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

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 31 March 2015 and 2014 together with our unaudited consolidated interim condensed financial statements as of and for the three months ended 31 March 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 for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

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

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

We deliver our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant for processing into stable gas condensate and liquefied petroleum gas. Purovsky Plant allows us to process eleven million tons of gas condensate annually, and we anticipate reaching the plant's full nameplate capacity by the middle of 2015. Most of our stable gas condensate is sent as raw material feedstock 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 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 which allows us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process six (6) million tons of stable gas condensate annually, and we have already reached the complex's nameplate refining capacity in January 2015. The excess volumes of stable gas condensate received from the stabilization processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex will almost completely be sold to international markets from the Port of Ust-Luga on the Baltic Sea.

Effective June 2014, the majority of our produced LPG is dispatched via pipeline to the refining capacities of Tobolsk-Neftekhim where, after additional processing, the majority of volumes are transported by rail to our end-customers on the domestic and international markets. The remaining LPG volumes produced at the Purovsky Plant are sold directly from the plant without incurring additional transportation expenses.

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

The Group jointly with our partners, TOTAL and China National Petroleum Corporation, 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 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.

RECENT DEVELOPMENTS

Production growth

In April 2015, OOO SeverEnergia, the Group's joint venture with Gazprom Neft, launched the Yaro-Yakhinskoye field with a nameplate production capacity of approximately 7.7 billion cubic meters (bcm) of natural gas and 1.3 million tons of de-ethanized gas condensate per annum. The field will reach its nameplate capacity over the next several months and become an important driver of the Group's gas condensate production growth in 2015.

Utilization of refining capacities

As a result of the launch of the first and second phases of the Urengoyskoye field and the third phase of the Samburgskoye field in the second half of 2014, the Group significantly increased its gas condensate production that enabled us to fully utilize the processing facilities of our Ust-Luga Complex effective January 2015. Continuing to increase gas condensate production, the Group launched the Yaro-Yakhinskoye field in April 2015 and plans to fully utilize the processing facilities of our Purovsky Plant from May 2015.

Implementation of the Yamal LNG project

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund ("NWF") for financing the Yamal LNG project through the purchase of interest bearing Yamal LNG bonds. In February 2015, the Ministry of Finance purchased RR 75 billion (nominal amount of USD 1.21 billion) of Yamal LNG's bonds by subscribing to the first tranche allocation. The repayment of the bonds is expected to be in Russian roubles at the US dollar exchange rate at the date of repayment. The bonds' redemption will take place in parts pro ratably from 2022 to 2030, and interest will be paid semi-annually starting from September 2015.

The first Boeing 737 airplane landed at Sabetta in December 2014. In February 2015, the international airport in Sabetta (part of the transportation infrastructure of the project) was officially launched. Currently, two Russian airline companies perform regular flights to Sabetta providing reliable supply of materials for construction and workers for the project.

Acquisitions and disposals

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergo that provides repair and maintenance services of energy generating equipment and was acquired for servicing the Group's production facilities located in the Yamal-Nenets Autonomous region ("YNAO").

SELECTED DATA

millions of Russian roubles except as stated	**Three months ended 31 March:** 2015	2014	**Change** %
Financial results			
Total revenues [1]	113,742	88,676	28.3%
Operating expenses	(73,896)	(53,875)	37.2%
Profit attributable to shareholders of OAO NOVATEK	31,075	25,155	23.5%
Normalized profit attributable to shareholders of OAO NOVATEK [2]	31,075	23,056	34.8%
EBITDA [3]	55,162	45,602	21.0%
Normalized EBITDA [2]	55,162	42,979	28.3%
Normalized EBITDAX [4]	55,180	42,987	28.4%
Earnings per share (in Russian roubles)	10.29	8.31	23.8%
Normalized earnings per share (in Russian roubles) [2]	10.29	7.62	35.1%
Net debt [5]	206,926	125,087	65.4%
Production volumes [6]			
Total hydrocarbons production (million barrels of oil equivalent)	122.6	112.2	9.2%
Total daily production (thousand barrels of oil equivalent per day)	1,362	1,247	9.2%
Operating results			
Natural gas sales volumes (million cubic meters)	15,977	17,772	(10.1%)
Naphtha sales volumes (thousand tons)	1,127	775	45.4%
Other gas condensate refined products (thousand tons) [7]	710	190	273.7%
Liquefied petroleum gas sales volumes (thousand tons)	448	351	27.6%
Stable gas condensate sales volumes (thousand tons)	276	32	n/m
Crude oil sales volumes (thousand tons)	271	195	39.0%
Cash flow results			
Net cash provided by operating activities	39,717	27,477	44.5%
Capital expenditures [8]	14,494	13,727	5.6%
Free cash flow [9]	25,223	13,750	83.4%

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

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Profit attributable to shareholders of OAO NOVATEK	**31,075**	**25,155**	**23.5%**
Depreciation, depletion and amortization	4,515	4,056	11.3%
Net impairment reversals (expenses)	29	(586)	n/a
Loss (income) from changes in fair value of derivative financial instruments	513	731	(29.8%)
Total finance expense (income)	7,246	4,320	67.7%
Total income tax expense	5,930	6,192	(4.2%)
Share of loss (profit) of joint ventures, net of income tax	(4,274)	1,722	n/a
EBITDA from subsidiaries	**45,034**	**41,590**	**8.3%**
Share in EBITDA of joint ventures	10,128	4,012	152.4%
EBITDA [(3)]	**55,162**	**45,602**	**21.0%**
Net loss (gain) on disposal of interest in subsidiaries and joint ventures	-	(2,623)	n/a
Normalized EBITDA [(2)]	**55,162**	**42,979**	**28.3%**
Exploration expenses	18	8	125.0%
Normalized EBITDAX [(4)]	**55,180**	**42,987**	**28.4%**

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

(2) Excluding the effect from the disposal of interest in joint ventures.

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

(4) Normalized EBITDAX represents EBITDA as adjusted for the add-back of exploration expenses and excludes the effect from the disposal of interest in joint ventures.

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

(6) Total hydrocarbons production and total daily production are calculated based on net production, including our proportionate share in the production of our joint ventures.

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

(8) Capital expenditures represent additions to property, plant and equipment excluding payments for mineral licenses.

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

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one US dollar [(1)]	Three months ended 31 March: 2015	2014	Change %
Average for the period	62.19	34.96	77.9%
At the beginning of the period	56.26	32.73	71.9%
At the end of the period	58.46	35.69	63.8%
Depreciation (appreciation) of Russian rouble to US dollar	3.9%	9.0%	n/a

(1) According to the Central Bank of Russian Federation (CBR). The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

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Crude oil prices, USD per bbl [(2)]	Three months ended 31 March: 2015	2014	Change %
Brent			
Average for the period	53.9	108.2	(50.2%)
At the end of the period	54.0	106.0	(49.1%)
Dubai			
Average for the period	51.8	104.4	(50.4%)
At the end of the period	53.4	104.8	(49.0%)
Urals			
Average for the period	52.9	106.5	(50.3%)
At the end of the period	52.8	105.3	(49.9%)

(2) Based on Brent (Dtd) prices, Dubai prices and Russian Urals CIF Rotterdam spot assessments prices as provided by Platts.

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Oil products prices, USD per ton [(3)]	Three months ended 31 March: 2015	2014	Change %
Naphtha Japan			
Average for the period	493	935	(47.3%)
At the end of the period	525	936	(43.9%)
Naphtha CIF NWE			
Average for the period	468	915	(48.9%)
At the end of the period	497	918	(45.9%)
Jet fuel			
Average for the period	565	975	(42.1%)
At the end of the period	558	956	(41.6%)
Gasoil			
Average for the period	519	917	(43.4%)
At the end of the period	516	899	(42.6%)
Fuel oil			
Average for the period	292	625	(53.3%)
At the end of the period	300	647	(53.6%)

(3) 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.

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Liquefied petroleum gas prices, USD per ton [(4)]	Three months ended 31 March: 2015	2014	Change %
Average for the period	316	758	(58.3%)
At the end of the period	403	654	(38.4%)

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

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Export duties, USD per ton [5]	Three months ended 31 March: 2015	2014	Change %
Crude oil, stable gas condensate			
Average for the period	129.6	388.5	(66.6%)
At the end of the period	105.8	384.4	(72.5%)
Liquefied petroleum gas			
Average for the period	16.1	189.3	(91.5%)
At the end of the period	0.0	169.1	(100.0%)
Naphtha			
Average for the period	110.1	349.6	(68.5%)
At the end of the period	89.9	345.9	(74.0%)
Jet fuel			
Average for the period	62.1	256.4	(75.8%)
At the end of the period	50.7	253.7	(80.0%)
Gasoil			
Average for the period	62.1	252.5	(75.4%)
At the end of the period	50.7	249.8	(79.7%)
Fuel oil			
Average for the period	98.5	256.4	(61.6%)
At the end of the period	80.4	253.7	(68.3%)

[5] Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles.

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. We continue to monitor the world community's reaction to the political events in Ukraine. 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 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 first quarter and, subsequently in April 2015, the Russian rouble exchange rates relative to world currencies and benchmark commodity prices in international markets have stabilized, and the Central Bank's lending rates have decreased. Furthermore, S&P and other rating agencies forecast the recovery of the Russian economy in 2016.

Management continues to closely monitor the economic and political environment in Russia and the world community, as well as the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. In addition, despite limited access to the world financial markets, we will continue to assess the trends in the capital markets.

We have reviewed our capital expenditure program for the upcoming year and have concluded that internal operating cash flows and available borrowing facilities are sufficient to adequately fund our core natural gas business operations and planned capital expenditure programs.

We together with our international partners, TOTAL and CNPC, 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 regulated by the Federal Tariffs Service ("FTS"), a Russian Federation governmental agency, and present market conditions.

Natural gas prices for sales to all customer categories on the domestic market (excluding residential customers) are set by the FTS using a price formula. During 2014 and the first quarter 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 by FTS in December 2013.

Based on the Ministry of Economic Development Forecast published in September 2014, wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2015, 2016 and 2017 will be increased by 7.5%, 5.5% and 3.6%, respectively. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development and natural gas prices and transportation tariffs growth rates on the Russian 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 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 region 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" primarily 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 of 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 the three months ended 31 March 2015, our average natural gas price on end-customers sales increased by 1.4% due to sales to our end-customers located at more distant regions to our production fields in the reporting period as compared to the reporting period of the prior year. The change in the sales geography also had an impact on a slight 0.7% increase in our average transportation expense per million cubic meter, or mcm. As a result, our average natural gas price on end-customers sales excluding transportation expenses increased by 1.9%.

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

Russian roubles per mcm	**Three months ended 31 March: 2015**	**2014**	**Change %**
Average natural gas price to end-customers [(1)]	3,447	3,400	1.4%
Average natural gas transportation expense for sales to end-customers	(1,354)	(1,345)	0.7%
Average natural gas price on end-customer sales excluding transportation expense	2,096	2,057	1.9%
Average natural gas price ex-field (wholesale traders)	1,831	1,834	(0.2%)
Total average natural gas price excluding transportation expense	**2,081**	**2,043**	**1.9%**

[(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.

Crude oil that we sell bound for international and domestic markets is transported through the pipeline system where it is blended with other producers' crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend", which historically trades at a discount to the international benchmark Brent crude oil.

Our stable gas condensate and refined products, LPG and crude oil prices on both the international and domestic markets normally include transportation expenses in accordance with the specific terms of delivery.

However, we sell part of our liquids volumes without additional transportation expenses allowing us to diversify our liquids sales. Such type of sales include our 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

Most of our stable gas condensate volumes produced at the Purovsky Plant are transferred to the Ust-Luga Complex for the processing into higher value added gas condensate refined products. As a result, there were no sales of stable gas condensate to export markets in 2014.

As a result of the full capacity utilization of our Ust-Luga Complex, effective first quarter of 2015 we commenced export sales of stable gas condensate and in the three months ended 31 March 2015, our average realized stable gas condensate export contract price, including export duties, was USD 522 per ton and our average realized net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, amounted to USD 398.7 per ton. Export sales of stable gas condensate volumes will increase in the future as gas condensate volumes refined at our Purovsky Plant will increase.

In the three months ended 31 March 2015, our average realized export contract prices for naphtha and all other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 443 and USD 414 per ton, or 46.2% and 45.6%, to approximately USD 516 and USD 494 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).

Despite a significant decrease in our average realized export contract prices our average realized net export price, excluding export duties, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in the three months ended 31 March 2015, decreased only by USD 216.6 and USD 235.0 per ton, or 35.6% and 35.9%, and amounted to USD 391.6 and USD 419.3 per ton, respectively, due to a significant decrease in average export duties per ton set by the Russian Federation government (see "Selected macro-economic data" above). Our average realized net export prices in Russian roubles increased due to a 77.9% increase in the average exchange rate of US dollar to Russian rouble in the three months ended 31 March 2015 compared to the corresponding period in 2014.

In both reporting periods we sold naphtha and other gas condensate refined products to the export markets 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 first quarter of 2015).

In the three months ended 31 March 2015, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically at an average price of RR 20,258 per ton (excluding VAT). We expect that we will continue to sell small volumes of other gas condensate refined products domestically in 2015.

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. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

Russian roubles or US dollars per ton	Three months ended 31 March: 2015	2014	Change %
Stable gas condensate			
Net export price, RR per ton	24,796	-	n/a
Net export price, USD per ton	398.7	-	n/a
Domestic price, RR per ton	13,114	13,724	(4.4%)
Naphtha			
Net export price, RR per ton	24,354	21,263	14.5%
Net export price, USD per ton	391.6	608.2	(35.6%)
Other gas condensate refined products			
Net export price, RR per ton	26,078	22,876	14.0%
Net export price, USD per ton	419.3	654.3	(35.9%)
Domestic price, RR per ton	20,258	-	n/a

Liquefied petroleum gas

In the three months ended 31 March 2015, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, decreased by USD 426 per ton, or 47.7%, and was approximately USD 467 per ton compared to USD 893 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).

Despite a significant decrease in the average realized export contract price our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, and translated to US dollars using the average exchange rate for the period, decreased only by USD 270.9 per ton, or 44.9%, to USD 331.9 per ton from USD 602.8 per ton due to a significant 91.5% decrease in the average export duty per ton set by the Russian Federation government (see “Selected macro-economic data” above). Our average realized LPG net export price in Russian roubles marginally decreased by 2.1% due to a 77.9% increase in average exchange rate of US dollar to Russian rouble in the three months ended 31 March 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 31 March 2015, we also sold our LPG under carriage paid to (CPT) the Port of Temryuk (southern Russia) delivery terms.

In the three months ended 31 March 2015, our average realized LPG domestic price decreased by RR 4,273 per ton, or 31.8%, to RR 9,170 per ton from RR 13,443 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:

Russian roubles or US dollars per ton	Three months ended 31 March: 2015	2014	Change %
LPG			
Net export price, RR per ton	20,639	21,074	(2.1%)
Net export price, USD per ton	331.9	602.8	(44.9%)
Domestic price, RR per ton	9,170	13,443	(31.8%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 396 per ton, or 51.6%, and was approximately USD 371 per ton compared to USD 767 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 in price calculation (see “Selected macro-economic data” above).

Despite a significant decrease in the average realized export contract price our average realized crude oil net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, decreased only by USD 142.3 per ton, or 36.8%, to USD 244.2 per ton from USD 386.5 per ton in the corresponding period in 2014 due to a significant 66.6% decrease in 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 12.4% due to a 77.9% increase in average exchange rate of Russian rouble to US dollar in the three months ended 31 March 2015 compared to the corresponding period in 2014.

In the three months ended 31 March 2015, we exported Siberian Light Crude Oil via the port of Novorossiysk under FOB delivery terms, while in the corresponding period in 2014, we exported Russian Export Blend Crude Oil under DAP (Budkovtse, Slovakia) delivery terms.

In the three months ended 31 March 2015, our average realized crude oil domestic price was RR 13,979 per ton (excluding VAT) representing an increase of RR 947 per ton, or 7.3%, from RR 13,032 per ton (excluding VAT) in the corresponding period in 2014 as a result of changes in customer mix and an increase in transportation tariff set by 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. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

	Three months ended 31 March:		Change
Russian roubles or US dollars per ton	**2015**	**2014**	**%**
Crude oil			
Net export price, RR per ton	15,188	13,511	12.4%
Net export price, USD per ton	244.2	386.5	(36.8%)
Domestic price, RR per ton	13,979	13,032	7.3%

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 OAO 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 FTS.

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.

From 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 the first quarter of 2015.

According to the Ministry of Economic Development Forecast of the Russian Federation published in September 2014, the increase in transportation tariffs for natural gas produced by independent producers in 2015, 2016 and 2017 will not exceed the increase in wholesale natural gas prices and will amount to 7.5%, 5.5% and 3.6%, respectively. In addition, in 2015 to 2017 it is planned to implement the long-term (from 3 to 5 years) tariffs regulation for natural gas transportation through the gas distribution systems. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development and natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

We transport our stable gas condensate from the Purovsky Plant to the Port of Ust-Luga on the Baltic Sea and to customers on the domestic markets by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

During the first half of 2014, we transported part of our LPG by rail from the Purovsky Plant to our end-customers, as well as sold LPG ex-works Purovsky Plant and dispatched the remaining volumes via pipeline to the processing facilities of Tobolsk-Neftekhim. From June 2014, all our LPG volumes are transported from Purovsky Plant to Tobolsk-Neftekhim via pipeline. As a result, LPG is being transported to our end-customers from the Tobolsk rail station located near the Tobolsk-Neftekhim facilities thus significantly decreasing our LPG rail transportation distance and related railroad transportation expenses.

The railroad transportation tariffs are set by the FTS and vary depending on the type of a product, direction and the length of the transport route.

In 2014, the FTS did not change railroad transportation tariffs. Effective 1 January 2015, the FTS increased railroad freight transportation tariffs by an average of 10% in accordance with the Ministry of Economic Development Forecast published in September 2014.

In 2014 and the first quarter of 2015, we applied the discount co-efficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station set by the decision of the Management Board of RZD, and it will be in effect until the end of 2015.

According to the existing rules of railroad transportation tariffs regulation within the territory of the Russian Federation, the FTS sets the range of railroad tariffs (the minimum and maximum range) for the transportation of all types of goods transported by the railroad system and for certain segments of railroad services within which the monopoly railway operator 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.

Effective 9 August 2014, RZD, within the range of railroad tariffs set by FTS, increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%.

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 and, commencing in 2015, our liquid hydrocarbons will be transported by rail using only rails cars provided by independent Russian transportation companies.

Stable gas condensate and refined products by tankers

We deliver our stable gas condensate refined products (naphtha, jet fuel, gasoil and fuel oil) produced at the Ust-Luga Complex to international markets by chartered tankers via the Port of Ust-Luga on the Baltic Sea. From the first quarter of 2015, as a result of the full capacity utilization at our Ust-Luga Complex we also started delivering our stable gas condensate to international markets by tankers via the loading terminal at the Port of Ust-Luga. 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 practically all of our crude oil through the pipeline network owned by Transneft, Russia's state-owned monopoly crude oil pipeline operator. The FTS 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 FTS 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 to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, property tax, payments to non-budget funds and other contributions.

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 rate for natural gas and gas condensate was 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 co-efficient 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 co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. Furthermore, 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. 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, among other parameters, on natural gas prices, Urals crude oil prices and crude oil export duty rate. A co-efficient characterizing the difficulty of extracting natural gas and gas condensate defined as a minimum value from the co-efficients 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.

As part of the tax maneuver in the oil industry (see below), the formula for gas condensate UPT rate calculation was adjusted by a co-efficient 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 2014 UPT rate.

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 co-efficients characterizing crude oil world price dynamics and production peculiarities (reserve depletion and the amount of reserves for a particular field, the difficulty of extracting 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.

In November 2014, as part of the tax maneuver in the oil industry, the State Duma of the Russian Federation adopted 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" which envisages the increase in national budgetary income as a result of the phased (during three (3) years) increases in UPT rates with a simultaneous decrease in excise taxes and export duties. As a result of these changes, effective from 1 January 2015, the UPT rate for crude oil is calculated as the base UPT rate multiplied by a co-efficient characterizing the dynamics of world crude oil prices and decreased by a co-efficient 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 in the YNAO to the north of the 65th degree of the northern latitude. 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 a 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 co-efficient 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 for exported liquid hydrocarbons (see "Selected macro-economic data" above).

The export duty rate for stable gas condensate and crude oil 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 and is set for the following month after the current calendar 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. From 1 January 2015, the set percentage of the difference used in the formula was decreased from 59% to 42%. Changes in the regulations, which became effective 1 January 2015, decreased the set percentage as part of the tax maneuver (see above) to 36% and 30% in 2016 and 2017, respectively.

The export duty rate for LPG 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 and is set for the following month after the current calendar month.

The export duty rate for oil products is calculated based on the export duty rate for crude oil and is adjusted by a co-efficient 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).

Social insurance tax

In 2014 and the first quarter of 2015, the social insurance tax rates for 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 were 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 these rates per employee was set at RR 624 thousand of annual income. For annual income above the maximum taxable base, the tax rate was set to 10.0% to the Pension Fund and nil for other funds.

In 2015, social insurance tax rates to non-budgetary funds will not change; however, the maximum taxable base will only be accepted for contributions to the Pension Fund of the Russian Federation (increased to RR 711 thousand of annual income) and to the Social Insurance Fund of the Russian Federation (increased to RR 670 thousand of annual income). Contribution to the Federal Compulsory Medical Insurance Fund in 2015 will be applied 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 31 March 2015, decreased by 1,795 mmcm, or 10.1%, as a result of a decrease in natural gas consumption was due to warmer weather in the beginning of 2015 as compared to the beginning of 2014 in the Russian Federation, as well as a failure to take contracted natural gas volumes by one of our major 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 1,289 thousand tons, or 83.4%, due to an increase in production of unstable gas condensate in our joint ventures and, to some extent, crude oil production in our subsidiaries.

Natural gas production volumes

As a result of increased production of our joint ventures, in the three months ended 31 March 2015, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 728 mmcm, or 4.7%, to 16,151 mmcm from 15,423 mmcm in the corresponding period in 2014 although the production by our core subsidiaries decreased.

millions of cubic meters	**Three months ended 31 March: 2015**	**2014**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	8,936	9,609	(7.0%)
East-Tarkosalinskoye field	2,429	2,766	(12.2%)
Khancheyskoye field	655	778	(15.8%)
Other fields	441	245	80.0%
Total natural gas production by subsidiaries	**12,461**	**13,398**	**(7.0%)**
Group's proportionate share in the production of joint ventures:			
SeverEnergia	2,328	725	221.1%
Nortgas	1,362	1,300	4.8%
Total Group's proportionate share in the natural gas production of joint ventures	**3,690**	**2,025**	**82.2%**
Total natural gas production including proportionate share in the production of joint ventures	**16,151**	**15,423**	**4.7%**

In the three months ended 31 March 2015, the combined total volumes of natural gas produced by our subsidiaries decreased by 937 mmcm, or 7.0%, to 12,461 mmcm from 13,398 mmcm in the corresponding period in 2014 due to a decrease in natural gas production at our main fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) as a result of the natural decline in the reservoir pressure at the current gas producing horizons. The decrease in production was partially offset by the launch of the North-Khancheyskoye field at the end of 2014, as well as the production intensification at Urengoyskoye and Dobrovolskoye fields, production of which is included in the line "Other fields" in the table above.

In the three months ended 31 March 2015, our proportionate share in the production of our joint ventures increased by 1,665 mmcm, or 82.2%, to 3,690 mmcm from 2,025 mmcm in the corresponding period in 2014 as a result of the production growth in SeverEnergia. The significant increase in our proportionate share in the production of SeverEnergia was due to the launch of the first and second phases of the Urengoyskoye field effective April and December 2014, respectively, as well as the launch of the third phase of the Samburgskoye field in September 2014, which was partially offset by a decrease in the effective share from 59.8% to 54.9% as of 31 March 2014.

Natural gas sales volumes

In the three months ended 31 March 2015, our total natural gas sales volumes decreased by 1,795 mmcm, or 10.1%, to 15,977 mmcm from 17,772 mmcm in the corresponding period in 2014 due to warmer weather in the beginning of 2015 as compared to the beginning of 2014 and a failure to take contracted natural gas volumes by one of our major customers.

millions of cubic meters	Three months ended 31 March: 2015	2014	Change %
Natural gas production by subsidiaries	12,461	13,398	(7.0%)
Purchases from the Group's joint ventures	1,623	284	n/m
Other purchases	1,549	1,677	(7.6%)
Total production and purchases	**15,633**	**15,359**	**1.8%**
Purovsky Plant, own usage and methanol production	(51)	(46)	10.9%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	395	2,459	(83.9%)
Total natural gas sales volumes	**15,977**	**17,772**	**(10.1%)**
Sold to end-customers	*15,077*	*16,677*	*(9.6%)*
Sold ex-field	*900*	*1,095*	*(17.8%)*

In the three months ended 31 March 2015, natural gas purchases from our joint ventures significantly increased to 1,623 mmcm from 284 mmcm in the corresponding period in 2014 primarily due to the reallocation of volumes purchased from Nortgas in 2014 from the first half of the year to the second half as a result of the sufficient volumes of our own natural gas.

Other natural gas purchases decreased by 128 mmcm, or 7.6%, due to decreased purchases from SIBUR and third parties. 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 customers' portfolios.

In both reporting periods, we used 20 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.

As of 31 March 2015, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure comprised 654 mmcm and decreased by 395 mmcm during the quarter as compared to a decrease by 2,459 mmcm in the corresponding period in 2014. Significant withdrawal of natural gas from our inventory balance in the first quarter of 2014 was due to our demand for natural gas to fulfill our contractual obligations (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

Liquids production volumes

In the three months ended 31 March 2015, our total liquids production (including our proportionate share in the production of joint ventures) increased by 629 thousand tons, or 46.2%, to 1,991 thousand tons from 1,362 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 31 March: 2015**	**2014**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	553	652	(15.2%)
East-Tarkosalinskoye field	355	308	15.3%
Khancheyskoye field	108	107	0.9%
Other fields	40	27	48.1%
Total liquids production by subsidiaries	**1,056**	**1,094**	**(3.5%)**
including gas condensate	*726*	*859*	*(15.5%)*
including crude oil	*330*	*235*	*40.4%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia	776	113	n/m
Nortgas	159	155	2.6%
Total Group's proportionate share in the liquids production of joint ventures	**935**	**268**	**248.9%**
Total liquids production including proportionate share in the production of joint ventures	**1,991**	**1,362**	**46.2%**

In the three months ended 31 March 2015, the volumes of liquids produced by our subsidiaries slightly decreased by 38 thousand tons, or 3.5%, whereby the decrease in gas condensate production was almost completely offset by an increase in crude oil production. In the 2015 reporting period, we ramped up crude oil production due to the production growth at the East-Tarkosalinskoye and Khancheyskoye fields resulting from new wells drilled and technological works performed to increase the crude oil production flow rates. 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 31 March 2015, our proportionate share in liquids production of joint ventures increased by 667 thousand tons to 935 thousand tons from 268 thousand tons in the corresponding period in 2014 as a result of production growth in SeverEnergia due to the launch of the first and second phases of the Urengoyskoye field in April and December 2014, respectively, as well as the launch of the third phase of the Samburgskoye field in September 2014, which was partially offset by a decrease in the effective share from 59.8% to 54.9% as of 31 March 2014.

Liquids sales volumes

In the three months ended 31 March 2015, our total liquids sales volumes increased significantly by 1,289 thousand tons, or 83.4%, to 2,834 thousand tons from 1,545 thousand tons in the corresponding period in 2014 primarily due to an increase in the production of unstable gas condensate in our joint ventures and crude oil production in our subsidiaries.

thousands of tons	Three months ended 31 March: 2015	2014	Change %
Liquids production by subsidiaries	1,056	1,094	(3.5%)
Purchases from the Group's joint ventures	1,703	496	243.3%
Other purchases	4	7	(42.9%)
Total production and purchases	**2,763**	**1,597**	**73.0%**
Losses [(1)] and own usage [(2)]	(77)	(32)	140.6%
Decreases (increases) in liquids inventory balances	148	(20)	n/a
Total liquids sales volumes	**2,834**	**1,545**	**83.4%**
Naphtha export	*1,127*	*775*	*45.4%*
Other gas condensate refined products export	*688*	*190*	*262.1%*
Other gas condensate refined products domestic	*22*	*-*	*n/a*
Subtotal gas condensate refined products	***1,837***	***965***	***90.4%***
LPG export	*145*	*152*	*(4.6%)*
LPG domestic	*303*	*199*	*52.3%*
Subtotal LPG	***448***	***351***	***27.6%***
Stable gas condensate export	*34*	*-*	*n/a*
Stable gas condensate domestic	*242*	*32*	*n/m*
Subtotal stable gas condensate	***276***	***32***	***n/m***
Crude oil export	*96*	*67*	*43.3%*
Crude oil domestic	*175*	*128*	*36.7%*
Subtotal crude oil	***271***	***195***	***39.0%***
Other oil products domestic	*2*	*2*	*0.0%*
Subtotal other oil products	***2***	***2***	***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 31 March 2015, our purchases of liquid hydrocarbons from joint ventures increased significantly by 1,207 thousand tons, or 243.3%, and related to a significant increase in our purchases of unstable gas condensate from SeverEnergia resulting from the launch of additional production facilities at the end of 2014 (see "Liquids production volumes" above).

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. However, 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.

Jet fuel, gasoil and fuel oil sales volumes received from the processing of stable gas condensate are disclosed as "Other gas condensate refined products export" and "Other gas condensate refined products domestic".

In the 2015 reporting period, our liquids inventory balances decreased by 148 thousand tons to 591 thousand tons as of 31 March 2015 as compared to an increase in inventory balances by 20 thousand tons to 555 thousand tons in the corresponding period in 2014. Our liquids inventory balances tend to fluctuate periodically due to loading 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 31 MARCH 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 31 March 2015 and 2014. Each line item is also shown as a percentage of our total revenues.

	Three months ended 31 March:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Total revenues (1)	**113,742**	***100.0%***	**88,676**	***100.0%***
including:				
natural gas sales	53,621	*47.1%*	58,714	*66.2%*
liquids' sales	59,603	*52.4%*	29,819	*33.6%*
Operating expenses	(73,896)	*(65.0%)*	(53,875)	*(60.8%)*
Other operating income (loss)	(199)	*(0.1%)*	(41)	*(0.0%)*
Profit from operations before disposal of interests in joint ventures	**39,647**	***34.9%***	**34,760**	***39.2%***
Net gain (loss) on disposal of interests in joint ventures	-	*n/a*	2,623	*3.0%*
Profit from operations	**39,647**	***34.9%***	**37,383**	***42.2%***
Finance income (expense)	(7,246)	*(6.4%)*	(4,320)	*(4.9%)*
Share of profit (loss) of joint ventures, net of income tax	4,274	*3.7%*	(1,722)	*(1.9%)*
Profit before income tax	**36,675**	***32.2%***	**31,341**	***35.4%***
Total income tax expense	(5,930)	*(5.2%)*	(6,192)	*(7.0%)*
Profit (loss)	**30,745**	***27.0%***	**25,149**	***28.4%***
Minus: profit (loss) attributable to non-controlling interest	330	*0.3%*	6	*0.0%*
Profit attributable to shareholders of OAO NOVATEK	**31,075**	***27.3%***	**25,155**	***28.4%***

(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 31 March 2015 and 2014:

millions of Russian roubles	**Three months ended 31 March: 2015**	**2014**	**Change %**
Natural gas sales	**53,621**	**58,714**	**(8.7%)**
End-customers	*51,973*	*56,705*	*(8.3%)*
Ex-field sales	*1,648*	*2,009*	*(18.0%)*
Gas condensate refined products sales	**45,823**	**20,818**	**120.1%**
Export – naphtha	*27,437*	*16,474*	*66.5%*
Export – other refined products	*17,935*	*4,344*	*312.9%*
Domestic – other refined products	*451*	*-*	*n/a*
Liquefied petroleum gas sales	**5,774**	**5,907**	**(2.3%)**
Export	*2,984*	*3,217*	*(7.2%)*
Domestic	*2,790*	*2,690*	*3.7%*
Stable gas condensate sales	**4,006**	**444**	**802.3%**
Export	*832*	*-*	*n/a*
Domestic	*3,174*	*444*	*614.9%*
Crude oil sales	**3,911**	**2,575**	**51.9%**
Export	*1,457*	*900*	*61.9%*
Domestic	*2,454*	*1,675*	*46.5%*
Other products sales	**89**	**75**	**18.7%**
Domestic	*89*	*75*	*18.7%*
Total oil and gas sales	**113,224**	**88,533**	**27.9%**
Other revenues	518	143	262.2%
Total revenues	**113,742**	**88,676**	**28.3%**

Natural gas sales

In the three months ended 31 March 2015, our revenues from sales of natural gas decreased by RR 5,093 million, or 8.7%, compared to the corresponding period in 2014 due to a decrease in sales volumes which was partially offset by an increase in sales price. The increase in our natural gas average sales prices was due to higher proportion of end-customer sales to total natural gas sales volumes, as well as the delivery of natural gas to more distant locations to our end-customers from our production fields (see “Natural gas prices” above). The decrease in our total sales volumes was due to lower demand for natural gas from end-customers as a result of warmer weather in Russian Federation in the first quarter of 2015 as compared to the first quarter of 2014, as well as a failure to take contracted natural gas volumes by one of our major customers.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes sightly increased to 94.4% in the three months ended 31 March 2015 as compared to 93.8% 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 31 March 2015, our revenues from sales of gas condensate refined products increased by RR 25,005 million, or 120.1%, as compared to the corresponding period in 2014 due to an increase in sales volumes and average realized net export prices in Russian roubles.

In the three months ended 31 March 2015, our revenues from sales of naphtha increased by RR 10,963 million, or 66.5%, as compared to the corresponding period in 2014 due to an increase in sales volumes by 45.4% and average realized net export prices in Russian roubles by 14.5%.

In the three months ended 31 March 2015 and 2014, we exported 1,127 thousand and 775 thousand tons of naphtha, respectively. Our average realized naphtha net export price, excluding export duties, increased by RR 3,091 per ton, or 14.5%, to RR 24,354 per ton (CFR, CIF, DES and DAP) from RR 21,263 per ton (CFR, CIF, 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 31 March 2015, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 14,042 million, or 323.3%, as compared to the corresponding period in 2014 also due to an increase in sales volumes and average realized net export prices in Russian roubles. In the three months ended 31 March 2015 and 2014, we exported in aggregate 688 thousand and 190 thousand tons of these products, or 96.9% of our total sales volumes on the domestic and export markets, to the European markets. Our average realized net export price, excluding export duties, increased by RR 3,202 per ton, or 14.0%, to RR 26,078 per ton (CIF and FOB) from RR 22,876 per ton (CIF) in 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 31 March 2015, our revenues from sales of LPG decreased by RR 133 million, or 2.3%, compared to the corresponding period in 2014 due to a decrease in average contract prices, as well as the reallocation of sales volumes in favor of the domestic market with increased total sales volumes.

In the three months ended 31 March 2015, we sold 145 thousand tons of LPG, or 32.4% of our total LPG sales volumes, to export markets as compared to sales of 152 thousand tons, or 43.3%, 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, decreased by RR 549 per ton, or 2.6%, (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In both reporting periods our main export LPG markets were Poland and Finland; our cumulative LPG export sales volumes to these countries exceeded 85% of total LPG export volumes in both reporting periods.

In the three months ended 31 March 2015, we sold 303 thousand tons of LPG on the domestic market compared to sales of 199 thousand tons in the corresponding period in 2014. Our average realized LPG domestic price, including trading activities, in the three months ended 31 March 2015, was RR 9,193 per ton representing a decrease of RR 4,287 per ton, or 31.8%, compared to 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 31 March 2015, our revenues from sales of stable gas condensate significantly increased by RR 3,562 million, or ninefold, compared to the corresponding period in 2014 due to an increase in sales volumes on the domestic market, as well as the commencement of our stable gas condensate deliveries to export markets from the first quarter of 2015 due to the full capacity utilization of our Ust-Luga Complex.

In the three months ended 31 March 2015, we sold 34 thousand tons of stable gas condensate, or 12.3% of our total sales volumes, to the APR at an average realized net export price, excluding export duties, of RR 24,796 per ton (CFR).

In the three months ended 31 March 2015, we sold 242 thousand tons of stable gas condensate on the domestic market compared to 32 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 31 March 2015 amounted to RR 13,114 per ton (net of VAT), representing a decrease of RR 610 per ton, or 4.4%, as 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 31 March 2015, revenues from crude oil sales increased by RR 1,336 million, or 51.9%, compared to the corresponding period in 2014 due to an increase in sales volumes and, to a lesser extent, average realized prices. Our crude oil sales volumes increased by 76 thousand tons, or 39.0%, to 271 thousand tons from 195 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 31 March 2015, we sold 64.6% of our total crude oil volumes domestically at an average price of RR 13,979 per ton (excluding VAT) representing an increase of RR 947 per ton, or 7.3%, as compared to the corresponding period in 2014.

The remaining 35.4% of our crude oil volumes were sold to export markets at an average price of RR 15,188 per ton (FOB, excluding export duties) representing an increase of RR 1,677 per ton, or 12.4%, 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 methanol sales on the domestic market, revenues from trading operations with oil products (diesel fuel and petrol) through our retail stations and revenues from other liquid hydrocarbons sales. In the three months ended 31 March 2015, our revenues from other products sales increased by RR 14 million, or 18.7%, to RR 89 million from RR 75 million in the corresponding period in 2014.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, repair and maintenance of energy equipment, as well as other services. In the three months ended 31 March 2015, other revenues increased by RR 375 million, or 262.2%, to RR 518 million from RR 143 million in the corresponding period in 2014 primarily due to an increase in revenues from the sublease of tankers by RR 227 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 31 March 2015, other revenues increased by RR 84 million due to revenues from repair and maintenance of energy equipment services provided by our recently acquired subsidiary NovaEnergo and by RR 59 million due to an increase in revenues from geological and geophysical research services provided primarily to our joint ventures.

The remaining change in other revenues related to various immaterial items.

Operating expenses

In the three months ended 31 March 2015, our total operating expenses increased by RR 20,021 million, or 37.2%, to RR 73,896 million compared to RR 53,875 million in the corresponding period in 2014, and our total operating expenses as a percentage of total revenues increased to 65.0% from 60.8% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures enabling us to sell increased volumes of hydrocarbons to both domestic and international markets (see "Purchases of natural gas and liquid hydrocarbons" below). As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 53.9% in the three months ended 31 March 2015 from 65.3% in the corresponding period in 2014, primarily due to a significant increase in purchases of hydrocarbons, the growth rate of which significantly exceeded the growth rate of transportation expenses and taxes other than income tax.

	Three months ended 31 March:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Transportation expenses	30,823	*27.1%*	27,657	*31.2%*
Taxes other than income tax	9,018	*7.9%*	7,508	*8.5%*
Subtotal non-controllable expenses	**39,841**	***35.0%***	**35,165**	***39.7%***
Purchases of natural gas and liquid hydrocarbons	23,423	*20.6%*	9,052	*10.2%*
Depreciation, depletion and amortization	4,515	*4.0%*	4,056	*4.6%*
Materials, services and other	3,176	*2.8%*	2,340	*2.6%*
General and administrative expenses	3,113	*2.7%*	2,612	*2.9%*
Net impairment expenses (reversals)	29	*n/m*	(586)	*n/m*
Exploration expenses	18	*n/m*	8	*n/m*
Change in natural gas, liquid hydrocarbons and work-in-progress	(219)	*n/m*	1,228	*1.4%*
Total operating expenses	**73,896**	***65.0%***	**53,875**	***60.8%***

Non-controllable expenses

A significant proportion of our operating expenses are classified as non-controllable expenses since we are unable to influence the increase in regulated tariffs for transportation of our hydrocarbons or tax rates imposed by federal, regional or local tax authorities.

In the three months ended 31 March 2015, our non-controllable expenses increased by RR 4,676 million, or 13.3%, to RR 39,841 million from RR 35,165 million in the corresponding period in 2014. An increase in transportation expenses was due to an increase in volumes of liquid hydrocarbons transported, an increase in regulated railroad transportation tariffs, as well as an increase in the average US dollar exchange rate to the Russian rouble by 77.9% since part of our transportation expenses, mainly tankers, is US dollar denominated (see "Transportation expenses" below). Taxes other than income tax increased due to a significantly increased gas condensate production tax rate, as well as our crude oil production taxation effective from 1 January 2015 whereas we applied a zero crude oil UPT rate in 2014 (see "Our tax burden and obligatory payments" above).

Despite an increase in non-controllable expenses, as a percentage of total revenues they decreased to 35.0% in the three months ended 31 March 2015 compared to 39.7% in the corresponding period in 2014 due to a higher increase in the growth rate of revenues. Our revenues increased by a higher rate as a result of a significant increase in liquid hydrocarbons sales volumes due to the increased production of our joint ventures, as well as an increase in the US dollar average exchange rate to the Russian rouble. Our transportation expenses associated with increased sales volumes resulting from hydrocarbons purchases increased while no additional taxes other than income tax were incurred.

Transportation expenses

In the three months ended 31 March 2015, our total transportation expenses increased by RR 3,166 million, or 11.4%, to RR 30,823 million as compared to RR 27,657 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Natural gas transportation by trunk and low-pressure pipelines	20,378	22,403	(9.0%)
Stable gas condensate and liquefied petroleum gas transportation by rail	6,900	3,741	84.4%
Gas condensate refined products and stable gas condensate transportation by tankers	3,128	1,220	156.4%
Crude oil transportation by trunk pipelines	381	284	34.2%
Other	36	9	300.0%
Total transportation expenses	**30,823**	**27,657**	**11.4%**

In the three months ended 31 March 2015, our transportation expenses for natural gas decreased by RR 2,025 million, or 9.0%, to RR 20,378 million from RR 22,403 million in the corresponding period in 2014 due to a 9.6% decrease in our natural gas sales volumes to end-customers, for which we incurred transportation expenses with a slight increase 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 the specific routes of transportation.

In the three months ended 31 March 2015, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 3,159 million, or 84.4%, to RR 6,900 million from RR 3,741 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via rail by 1,052 thousand tons, or 83.0%, to 2,319 thousand tons from 1,267 thousand tons.

Our weighted average transportation tariff for stable gas condensate and LPG delivered by rail depends on the type of the product and the geography of deliveries and fluctuates period-to-period. Even though regulated railroad transportation tariffs increased (by 13.4% effective 9 August 2014 for LPG deliveries to export markets and by 10.0% effective 1 January 2015 for our liquids deliveries within the territory of the Russian Federation), our weighted average transportation tariff did not substantially change and amounted to RR 2,975 per ton primarily due to a decrease in the share of LPG volumes in total liquids volumes transported via rail (an increase in LPG volumes sold ex-works Purovsky Plant and refining capacities of Tobolsk-Neftekhim with an increase in stable gas condensate volumes received from processing at Purovsky Plant). The change in the share of LPG volumes in our total liquids volumes delivered by rail affects the weighted average tariff due to higher transportation expense for LPG per ton compared to other liquid hydrocarbons.

Total transportation expenses for liquids delivered by tankers to international markets increased by RR 1,908 million, or 156.4%, to RR 3,128 million in the three months ended 31 March 2015 from RR 1,220 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via tankers by 91.2%, as well as a 77.9% increase in the Russian rouble average exchange rate to the US dollar in the three months ended 31 March 2015 compared to the corresponding period in 2014 since our tankers transportation expenses are US dollar denominated. The increase was mostly offset by the change in the geography of stable gas condensate and refined products shipments.

The change in the geography of stable gas condensate and refined products shipments affects our tanker transportation expenses per ton since expenses incurred for transportation to the APR, as well as to North and South America are higher compared to the European sales markets. In the three months ended 31 March 2015, we increased the share of volumes shipped to Europe from 32.9% to 61.5%, while the share of volumes shipped to the APR decreased from 61.2% to 32.5%. The share of total stable gas condensate and refined products export sales volumes shipped to the United States remained relatively consistent period-to-period at 5.9% to 5.8%.

In the three months ended 31 March 2015, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 97 million, or 34.2%, to RR 381 million from RR 284 million in the corresponding period in 2014 due to a 40.1% increase in volumes transported.

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 31 March 2015, taxes other than income tax increased by RR 1,510 million, or 20.1%, to RR 9,018 million from RR 7,508 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 31 March: 2015	2014	Change %
Unified natural resources production tax (UPT)	8,354	6,933	20.5%
Property tax	567	525	8.0%
Other taxes	97	50	94.0%
Total taxes other than income tax	**9,018**	**7,508**	**20.1%**

In the three months ended 31 March 2015, our unified natural resources production tax expense increased by RR 1,421 million, or 20.5%, to RR 8,354 million from RR 6,933 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 co-efficient that increased the rate by 4.4 times. In the first quarter 2014 the tax rate was fixed and amounted to RR 647 per ton of gas condensate extracted.

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 in the amount of RR 236 per ton multiplied by a co-efficient 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 31 March 2015, our property tax expense increased by RR 42 million, or 8.0%, to RR 567 million from RR 525 million in the corresponding period in 2014 due to additions to property, plant and equipment at our production subsidiaries.

Purchases of natural gas and liquid hydrocarbons

In the three months ended 31 March 2015, our purchases of natural gas and liquid hydrocarbons increased by RR 14,371 million, or 158.8%, to RR 23,423 million from RR 9,052 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Unstable gas condensate	17,203	4,653	269.7%
Natural gas	6,134	4,249	44.4%
Other liquid hydrocarbons	86	150	(42.7%)
Total purchases of natural gas and liquid hydrocarbons	**23,423**	**9,052**	**158.8%**

In the three months ended 31 March 2015, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 12,550 million, or 269.7%, as compared to the corresponding period in 2014 and were due to an increase in purchases from SeverEnergia as a result of the launch of the first and the second stages at the Urengoyskoye field effective April and December 2014, as well as the launch of the third phase of the Samburgskoye field in September 2014.

In the three months ended 31 March 2015, our purchases of natural gas increased by RR 1,885 million, or 44.4%, as compared to the corresponding period in 2014 primarily due to higher purchases from our joint venture Nortgas as a result of the volumes reallocation between the first and second half of 2014, as well as the commencement of purchases from SeverEnergia in the first quarter of 2015.

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In the three months ended 31 March 2015, our purchases of other liquid hydrocarbons decreased by RR 64 million, or 42.7%, as compared to the corresponding period in 2014.

Depreciation, depletion and amortization

In the three months ended 31 March 2015, our depreciation, depletion and amortization ("DDA") expense increased by RR 459 million, or 11.3%, to RR 4,515 million from RR 4,056 million in the corresponding period in 2014 mainly due to additions of property, plant and equipment at our production subsidiaries with a slight decrease of our proved reserves estimates used in the "units-of-production" DDA calculation method as of 31 December 2014 compared to 31 December 2013 at our core producing fields. The Group accrues depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities.

Our reserve base is only appraised on an annual basis as of 31 December and does not fluctuate during the year until the subsequent appraisal, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

Materials, services and other

In the three months ended 31 March 2015, our materials, services and other expenses increased by RR 836 million, or 35.7%, to RR 3,176 million compared to RR 2,340 million in the corresponding period in 2014. The main components of this expense category were services for preparation, transportation and processing of hydrocarbons and employee compensation, which on aggregate comprised 57.3% and 55.3% of total materials, services and other expenses in the three months ended 31 March 2015 and 2014, respectively.

	Three months ended 31 March:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	1,389	1,223	13.6%
Services for preparation, transportation and processing of hydrocarbons	430	72	n/m
Repair and maintenance	318	405	(21.5%)
Materials and supplies	270	146	84.9%
Electricity and fuel	243	209	16.3%
Security services	110	96	14.6%
Transportation services	99	68	45.6%
Rent expenses	15	12	25.0%
Other	302	109	177.1%
Total materials, services and other	**3,176**	**2,340**	**35.7%**

Operating employee compensation increased by RR 166 million, or 13.6%, to RR 1,389 million compared to RR 1,223 million in the corresponding period in 2014. The increase was due to an increase in the average number of employees as a result of the acquisition of a 100% equity stake in OOO NovaEnergo at the end of 2014, as well as indexation of base salaries effective from 1 July 2014 and the related increase in payments to medical, social insurance and pension funds.

Services for preparation, transportation and processing of hydrocarbons expense increased by RR 358 million, or sixfold, to RR 430 million in the three months ended 31 March 2015 compared to RR 72 million in the corresponding period in 2014 mostly due to the change in our LPG sales and logistics arrangement in the first half of 2014 whereby since April 2014 we incurred expenses related to services for transportation and processing of our LPG at the Tobolsk-Neftekhim refining facilities.

Repair and maintenance services expenses decreased by RR 87 million, or 21.5%, to RR 318 million in the three months ended 31 March 2015 compared to RR 405 million in the corresponding period in 2014 as a result of a significant amount of planned repair works conducted at our production subsidiary NOVATEK-Yurkharovneftegas in the first quarter of 2014, as well as costs savings in repair and maintenance services of electrical equipment at our core production subsidiaries due to the acquisition of NovaEnergo in December 2014.

Materials and supplies expense increased by RR 124 million, or 84.9%, to RR 270 million in the three months ended 31 March 2015 compared to RR 146 million in the corresponding period in 2014 as a result of an increase in materials used to support the technological process at our Yurkharovskoye field and Purovsky Plant.

In the three months ended 31 March 2015, electricity and fuel expenses increased by RR 34 million, or 16.3%, to RR 243 million from RR 209 million in the corresponding period in 2014.

Security expenses increased by RR 14 million, or 14.6%, to RR 110 million in the three months ended 31 March 2015 from RR 96 million in the corresponding period in 2014 due to additional security services and increased security services rates in our production subsidiaries effective from January 2015.

In the three months ended 31 March 2015, transportation expenses increased by RR 31 million, or 45.6%, to RR 99 million from RR 68 million in the corresponding period in 2014 due to an increase in expenses related to the delivery of materials to our fields and processing facilities, as well as our operating personnel transportation.

In the three months ended 31 March 2015, other material, services and other expenses increased by RR 193 million, or 177.1%, to RR 302 million from RR 109 million in the corresponding period in 2014 primarily due to an increase in the reservation costs for LPG storage capacity in order to maintain the necessary strategic reserve in Poland in accordance with local regulation.

General and administrative expenses

In the three months ended 31 March 2015, our general and administrative expenses increased by RR 501 million, or 19.2%, to RR 3,113 million compared to RR 2,612 million in the corresponding period in 2014. The main components of these expenses were employee compensation, legal, audit and consulting services, as well as social expenses and compensatory payments, which, on aggregate, comprised 82.5% and 77.5% of total general and administrative expenses in the three months ended 31 March 2015 and 2014, respectively.

	Three months ended 31 March:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	2,117	1,645	28.7%
Legal, audit and consulting services	271	204	32.8%
Social expenses and compensatory payments	180	176	2.3%
Business travel expense	100	67	49.3%
Fire safety and security expenses	78	68	14.7%
Insurance expense	75	65	15.4%
Rent expense	70	27	159.3%
Repair and maintenance expenses	40	53	(24.5%)
Advertising expenses	21	150	(86.0%)
Other	161	157	2.5%
Total general and administrative expenses	**3,113**	**2,612**	**19.2%**

Employee compensation related to administrative personnel increased by RR 472 million, or 28.7%, to RR 2,117 million in the three months ended 31 March 2015 from RR 1,645 million in the corresponding period in 2014. The increase was due to higher bonuses accrued to key management based on results achieved for the first quarter of 2015, 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), as well as an indexation of base personnel salaries effective 1 July 2014 and the related increase in insurance payments to medical and social insurance and pension funds.

In the three months ended 31 March 2015, legal, audit, and consulting services expenses increased by RR 67 million, or 32.8%, to RR 271 million compared to RR 204 million in the corresponding period in 2014 primarily due to consulting services associated with the expansion of the Group's business activities.

In the three months ended 31 March 2015, our social expenses and compensatory payments slightly increased by RR four million, or 2.3%, to RR 180 million compared to RR 176 million in the corresponding period in 2014 and were mainly related to our donations to sport clubs and associations, educational schools, as well as 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.

Business travel expenses increased by RR 33 million, or 49.3%, to RR 100 million in the three months ended 31 March 2015 from RR 67 million in the corresponding period in 2014 due to an increase in international travel and the related expenses of employees due to the expansion of the Group's business activities.

Advertising expenses decreased by RR 129 million, or 86.0%, to RR 21 million in the three months ended 31 March 2015 from RR 150 million in the corresponding period in 2014 due to expenses incurred in the first quarter of 2014 (absent in the first quarter of 2015) related to a sponsorship contract for advertising during sporting events.

Other items of our general and administrative expenses changed marginally.

Net impairment expenses (reversals)

In the three months ended 31 March 2015, we recognized a net impairment expense of RR 29 million as compared to a reversal to our net impairment expense of RR 586 million in the corresponding period in 2014. A decrease in expenses in the reporting period of 2014 was mainly related to management's revision of the probability of trade accounts receivable repayment by our customers, of which we recovered a portion of a provision for impairment of receivables established at the end of 2013.

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

In the three months ended 31 March 2015, we recorded a reversal of RR 219 million to change in inventory expense as compared to a charge of RR 1,228 million in the corresponding period in 2014:

	Three months ended 31 March:	
millions of Russian roubles	**2015**	**2014**
Natural gas	384	1,969
Naphtha	268	(379)
Stable gas condensate	(905)	(243)
Other	34	(119)
Increase (decrease) in operating expenses due to change in natural gas, liquid hydrocarbons and work-in-progress	**(219)**	**1,228**

In the three months ended 31 March 2015, we recorded a charge to our operating expenses of RR 384 million due to a 395 mmcm decrease in our cumulative natural gas inventory balance in the UGSF, the GTS and own pipeline infrastructure, that was partially offset by an increase in the cost of natural gas inventories on a per mcm basis. The decrease in the natural gas inventory balance was mainly a result of the seasonal withdrawal of natural gas in the first quarter of 2015 due to our contractual obligations, while in the first quarter of 2014 we withdrew significantly more natural gas from the inventory balance as a result of the higher demand from our end-customers due to colder weather in the Russian Federation. 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 31 March 2015, we recorded reversals to our operating expenses of RR 905 million due to an increase in our stable gas condensate inventory balance by 37 thousand tons, which were recognized as inventory in transit or in storage, as well as an increase in the cost of inventories on a per ton basis. The cost of our liquid hydrocarbons inventories on a per ton basis increased as a result of a significant increase in the UPT rate for gas condensate, as well as a tax burden on crude oil production effective from January 2015 (see "Our tax burden and obligatory payments" above). 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 31 March**	**At 1 January**	**Increase / (decrease)**	**At 31 March**	**At 1 January**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**654**	**1,049**	**(395)**	**837**	**3,296**	**(2,459)**
including Gazprom's UGSF	*511*	*1,016*	*(505)*	*806*	*2,334*	*(1,528)*
Liquid hydrocarbons (thousand tons)	**591**	**739**	**(148)**	**555**	**535**	**20**
including naphtha	*189*	*305*	*(116)*	*221*	*193*	*28*
stable gas condensate	*256*	*219*	*37*	*184*	*180*	*4*

Other operating income (loss)

Other operating income (loss) includes income (loss) from natural gas foreign trading in the European markets under long-term and short-term purchase and sales contracts, purchases and sales of various derivative instruments (trading activities), 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 31 March 2015, we recognized other operating loss of RR 199 million compared to other operating loss of RR 41 million in the corresponding period in 2014.

In the three months ended 31 March 2015, within our trading activities on the European market we purchased and sold 9.0 terawatt-hours (or approximately 860 mmcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate gross income from trading activities of RR 170 million as compared to RR 101 million of income in the corresponding period in 2014. At the same time, in the three months ended 31 March 2015, we recognized a non-cash loss of RR 513 million as a result of a decrease in the fair value of the hydrocarbons purchase and sales contracts as compared to RR 731 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"*.

In addition, in the three months ended 31 March 2015 we recorded other operating income of RR 144 which primarily related to penalties received from our suppliers due to non-compliance with their contractual obligations. In the corresponding period in 2014, we recognized other operating income of RR 589 million which related to the recognition of a one-off positive effect from the recalculation of the fair value of the loan provided to Yamal LNG due to its partial repayment after CNPC entered into the Yamal LNG project.

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

In the three months ended 31 March 2015, the Group did not have any transactions on the disposal of interest in joint ventures.

In the three months ended 31 March 2014, as part of the Group's restructuring plan to equalize shareholders' equity stake in the SeverEnergia joint venture, we sold a 20% ownership interest in Artic Russia B.V. and recorded a gain on the disposal of RR 2,623 million.

Profit from operations and EBITDA

As a result of the factors discussed above, our profit from operations increased by RR 2,264 million, or 6.1%, to RR 39,647 million in the three months ended 31 March 2015, as compared to RR 37,383 million in the corresponding period in 2014.

Our normalized profit from operations net of gain (loss) on the disposal of interests in joint ventures increased by RR 4,887 million, or 14.1%, to RR 39,647 million in the three months ended 31 March 2015 as compared to RR 34,760 million in the corresponding period in 2014 mainly due to an increase in sales volumes and average realized prices (in Russian rouble equivalent) of liquid hydrocarbons. Nevertheless, in the three months ended 31 March 2015, our profit from operations net of gain (loss) on the disposal of interests in joint ventures, as a percentage of total revenues, decreased to 34.9% compared to 39.2% in the corresponding period in 2014 primarily due to a significant increase in purchases of natural gas and liquids hydrocarbons from our joint ventures in the 2015 reporting period and, respectively, the lower profitability of these volumes sold as compared to the sales of our own hydrocarbons.

Our EBITDA, excluding the effect of the disposal of interests in joint ventures, increased by RR 12,183 million, or 28.3%, to RR 55,162 million in the three months ended 31 March 2015 from RR 42,979 million in the corresponding period in 2014. The increase in the EBITDA in the current reporting period was significantly impacted by an increase in our share of EBITDA of joint ventures, as well as higher operating results described above.

Finance income (expense)

In the three months ended 31 March 2015, we recorded net finance expense of RR 7,246 million compared to net finance expense of RR 4,320 million in the corresponding period in 2014, which were mainly due to the recognition of non-cash foreign exchange losses as a result of the Russian rouble depreciation relative to the US dollar.

millions of Russian roubles	**Three months ended 31 March: 2015**	**2014**	**Change %**
Accrued interest expense on loans received	(3,254)	(2,279)	42.8%
Less: capitalized interest	1,106	915	20.9%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(53)	(72)	(26.4%)
Interest expense	**(2,201)**	**(1,436)**	**53.3%**
Interest income	3,186	790	n/m
Change in fair value of non-commodity financial instruments	2,391	-	n/a
Foreign exchange gain (loss)	(10,622)	(3,674)	189.1%
Total finance income (expense)	**(7,246)**	**(4,320)**	**67.7%**

In the three months ended 31 March 2015, our interest expense increased by RR 765 million, or 53.3%, to RR 2,201 million primarily due to an increase in accrued interest expense on loans received by RR 975 million, or 42.8%, to RR 3,254 million from RR 2,279 million in the corresponding period in 2014 as a result of an increase in the average exchange rate of the US dollar and Euro relative to the Russian rouble (see “Selected macro-economic data” above).

Interest income significantly increased by RR 2,396 million, or fourfold, to RR 3,186 million in the three months ended 31 March 2015 from RR 790 million in the corresponding period in 2014 due to a significant increase in loans provided to our joint ventures mostly denominated in foreign currencies and related to the development and expansion of their activities, as well as the result of the average Russian rouble depreciation relative to the US dollar and Euro in the three months ended 31 March 2015 compared to the average rate in the corresponding period in 2014.

In the three months ended 31 March 2015, we recognized a non-cash gain of RR 2,391 million from the remeasurement of the shareholders’ loans issued to our joint ventures due to the decrease in the underlying discount rate used in the fair value calculation of these loans in accordance with Group’s accounting policy as a result of a decrease in interest rates in the market in the first quarter of 2015. The effect of the fair value remeasurement of shareholders’ loans may change period to period due to the change in interest rates in the market and other macroeconomic parameters and does not affect real future cashflows of loans repayments.

The Group continues to record non-cash foreign exchange gains or losses each period based on the movements between currency exchange rates. In the three months ended 31 March 2015, we recorded a net non-cash foreign exchange loss of RR 10,622 million compared to a net non-cash foreign exchange loss of RR 3,674 million in the corresponding period in 2014 primarily due to the revaluation of our foreign currency denominated borrowings, loans provided and bank deposits. The net non-cash foreign exchange loss increased compared to in the corresponding period in 2014 due to a significant increase in loans provided by the Group (see “Loans provided” below), as well as placement of Euro denominated bank deposits, while the Russian rouble appreciated relative to the Euro by 7.3% in the first quarter of 2015.

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

In the three months ended 31 March 2015, the Group's proportionate share of profit of joint ventures accounted for RR 4,274 million as compared to a loss of RR 1,722 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Profit from operations	6,234	2,195	184.0%
Finance income (expense)	(1,278)	(4,118)	(69.0%)
Total income tax expense	(682)	201	n/a
Total share of profit (loss) of joint ventures, net of income tax	**4,274**	**(1,722)**	**n/m**

Our share in the profit from operations of our joint ventures significantly increased by RR 4,039 million, or 184.0%, due to higher operating results at SeverEnergia due to the launch of the first and second phases of the Urengoyskoye field effective April and December 2014, respectively, as well as the launch of the third phase of the Samburgskoye field in September 2014, which was partially offset by a decrease in the effective share from 59.8% to 54.9% as of 31 March 2014.

Our proportionate share in the finance expense of our joint ventures decreased by RR 2,840 million, or 69.0%, mainly due to the non-cash foreign exchange profit on foreign currency denominated loans at our joint venture Yamal LNG in the amount of RR 7.4 billion in the 2015 reporting period compared to a non-cash foreign exchange loss of RR 1.9 billion in the corresponding period in 2014. This was partially offset by an increase in interest expense on loans received by Yamal Development, as well as our share of non-cash loss from remeasuring the fair value of shareholders' loans in Yamal LNG in the 2015 reporting period in the amount of RR 4.0 billion due to the decrease in the underlying discount rate used in the fair value calculation of these loans.

Income tax expense

Our overall consolidated effective income tax rate (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) was 16.2% and 19.8% for the three months ended 31 March 2015 and 2014, respectively. The Russian statutory income tax rate for both reporting periods was 20%.

The difference in the effective income tax rates between the reporting and comparative periods was mainly due to the recognition by the Group of its share of net profit (loss) from joint ventures, which influenced the consolidated profit of the Group but has not resulted in additional income tax expense (benefit) at the Group's level. Net profit (loss) of joint ventures is 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 for the three months ended 31 March 2015 and 2014 was 18.3 percent and 18.7 percent, respectively. These income tax rates are lower than the Russian statutory income tax rate due to our ability to use a reduced income tax rate of 15.5% on a number of the Group's investment projects in the Russian Federation included by the regional government authorities in the list of priority projects. Also, the difference between our effective and statutory income tax rates is related to other certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

Our profit attributable to shareholders and earnings per share may vary period-to-period due to one-off events or extraordinary items. In order to normalize earnings and make period-on-period comparisons more meaningful certain adjustments are required to exclude these events.

As a result of the factors discussed in the respective sections above, our profit for the period increased by RR 5,596 million, or 22.3%, to RR 30,745 million in the three months ended 31 March 2015 from RR 25,149 million in the corresponding period in 2014. The profit attributable to shareholders of OAO NOVATEK increased by RR 5,920 million, or 23.5%, to RR 31,075 million in the three months ended 31 March 2015 from RR 25,155 million in the corresponding period in 2014. The profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, increased by RR 8,019 million, or 34.8%, to RR 31,075 million in the three months ended 31 March 2015 as compared to RR 23,056 million in the corresponding period in 2014.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by RR 1.98 per share, or 23.8%, to RR 10.29 per share in the three months ended 31 March 2015 from RR 8.31 per share in the corresponding period in 2014. Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, increased by RR 2.67 per share, or 35.1%, to RR 10.29 per share in the three months ended 31 March 2015 from RR 7.62 per share in the corresponding period in 2014.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 31 March 2015 and 2014:

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Net cash provided by **operating** activities	39,717	27,477	44.5%
Net cash provided by (used in) **investing** activities	(28,319)	14,590	n/a
Net cash provided by (used in) **financing** activities	3,091	(2,533)	n/a

Liquidity and credit ratios	31 March 2015	31 December 2014	Change, %
Current ratio	1.00	1.56	(35.9%)
Total debt to total equity	0.61	0.63	(3.2%)
Long-term debt to long-term debt and total equity	0.29	0.35	(17.1%)
Net debt to total capitalization (1)	0.29	0.31	(6.5%)
Net debt to EBITDA (2)	1.20	1.28	(6.3%)

(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, if applicable

Net cash provided by operating activities

In the three months ended 31 March 2015, our net cash provided by operating activities increased by RR 12,240 million, or 44.5%, to RR 39,717 million compared to RR 27,477 million in the corresponding period in 2014 mainly due to decreased income tax payments that fluctuate period-on-period, as well as higher operating results (higher sales volumes and average realized prices of liquid hydrocarbons in Russian roubles), that was partially offset by the working capital changes (see “Working capital” below). In addition, in the three months ended 31 March 2015, we received RR 1,850 million of dividends from our joint venture Nortgas based on the performance results.

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Operating profit	39,372	35,032	12.4%
Working capital changes	2,217	5,131	(56.8%)
Dividends received from joint ventures	1,850	-	n/a
Interest received	626	387	61.8%
Income taxes paid	(4,348)	(13,073)	(66.7%)
Total net cash provided by operating activities	**39,717**	**27,477**	**44.5%**

Net cash provided by (used for) investing activities

In the three months ended 31 March 2015, our net cash used for investing activities amounted to RR 28,319 million as compared to RR 14,590 million provided by investing activities in the corresponding period in 2014.

millions of Russian roubles	Three months ended 31 March: 2015	2014	Change %
Purchases of property, plant and equipment (financing of capital expenditures)	(8,144)	(13,977)	(41.7%)
Loans provided to joint ventures	(19,623)	(765)	n/m
Repayments of loans provided to joint ventures	623	11,735	(94.7%)
Proceeds from disposal of participation interest in joint ventures	-	18,641	n/a
Other	(1,175)	(1,044)	12.5%
Net cash provided by (used for) investing activities	**(28,319)**	**14,590**	**n/a**

Our purchases of property, plant and equipment decreased by RR 5,833 million, or 41.7%, 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, development of Salmanovskoye (Utrenneye) field and ongoing development at the Yurkharovskoye field.

In the three months ended 31 March 2015, we provided loans to our joint ventures Yamal LNG and Yamal Development in the amount of RR 19,623 million as compared to RR 765 million provided to Yamal Development in the corresponding period in 2014. In addition, in the three months ended 31 March 2015, we received RR 623 million as a partial repayment of the loan provided to Terneftegas while in the corresponding period in 2014 we received RR 11,735 million as a partial repayment of the loan provided to Yamal LNG (see "Loans provided" below).

In the first quarter of 2014, we received RR 18,641 million as a result of the 20% ownership disposal in Yamal LNG in December 2013.

Net cash provided by (used for) financing activities

In the three months ended 31 March 2015, our net cash provided by financing activities amounted to RR 3,091 million as compared to RR 2,533 million used for financing activities in the corresponding period in 2014.

	Three months ended 31 March:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Proceeds from loans	22,423	17,170	30.6%
Repayments of loans	(16,806)	(16,656)	0.9%
Other	(2,526)	(3,047)	(17.1%)
Net cash provided by (used for) financing activities	**3,091**	**(2,533)**	**n/a**

In the three months ended 31 March 2015, we obtained a RR 22,423 million and correspondingly repaid RR 16,806 million of short-term Euro denominated loans from ING Belgium (see "Debt obligation" below).

In the corresponding period in 2014, we received RR 17,170 million due to a withdrawal in March 2014 of USD 430 million under the syndicated credit line facility and obtaining a short-term loan from a non-controlling shareholder of our subsidiary in the amount of RR 1,619 million, as well as repaid loans in the total amount of USD 200 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014 and a loan from Sberbank in the amount of RR 10 billion in March 2014.

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

Working capital

Our net working capital position (current assets less current liabilities) as of 31 March 2015 was a negative RR 576 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 of RR 47,535 million of the current portion of our long-term debt as a result of the classification of a portion of our syndicated term credit-facility and US dollar Eurobonds in the amount of RR 600 million as part of current liabilities based on the repayment schedule.

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 current liabilities and to finance the Group's 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 31 March:	
millions of Russian roubles	**2015**	**2014**
Yarudeyskoye field	7,056	4,864
East-Tarkosalinskoye field	2,475	2,084
Yurkharovskoye field	1,775	3,406
Salmanovskoye (Utrennee) field	1,495	246
North-Khancheyskoye and Khadyryakhinskoye field	492	492
Khancheyskoye field	453	447
North-Russkoye field	390	171
Olimpiyskiy license area	207	488
Other	151	1,529
Capital expenditures	**14,494**	**13,727**

Total capital expenditures on property, plant and equipment in the three months ended 31 March 2015 increased by RR 767 million, or 5.6%, to RR 14,494 million from RR 13,727 million in the corresponding period in 2014. In both of the reporting periods, our main investments related to the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, as well as an ongoing development of the Yurkharovskoye field. In addition, in the 2015 reporting period, we significantly increased our investments in the development of Salmanovskoye (Utrenneye) field located on the Gydan peninsila.

The "Other" line in the table above consists of capital expenditures related to other fields and refining and processing capacities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by object (field) takes place according to the completion of the construction stages of fixed assets and depends on the approved working fixed asset launch schedule.

Loans provided

Total loans provided by the Group increased from RR 96,474 million at 31 December 2014 to RR 115,736 million at 31 March 2015, or by RR 19,262 million.

Our loans provided with a breakdown by borrowers (remeasured based on commercial market borrowing rates adjusted for the borrower credit risk in accordance with IAS 39 *"Financial instruments: recognition and measurement"*) at 31 March 2015 and 31 December 2014 were as follows (in millions of Russian roubles):

Borrower	**Currency**	**Maturity**	**Interest rate**	**At 31 March 2015**	**At 31 December 2014**
Yamal LNG	USD	after the commencement of commercial production	5.09%-4.46%	68,637	62,547
Yamal LNG	EUR	after the commencement of commercial production	4.46%	27,593	16,278
Yamal Development	RR	December 2015 and 2021	9.25%, 10.9%	15,547	13,361
Terneftegas	USD	after the commencement of commercial production	3.88%-4.52%	3,959	4,288
Total loans provided				**115,736**	**96,474**

The increase in total loans provided was primarily due to increase in loans provided to our joint ventures. In the three months ended 31 March 2015, we issued an additional EUR 237.2 million loan to our joint venture Yamal LNG, as well as approximately RR 2.2 billion to our joint venture Yamal Development under credit lines facilities provided to our joint ventures in August 2014. At the same time, our joint venture Terneftegas partially repaid a loan in the amount of USD 10.7 million in March 2015.

Debt obligations

We utilize a variety of financial instruments to ensure the flexibility of our financing strategy. This includes maintaining a debt portfolio with a balance of short-term and long-term financing, a mix of fixed and floating interest rate instruments and a debt portfolio denominated in Russian roubles and other foreign currencies.

Overview

Our total debt (in Russian roubles and translated to Russian roubles from US dollars using the exchange rate at the end of the current reporting period) increased from RR 245,679 million at 31 December 2014 to RR 259,024 million at 31 March 2015, or by RR 13,345 million, primarily due to the Russian rouble depreciation relative to the US dollar at 31 March 2015 compared to 31 December 2014 by 3.9%. As of 31 March 2015, the Group had a short-term loan denominated in Euros from ING Belgium in the amount of RR 5.0 billion (EUR 78.9 million) secured by a portion of cash revenues from the Group's liquid hydrocarbons export sales contracts. We utilize credit facilities to supplement our internally generated cash flows for the financing of capital expenditures related to the development of our fields and to construct and/or expand processing assets, as well as acquisitions of new oil and gas assets.

Our total debt position (net of unamortized transaction costs) at 31 March 2015 and 31 December 2014 was as follows:

Facility	Amount	Maturity	Interest rate	At 31 March 2015	At 31 December 2014
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	87,304	83,938
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	58,266	56,059
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	37,844	36,409
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	35,040	33,707
Russian bonds	RR 20 billion	October 2015	8.35%	19,993	19,991
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,958	13,956
Total				**252,405**	**244,060**
Less: current portion of long-term debt				(81,896)	(39,361)
Total long-term debt				**170,509**	**204,699**
Short-term debt				6,619	1,619
Plus: current portion of long-term debt				81,896	39,361
Total short-term debt and current portion of long-term debt				**88,515**	**40,980**
Total debt				**259,024**	**245,679**

Maturities of long-term loans

Scheduled maturities of our long-term debt at 31 March 2015 were as follows:

Maturity schedule:	**RR million**
1 April 2016 to 31 March 2017	40,820
1 April 2017 to 31 March 2018	26,863
1 April 2018 to 31 March 2019	6,716
1 April 2019 to 31 March 2020	-
After 31 March 2020	96,110
Total long-term debt	**170,509**

Available credit facilities

At 31 March 2015, the Group had funds available under credit facilities with interest rates predetermined or negotiated at time of each withdrawal:

	Par value	Expiring within one year
UniCredit Bank	USD 180 million	10,524
Credit Agricole Corporate and Investment Bank	USD 100 million	5,846
Gazprombank	RR 10 billion	10,000
Total available credit facilities		**26,370**

Management believes it has sufficient internally generated cash flows to fund its capital expenditure programs, service its existing debt and meet its current obligations as they become due.

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 31 March 2015, the total amount of our long-term debt denominated in US dollars was RR 156,551 million, or 60.4% 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 42.7% in the three months ended 31 March 2015, was denominated in US dollars.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate 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 relative to our foreign currency-denominated debt portfolio will be mitigated by the fact that all of our products will be delivered to international markets and our revenues will be denominated in foreign currencies.

As of 31 March 2015, the Russian rouble depreciated by 3.9% against the US dollar and appreciated against the Euro by 7.3% since 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 recorded 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 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 OAO 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 31 March 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.