period in 2014 as a result of current repair works of fixed assets performed at our production subsidiaries. The increase in repair services was partially offset by costs savings in repair and maintenance services of energy generating equipment at our core production and processing subsidiaries due to the acquisition of NovaEnergo in December 2014.

Complex of services for preparation, transportation and processing of hydrocarbons expenses mainly relate to transportation of our LPG produced at the Purovsky Plant for further processing at Tobolsk-Neftekhim. These expenses increased by RR 137 million, or 50.9%, to RR 406 million in the three months ended 30 September 2015 compared to RR 269 million in the corresponding period in 2014 primarily due to the respective increase in our LPG volumes dispatched for processing at Tobolsk-Neftekhim.

Materials and supplies expense increased by RR 139 million, or 64.1%, to RR 356 million in the three months ended 30 September 2015 compared to RR 217 million in the corresponding period in 2014 as a result of an increase in chemicals used for the improvement of our gas condensate pipeline capacity due to significant increase in volumes transported, as well as materials used by our subsidiary NovaEnergo acquired in December 2014.

In the three months ended 30 September 2015, LPG volumes reservation costs increased by RR 193 million to RR 217 million from RR 24 million in the corresponding period in 2014 due to an increase in LPG volumes required to be reserved in Poland as a result of changes in the methodology of compulsory reservation volumes calculation effective 1 January 2015. The reservation of LPG is required in order to maintain the necessary strategic reserve in Poland in accordance with local regulation.

In the three months ended 30 September 2015, electricity and fuel expenses increased by RR 12 million, or 6.1%, to RR 210 million from RR 198 million in the corresponding period in 2014 as a result of an increase in electricity consumption at production subsidiaries to maintain production volumes at our mature fields, as well as at processing subsidiaries due to additions of new energy-consuming facilities and an increase in hydrocarbon volumes being processed at these facilities.

General and administrative expenses

In the three months ended 30 September 2015, our general and administrative expenses increased by RR 387 million, or 15.2%, to RR 2,930 million compared to RR 2,543 million in the corresponding period in 2014. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 79.2% and 79.6% of total general and administrative expenses in the three months ended 30 September 2015 and 2014, respectively.

	Three months ended 30 September:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	1,790	1,462	22.4%
Social expenses and compensatory payments	330	247	33.6%
Legal, audit and consulting services	200	315	(36.5%)
Business travel expense	174	103	68.9%
Fire safety and security expenses	80	78	2.6%
Insurance expense	79	72	9.7%
Repair and maintenance expenses	74	60	23.3%
Advertising expenses	72	23	213.0%
Rent expense	44	55	(20.0%)
Other	87	128	(32.0%)
Total general and administrative expenses	**2,930**	**2,543**	**15.2%**

Employee compensation related to administrative personnel increased by RR 328 million, or 22.4%, to RR 1,790 million in the three months ended 30 September 2015 from RR 1,462 million in the corresponding period in 2014. The increase was due to higher average number of employees (the expansion of activities at our research and development center and an acquisition of a 100% equity stake in NovaEnergo at the end of 2014), an increase in the effective rate for compulsory social contributions effective from 1 January 2015, as well as an indexation of base personnel salaries effective 1 July 2015.

In the three months ended 30 September 2015, our social expenses and compensatory payments increased by RR 83 million, or 33.6%, to RR 330 million compared to RR 247 million in the corresponding period in 2014 due to the continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

In the three months ended 30 September 2015, legal, audit, and consulting services expenses decreased by RR 115 million, or 36.5%, to RR 200 million compared to RR 315 million in the corresponding period in 2014 primarily due to consulting services incurred in the reporting period of 2014 (absent in the third quarter of 2015) related to research works on production methods and construction of production facilities in the Yamal and Gydan Peninsulas and the Gulf of Ob.

Business travel expenses increased by RR 71 million, or 68.9%, to RR 174 million in the three months ended 30 September 2015 from RR 103 million in the corresponding period in 2014 mainly due to the expansion of the Group’s business activities on international markets, as well as a significant depreciation of Russian rouble relative to world currencies.

Advertising expenses increased by RR 49 million, or 213.0%, to RR 72 million in the three months ended 30 September 2015 from RR 23 million in the corresponding period in 2014 due to the conclusion of sponsorship contracts in 2015 for the Groups’ advertising during public sporting events.

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In the three months ended 30 September 2015, our exploration expenses increased by RR 338 million, or fourfold, to RR 439 million from RR 101 million in the corresponding period in 2014 primarily due to exploration works performed at the North-Obskiy license area. The exploration expenses fluctuate period-to-period in accordance with the approved working schedule of exploration works at our production subsidiaries.

Change in natural gas, liquid hydrocarbons and work-in-progress

In the three months ended 30 September 2015 and 2014, we recorded reversals of RR 1,258 million and RR 2,488 million to change in inventory expense due to an increase in hydrocarbons inventory balances as of 30 September compared to 30 June in both reporting periods.

In the three months ended 30 September 2015, our cumulative natural gas inventory balance in the Underground Gas Storage Facilities ("UGSF"), the GTS and own pipeline infrastructure increased by 1,096 mmcm compared to a 1,000 mmcm increase in the inventory balance in the corresponding period in 2014. In both reporting periods, an increase in inventory balance was due to the seasonal injection of natural gas into the UGSF as a result of decreased consumption during the summer period. Our volumes of natural gas injected into Gazprom's underground gas storage facilities fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonal fluctuation.

In the three months ended 30 September 2015, our cumulative liquid hydrocarbons inventory balance, recognized as inventory in transit or in storage, marginally increased by 20 thousand tons compared to a 196 thousand tons increase in the inventory balance in the corresponding period in 2014. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

	2015			**2014**		
Inventory balances in transit or in storage	**At 30 September**	**At 30 June**	**Increase / (decrease)**	**At 30 September**	**At 30 June**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**2,692**	**1,596**	**1,096**	**2,621**	**1,621**	**1,000**
including Gazprom's UGSF	*2,468*	*1,563*	*905*	*2,575*	*1,589*	*986*
Liquid hydrocarbons (thousand tons)	**831**	**811**	**20**	**666**	**470**	**196**
including naphtha	*195*	*223*	*(28)*	*240*	*141*	*99*
stable gas condensate	*411*	*348*	*63*	*244*	*179*	*65*

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from natural gas foreign trading on the European market under long-term and short-term purchase and sales contracts, income (loss) from the change in the fair value of aforementioned contracts, as well as other income (loss) related to penalty charges, disposal of materials, fixed assets and other transactions. In the three months ended 30 September 2015, we recognized other operating income of RR 158 million compared to other operating income of RR 100 million in the corresponding period in 2014.

In the three months ended 30 September 2015, within our trading activities on the European market we purchased and sold 8.0 terawatt-hours (or approximately 760 mmcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate realized income from trading activities of RR two million as compared to RR 762 million of income in the corresponding period in 2014. At the same time, in the three months ended 30 September 2015, we recognized a non-cash income of RR 176 million as a result of an increase in the fair value of the hydrocarbons purchase and sales contracts as compared to RR 715 million of non-cash loss in the corresponding period in 2014. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

Net gain (loss) on disposal of interests in joint ventures

In August 2015, within the next stage of restructuring procedures intended to achieve parity shareholdings in SeverEnergia we contributed a 6.4% ownership interest in joint venture Artic Russia B.V. to the capital of Yamal Development. As a result, taking into account the 50% participation interest of NOVATEK in joint venture Yamal Development, in the three months ended 30 September 2015, we recognized a gain on the disposal in the amount of RR 989 million.

Profit from operations and EBITDA

As a result of the factors discussed above, our profit from operations increased by RR 4,455 million, or 15.4%, to RR 33,418 million in the three months ended 30 September 2015, as compared to RR 28,963 million in the corresponding period in 2014. Our profit from operations before disposals of interests in joint ventures increased by RR 3,466 million, or 12.0%, to RR 32,429 million in the three months ended 30 September 2015, as compared to RR 28,963 million in the corresponding period in 2014. At the same time, our share in the profit from operations of our joint ventures also increased significantly by RR 7,204 million to RR 9,388 million in the three months ended 30 September 2015, as compared to RR 2,184 million in the corresponding period in 2014.

Our EBITDA, normalized for the effect of the disposal of interests in joint ventures, increased by RR 13,817 million, or 35.7%, to RR 52,574 million in the three months ended 30 September 2015 from RR 38,757 million in the corresponding period in 2014 due to a significant increase in liquid hydrocarbons sales volumes by 104.7%, which was partially offset by a negative impact of the export duty lag effect.

Finance income (expense)

In the three months ended 30 September 2015, we recorded net finance expense of RR 6,174 million compared to net finance expense of RR 6,019 million in the corresponding period in 2014, which were due to the recognition of a non-cash foreign exchange loss as a result of the Russian rouble depreciation relative to the US dollar and Euro in both reporting periods, as well as due to the recognition of non-cash loss from the remeasurement of the shareholders' loans issued to our joint ventures.

	Three months ended 30 September:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Accrued interest expense on loans received	(3,801)	(2,202)	72.6%
Less: capitalized interest	1,839	1,004	83.2%
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(85)	(76)	11.8%
Interest expense	**(2,047)**	**(1,274)**	**60.7%**
Interest income	3,182	1,354	135.0%
Change in fair value of non-commodity financial instruments	(5,018)	-	n/a
Foreign exchange gain (loss)	(2,291)	(6,099)	(62.4%)
Total finance income (expense)	**(6,174)**	**(6,019)**	**2.6%**

In the three months ended 30 September 2015, our interest expense increased by RR 773 million, or 60.7%, to RR 2,047 million primarily due to the increase in our borrowings obligations as a result of the depreciation of the average Russian rouble exchange rate relative to the US dollar and Euro (see "Selected macro-economic data" above).

Interest income increased significantly by RR 1,828 million, or 135.0%, to RR 3,182 million in the three months ended 30 September 2015 from RR 1,354 million in the corresponding period in 2014 due to an increase in loans provided to our joint ventures for the development and expansion of their activities, as well as a result of the average Russian rouble depreciation relative to the US dollar and Euro in the three months ended 30 September 2015 compared to the average exchange rate in the corresponding period in 2014.

In the three months ended 30 September 2015, we recognized a non-cash loss of RR 5,018 million which primarily related to the remeasurement of the new tranches of the shareholders' loans issued by the Group to our joint ventures in the third quarter of 2015. The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each period due to movements between currency exchange rates. In the three months ended 30 September 2015, we recorded a net non-cash foreign exchange loss of RR 2,291 million compared to a net non-cash foreign exchange loss of RR 6,099 million in the corresponding period in 2014 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided, as well as cash balances in foreign currency.

Share of profit (loss) of joint ventures, net of income tax

In the three months ended 30 September 2015, the Group's proportionate share of loss of joint ventures increased by RR 22,936 million, or 194.8%, to RR 34,713 million compared to RR 11,777 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 30 September: 2015	2014	Change %
Profit from operations	9,388	2,184	329.9%
Finance income (expense)	(50,109)	(15,631)	220.6%
Total income tax benefit	6,008	1,670	259.8%
Total share of profit (loss) of joint ventures, net of income tax	**(34,713)**	**(11,777)**	**194.8%**

Our proportionate share in the profit from operations of our joint ventures increased significantly by RR 7,204 million based on higher operating results of SeverEnergia due to the launch of the third phase of the Samburgskoye field in September 2014, reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, as well as the launch of the Yaro-Yakhinskoye field in April 2015 (the nameplate production capacity was reached in June 2015).

Our proportionate share in the finance expense of our joint ventures increased by RR 34,478 million, or 220.6%, mainly due to an increase in the non-cash foreign exchange loss on foreign currency denominated loans at our joint ventures Yamal LNG and Terneftegas by RR 37.5 billion and, to a lesser extent, an increase in interest expense on loans received by Yamal Development and Nortgas. This was partially offset by the non-cash profit from the remeasurement the fair value of shareholders' loans in Yamal LNG.

Income tax expense

The Russian statutory income tax rate for both reporting periods was 20%.

The Group recognizes in profit before income tax its share of net profit (loss) from joint ventures, which influences the consolidated profit of the Group but does not result in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures was recorded in their financial statements on an after-tax basis. The Group holds at least a 50% interest in each of its joint ventures, and the dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation.

Without the effect described above, the effective income tax rate (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) for the three months ended 30 September 2015 and 2014 was 18.1% and 16.0%, respectively.

Profit (loss) attributable to shareholders and earnings (loss) per share

As a result of the factors discussed in the respective sections above, we recorded loss attributable to shareholders of OAO NOVATEK of RR 12,416 million in the three months ended 30 September 2015 compared to profit of RR 7,627 million in the corresponding period in 2014.

The major factor that had a negative effect on the Group's financial result in the third quarter of 2015 was the recognition of significant non-cash foreign exchange losses on foreign currency denominated loans of the Group and its joint ventures. Excluding the one-time effect from the disposal of interests in joint ventures and the effect of foreign exchange gains and losses, the Group's profit attributable to shareholders of OAO NOVATEK increased by 31.5% to RR 31,904 million (see the table below):

millions of Russian roubles	**Three months ended 30 September:** **2015**	**2014**	**Change %**
Profit (loss), attributable to shareholders of OAO NOVATEK	(12,416)	7,627	n/a
Net (gain) loss on disposal of interests in joint ventures	(989)	-	n/a
Foreign exchange (gains) losses	2,291	6,099	(62.4%)
Income tax expense (benefit) relating to foreign exchange (gains) losses	(458)	(1,220)	(62.5%)
Share of foreign exchange (gains) losses of joint ventures	51,451	13,907	270.0%
Share of income tax expense (benefit) relating to foreign exchange (gains) losses of joint ventures	(7,975)	(2,155)	270.1%
Normalized profit attributable to shareholders of OAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**31,904**	**24,258**	**31.5%**

Our weighted average basic and diluted loss per share, calculated from the loss attributable to shareholders of OAO NOVATEK amounted to RR 4.11 per share in the three months ended 30 September 2015 compared to earnings of RR 2.53 per share in the corresponding period in 2014. Excluding the effects of the disposals of interests in joint ventures and foreign exchange gains and losses, our weighted average basic and diluted earnings per share increased to RR 10.56 per share, or 31.5%, compared to RR 8.03 per share in the corresponding period in 2014.

Liquidity and Capital Resources

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2015 and 2014:

millions of Russian roubles	Three months ended 30 September: 2015	2014	Change %
Net cash provided by **operating** activities	16,772	18,980	(11.6%)
Net cash used in **investing** activities	(32,116)	(33,895)	(5.2%)
Net cash provided by (used in) **financing** activities	7,387	(1,148)	n/a

Liquidity and credit ratios	30 September 2015	31 December 2014	Change, %
Current ratio	0.82	1.56	(47.4%)
Total debt to total equity	0.71	0.63	12.7%
Long-term debt to long-term debt and total equity	0.32	0.35	(8.6%)
Net debt to total capitalization (1)	0.35	0.31	12.9%
Net debt to EBITDA (2)	1.32	1.28	3.1%

(1) Net debt represents total debt less cash and cash equivalents. Total capitalization represents total debt, total equity and deferred income tax liability.

(2) Net debt to EBITDA ratio is calculated as Net debt divided by EBITDA for the last twelve months adjusted for the net gain (loss) on disposal of interests in joint ventures.

Net cash provided by operating activities

Our net cash provided by operating activities decreased by RR 2,208 million, or 11.6%, to RR 16,772 million compared to RR 18,980 million in the corresponding period in 2014 mainly due to an increase in long-term advances payments to RZD, which were provided in accordance with the Strategic Partnership Agreement's installment schedule (see "Transportation tariffs" above). Excluding this effect, our net cash provided by operating activities remained relatively flat at RR 21,509 million compared to RR 21,927 million in the third quarter of 2014 as an increase in our profit from operations before disposals of interests in joint ventures by RR 3,466 million, or 12.0%, was offset by an increase in income tax paid and movements in working capital. Working capital balances fluctuate from period to period depending on various factors.

millions of Russian roubles	Three months ended 30 September: 2015	2014	Change %
Profit from operations before disposals of interests in joint ventures	32,429	28,963	12.0%
Non-cash adjustments (1)	4,747	5,010	(5.2%)
Changes in working capital and long-term advances given	(12,681)	(7,938)	59.8%
Interest received	284	136	108.8%
Income taxes paid	(8,007)	(7,191)	11.3%
Total net cash provided by operating activities	**16,772**	**18,980**	**(11.6%)**

(1) Include adjustments for depreciation, depletion and amortization, net impairment expenses (reversals), change in fair value of non-commodity financial instruments and some other adjustments.

Net cash used for investing activities

In the three months ended 30 September 2015, our net cash used for investing activities decreased by RR 1,779 million, or 5.2%, to RR 32,116 million compared to RR 33,895 million in the corresponding period in 2014.

millions of Russian roubles	**Three months ended 30 September: 2015**	**2014**	**Change %**
Purchases of property, plant and equipment, materials for construction and capitalized interest paid	(12,198)	(13,322)	(8.4%)
Loans provided to joint ventures	(16,825)	(18,310)	(8.1%)
Repayments of loans provided to joint ventures	537	12	n/a
Payments for acquisition of subsidiaries net of cash acquired	(3,630)	(1,283)	182.9%
Additional capital contributions to joint ventures	-	(992)	n/a
Net cash used for investing activities	**(32,116)**	**(33,895)**	**(5.2%)**

Our purchases of property, plant and equipment, materials for construction and capitalized interest paid decreased by RR 1,124 million, or 8.4%, as compared to the 2014 reporting period. In the 2015 reporting period, the cash was mainly used for the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, as well as an ongoing development of the Salmanovskoye (Utrenneye) field.

In the three months ended 30 September 2015, we provided loans to our joint venture Yamal LNG in the amount of RR 16,825 million as compared to RR 18,310 million provided to Yamal LNG and Yamal Development in the corresponding period in 2014. In the three months ended 30 September 2015, we received RR 537 million due to a partial repayment of the loan provided to Terneftegas.

In August 2014, we acquired 100% of the outstanding shares of ZAO Office for total consideration of RR 4,895 million (USD 135 million) and paid RR 1,283 million (USD 34 million) and RR 3,630 million (USD 62 million) in the three months ended 30 September 2014 and 2015, respectively.

In the 2014 reporting period, we made an additional capital contribution to our joint venture Terneftegas in the amount of RR 992 million.

Net cash provided by (used for) financing activities

In the three months ended 30 September 2015, our net cash provided by financing activities amounted to RR 7,387 million as compared to RR 1,148 million used for financing activities in the corresponding period in 2014.

millions of Russian roubles	**Three months ended 30 September: 2015**	**2014**	**Change %**
Proceeds from loans	72,327	-	n/a
Repayments of loans	(63,192)	-	n/a
Other	(1,748)	(1,148)	52.3%
Net cash provided by (used for) financing activities	**7,387**	**(1,148)**	**n/a**

In the three months ended 30 September 2015, we obtained RR 56,197 million and repaid RR 55,389 million of short-term loans. In addition, in the 2015 reporting period, one of the Group's subsidiaries obtained long-term loans from its non-controlling shareholder in the amount of RR 16,130 million. In September 2015, the Group partially repaid a loan obtained under our syndicated credit line facility in the amount of USD 115.4 million according the facility's repayment schedule. In the corresponding period in 2014, we did not obtain or repay existing loans and borrowings.

The remaining change related to the repayment of interest on borrowings and loans and shares buy-back.

Working capital

Our net working capital position (current assets less current liabilities) as of 30 September 2015 was a negative RR 29,646 million compared to a positive RR 45,383 million as of 31 December 2014. The change in our net working capital was primarily due to an increase in the short-term debt and current portion of our long-term debt in the amount of RR 57,699 million as a result of the classification of a portion of our syndicated term credit-facility and US dollar Eurobonds in the amount of USD 600 million as part of current liabilities based on the repayment schedule, as well as a result of obtaining a number of short-term Euro denominated loans in the total amount of RR 8.5 billion.

In each quarter of 2014 and 2015, the Group's free cash flow remained positive due to the successful launches of new fields and the completion of expansion project at the Purovsky Plant and the construction of the Ust-Luga Complex. In addition, we anticipate a further decrease in expenditures relating to our core capital programs as a result of achieving nameplate production levels at our main fields, which will allow us to further increase the Groups' future estimated free cash flows. The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all its current liabilities and to finance the capital construction programs.

Capital expenditures

Our total capital expenditures in both reporting periods represent our investments in developing our oil and gas properties. The following table shows the expenditures at our main fields and processing facilities:

	Three months ended 30 September:	
millions of Russian roubles	**2015**	**2014**
Yarudeyskoye field	6,594	3,328
East-Tarkosalinskoye field	2,173	1,960
Salmanovskoye (Utrenneye) field	1,900	2,053
Yurkharovskoye field	1,469	242
Khancheyskoye field	348	1,366
North-Khancheyskoye and Khadyryakhinskoye field	252	931
Olimpiyskiy license area	68	674
North-Russkoye field	38	100
Other	1,692	1,630
Capital expenditures	**14,534**	**12,284**

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2015 increased by RR 2,250 million, or 18.3%, to RR 14,534 million from RR 12,284 million in the corresponding period in 2014. In both reporting periods, our main capital expenditures related to the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, as well as an ongoing development of the Salmanovskoye (Utrenneye) field.

The "Other" line in the table above represents our capital expenditures related to other fields and processing facilities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by fields takes place upon the completion of the fixed assets construction stages and depends on the approved fixed assets launch schedule.

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar. As of 30 September 2015, the total amount of our long-term debt denominated in US dollars was RR 162,241 million, or 55.3% of our total borrowings at that date. Changes in the value of the Russian rouble relative to foreign currencies will impact our foreign currency-denominated costs and expenses, our debt service obligations for foreign currency-denominated borrowings, as well as receivables at our foreign subsidiaries in Russian rouble terms. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 40.3% in the three months ended 30 September 2015, was denominated in US dollars.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate movements due to the significant amount of foreign currency-denominated borrowings in our joint ventures, mostly in Yamal LNG. We expect that once commercial production commences, the effects of the foreign currency movements in relation to foreign currency-denominated debt portfolio of Yamal LNG will be mitigated by the fact that all of its products will be delivered to international markets and revenues will be denominated in foreign currencies.

As of 30 September 2015, the Russian rouble depreciated by 17.7% and 9.1% against the US dollar and the Euro, respectively, compared to 31 December 2014.

Commodity risk

Substantially all of our stable gas condensate and refined products, LPG and crude oil export sales are sold under spot market contracts. Our export prices are primarily linked to international crude oil and oil products prices. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are recognized at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

The Group purchases and sells natural gas on the European market under long-term contracts based on formulas with reference to benchmark natural gas prices quoted for the North-Western European natural gas hubs, crude oil and oil products prices and/or a combination thereof. Therefore, the Group's financial results from natural gas foreign trading activities are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Pipeline access

We transport substantially all of our natural gas through the Gas Transmission System ("GTS") owned and operated by PAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

Off balance sheet activities

As of 30 September 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

TERMS AND ABBREVIATIONS

APR	Asian-Pacific Region
bbl	barrel
bcm	billion cubic meters
boe	barrels of oil equivalent
CBR	Central Bank of Russian Federation
CFR	"Cost and freight"
CIF	"Cost, insurance and freight"
DAP	"Delivery at point of destination"
DDA	depreciation, depletion and amortization
DES	"Delivery to the port of destination ex-ship"
FCA	"Free carrier"
FOB	"Free on board"
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for 2015 and planned period 2016 and 2017"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
FTS	Federal Tariffs Service
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
OFAC	Office of Foreign Assets Control
PRMS	Petroleum Resources Management System
Purovsky Plant	Purovsky Gas Condensate Plant
Regulator	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. During 2014 and the first half of 2015, the Federal Tariffs Service fulfilled the Regulator's role. In July 2015, a Decree of the President of the Russian Federation became effective abolishing the FTS and transferring its functions to the Federal Anti-Monopoly Service
RR	Russian rouble(s)
RZD	OAO Russian Railways, Russia's state-owned monopoly railway operator
S&P	Standard & Poor's
SEC	Securities and Exchange Commission
UGSF	Underground Gas Storage Facilities
UGSS	Unified Gas Supply System owned and operated by PAO Gazprom
UPT	unified natural resources production tax
USD, US dollar	United States Dollar
Ust-Luga Complex	Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea
VAT	Value added tax
Yamal LNG project	A large-scale project on constructing a liquefied natural gas plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula that Group undertakes jointly with TOTAL S.A. and China National Petroleum Corporation, through its joint venture OAO Yamal LNG
YNAO	Yamal-Nenets Autonomous Region