OAO NOVATEK

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

FOR THE THREE MONTHS ENDED 30 JUNE 2015 AND 2014

GENERAL PROVISIONS

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

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

OVERVIEW

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

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

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

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

In addition, in September 2014, OAO Yamal LNG, the Group's joint venture, received a license to export LNG.

We deliver our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant (the "Purovsky Plant") for processing into stable gas condensate and liquefied petroleum gas ("LPG"). Effective May 2015, we reached the plant's peak processing capacity of twelve million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga (the "Ust-Luga Complex") 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 allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process more than six million tons of stable gas condensate annually, and we have reached the complex's nameplate refining capacity in January 2015.

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

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

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

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

RECENT DEVELOPMENTS

Increase of production and utilization of refining capacity

In September 2014, OOO SeverEnergia, the Group’s joint venture with OAO Gazprom Neft, launched the third phase of the Samburgskoye field, and in December 2014, reached the nameplate production capacity of the first phase and launched the second phase of the Urengoyskoye field. As a result, the Group’s gas condensate production has increased significantly that enabled us to fully utilize the processing facilities of our Ust-Luga Complex effective January 2015.

In February 2015, OOO SeverEnergia reached the nameplate production capacity of the second phase of the Urengoyskoye field, and in April 2015, launched the Yaro-Yakhinskoye field with a nameplate production capacity of 7.7 billion cubic meters (bcm) of natural gas and 1.3 million tons of gas condensate per annum.

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

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

Implementation of the Yamal LNG project

In June 2015, we concluded a long-term contract with the ENGIE Group (formerly GDF SUEZ) for the supply of one million tons of liquefied natural gas per annum produced from the Yamal LNG project for a period of 23 years. In addition, in June, a contract with the Shell Group was concluded for the supply of approximately 0.9 million tons of LNG per annum for a period of not less than 20 years. The supply of LNG under these contracts will be conducted through the Groups’ wholly owned subsidiary Novatek Gas & Power GmbH, which will purchase LNG from Yamal LNG.

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

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

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund for financing the Yamal LNG project through the purchase of interest bearing bonds from OAO Yamal LNG. In February 2015, the Ministry of Finance subscribed for and purchased the first tranche of OAO Yamal LNG’s bonds in the amount of RR 75 billion (nominal amount of USD 1.21 billion). The bonds will be repaid in Russian roubles at the US dollar exchange rate at the date of payment in equal installments from 2022 to 2030, and interest will be paid semi-annually starting from September 2015. As of 30 June 2015, the funds received by Yamal LNG from the bonds placement were fully invested in the Project.

In December 2014, a Boeing 737 airplane landed at the Sabetta airport for the first time. In February 2015, the airport in Sabetta (part of the transportation infrastructure of the project) was officially launched. Currently, two Russian airline companies perform regular flights to Sabetta providing reliable delivery of labor and material resources.

Group’s acquisitions

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergo that provides repair and maintenance services of energy generating equipment for servicing the Group’s production facilities located in the YNAO.

Extension of natural gas supply contracts

In April 2015, we extended the natural gas supply contract with OAO Mosenergo for an additional four years until the end of 2019, with annual supply volumes of nine bcm. The contract extension is an important step for maintaining and increasing our client base.

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 30 June: 2015	2014	Change %
Financial results			
Total revenues [1]	112,244	88,370	27.0%
Operating expenses	(79,541)	(55,670)	42.9%
Profit attributable to shareholders of OAO NOVATEK	41,920	31,950	31.2%
EBITDA [2]	50,162	40,323	24.4%
Earnings per share (in Russian roubles)	13.88	10.58	31.2%
Net debt [3]	204,388	114,496	78.5%
Production volumes [4]			
Total hydrocarbons production (million barrels of oil equivalent)	129.3	111.2	16.4%
Total daily production (thousand barrels of oil equivalent per day)	1,421	1,221	16.4%
Operating results			
Natural gas sales volumes (million cubic meters)	14,498	15,528	(6.6%)
Naphtha sales volumes (thousand tons)	997	887	12.4%
Other gas condensate refined products (thousand tons) [5]	591	200	195.5%
Stable gas condensate sales volumes (thousand tons)	545	43	n/a
Liquefied petroleum gas sales volumes (thousand tons)	537	331	62.2%
Crude oil sales volumes (thousand tons)	238	223	6.7%
Cash flow results			
Net cash provided by operating activities	30,447	23,775	28.1%
Capital expenditures [6]	15,251	19,576	(22.1%)
Free cash flow [7]	15,196	4,199	261.9%

Reconciliation of EBITDA to profit attributable to shareholders of OAO NOVATEK is as follows:

millions of Russian roubles	**Three months ended 30 June:** **2015**	**2014**	**Change %**
Profit attributable to shareholders of OAO NOVATEK	**41,920**	**31,950**	**31.2%**
Depreciation, depletion and amortization	4,681	4,167	12.3%
Net impairment reversals (expenses)	(261)	22	n/a
Loss (income) from changes in fair value of derivative financial instruments	352	(1,861)	n/a
Total finance expense (income)	(2,130)	(808)	163.6%
Total income tax expense	6,410	7,193	(10.9%)
Share of loss (profit) of joint ventures, net of income tax	(13,004)	(3,768)	245.1%
EBITDA from subsidiaries	**37,968**	**36,895**	**2.9%**
Share in EBITDA of joint ventures	12,194	3,428	255.7%
EBITDA [2]	**50,162**	**40,323**	**24.4%**

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

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

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

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

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

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

(7) 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 foreign currency unit [1]	Three months ended 30 June: 2015	2014	Change %
US dollar (USD)			
Average for the period	52.65	35.00	50.4%
At the beginning of the period	58.46	35.69	63.8%
At the end of the period	55.52	33.63	65.1%
Depreciation (appreciation) of Russian rouble to US dollar	(5.0%)	(5.8%)	n/a
Euro			
Average for the period	58.24	48.03	21.3%
At the beginning of the period	63.37	49.05	29.2%
At the end of the period	61.52	45.83	34.2%
Depreciation (appreciation) of Russian rouble to euro	(2.9%)	(6.6%)	n/a

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

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Crude oil prices, USD per bbl [2]	Three months ended 30 June: 2015	2014	Change %
Brent			
Average for the period	61.9	109.7	(43.6%)
At the end of the period	61.1	111.0	(45.0%)
Urals			
Average for the period	61.7	107.7	(42.7%)
At the end of the period	61.5	109.2	(43.7%)

[2] Based on Brent (Dtd) 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 30 June: 2015	2014	Change %
Naphtha Japan			
Average for the period	563	951	(40.8%)
At the end of the period	548	981	(44.1%)
Naphtha CIF NWE			
Average for the period	538	939	(42.7%)
At the end of the period	518	965	(46.3%)
Jet fuel			
Average for the period	603	970	(37.8%)
At the end of the period	601	987	(39.1%)
Gasoil			
Average for the period	574	911	(37.0%)
At the end of the period	571	918	(37.8%)
Fuel oil			
Average for the period	338	637	(46.9%)
At the end of the period	333	643	(48.2%)

[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 30 June: 2015	2014	Change %
Average for the period	364	668	(45.5%)
At the end of the period	355	769	(53.8%)

[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 30 June: 2015	2014	Change %
Crude oil, stable gas condensate			
Average for the period	130.6	382.7	(65.9%)
At the end of the period	144.4	385.0	(62.5%)
Liquefied petroleum gas			
Average for the period	0.0	101.1	(100.0%)
At the end of the period	0.0	86.0	(100.0%)
Naphtha			
Average for the period	110.9	344.4	(67.8%)
At the end of the period	122.7	346.5	(64.6%)
Jet fuel			
Average for the period	62.6	252.6	(75.2%)
At the end of the period	69.3	254.1	(72.7%)
Gasoil			
Average for the period	62.6	248.7	(74.8%)
At the end of the period	69.3	250.2	(72.3%)
Fuel oil			
Average for the period	99.2	252.6	(60.7%)
At the end of the period	109.7	254.1	(56.8%)

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

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

By the end of the first quarter and during the second quarter of 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 abroad, including the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business.

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

We together with our international partners, TOTAL S.A. and China National Petroleum Corporation ("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 set by a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs in oil and gas, power and transportation industries (the "Regulator"), as well as present market conditions. During 2014 and the first half of 2015, the Federal Tariffs Service ("FTS") fulfilled the Regulator's role. In July 2015, a Decree of the President of the Russian Federation became effective abolishing the FTS and transferring its functions to the Federal Anti-Monopoly Service.

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

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

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

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

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes are sold directly to end-customers in the 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” to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

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

In the three months ended 30 June 2015, our average natural gas price on end-customers sales increased by 1.0% due to an increase in the proportion of sales to our end-customers located at more distant regions from 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 2.1% increase in our average transportation expense per mcm. As a result, our average natural gas price on end-customers sales excluding transportation expenses changed insignificantly.

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

Russian roubles per mcm	**Three months ended 30 June: 2015**	**2014**	**Change %**
Average natural gas price to end-customers [(1)]	3,605	3,571	1.0%
Average natural gas transportation expense for sales to end-customers	(1,503)	(1,472)	2.1%
Average natural gas price on end-customer sales excluding transportation expense	2,103	2,101	0.1%
Average natural gas price ex-field (wholesale traders)	1,868	1,834	1.9%
Total average natural gas price excluding transportation expense	**2,087**	**2,085**	**0.1%**

[(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.

Our crude oil 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.

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

Stable gas condensate and refined products

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

Following the full capacity utilization of our Ust-Luga Complex effective in the first quarter of 2015, we commenced export sales of stable gas condensate. In the three months ended 30 June 2015, we sold 218 thousand tons of stable gas condensate at an average realized export contract price, including export duties, of USD 538 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 415.6 per ton. We will continue to export stable gas condensate to the extent that the volumes received from the processing at the Purovsky Plant will exceed the processing capacity at the Ust-Luga Complex and domestic sales volumes.

In the three months ended 30 June 2015, our average realized export contract prices for naphtha and other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 416 and USD 358 per ton, or 41.7% and 39.7%, to approximately USD 582 and USD 544 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 30 June 2015, decreased only by USD 170.5 and USD 187.1 per ton, or 25.8% and 28.7%, and amounted to USD 490.8 and USD 465.6 per ton, respectively, due to a significant decrease in average export duties (see "Selected macro-economic data" above). Our average realized net export prices for naphtha and other gas condensate refined products in Russian roubles increased by 11.7% and 7.3%, respectively due to a 50.4% increase in the average exchange rate of US dollar to Russian rouble in the three months ended 30 June 2015 compared to the corresponding period in 2014.

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

In the three months ended 30 June 2015, we sold insignificant volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically at an average price of RR 20,804 per ton (excluding VAT). We expect that we will continue to sell some volumes of other gas condensate refined products domestically.

The following table shows our average realized stable gas condensate and refined products sales prices. Prices are shown net of VAT and export duties, where applicable. 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 30 June: 2015**	**2014**	**Change %**
Stable gas condensate			
Net export price, RR per ton	21,881	-	n/a
Net export price, USD per ton	415.6	-	n/a
Domestic price, RR per ton	16,320	14,220	14.8%
Naphtha			
Net export price, RR per ton	25,842	23,144	11.7%
Net export price, USD per ton	490.8	661.3	(25.8%)
Other gas condensate refined products			
Net export price, RR per ton	24,512	22,844	7.3%
Net export price, USD per ton	465.6	652.7	(28.7%)
Domestic price, RR per ton	20,804	-	n/a

Liquefied petroleum gas

In the three months ended 30 June 2015, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, decreased by USD 270 per ton, or 33.8%, and was approximately USD 530 per ton compared to USD 800 per ton in the corresponding period in 2014. The decrease in our average realized contract price was due to a significant decrease in the underlying benchmark prices for LPG on international markets used in price calculation (see “Selected macro-economic data” above).

At the same time our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, and translated to US dollars using the average exchange rate for the period, decreased only by USD 190.5 per ton, or 31.6%, to USD 413.3 per ton from USD 603.8 per ton due to setting a zero export duty by the Russian Federation government from February 2015 (see “Selected macro-economic data” above). Despite a decrease in the average realized net export price in US dollars, our average realized LPG net export price in Russian roubles increased by 3.0% due to a 50.4% increase in average exchange rate of US dollar to Russian rouble in the three months ended 30 June 2015 compared to the corresponding period in 2014.

In both reporting periods our LPG export delivery terms were DAP at the border of the customer’s country or free carrier (FCA) at terminal points in Poland. In the three months ended 30 June 2015, we also sold our LPG under carriage paid to (CPT) the Port of Temryuk (southern Russia) delivery terms.

In the three months ended 30 June 2015, our average realized LPG domestic price decreased by RR 2,315 per ton, or 18.7%, to RR 10,036 per ton from RR 12,351 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 30 June: 2015**	**2014**	**Change %**
LPG			
Net export price, RR per ton	21,759	21,133	3.0%
Net export price, USD per ton	413.3	603.8	(31.6%)
Domestic price, RR per ton	10,036	12,351	(18.7%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 335 per ton, or 43.5%, and was approximately USD 435 per ton compared to USD 770 per ton in the corresponding period in 2014. The decrease in our average crude oil contract price was a result of a decrease in Brent benchmark crude oil price on the international markets used as the base for price setting (see “Selected macro-economic data” above).

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 82.9 per ton, or 21.7%, to USD 298.6 per ton from USD 381.5 per ton in the corresponding period in 2014 due to a significant 65.9% 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 17.7% due to a 50.4% increase in average exchange rate of US dollar to Russian rouble in the three months ended 30 June 2015 compared to the corresponding period in 2014.

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

In the three months ended 30 June 2015, our average realized crude oil domestic price was RR 14,862 per ton (excluding VAT) representing an increase of RR 1,912 per ton, or 14.8%, from RR 12,950 per ton (excluding VAT) in the corresponding period in 2014 as a result of crude oil deliveries to more distant regions and an increase in transportation tariff set by the FTS which is included in the sales price.

The following table shows our average realized crude oil sales prices. Prices are shown net of VAT and export duties, where applicable. Prices in US dollars were translated from Russian roubles using the average exchange rate for the period:

	Three months ended 30 June:		**Change**
Russian roubles or US dollars per ton	**2015**	**2014**	**%**
Crude oil			
Net export price, RR per ton	15,721	13,352	17.7%
Net export price, USD per ton	298.6	381.5	(21.7%)
Domestic price, RR per ton	14,862	12,950	14.8%

Transportation tariffs

Natural gas

We transport our natural gas through our own pipelines into the Unified Gas Supply System (“UGSS”), which is owned and operated by PAO Gazprom, a Russian Federation government controlled monopoly. Transportation tariffs for the use of the Gas Transmission System (“GTS”), as part of the UGSS, by independent producers are set by the Regulator (the FTS before July 2015).

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 during the first half of 2015.

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

According to the 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 2016 and 2017 will not exceed the increase in wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

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

The railroad transportation tariffs are set by the Regulator (the FTS before July 2015) and vary depending on the type of a product, direction and the length of the transport route.

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

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

In 2014 and during the first half 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 to the Port of Ust-Luga and to end-customers on the domestic market. The discount co-efficient was set by the decision of the Management Board of RZD, and it will be in effect until the end of 2015.

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

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

Stable gas condensate and refined products by tankers

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

Crude oil

We transport nearly all of our crude oil through the pipeline network owned by Transneft, Russia's state-owned monopoly crude oil pipeline operator. The Regulator (the FTS before July 2015) sets tariffs for transportation of crude oil through Transneft's pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

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

Our tax burden and obligatory payments

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes 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 rates for natural gas and gas condensate were set at a fixed rate and amounted to RR 471 per mcm of natural gas extracted by independent producers (determined by a stated base rate and a reducing 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. The base UPT rate is set at RR 35 per one thousand cubic meters of extracted natural gas and at RR 42 per one ton of extracted gas condensate. The base value of a standard fuel equivalent is calculated monthly and depends primarily on natural gas prices, Urals crude oil prices and crude oil export duty rate. A 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.

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

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

UPT – crude oil

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

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

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

In 2014, in accordance with the Tax Code of the Russian Federation, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields since these fields are located fully or partially 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 an effective rate of RR 236 per ton (the rate will increase to RR 298 and RR 360 per ton from 1 January 2016 and 2017, respectively) multiplied by a 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. As part of the tax maneuver in oil industry (see above) effective 1 January 2015, the set percentage was decreased from 59% to 42% (effective 1 January 2016 and 2017 the set percentage was decreased to 36% and 30%, 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 rate is calculated as the difference between the average LPG price and USD 490, USD 640 or USD 740 (the one the LPG price is exceeding) multiplied by a co-efficient 0.5, 0.6 or 0.7 and then increased by USD 0, USD 75 or USD 135, respectively. If the average LPG price is less than USD 490 per ton the export duty rate is set to zero.

The export duty rate for oil products is calculated based on the export duty rate for crude oil which 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 contributions

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

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

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon production and sales volumes

Our natural gas sales volumes in the three months ended 30 June 2015, decreased by 1,030 mmcm, or 6.6%, due to a decrease in natural gas consumption as a result of one of our major customers not taking temporarily its full contracted volumes due to technical reasons, as well as warmer weather in the Russian Federation in the second quarter of 2015 as compared to the second quarter of 2014. 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 1,224 thousand tons, or 72.6%, primarily due to an increase in production of gas condensate in our joint ventures.

Natural gas production volumes

As a result of increased production of our joint ventures, in the three months ended 30 June 2015, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 1,651 mmcm, or 10.8%, to 16,890 mmcm from 15,239 mmcm in the corresponding period in 2014 although the production by our core subsidiaries decreased.

	Three months ended 30 June:		Change
millions of cubic meters	**2015**	**2014**	**%**
Production by subsidiaries from:			
Yurkharovskoye field	8,938	9,418	(5.1%)
East-Tarkosalinskoye field	2,320	2,681	(13.5%)
Khancheyskoye field	601	754	(20.3%)
Other fields	419	278	50.7%
Total natural gas production by subsidiaries	**12,278**	**13,131**	**(6.5%)**
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	3,119	733	325.5%
Nortgas	1,364	1,375	(0.8%)
Terneftegas	129	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**4,612**	**2,108**	**118.8%**
Total natural gas production including proportionate share in the production of joint ventures	**16,890**	**15,239**	**10.8%**

In the three months ended 30 June 2015, the combined total volumes of natural gas produced by our subsidiaries decreased by 853 mmcm, or 6.5%, to 12,278 mmcm from 13,131 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 stimulation at the Dobrovolskoye field, production of which is included in the line "Other fields" in the table above.

In the three months ended 30 June 2015, our proportionate share in the production of our joint ventures increased by 2,504 mmcm, or 118.8%, to 4,612 mmcm from 2,108 mmcm in the corresponding period in 2014 primarily as a result of the production growth in SeverEnergia. The production of SeverEnergia significantly increased due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015. In addition, effective May 2015 our joint venture Terneftegas commenced production at the Termokarstovoye field (see "Recent Developments" above).

Natural gas sales volumes

In the three months ended 30 June 2015, our total natural gas sales volumes decreased by 1,030 mmcm, or 6.6%, to 14,498 mmcm from 15,528 mmcm in the corresponding period in 2014 as a result of one of our major customers not taking temporarily its full contracted volumes due to technical reasons and warmer weather in the second quarter of 2015 as compared to the second quarter of 2014.

millions of cubic meters	**Three months ended 30 June:** **2015**	**2014**	**Change %**
Production by subsidiaries	12,278	13,131	(6.5%)
Purchases from the Group's joint ventures	1,615	1,375	17.5%
Other purchases	1,596	1,848	(13.6%)
Total production and purchases	**15,489**	**16,354**	**(5.3%)**
Purovsky Plant, own usage and methanol production	(49)	(42)	16.7%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(942)	(784)	20.2%
Total natural gas sales volumes	**14,498**	**15,528**	**(6.6%)**
Sold to end-customers	*13,502*	*14,604*	*(7.5%)*
Sold ex-field	*996*	*924*	*7.8%*

In the three months ended 30 June 2015, natural gas purchases from our joint ventures increased by 240 mmcm, or 17.5%, to 1,615 mmcm from 1,375 mmcm in the corresponding period in 2014 primarily due to the commencement of purchases from Terneftegas as a result of the launch of the Termokarstovoye field in May 2015.

Other natural gas purchases decreased by 252 mmcm, or 13.6%, due to decreased purchases from PAO SIBUR. Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing end-customers' portfolios.

In the three months ended 30 June 2015, we used 19 mmcm of natural gas as feedstock for the production of methanol compared to 18 mmcm in the corresponding period in 2014. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

Liquids production volumes

In the three months ended 30 June 2015, our total liquids production (including our proportionate share in the production of joint ventures) increased by 818 thousand tons, or 59.3%, to 2,198 thousand tons from 1,380 thousand tons in the corresponding period in 2014 primarily due to a significant increase in the production of our joint ventures.

	Three months ended 30 June:		Change
thousands of tons	**2015**	**2014**	**%**
Production by subsidiaries from:			
Yurkharovskoye field	531	631	(15.8%)
East-Tarkosalinskoye field	329	320	2.8%
Khancheyskoye field	98	113	(13.3%)
Other fields	38	21	81.0%
Total liquids production by subsidiaries	**996**	**1,085**	**(8.2%)**
including gas condensate	*697*	*831*	*(16.1%)*
including crude oil	*299*	*254*	*17.7%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	997	130	n/a
Nortgas	158	165	(4.2%)
Terneftegas	47	-	n/a
Total Group's proportionate share in the liquids production of joint ventures	**1,202**	**295**	**307.5%**
Total liquids production including proportionate share in the production of joint ventures	**2,198**	**1,380**	**59.3%**

In the three months ended 30 June 2015, the volumes of liquids produced by our subsidiaries slightly decreased by 89 thousand tons, or 8.2%, whereby the decrease in gas condensate production was partially offset by an increase in crude oil production. In the 2015 reporting period, we ramped up crude oil production due to new wells drilled and technological works performed to increase the crude oil production flow rates at the East-Tarkosalinskoye and Khancheyskoye fields. Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

In the three months ended 30 June 2015, our proportionate share in liquids production of joint ventures increased by 907 thousand tons, or 307.5%, to 1,202 thousand tons from 295 thousand tons in the corresponding period in 2014 as a result of production growth in SeverEnergia due to reaching the nameplate production capacity of the first phase and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015. In addition, our joint venture Terneftegas commenced production at the Termokarstovoye field from May 2015.

Liquids sales volumes

In the three months ended 30 June 2015, our total liquids sales volumes increased significantly by 1,224 thousand tons, or 72.6%, to 2,911 thousand tons from 1,687 thousand tons in the corresponding period in 2014 primarily due to an increase in the production of gas condensate in our joint ventures.

thousands of tons	**Three months ended 30 June: 2015**	**2014**	**Change %**
Production by subsidiaries	996	1,085	(8.2%)
Purchases from the Group’s joint ventures	2,184	564	287.2%
Other purchases	17	6	183.3%
Total production and purchases	**3,197**	**1,655**	**93.2%**
Losses [(1)] and own usage [(2)]	(66)	(53)	24.5%
Decreases (increases) in liquids inventory balances	(220)	85	n/a
Total liquids sales volumes	**2,911**	**1,687**	**72.6%**
Naphtha export	*997*	*887*	*12.4%*
Other gas condensate refined products export	*560*	*200*	*180.0%*
Other gas condensate refined products domestic	*31*	*-*	*n/a*
Subtotal gas condensate refined products	***1,588***	***1,087***	***46.1%***
Stable gas condensate export	*218*	*-*	*n/a*
Stable gas condensate domestic	*327*	*43*	*n/a*
Subtotal stable gas condensate	***545***	***43***	***n/a***
LPG export	*136*	*138*	*(1.4%)*
LPG domestic	*401*	*193*	*107.8%*
Subtotal LPG	***537***	***331***	***62.2%***
Crude oil export	*110*	*77*	*42.9%*
Crude oil domestic	*128*	*146*	*(12.3%)*
Subtotal crude oil	***238***	***223***	***6.7%***
Other oil products domestic	*3*	*3*	*0.0%*
Subtotal other oil products	***3***	***3***	***0.0%***

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

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

In the three months ended 30 June 2015, our purchases of liquid hydrocarbons from joint ventures increased significantly by 1,620 thousand tons, or 287.2%, due to a significant increase in our purchases of gas condensate from SeverEnergia resulting from the launch of additional production facilities at the end of 2014 and in April 2015 (see “Liquids production volumes” above). In addition, effective May 2015, we commenced purchases of gas condensate from our joint venture Terneftegas as a result of the launch of the Termokarstovoye field.

In 2014, most of our stable gas condensate produced at the Purovsky Plant was sent as raw material feedstock to the Ust-Luga Complex for further processing. As a result, there were no stable gas condensate sales to export markets. Due to the full refining capacity utilization of our Ust-Luga Complex we commenced stable gas condensate deliveries to export markets from the first quarter of 2015.

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

In the 2015 reporting period, our liquids inventory balances increased by 220 thousand tons to 811 thousand tons as of 30 June 2015 as compared to a decrease in inventory balances by 85 thousand tons to 470 thousand tons in the corresponding period in 2014. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations of stable gas condensate and its refined products shipments (see “Change in natural gas, liquid hydrocarbons and work-in-progress” below).

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

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

	Three months ended 30 June:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Total revenues **(net of VAT, export duties, excise and fuel taxes)**	**112,244**	***100.0%***	**88,370**	***100.0%***
including:				
natural gas sales	50,534	*45.0%*	53,846	*60.9%*
liquids' sales	61,040	*54.4%*	34,035	*38.5%*
Operating expenses	(79,541)	*(70.9%)*	(55,670)	*(63.0%)*
Other operating income (loss)	(158)	*(0.1%)*	1,791	*2.0%*
Profit from operations	**32,545**	***29.0%***	**34,491**	***39.0%***
Finance income (expense)	2,130	*1.9%*	808	*0.9%*
Share of profit (loss) of joint ventures, net of income tax	13,004	*11.6%*	3,768	*4.3%*
Profit before income tax	**47,679**	***42.5%***	**39,067**	***44.2%***
Total income tax expense	(6,410)	*(5.7%)*	(7,193)	*(8.1%)*
Profit (loss)	**41,269**	***36.8%***	**31,874**	***36.1%***
Minus: (profit) loss attributable to non-controlling interest	651	*0.6%*	76	*0.1%*
Profit attributable to shareholders of OAO NOVATEK	**41,920**	***37.4%***	**31,950**	***36.2%***

Total revenues

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

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Natural gas sales	**50,534**	**53,846**	**(6.2%)**
End-customers	*48,673*	*52,152*	*(6.7%)*
Ex-field sales	*1,861*	*1,694*	*9.9%*
Gas condensate refined products sales	**40,120**	**25,097**	**59.9%**
Export – naphtha	*25,765*	*20,529*	*25.5%*
Export – other refined products	*13,716*	*4,568*	*200.3%*
Domestic – other refined products	*639*	-	*n/a*
Stable gas condensate sales	**10,100**	**607**	**n/a**
Export	*4,766*	-	*n/a*
Domestic	*5,334*	*607*	*n/a*
Liquefied petroleum gas sales	**7,064**	**5,312**	**33.0%**
Export	*2,966*	*2,921*	*1.5%*
Domestic	*4,098*	*2,391*	*71.4%*
Crude oil sales	**3,639**	**2,915**	**24.8%**
Export	*1,732*	*1,022*	*69.5%*
Domestic	*1,907*	*1,893*	*0.7%*
Other products sales	**117**	**104**	**12.5%**
Domestic	*117*	*104*	*12.5%*
Total oil and gas sales	**111,574**	**87,881**	**27.0%**
Other revenues	670	489	37.0%
Total revenues	**112,244**	**88,370**	**27.0%**

Natural gas sales

In the three months ended 30 June 2015, our revenues from sales of natural gas decreased by RR 3,312 million, or 6.2%, compared to the corresponding period in 2014 due to a decrease in sales volumes which was partially offset by a slight increase in average sales prices. The slight increase in our natural gas average sales prices was primarily due to 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 one of our major customers not taking temporarily its full contracted volumes due to technical reasons and warmer weather in the second quarter of 2015 as compared to the second quarter of 2014.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes amounted to 93.1% in the three months ended 30 June 2015 as compared to 94.0% in the corresponding period in 2014.

Gas condensate refined products sales

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

In the three months ended 30 June 2015, our revenues from sales of gas condensate refined products increased by RR 15,023 million, or 59.9%, 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 30 June 2015, our revenues from sales of naphtha increased by RR 5,236 million, or 25.5%, as compared to the corresponding period in 2014 due to an increase in sales volumes by 12.4% and average realized net export prices in Russian roubles by 11.7%.

In the three months ended 30 June 2015 and 2014, we exported 997 thousand and 887 thousand tons of naphtha, respectively. Our average realized naphtha net export price, excluding export duties, increased by RR 2,698 per ton, or 11.7%, to RR 25,842 per ton (CFR, CIF, DES, DAP and FOB) from RR 23,144 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 30 June 2015, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 9,787 million, or 214.3%, as compared to the corresponding period in 2014 due primarily to an increase in sales volumes and average realized net export prices in Russian roubles. In the three months ended 30 June 2015 and 2014, we exported in aggregate 560 thousand and 200 thousand tons of these products, or 94.8% 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 1,668 per ton, or 7.3%, to RR 24,512 per ton (CIF, FOB and DAP) from RR 22,844 per ton (CIF) in the corresponding period in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In the three months ended 30 June 2015, our revenues from sales of stable gas condensate significantly increased by RR 9,493 million, or 16.6 times, compared to the corresponding period in 2014 with 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, as well as an increase in sales volumes on the domestic market.

In the three months ended 30 June 2015, we sold 218 thousand tons of stable gas condensate, or 40.0% of our total sales volumes, to the APR and Europe at an average realized net export price, excluding export duties, of RR 21,881 per ton (CFR and DAP).

In the three months ended 30 June 2015, we sold 327 thousand tons of stable gas condensate on the domestic market compared to 43 thousand tons in the corresponding period in 2014. Our average realized price for stable gas condensate sales on the domestic market in the three months ended 30 June 2015 amounted to RR 16,320 per ton (net of VAT), representing a decrease of RR 2,100 per ton, or 14.8%, as compared to the corresponding period in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In the three months ended 30 June 2015, our revenues from sales of LPG increased by RR 1,752 million, or 33.0%, compared to the corresponding period in 2014 due to an increase in total sales volumes that was partially offset by the reallocation of sales volumes in favor of the domestic market with lower average realized prices compared to export sales prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In the three months ended 30 June 2015, we sold 136 thousand tons of LPG, or 25.3% of our total LPG sales volumes, to export markets as compared to sales of 138 thousand tons, or 41.7%, in the corresponding period in 2014. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 556 per ton, or 2.6%.

In both reporting periods our main export LPG markets were Poland and Finland; our cumulative sales volumes to these countries exceeded 90% of total export volumes in both reporting periods.

In the three months ended 30 June 2015, we sold 401 thousand tons of LPG on the domestic market compared to sales of 193 thousand tons in the corresponding period in 2014. Our average realized LPG domestic price, including trading activities, in the three months ended 30 June 2015, was RR 10,222 per ton representing a decrease of RR 2,167 per ton, or 17.5%, compared to the corresponding period in 2014.

Crude oil sales

In the three months ended 30 June 2015, revenues from crude oil sales increased by RR 724 million, or 24.8%, compared to the corresponding period in 2014 due to an increase in average realized prices in Russian roubles and, to a lesser extent, sales volumes. Our crude oil sales volumes increased by 15 thousand tons, or 6.7%, to 238 thousand tons from 223 thousand tons in the corresponding period in 2014 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In the three months ended 30 June 2015, we sold 53.8% of our total crude oil volumes domestically at an average price of RR 14,862 per ton (excluding VAT) representing an increase of RR 1,912 per ton, or 14.8%, as compared to the corresponding period in 2014.

The remaining 46.2% of our crude oil volumes were sold to export markets at an average price of RR 15,721 per ton (FOB, excluding export duties) representing an increase of RR 2,369 per ton, or 17.7%, as compared to the corresponding period in 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Other products sales

Other products sales represent our revenues from the domestic sales of methanol, oil products (diesel fuel and petrol) purchased for the resale and sold through our retail stations and other liquid hydrocarbons. In the three months ended 30 June 2015, our revenues from other products sales increased by RR 13 million, or 12.5%, to RR 117 million from RR 104 million in the corresponding period in 2014.

Other revenues

Other revenues include revenue from geological and geophysical research services, rent, sublease, repair and maintenance of energy equipment services, as well as other services. In the three months ended 30 June 2015, other revenues increased by RR 181 million, or 37.0%, to RR 670 million from RR 489 million in the corresponding period in 2014 primarily due to an increase in revenues from the sublease of tankers by RR 159 million. The related sublease of tankers expenses are included in our transportation expenses in line “Gas condensate refined products and stable gas condensate transportation by tankers”.

In addition, in the three months ended 30 June 2015, other revenues increased by RR 95 million due to revenues from repair and maintenance of energy equipment services provided by our recently acquired subsidiary NovaEnergo, and by RR 43 million due to an increase in revenues from geological and geophysical research services provided by the Group primarily to our joint ventures.

The increase in other revenues resulting from the factors described above was partially offset by an absence of revenues from the sublease of rail cars in the second quarter of 2015 due to the termination of a rental contract at the end of 2014. Revenues from the sublease of rail cars in three months ended 30 June 2014 amounted to RR 122 million.

Operating expenses

In the three months ended 30 June 2015, our total operating expenses increased by RR 23,871 million, or 42.9%, to RR 79,541 million compared to RR 55,670 million in the corresponding period in 2014, and our total operating expenses as a percentage of total revenues increased to 70.9% from 63.0% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures that in turn allowed us to sell increased volumes of hydrocarbons to both domestic and international markets (see “Purchases of natural gas and liquid hydrocarbons” below). As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 49.0% in the three months ended 30 June 2015, from 61.2% 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 30 June:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Transportation expenses	29,940	*26.7%*	26,695	*30.2%*
Taxes other than income tax	9,015	*8.0%*	7,353	*8.3%*
Subtotal non-controllable expenses	**38,955**	***34.7%***	**34,048**	***38.5%***
Purchases of natural gas and liquid hydrocarbons	29,892	*26.6%*	11,859	*13.4%*
General and administrative expenses	4,907	*4.4%*	3,155	*3.6%*
Depreciation, depletion and amortization	4,681	*4.2%*	4,167	*4.7%*
Materials, services and other	3,294	*2.9%*	2,909	*3.3%*
Exploration expenses	22	*n/a*	3	*n/a*
Net impairment expenses (reversals)	(261)	*n/a*	22	*n/a*
Change in natural gas, liquid hydrocarbons and work-in-progress	(1,949)	*n/a*	(493)	*n/a*
Total operating expenses	**79,541**	***70.9%***	**55,670**	***63.0%***

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, as well as tax rates imposed by federal, regional or local tax authorities.

In the three months ended 30 June 2015, our non-controllable expenses increased by RR 4,907 million, or 14.4%, to RR 38,955 million from RR 34,048 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 50.4% 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 the cancellation of a zero crude oil production tax rate effective from 1 January 2015 (see “Our tax burden and obligatory payments” above).

Despite an increase in non-controllable expenses, as a percentage of total revenues they decreased to 34.7% in the three months ended 30 June 2015 compared to 38.5% 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 purchases from our joint ventures, as well as an increase in the US dollar average exchange rate to the Russian rouble.

Transportation expenses

In the three months ended 30 June 2015, our total transportation expenses increased by RR 3,245 million, or 12.2%, to RR 29,940 million as compared to RR 26,695 million in the corresponding period in 2014.

millions of Russian roubles	**Three months ended 30 June:** 2015	2014	**Change** %
Natural gas transportation by trunk and low-pressure pipelines	20,277	21,468	(5.5%)
Stable gas condensate and liquefied petroleum gas transportation by rail	6,650	3,828	73.7%
Gas condensate refined products and stable gas condensate transportation by tankers	2,635	1,105	138.5%
Crude oil transportation by trunk pipelines	360	286	25.9%
Other	18	8	125.0%
Total transportation expenses	**29,940**	**26,695**	**12.2%**

In the three months ended 30 June 2015, our expenses for natural gas transportation decreased by RR 1,191 million, or 5.5%, to RR 20,277 million from RR 21,468 million in the corresponding period in 2014 due to a 7.5% 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 specificity of transportation routes.

In the three months ended 30 June 2015, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 2,822 million, or 73.7%, to RR 6,650 million from RR 3,828 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via rail by 73.1%.

Despite an increase in the railroad transportation tariffs (see “Transportation tariffs” above) our weighted average transportation cost per unit for stable gas condensate and LPG delivered by rail increased marginally, by 0.4%, due to a decrease in the share of LPG volumes transported in total liquids volumes (as a result of an increase in LPG volumes sold ex-works Purovsky Plant and Tobolsk-Neftekhim without transportation expenses) and the length of the transportation route. The regulated railroad transportation tariffs for LPG are higher than for our other liquid hydrocarbons.

Total transportation expenses for liquids delivered by tankers to international markets increased by RR 1,530 million, or 138.5%, to RR 2,635 million in the three months ended 30 June 2015 from RR 1,105 million in the corresponding period in 2014 due to an increase in volumes of liquids sold and transported via tankers by 59.6%, as well as an increase in the average exchange rate of US dollar to Russian rouble by 50.4% in the three months ended 30 June 2015 compared to the corresponding period in 2014 since our tankers transportation expenses are US dollar denominated.

The effect of increased sales volumes and increased US dollar exchange rate on the tankers transportation expenses was partially mitigated by the change in the geography of stable gas condensate and refined products shipments. Our tanker transportation expenses per ton for transportation to the markets of the APR, as well as to North and South America are significantly higher compared to the transportation costs to European markets. In the three months ended 30 June 2015, we increased the share of volumes shipped to Europe from 34.6% to 50.3%, while the share of volumes shipped to the USA and South America decreased from 15.6% to 2.2%. The share of deliveries to the APR changed insignificantly from 49.8% to 47.5% of total stable gas condensate and refined products export sales volumes.

In the three months ended 30 June 2015, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 74 million, or 25.9%, to RR 360 million from RR 286 million in the corresponding period in 2014 primarily due to a 7.5% increase in volumes transported, as well as due to an increase in the transportation tariff set by the FTS (by 6.75% effective January 2015) and deliveries to more distant regions.

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

Taxes other than income tax

In the three months ended 30 June 2015, taxes other than income tax increased by RR 1,662 million, or 22.6%, to RR 9,015 million from RR 7,353 million in the corresponding period in 2014 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Unified natural resources production tax (UPT)	8,376	6,791	23.3%
Property tax	550	477	15.3%
Other taxes	89	85	4.7%
Total taxes other than income tax	**9,015**	**7,353**	**22.6%**

In the three months ended 30 June 2015, our unified natural resources production tax expense increased by RR 1,585 million, or 23.3%, to RR 8,376 million from RR 6,791 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 second quarter of 2014, the tax rate was fixed and amounted to RR 647 per ton of extracted gas condensate.

In addition, from 1 January 2015, as a result of changes in the Tax code of the Russian Federation, production tax was levied on crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields at an effective rate of RR 236 per ton multiplied by a 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 30 June 2015, our property tax expense increased by RR 73 million, or 15.3%, to RR 550 million from RR 477 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 30 June 2015, our purchases of natural gas and liquid hydrocarbons significantly increased by RR 18,033 million, or 152.1%, to RR 29,892 million from RR 11,859 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Unstable gas condensate	23,426	5,387	334.9%
Natural gas	6,171	6,346	(2.8%)
Other liquid hydrocarbons	295	126	134.1%
Total purchases of natural gas and liquid hydrocarbons	**29,892**	**11,859**	**152.1%**

In the three months ended 30 June 2015, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 18,039 million, or 334.9%, as compared to the corresponding period in 2014 and were mainly due to an increase in purchases from SeverEnergia (its wholly owned subsidiary, Arcticgas) as a result of the launch of additional production capacities at the end of 2014 and in April 2015 (see “Recent developments” above).

In the three months ended 30 June 2015, our purchases of natural gas decreased by RR 175 million, or 2.8%, as compared to the corresponding period in 2014 primarily as the result of the decreased purchases from our related party SIBUR that was partially offset by the commencement of purchases from our joint venture Terneftegas effective May 2015.

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In the three months ended 30 June 2015, our purchases of other liquid hydrocarbons increased by RR 169 million, or 134.1%, as compared to the corresponding period in 2014.

General and administrative expenses

In the three months ended 30 June 2015, our general and administrative expenses increased by RR 1,752 million, or 55.5%, to RR 4,907 million compared to RR 3,155 million in the corresponding period in 2014. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 84.3% and 77.2% of total general and administrative expenses in the three months ended 30 June 2015 and 2014, respectively.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	3,361	1,752	91.8%
Social expenses and compensatory payments	502	435	15.4%
Legal, audit and consulting services	274	250	9.6%
Advertising expenses	138	200	(31.0%)
Business travel expense	132	110	20.0%
Repair and maintenance expenses	109	42	159.5%
Fire safety and security expenses	79	74	6.8%
Insurance expense	74	69	7.2%
Rent expense	39	36	8.3%
Other	199	187	6.4%
Total general and administrative expenses	**4,907**	**3,155**	**55.5%**

Employee compensation related to administrative personnel increased by RR 1,609 million, or 91.8%, to RR 3,361 million in the three months ended 30 June 2015 from RR 1,752 million in the corresponding period in 2014. The increase was due to higher average number of employees (the expansion of activities at our research and development center and an acquisition of a 100% equity stake in NovaEnergo at the end of 2014), an indexation of base personnel salaries effective 1 July 2014, as well as additional bonuses paid in the second quarter of 2015 based on prior year performance and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

In the three months ended 30 June 2015, our social expenses and compensatory payments increased by RR 67 million, or 15.4%, to RR 502 million compared to RR 435 million in the corresponding period in 2014 mainly due to an increase in compensatory payments of RR 345 million compared to RR 176 million in the corresponding period in 2014, which related to the development of Yarudeyskoye (only in the second quarter of 2015), Salmanovskoye and Geofizicheskoye fields. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Advertising expenses decreased by RR 62 million, or 31.0%, to RR 138 million in the three months ended 30 June 2015 from RR 200 million in the corresponding period in 2014 due to the termination of sponsorship contract for advertising during sporting events in 2014.

Business travel expenses increased by RR 22 million, or 20.0%, to RR 132 million in the three months ended 30 June 2015 from RR 110 million in the corresponding period in 2014 mainly due to the expansion of the Group’s business activities on international markets.

Repair and maintenance expenses significantly increased by RR 67 million, or 159.5%, to RR 109 million in the three months ended 30 June 2015 from RR 42 million in the corresponding period in 2014 mainly due to current repair works performed at the Group’s Moscow head office building and other administrative buildings of subsidiaries.

Other items of our general and administrative expenses changed marginally.

Depreciation, depletion and amortization

In the three months ended 30 June 2015, our depreciation, depletion and amortization (“DDA”) expense increased by RR 514 million, or 12.3%, to RR 4,681 million from RR 4,167 million in the corresponding period in 2014 mainly due to additions of property, plant and equipment at our production subsidiaries during the 12 months preceding the reporting period. We accrue depreciation and depletion using the “units-of-production” method for our oil and gas assets and using a straight-line method for other facilities.

Materials, services and other

In the three months ended 30 June 2015, our materials, services and other expenses increased by RR 385 million, or 13.2%, to RR 3,294 million compared to RR 2,909 million in the corresponding period in 2014. The main components of this expense category were services for preparation, transportation and processing of hydrocarbons, as well as employee compensation, which on aggregate comprised 61.1% and 52.0% of total materials, services and other expenses in the three months ended 30 June 2015 and 2014, respectively.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	1,601	1,331	20.3%
Services for preparation, transportation and processing of hydrocarbons	413	183	125.7%
Repair and maintenance	366	533	(31.3%)
Materials and supplies	220	188	17.0%
Electricity and fuel	213	180	18.3%
LPG storage capacity reservation costs	178	20	n/a
Security services	112	101	10.9%
Transportation services	87	102	(14.7%)
Rent expenses	19	152	(87.5%)
Other	85	119	(28.6%)
Total materials, services and other	**3,294**	**2,909**	**13.2%**

Operating employee compensation increased by RR 270 million, or 20.3%, to RR 1,601 million compared to RR 1,331 million in the corresponding period in 2014. The increase was due to an increase in the average number of employees primarily as a result of the acquisition of a 100% equity stake in 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 for medical and social insurance and to the Pension Fund of the Russian Federation.

Services for preparation, transportation and processing of hydrocarbons expenses mainly relate to transportation of our LPG produced at the Purovsky Plant for further processing at Tobolsk-Neftekhim. These expenses increased by RR 230 million, or 2.3 times, to RR 413 million in the three months ended 30 June 2015 compared to RR 183 million in the corresponding period in 2014 primarily due to the respective increase in our LPG volumes dispatched for processing at the Tobolsk-Neftekhim.

Repair and maintenance services expenses decreased by RR 167 million, or 31.3%, to RR 366 million in the three months ended 30 June 2015 compared to RR 533 million in the corresponding period in 2014 as a result of decreased planned volumes of fixed assets repair works at our production subsidiaries in the reporting period in 2015, as well as costs savings in repair and maintenance services of energy generating equipment at our core production subsidiaries due to the acquisition of NovaEnergo in December 2014.

Materials and supplies expense increased by RR 32 million, or 17.0%, to RR 220 million in the three months ended 30 June 2015 compared to RR 188 million in the corresponding period in 2014 as a result of an increase in materials and chemicals used for the improvement of our gas condensate pipeline capacity due to significant increase in volumes transported, as well as materials used by our subsidiary NovaEnergo acquired in December 2014.

In the three months ended 30 June 2015, electricity and fuel expenses increased by RR 33 million, or 18.3%, to RR 213 million from RR 180 million in the corresponding period in 2014 as a result of an increase in electricity consumption at production subsidiaries to maintain production volumes at our mature fields, as well as at processing subsidiaries due to additions of new energy-consuming facilities and an increase in hydrocarbon volumes being processed at these facilities.

In the three months ended 30 June 2015, LPG storage capacity reservation costs increased by RR 158 million to RR 178 million from RR 20 million in the corresponding period in 2014 due to an increase in LPG volumes required to be reserved in Poland as a result of changes in the methodology of LPG reservation volumes calculation effective 1 January 2015. The reservation of LPG storage capacity is required in order to maintain the necessary strategic reserve in Poland in accordance with local regulation.

Rent expenses decreased by RR 133 million, or eightfold, to RR 19 million from RR 152 million in the corresponding period in 2014. In the second quarter of 2014, we rented rail cars from a third party for transportation of our LPG to end-customers. We subleased the leased rail cars to the transportation services provider and include the corresponding revenues in “Other revenues”. At the end of 2014, the rental and sublease contracts were terminated.

Net impairment expenses (reversals)

In the three months ended 30 June 2015, we reversed a portion of previously accrued provisions in the total amount of RR 261 million as a result of revising management’s estimated on the probability of recovering trade accounts receivable.

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

In the three months ended 30 June 2015, we recorded a reversal of RR 1,949 million to change in inventory expense as compared to a reversal of RR 493 million in the corresponding period in 2014 due to an increase in hydrocarbons inventory balances as of 30 June compared to 31 March.

In the three months ended 30 June 2015, our cumulative natural gas inventory balance in the Underground Gas Storage Facilities (“UGSF”), the GTS and own pipeline infrastructure increased by 942 mmcm compared to a 784 mmcm increase in the inventory balance in the corresponding period in 2014. In both reporting periods, an increase in inventory balance was due to the seasonal injection of natural gas into the UGSF as a result of decreased consumption during the summer period. Our volumes of natural gas injected into Gazprom’s underground gas storage facilities fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonal fluctuation.

In the three months ended 30 June 2015, our cumulative liquid hydrocarbons inventory balance, recognized as inventory in transit or in storage, increased by 220 thousand tons mainly due to an increase in inventory balance of stable gas condensate and refined products in storage capacities of our Ust-Luga Complex and the Purovsky Plant, as well as in rail cars in transit and not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

	2015			**2014**		
Inventory balances in transit or in storage	**At 30 June**	**At 31 March**	**Increase / (decrease)**	**At 30 June**	**At 31 March**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**1,596**	**654**	**942**	**1,621**	**837**	**784**
including Gazprom’s UGSF	*1,563*	*511*	*1,052*	*1,589*	*806*	*783*
Liquid hydrocarbons (thousand tons)	**811**	**591**	**220**	**470**	**555**	**(85)**
including naphtha	*223*	*189*	*34*	*141*	*221*	*(80)*
stable gas condensate	*348*	*256*	*92*	*179*	*184*	*(5)*

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 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 30 June 2015, we recognized other operating loss of RR 158 million compared to other operating income of RR 1,791 million in the corresponding period in 2014.

In the three months ended 30 June 2015, within our trading activities on the European market we purchased and sold 8.3 terawatt-hours (or approximately 790 mmcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate gross income from trading activities of RR 215 million as compared to RR 131 million of income in the corresponding period in 2014. At the same time, in the three months ended 30 June 2015, we recognized a non-cash loss of RR 352 million as a result of a decrease in the fair value of the hydrocarbons purchase and sales contracts as compared to RR 1,861 million of non-cash income in the corresponding period in 2014. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

Profit from operations and EBITDA

As a result of the factors discussed above, our profit from operations decreased by RR 1,946 million, or 5.6%, to RR 32,545 million in the three months ended 30 June 2015, as compared to RR 34,491 million in the corresponding period in 2014 primarily due to a significant increase in purchases of liquid 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. At the same time, our share in the profit from operations of our joint ventures increased significantly by RR 6,418 million, or fivefold, to RR 8,019 million in the three months ended 30 June 2015, as compared to RR 1,601 million in the corresponding period in 2014.

Our EBITDA increased by RR 9,839 million, or 24.4%, to RR 50,162 million in the three months ended 30 June 2015 from RR 40,323 million in the corresponding period in 2014 due to a significant increase in sales volumes of liquid hydrocarbons (by 72.6%), that was partially offset by decreased natural gas sales volumes (by 6.6%).

Finance income (expense)

In the three months ended 30 June 2015, we recorded net finance income of RR 2,130 million compared to net finance income of RR 808 million in the corresponding period in 2014, which were mainly due to the recognition of a non-cash foreign exchange gain as a result of the Russian rouble appreciation relative to the US dollar and Euro in both reporting periods.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Accrued interest expense on loans received	(2,865)	(2,137)	34.1%
Less: capitalized interest	1,213	858	41.4%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(68)	(68)	0.0%
Interest expense	**(1,720)**	**(1,347)**	**27.7%**
Interest income	2,669	1,002	166.4%
Change in fair value of non-commodity financial instruments	(95)	-	n/a
Foreign exchange gain (loss)	1,276	1,153	10.7%
Total finance income (expense)	**2,130**	**808**	**163.6%**

In the three months ended 30 June 2015, our interest expense increased by RR 373 million, or 27.7%, to RR 1,720 million primarily due to an increase in the average exchange rate of the US dollar and Euro relative to the Russian rouble (see "Selected macro-economic data" above). The effect of an increase in the exchange rates on interest expense was reduced by the partial repayment of the Groups' borrowings.

Interest income increased significantly by RR 1,667 million, or threefold, to RR 2,669 million in the three months ended 30 June 2015 from RR 1,002 million in the corresponding period in 2014 due to an increase in loans provided to our joint ventures for the development and expansion of their activities, as well as a result of the average Russian rouble depreciation relative to the US dollar and Euro in the three months ended 30 June 2015 compared to the average exchange rate in the corresponding period in 2014.

The Group continues to record non-cash foreign exchange gains and losses each period due to movements between currency exchange rates. In the three months ended 30 June 2015, we recorded a net non-cash foreign exchange gain of RR 1,276 million compared to a net non-cash foreign exchange gain of RR 1,153 million in the corresponding period in 2014 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided.

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

In the three months ended 30 June 2015, the Group's proportionate share of profit of joint ventures increased by RR 9,236 million, or 245.1%, to RR 13,004 million compared to RR 3,768 million in the corresponding period in 2014.

millions of Russian roubles	**Three months ended 30 June: 2015**	**2014**	**Change %**
Profit from operations	8,019	1,601	n/a
Finance income (expense)	7,906	2,791	183.3%
Total income tax expense	(2,921)	(624)	368.1%
Total share of profit (loss) of joint ventures, net of income tax	**13,004**	**3,768**	**245.1%**

Our proportionate share in the profit from operations of our joint ventures increased significantly by RR 6,418 million based on higher operating results at SeverEnergia due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015. In addition, effective May 2015, our joint venture Terneftegas commenced production at the Termokarstovoye field, which also increased our proportionate share in the profit from operations of joint ventures in the second quarter of 2015.

Our proportionate share in the finance income of our joint ventures increased by RR 5,115 million, or 183.3%, mainly due to an increase in the non-cash foreign exchange profit on foreign currency denominated loans at our joint venture Yamal LNG by RR 7.1 billion, or 182.1%, to RR 11.0 billion in the 2015 reporting period compared to RR 3.9 billion in the corresponding period in 2014. This was partially offset by an increase in interest expense on loans received by Yamal Development and Nortgas.

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 13.4% and 18.4% for the three months ended 30 June 2015 and 2014, respectively. The Russian statutory income tax rate for both reporting periods was 20%.

The difference between effective income tax rates and statutory income tax rate was mainly due to 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 was recorded in their financial statements on an after-tax basis. The Group holds at least a 50% interest in each of its joint ventures, and the dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation.

Without the effect described above, the effective income tax for the three months ended 30 June 2015 and 2014 was 19.2% and 20.4%, respectively.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed in the respective sections above, our profit for the period increased by RR 9,395 million, or 29.5%, to RR 41,269 million in the three months ended 30 June 2015 from RR 31,874 million in the corresponding period in 2014. The profit attributable to shareholders of OAO NOVATEK increased by RR 9,970 million, or 31.2%, to RR 41,920 million in the three months ended 30 June 2015 from RR 31,950 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 3.30 per share, or 31.2%, to RR 13.88 per share in the three months ended 30 June 2015 from RR 10.58 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 30 June 2015 and 2014:

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Net cash provided by **operating** activities	30,447	23,775	28.1%
Net cash provided by (used in) **investing** activities	(17,771)	(1,216)	n/a
Net cash provided by (used in) **financing** activities	(22,870)	(15,725)	45.4%

Liquidity and credit ratios	30 June 2015	31 December 2014	Change, %
Current ratio	0.93	1.56	(40.4%)
Total debt to total equity	0.54	0.63	(14.3%)
Long-term debt to long-term debt and total equity	0.26	0.35	(25.7%)
Net debt to total capitalization (1)	0.29	0.31	(6.5%)
Net debt to EBITDA (2)	1.13	1.28	(11.7%)

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

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

Net cash provided by operating activities

In the three months ended 30 June 2015, our net cash provided by operating activities increased by RR 6,672 million, or 28.1%, to RR 30,447 million compared to RR 23,775 million in the corresponding period in 2014 mainly due to the working capital changes (in relation to inventories, receivables and payables), as well as decreased income tax payments that fluctuate period-on-period.

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Profit from operations	32,545	34,491	(5.6%)
Non-cash adjustments(1)	4,916	2,650	85.5%
Changes in working capital and long-term advances given	(4,977)	(8,929)	(44.3%)
Interest received	392	118	232.2%
Income taxes paid	(2,429)	(4,555)	(46.7%)
Total net cash provided by operating activities	**30,447**	**23,775**	**28.1%**

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

Net cash provided by (used for) investing activities

In the three months ended 30 June 2015, our net cash used for investing activities increased by RR 16,555 million, or 14.6 times, to RR 17,771 million compared to RR 1,216 million in the corresponding period in 2014.

millions of Russian roubles	Three months ended 30 June: 2015	2014	Change %
Purchases of property, plant and equipment, materials for construction and capitalized interest paid	(15,463)	(17,223)	(10.2%)
Loans provided to joint ventures	(2,308)	(15,536)	(85.1%)
Proceeds from disposal of participation interest in joint ventures	-	34,893	n/a
Additional capital contributions to joint ventures	-	(3,350)	n/a
Net cash provided by (used for) investing activities	**(17,771)**	**(1,216)**	**n/a**

Our purchases of property, plant and equipment, materials for construction and capitalized interest paid decreased by RR 1,760 million, or 10.2%, 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, ongoing development at the Yurkharovskoye field and the development of Salmanovskoye (Utrenneye) field.

In the three months ended 30 June 2015, we provided loans to our joint ventures Yamal Development in the amount of RR 2,308 million as compared to RR 15,536 million provided to Yamal LNG and Yamal Development in the corresponding period in 2014 (see "Loans provided" below).

In the 2014 reporting period, we received RR 34,893 million from the disposal of 20% participation interest in Artic Russia B.V. in March 2014, as well as made an additional capital contribution to our joint venture Terneftegas in the amount of RR 3,350 million.

Net cash provided by (used for) financing activities

In the three months ended 30 June 2015, our net cash used for financing activities increased by RR 7,145 million, or 45.4%, to RR 22,870 million compared to RR 15,725 million in the corresponding period in 2014.

	Three months ended 30 June:		Change
millions of Russian roubles	**2015**	**2014**	**%**
Proceeds from loans	16,827	-	n/a
Repayments of loans	(22,712)	-	n/a
Dividends paid	(15,702)	(13,569)	15.7%
Other	(1,283)	(2,156)	(40.5%)
Net cash provided by (used for) financing activities	**(22,870)**	**(15,725)**	**45.4%**

In the three months ended 30 June 2015, we obtained RR 16,827 million and repaid RR 16,261 million of short-term loans from ING Belgium bank and Credit Agricole (Suisse) SA. In addition, in June 2015, we partially repaid a loan obtained under our syndicated credit line facility in the amount of USD 115.4 million (see "Debt obligation" below). In the corresponding period in 2014, we did not obtain or repay existing loans and borrowings.

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

Working capital

Our net working capital position (current assets less current liabilities) as of 30 June 2015 was a negative RR 9,758 million compared to a positive RR 45,383 million as of 31 December 2014. The change in our net working capital was primarily due to an increase in the short-term debt and current portion of our long-term debt in the amount of RR 44,843 million as a result of the classification of a portion of our syndicated term credit-facility and US dollar Eurobonds in the amount of USD 600 million as part of current liabilities based on the repayment schedule.

In 2014 and in the first half of 2015, the Group's free cash flow demonstrated significant growth with the successful launches of new fields and completion of expansion at the Purovsky Plant. In addition, we anticipate a decrease in our core capital expenditure programs as a result of achieving nameplate production levels at our main fields, which should further increase the Groups' ability to generate sufficient free cash flows. The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all its current liabilities and to finance the capital construction programs.

Capital expenditures

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

millions of Russian roubles	Three months ended 30 June: 2015	2014
Yarudeyskoye field	7,129	5,170
East-Tarkosalinskoye field	2,489	4,300
Yurkharovskoye field	2,299	5,290
Salmanovskoye (Utrennee) field	1,247	433
North-Khancheyskoye and Khadyryakhinskoye field	586	1,387
Khancheyskoye field	378	1,488
North-Russkoye field	222	91
Olimpiyskiy license area	55	634
Other	846	783
Capital expenditures	**15,251**	**19,576**

Total capital expenditures on property, plant and equipment in the three months ended 30 June 2015 decreased by RR 4,325 million, or 22.1%, to RR 15,251 million from RR 19,576 million in the corresponding period in 2014. In both 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 increased significantly our investments in the development of Salmanovskoye (Utrenneye) field located on the Gydan peninsila.

The "Other" line in the table above represents our capital expenditures related to other fields and processing facilities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by 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 113,268 million at 30 June 2015, or by RR 16,794 million.

The carrying value of loans provided with a breakdown by borrowers at 30 June 2015 and 31 December 2014 were as follows (in millions of Russian roubles):

Borrower	Currency	Maturity	Interest rate	At 30 June 2015	At 31 December 2014
Yamal LNG	USD	after the commencement of commercial production	4.46%	64,940	62,547
Yamal LNG	EUR	after the commencement of commercial production	4.46%	26,683	16,278
Yamal Development	RR	December 2015 and 2021	9.25%, 10.9%	17,855	13,361
Terneftegas	USD	after the commencement of commercial production	4.52%	3,790	4,288
Total loans provided				**113,268**	**96,474**

The increase in total loans provided was primarily a result of further EUR 237.2 million loan provided to our joint venture Yamal LNG by the Group, as well as a RR 4.5 billion loan to our joint venture Yamal Development. The increase was partially offset by the partial repayment from our joint venture Terneftegas of a loan in the amount of USD 10.7 million in March 2015, as well as the Russian rouble appreciation relative to the US dollar and Euro at 30 June 2015 compared to 31 December 2014 by 1.3% and by 10.0%, respectively.

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 foreign currencies.

Overview

Our total debt (in Russian roubles and translated to Russian roubles from foreign currencies using the exchange rate at the end of the current reporting period) decreased from RR 245,679 million at 31 December 2014 to RR 242,113 million at 30 June 2015, or by RR 3,566 million. The decrease in total debt was primarily due to a partial repayment of USD 115.4 million under our syndicated credit line facility in accordance with the maturity schedule in June 2015, as well as due to the Russian rouble appreciation relative to the US dollar at 30 June 2015 compared to 31 December 2014 by 1.3%. As of 30 June 2015, the Group obtained short-term loans in the aggregate amount of RR 7.0 billion, of which RR 5.4 billion related to loans denominated in US dollars and Euros from ING Belgium bank and Credit Agricole (Suisse) SA secured by cash revenues from specifically identified liquid hydrocarbons export sales contracts. The remaining RR 1.6 billion related to a Russian rouble denominated loan provided to one of the Group's subsidiaries by the non-controlling shareholder. 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 30 June 2015 and 31 December 2014 was as follows (in millions of Russian roubles):

Facility	Amount	Maturity	Interest rate	At 30 June 2015	At 31 December 2014
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	76,545	83,938
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	55,342	56,059
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	35,949	36,409
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	33,289	33,707
Bonds	RR 20 billion	October 2015	8.35%	19,995	19,991
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,970	13,956
Total				**235,090**	**244,060**
Less: current portion of long-term debt				(78,800)	(39,361)
Total long-term debt				**156,290**	**204,699**
Short-term debt				7,023	1,619
Plus: current portion of long-term debt				78,800	39,361
Total short-term debt and current portion of long-term debt				**85,823**	**40,980**
Total debt				**242,113**	**245,679**

Maturities of long-term loans

A breakdown of the carrying value of our long-term debt at 30 June 2015 by maturity is as follows:

Maturity schedule:	**RR million**
1 July 2016 to 30 June 2017	39,484
1 July 2017 to 30 June 2018	25,515
1 July 2018 to 30 June 2019	-
1 July 2019 to 30 June 2020	-
After 30 June 2020	91,291
Total long-term debt	**156,290**

Available credit facilities

At 30 June 2015, the Group has available credit facility with UniCredit Bank in amount of USD 180 million until August 2015 with interest rate determined by the parties at time of each withdrawal.

Management believes the Group has sufficient internally generated cash flows to fund its capital expenditure programs, service its existing debt and meet 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 30 June 2015, the total amount of our long-term debt denominated in US dollars was RR 142,321 million, or 58.8% 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 41.7% in the three months ended 30 June 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 30 June 2015, the Russian rouble appreciated by 1.3% and 10.0% against the US dollar and the Euro, respectively, compared to 31 December 2014.

Commodity risk

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

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

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are 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 PAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

Ability to reinvest

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

Off balance sheet activities

As of 30 June 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.