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

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2014 and 2013 together with our unaudited consolidated interim condensed financial information as of and for the three and nine months ended 30 September 2014. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". This consolidated interim condensed financial information should be read together with the audited consolidated financial statements for the year ended 31 December 2013 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 after Gazprom, in each case according to the Central Dispatch Administration of the Fuel and Energy Complex for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

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

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

We deliver all of our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant for processing into stable gas condensate and liquefied petroleum gas (LPG). Prior to the third quarter of 2013, the majority of our stable gas condensate from the Purovsky plant was shipped to international markets, but commencing from the third quarter of 2013, most of our stable gas condensate is sent for further processing to the Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea. The remaining stable gas condensate volumes are sold domestically.

The Ust-Luga Complex consists of two fractionation units (launched in June and October 2013) with a total capacity of six million tons per annum. The complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, which are subsequently sold to the international markets. The Ust-Luga complex enables us to increase the added value of our liquid hydrocarbons sales and allows us to diversify sales market.

Effective June 2014, the majority of our produced LPG is dispatched via pipeline to the refining capacities of Tobolsk-Neftekhim where, after additional processing, the majority of volumes are transported by rail to our end-customers on the domestic and international markets.

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

The Group jointly with our partners Total and China National Petroleum Corporation undertakes a large-scale project on constructing a liquefied natural gas plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula. The project includes the construction of transportation infrastructure, including the seaport and the international airport. Commercial launch of the plant and start of shipments is planned in 2017.

RECENT DEVELOPMENTS

Natural gas exchange trading in the Russian Federation

In June 2014, the Russian Federation government approved the resolution "Concerning the amendments to several Russian Federation governmental acts related to natural gas sales" which eliminated contradictions in previous governmental acts on natural gas sales at commodity exchange. The changes allow to trade natural gas at both the commodity exchanges and at electronic trading systems registered according to established procedures, which should facilitate the development of natural gas spot trading. We believe that this measure is an important step towards forming a competitive natural gas sales market on the territory of the Russian Federation.

Ten percent of total natural gas sales volumes in the domestic market is expected to be traded at the commodity exchange. Trading volumes for independent producers are not limited while OAO Gazprom may trade no more than 17.5 bcm of natural gas annually and its sales volumes should not exceed the total volumes of natural gas traded by independent natural gas producers. The Group plans to take an active part in the natural gas exchange trading to diversify our sales portfolio and optimize sales.

The first trading session in the "Natural gas" section took place in Saint-Petersburg International Mercantile Commodities Exchange on 24 October 2014.

Implementation of Yamal LNG project

In September 2014, our joint venture Yamal LNG received a license from the Russian Federation Ministry of Energy for export of LNG in accordance with the LNG export liberalization law passed in December 2013. The receipt of a LNG export license is an important milestone for successful implementation of the Yamal LNG project.

In May 2014, under the framework agreement with China National Petroleum Corporation ("CNPC") regarding the Yamal LNG project, the Group signed a long-term contract with CNPC for the supply of three (3) million tons of liquefied natural gas ("LNG") per annum for a period of 15 years with possible supply extension. Also, in May 2014, the Group and OAO Gazprom signed the heads of agreement for the supply of three (3) million tons of LNG per annum for a period of no less than 20 years, produced within the project. Management believes that the conclusion of LNG supply agreements is also an important milestone in the implementation of the Yamal LNG project.

Increasing production and refining capacity

In September 2014, our joint venture OOO SeverEnergia launched the third phase of the Samburgskoye field which allowed us to increase the fields' production capacity to the planned annual production level of about seven (7) bcm of natural gas and more than 900 thousand tons of gas condensate.

In January 2014, we launched the third stage of our Purovsky Gas Condensate Plant, completing the expansion of the plant's processing capacity from five (5) million tons per annum to 11 million tons per annum. Four gas condensate stabilization trains were launched (with an annual capacity of one and a half million tons each). The completion of this strategic project allowed us to achieve a balance between our gas condensate production potential and processing capacity.

As a result of the above, in the third quarter of 2014, we increased volumes processed at the Purovsky Plant by approximately 50% compared to the corresponding period in 2013.

Optimization of our liquefied petroleum gas distribution logistics and sales

Prior to 2014, we delivered our liquefied petroleum gas produced at the Purovsky Plant via railroad from the plant to the domestic and international sales markets. Effective January 2014, we started selling part of the liquefied petroleum gas to the domestic market directly at the Purovsky Plant. Effective June 2014, all of our liquefied petroleum gas, except volumes sold directly at the Purovsky Plant, are dispatched to the 1,100 kilometers long pipeline to the refining capacities of OOO Tobolsk-Neftekhim. After additional processing at Tobolsk-Neftekhim, most of the volumes are transported by rail from the Tobolsk station to our end-customers in the domestic and international markets, and the remaining part is sold at Tobolsk-Neftekhim without incurring additional transportation expenses. Such sales and distribution logistics of our liquefied petroleum gas allows us to bypass one of the busiest areas of the railroad and diversify our sales.

Inclusion of the Group to the OFAC's Sectoral List

On 16 July 2014, OAO NOVATEK has been 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.

We have reviewed the Group's capital expenditure programs and existing debt portfolio and have concluded that the Group's current financial position is stable and expected operating cash flows are sufficient to service and repay its existing debt, and fund the Group's planned capital expenditure programs.

We together with our international partners, Total and CNPC, have analyzed the impact of these sectoral sanctions on the implementation of our joint investment projects and are currently 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.

Acquisition of a land plot for office construction

In August 2014, the Group purchased a land plot next to our existing corporate head office in Moscow for construction of a new office building that became necessary as a result of expansion of Group's activities. The Group paid RR 4,895 million (USD 135 million) for the land plot based on a current market appraisal of the land.

Development of our operations at Gydan peninsula and the Gulf of Ob

In May 2014, the Group established wholly-owned subsidiaries Arctic LNG 1, Arctic LNG 2, and Arctic LNG 3 for further development and operation of the Salmanovskoye (Utrenneye) and Geofizicheskoye fields as well as the North-Obskiy license area located on the Gydan peninsula and the Gulf of Ob. The estimated aggregate proved, probable and possible reserves of the Salmanovskoye (Utrenneye) and Geofizicheskoye fields appraised under the PRMS reserve methodology as of 31 December 2013 totaled 1.1 trillion cubic meters of natural gas and 45.8 million tons of liquid hydrocarbons. The resources of the North-Obskiy license area according to the Russian reserve classification C3+D as of 31 December 2013 totaled 1.1 trillion cubic meters of natural gas and 76 million tons of liquid hydrocarbons.

In October 2014, the Russian Federation government included the above-mentioned subsidiaries of the Group to the list of companies with an exclusive right to export natural gas in a liquid form in compliance with the LNG export liberalization law. In addition, in June 2014, the State Duma of the Russian Federation approved changes to the Tax Code allowing zero unified production tax rates to natural gas and gas condensate produced at our fields located on the Gydan peninsula and the Gulf of Ob if natural gas is used exclusively for LNG production. Zero UPT rates are to remain in force for the cumulative production volumes of natural gas and gas condensate up to 250 bcm and 20 million tons, respectively, and not more than 12 years from the production commencement.

The Group considers fields located on the Gydan peninsula and the Gulf of Ob as a platform for increasing the resource base and for a further development of LNG production.

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 30 September: 2014	2013	Change %
Financial results			
Total revenues [(1)]	84,733	75,648	12.0%
Operating expenses	(55,870)	(47,080)	18.7%
Profit attributable to shareholders of OAO NOVATEK	7,627	23,458	(67.5%)
EBITDA [(2)]	38,757	34,428	12.6%
EBITDAX [(3)]	38,858	34,454	12.8%
Earnings per share (in Russian roubles)	2.53	7.75	(67.4%)
Net debt [(4)]	147,580	130,408	13.2%
Production volumes [(5)]			
Total hydrocarbons production (million barrels of oil equivalent)	112.3	102.7	9.3%
Total daily production (thousand barrels of oil equivalent per day)	1,220	1,116	9.3%
Operating results			
Natural gas sales volumes (million cubic meters)	14,944	14,403	3.8%
Naphtha sales volumes (thousand tons)	736	562	31.0%
Liquefied petroleum gas sales volumes (thousand tons)	361	257	40.5%
Other gas condensate refined products (thousand tons) [(6)]	289	128	125.8%
Crude oil sales volumes (thousand tons)	241	162	48.8%
Stable gas condensate sales volumes (thousand tons)	67	241	(72.2%)
Cash flow results			
Net cash provided by operating activities	18,844	25,992	(27.5%)
Capital expenditures [(7)]	12,284	16,276	(24.5%)
Free cash flow [(8)]	6,560	9,716	(32.5%)

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

millions of Russian roubles	Three months ended 30 September: 2014	2013	Change %
Profit attributable to shareholders of OAO NOVATEK	**7,627**	**23,458**	**(67.5%)**
Depreciation, depletion and amortization	4,316	3,589	20.3%
Net impairment reversals (expenses)	11	14	(21.4%)
Loss (income) from changes in fair value of derivative financial instruments	715	13	n/a
Total finance expense (income)	6,019	27	n/a
Total income tax expense	3,664	5,792	(36.7%)
Share of loss (profit) of joint ventures, net of income tax	11,777	(647)	n/a
EBITDA from subsidiaries	**34,129**	**32,246**	**5.8%**
Share in EBITDA of joint ventures	4,628	2,182	112.1%
EBITDA [2]	**38,757**	**34,428**	**12.6%**
Exploration expenses	101	26	288.5%
EBITDAX [3]	**38,858**	**34,454**	**12.8%**

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

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

(3) EBITDAX represents EBITDA as adjusted for the add-back of exploration expenses.

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

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

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

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

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

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one US dollar [(1)]	Three months ended 30 September: 2014	2013	Change %
Average for the period	36.19	32.80	10.3%
At the beginning of the period	33.63	32.71	2.8%
At the end of the period	39.39	32.35	21.8%
Depreciation (appreciation) of Russian rouble to US dollar	17.1%	(1.1%)	n/a

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

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Crude oil prices, USD per bbl [(2)]	Three months ended 30 September: 2014	2013	Change %
Brent			
Average for the period	101.9	110.3	(7.6%)
At the end of the period	94.8	108.1	(12.3%)
Dubai			
Average for the period	101.4	106.2	(4.5%)
At the end of the period	94.6	104.8	(9.7%)
Urals			
Average for the period	101.1	109.7	(7.8%)
At the end of the period	93.2	106.4	(12.4%)

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

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Oil products prices, USD per ton [(3)]	Three months ended 30 September: 2014	2013	Change %
Naphtha Japan			
Average for the period	913	919	(0.7%)
At the end of the period	850	900	(5.6%)
Naphtha CIF NWE			
Average for the period	882	906	(2.6%)
At the end of the period	811	886	(8.5%)
Jet fuel			
Average for the period	938	993	(5.5%)
At the end of the period	881	977	(9.8%)
Gasoil			
Average for the period	869	932	(6.8%)
At the end of the period	809	918	(11.9%)
Fuel oil			
Average for the period	584	615	(5.0%)
At the end of the period	554	608	(8.9%)

(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 September: 2014	2013	Change %
Average for the period	794	674	17.8%
At the end of the period	725	762	(4.9%)

(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 September: 2014	2013	Change %
Crude oil, stable gas condensate			
Average for the period	380.4	383.2	(0.7%)
At the end of the period	367.6	400.7	(8.3%)
Liquefied petroleum gas			
Average for the period	152.7	53.7	184.4%
At the end of the period	221.0	75.5	192.7%
Naphtha			
Average for the period	342.3	344.9	(0.8%)
At the end of the period	330.8	360.6	(8.3%)
Jet fuel, fuel oil			
Average for the period	251.0	252.9	(0.8%)
At the end of the period	242.6	264.4	(8.2%)
Gasoil			
Average for the period	247.2	252.9	(2.3%)
At the end of the period	238.9	264.4	(9.6%)

(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 financial market conditions

Political events in Ukraine post March 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. We continue to monitor the world community's reaction to the political events in Ukraine.

Despite benign economic growth numbers, the economic and financial situation in the Euro-Zone has stabilized as a result of the various measures taken by the respective governments, Central Banks and other quasi-governmental financial institutions. Although the main financial and economic issues plaguing the Euro-Zone over the last few years still remain, we will continue to monitor the credit situation very closely and take various measures, we deem necessary, to ensure the integrity of our financial condition and mitigate counter-party credit exposure from our natural gas and liquid hydrocarbon sales. In addition, we continue to take proactive steps to ensure the safety of our excess funds deposited with both domestic and international banks, as well as limit our risk exposure from prepayments to various service providers. Presently, our cash and deposits are diversified and maintained in banks that we believe are well capitalized in accordance with international capital adequacy rules.

We have reviewed our capital expenditure program for the remainder 2014, and have concluded that internal operating cash flows and available borrowing facilities are sufficient to adequately fund our core natural gas business operations and planned capital expenditure programs.

Management will continue to closely monitor the economic and political environment in Russia and the world community, as well as the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. In addition, we will continue to assess the trends in the capital markets for opportunities to access long-term funding at a reasonable cost to the Group commensurate with our capital requirements.

The effect of foreign currency change

As of 30 September 2014, the Russian rouble depreciated relative to the US dollar by approximately 20.3% since 31 December 2013. The depreciation of the Russian rouble resulted in a significant revaluation of our assets and liabilities denominated in foreign currency, primarily US dollar denominated long-term debt. Despite significant non-cash foreign currency exchange losses realized in the 2014 reporting period, we believe that the Group's financial results are mitigated from the negative effect of the foreign currency fluctuations since approximately 30% of our revenues for the nine months ended 30 September 2014 are denominated in US dollars. With the expected launches of our new fields during the latter part of 2014 and throughout 2015, as well as an increased capacity of the Purovsky Plant and the Ust-Luga Complex, we expect to continue increasing our proportional share of liquids sales, which will result in an increased share of foreign currency dominated revenues as compared to prior periods.

The non-cash foreign exchange loss recognized by our joint venture Yamal LNG is primarily due to the revaluation of our US dollar denominated debt as of the balance sheet date. Once commercial production commences, the negative effects of the foreign currency movements relative to our US denominated debt portfolio will be mitigated by the fact that sales of our products (liquefied natural gas and stable gas condensate) delivered to international markets will be denominated in the same currency as Yamal LNG's repayments of its long-term debt.

Natural gas prices

The Group's natural gas prices on the domestic market are strongly influenced by the prices regulated by the Federal Tariffs Service ("FTS"), a Russian Federation governmental agency, and present market conditions.

During 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were set by the FTS using a price formula which provided for quarterly changes of natural gas prices, as well as the possibility of adjusting natural gas prices within the quarter in case there was a significant deviation (more than 5%) of natural gas prices calculated using a price formula in the previous quarter from the annual wholesale price changes set by the Russian Federation government.

In 2013, natural gas prices for sales to end-customers on the domestic market (excluding residential customers) were decreased by an average of 3.0% from 1 April and subsequently increased by an average of 15.0%, 3.1% and 1.9% from 1 July, 1 August and 1 October, respectively. Effective from 1 January 2014, the FTS set natural gas prices back to the August-September levels of 2013, decreasing by an average of 1.9% from the December 2013 price levels.

In March 2014, the FTS made changes to the “Statement of Gas Price Formula Definition”, which effectively abandoned the quarterly wholesale price calculation based on the natural gas price formula. As a result, natural gas prices in 2014 for sales to all customer categories on the domestic market (excluding residential customers) were calculated using a price formula based on parameters set by FTS in December 2013 and will not be changed during 2014 (effectively remaining at the same price level as the August-September 2013 prices).

Based on the Ministry of Economic Development Forecast published in September 2014, wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2015, 2016 and 2017 will be increased by 7.5%, 5.5% and 3.6%, respectively. The Russian Federation government continues to debate various policies relating to the natural gas industry development and natural gas prices growth rate on the Russian domestic market.

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

The specific terms for delivery of natural gas affect our average realized prices. Natural gas sold “ex-field” is sold primarily to wholesale gas traders, in which case the buyer is responsible for the payment of gas transportation tariffs. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses. Historically, we have realized higher prices and net margins for natural gas volumes sold directly to end-customers, as the gas transportation tariff is included in the contract price and no retail margin is lost to wholesale gas traders. However, the historical norm may or may not prevail in the present or future market situations.

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

In the three months ended 30 September 2014, our average natural gas price on end-customers sales marginally decreased by 1.1% due to sales to our end-customers located closer to our production fields in the reporting period as compared to the corresponding period in 2013 that was partially offset by a cumulative increase in the average regulated FTS price by 1.0% as compared to the corresponding period in 2013 (the cumulative effect of a 3.1% and 1.9% increase in gas tariffs effective from 1 August and 1 October 2013 and a 1.9% decrease effective from 1 January 2014). The change in the sales geography also had an impact on the dynamics of our average transportation expense per mcm resulting in a 2.3% decrease although the natural gas transportation tariff set by the FTS increased by 6.4% effective from 1 August 2013 (see “Transportation tariffs” below).

As a result of the change in the sales geography and the reallocation of natural gas sales volumes between customers our average netback price on end-customers sales slightly decreased by 0.1%, while our total average natural gas price excluding transportation expense decreased by 0.2% compared to the respective prices in the corresponding period in 2013.

Our average natural gas price for sales to wholesale traders decreased by 7.1% as compared to the corresponding period in 2013 due to a change in the mix of wholesale traders while the proportion of natural gas sold to end-customers increased.

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

Russian roubles per mcm	Three months ended 30 September: 2014	2013	Change %
Average natural gas price to end-customers [(1)]	3,620	3,659	(1.1%)
Average natural gas transportation expense for sales to end-customers	(1,538)	(1,574)	(2.3%)
Average natural gas netback price on end-customer sales	2,083	2,086	(0.1%)
Average natural gas price ex-field (wholesale traders)	1,832	1,973	(7.1%)
Total average natural gas price excluding transportation expense	**2,069**	**2,074**	**(0.2%)**

[(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, such as movements in international benchmark crude oil and oil products prices. Crude oil that we sell bound for international markets is transported through the pipeline system where it is blended with other 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. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the ultimate prices we receive for our liquids volumes sold on both the domestic and international markets.

Our stable gas condensate and refined products, LPG (except for ex-works Purovsky Plant and Tobolsk-Neftekhim refining facilities sales) and crude oil prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery.

Stable gas condensate and refined products

There were no sales of stable gas condensate to export markets in the three months ended 30 September 2014 as a result of substantially all stable gas condensate volumes produced at the Purovsky Plant being transferred to the Ust-Luga Complex for the processing into higher value added products of gas condensate refining.

In the corresponding period in 2013, our average realized stable gas condensate export contract price, including export duties, was USD 917 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 552.4 per ton.

In the three months ended 30 September 2014, our average realized export contract prices for naphtha and all of other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 54 and USD 109 per ton, or 5.7% and 11.7%, to approximately USD 900 and USD 826 per ton, respectively. The decrease in our average realized export contract prices was as a result of a decrease in prices of the respective products on the international markets used in price calculation (see “Selected macro-economic data” above). In addition, our average realized net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in the three months ended 30 September 2014 decreased by USD 48.6 and USD 109.1 per ton, or 8.0% and 16.0%, and amounted to USD 556.9 and USD 573.4 per ton, respectively.

In both the reporting periods we sold naphtha and other gas condensate refined products to the export markets at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), free on board (FOB), delivery to the port of destination ex-ship (DES), or delivery at point of destination (DAP).

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 September: 2014	2013	Change %
Stable gas condensate			
Net export price, RR per ton	-	18,119	n/a
Net export price, USD per ton	-	552.4	n/a
Domestic price, RR per ton	12,955	13,720	(5.6%)
Naphtha			
Net export price, RR per ton	20,154	19,859	1.5%
Net export price, USD per ton	556.9	605.5	(8.0%)
Other gas condensate refined products			
Net export price, RR per ton	20,751	22,386	(7.3%)
Net export price, USD per ton	573.4	682.5	(16.0%)

Liquefied petroleum gas

In the three months ended 30 September 2014, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, increased by USD 144 per ton, or 18.7%, and was approximately USD 916 per ton compared to USD 772 per ton in the corresponding period in 2013. The increase in our average realized contract price was due to an increase in the underlying benchmark of LPG prices on international markets used in price calculation (see “Selected macro-economic data” above). However, despite an increase in the average realized export contract price our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, and translated to US dollars using the average exchange rate for the period, decreased by USD 26.9 per ton, or 4.1%, to USD 623.0 per ton from USD 649.9 per ton due to a significant 184.4% increase in our average export duty per ton set by the Russian Federation government (see “Selected macro-economic data” above).

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

In the three months ended 30 September 2014, our average realized LPG domestic price decreased by RR 539 per ton, or 3.5%, to RR 14,871 per ton from RR 15,410 per ton in the corresponding period in 2013 as a result of the commencement of ex-works Purovsky Plant LPG sales effective January 2014 with no additional transportation expenses associated with such sales. In addition, effective June 2014, we started delivering our LPG from the Tobolsk rail station located closer to our end-customers (see “Transportation tariffs” below).

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 September: 2014	2013	Change %
LPG			
Net export price, RR per ton	22,546	21,316	5.8%
Net export price, USD per ton	623.0	649.9	(4.1%)
Domestic price, RR per ton	14,871	15,410	(3.5%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 66 per ton, or 8.4%, and was approximately USD 718 per ton compared to USD 784 per ton in the corresponding period in 2013. The decrease in our average crude oil contract price was a result of a decrease in Brent benchmark crude oil price on the international markets used in price calculation (see “Selected macro-economic data” above). 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 by USD 56.1 per ton, or 14.1%, to USD 340.9 per ton from USD 397.0 per ton in the corresponding period in 2013.

In the three months ended 30 September 2014, as well as in the corresponding period in 2013, our crude oil export delivery terms were DAP (Budkovtse, Slovakia). In addition, in the three months ended 30 September 2014, we delivered small volumes of Siberian Light Crude Oil via the new route to the port of Novorossiysk and sold those volumes under FOB delivery terms.

In the three months ended 30 September 2014, our average realized crude oil domestic price was RR 12,485 per ton (excluding VAT) representing a decrease of RR 567 per ton, or 4.3%, from RR 13,052 per ton (excluding VAT) in the corresponding period in 2013 as a result of a decrease in Urals benchmark crude oil price, as well as the delivery of crude oil to the less remote regions.

The following table shows our average realized crude oil sales prices, 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 September:** 2014	2013	**Change** %
Crude oil			
Net export price, RR per ton	12,338	13,023	(5.3%)
Net export price, USD per ton	340.9	397.0	(14.1%)
Domestic price, RR per ton	12,485	13,052	(4.3%)

Transportation tariffs

Natural gas

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

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

From the beginning of 2013, the transportation rate was set at RR 12.02 (excluding VAT) per mcm per 100 km, and the rate for utilization of the trunk pipeline was set on an average between RR 50.78 to RR 1,995.44 (excluding VAT) per mcm. Effective 1 August 2013, the FTS approved a 6.4% average increase of the transportation tariff for natural gas. As a result, the transportation rate was increased to RR 12.79 (excluding VAT) per mcm per 100 km and the rate for utilization of the trunk pipeline was set on an average between RR 57.18 to RR 2,048.11 (excluding VAT) per mcm. No changes in the transportation tariffs for natural gas are expected in 2014.

According to the Ministry of Economic Development Forecast of the Russian Federation published in September 2014, transportation tariffs for natural gas produced by independent producers in 2015, 2016 and 2017 will not exceed the increase in wholesale natural gas prices and will be increased by 7.5%, by 5.5% and 3.6%, respectively. In addition, in 2015 to 2017 it is planned to implement the long-term (from 3 to 5 years) tariffs regulation for natural gas transportation through the gas distribution systems.

Stable gas condensate and LPG by rail

We transport our stable gas condensate from the Purovsky Plant to the Port of Ust-Luga on the Baltic Sea or to customers on the domestic markets (and to the Port of Vitino on the White Sea in 2013) by rail which is owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD"). The launch of our Ust-Luga Complex resulted in a decrease in our average stable gas condensate transport distance from Purovsky Plant to the Port of Ust-Luga that is almost 400 kilometers less than the route to the Port of Vitino.

We formerly transported all of our LPG by rail from the Purovsky Plant to our end customers, but starting from the second quarter 2014, we commenced transporting LPG by rail to our customers only from the Tobolsk rail station located near the Tobolsk-Neftekhim facility as a result of the change in our LPG sales and logistics arrangement (see "Recent developments" above). From June 2014, we completely ceased LPG railroad transportation from the Purovsky Plant.

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

In December 2012, the FTS made amendments to the regulations governing railroad transportation tariffs within the territory of the Russian Federation, and approved the terms and conditions of applying the railroad tariffs within the predetermined limits (the minimum and maximum range). According to the new amendments, the FTS sets the range of railroad tariffs for the transportation of all types of goods transported by the railroad system and for certain segments of railroad transportation services within which the monopoly railway operator RZD may vary railroad transportation tariffs based on the type of product, direction and length of the transportation route based on current railroad transportation and market conditions.

Effective 18 April 2013, we started applying the discount co-efficient of 0.917 to the existing railroad transportation tariffs related to stable gas condensate deliveries from the Limbey rail station set by the Management Board of RZD in March 2013. Starting from January 2014 the discount co-efficient was set at 0.94 to the existing railroad transportation tariffs and will be in effect until the end of 2014.

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

For our stable gas condensate and LPG transportation purposes we use our own rail cars and rail cars provided by independent Russian transportation companies.

Stable gas condensate and refined products by tankers

In 2013, we delivered our stable gas condensate to international markets via the Port of Vitino on the White Sea and the Port of Ust-Luga on the Baltic Sea using chartered tankers. After the launch of the Ust-Luga Complex in June 2013, we deliver stable gas condensate refined products (naphtha, jet fuel, gasoil and fuel oil) to international markets by tankers via the loading terminal at the Port of Ust-Luga on the Baltic Sea. The tanker transportation cost is determined by the distance to the final destination, tanker availability, seasonality of deliveries and standard shipping terms.

Crude oil

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

In 2013 and in the nine months of 2014, crude oil transportation tariffs within the Russian Federation territory did not change.

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

Prior to 1 July 2014, the UPT rate for natural gas and gas condensate was set at a fixed rate by the Tax Code of the Russian Federation, and the UPT rate for natural gas produced by independent natural gas producers was determined by a stated base rate and a reducing co-efficient for independent natural gas producers. Effective from 1 January 2013, the UPT rate for independent natural gas producers was set at RR 265 per mcm and was increased to RR 402 per mcm effective from 1 July 2013, and to RR 471 per mcm from 1 January 2014. In 2013, the UPT rate for gas condensate was set at RR 590 per ton and was increased to RR 647 per ton effective from 1 January 2014.

In September 2013, the State Duma of the Russian Federation made the amendments to the Russian Federation Tax Code that changed the current approach to natural gas and gas condensate UPT rate calculation (fixed rate) to a formula-based approach. Effective 1 July 2014, the UPT rates for gas and gas condensate are based on a formula that takes into account the base UPT rate, the base value of a standard fuel equivalent and a co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. Furthermore, from 1 January 2015, the UPT rate for natural gas will also depend on the excess of the set average transportation tariff for the prior year over the 2013 tariff adjusted to the change in consumer prices. The base UPT rate is set at RR 35 per one thousand meter of extracted natural gas and at RR 42 per one ton of extracted gas condensate. The base value of a standard fuel equivalent is calculated monthly and depends, among other parameters, on natural gas prices, Urals crude oil prices and crude oil export duties. 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.

The methodology for crude oil UPT rate calculation did not change during the years of 2013 and 2014. The UPT rate for crude oil is calculated each month based on a formula that links the base UPT rate and co-efficients characterizing crude oil price dynamics, reserve depletion and the size of a particular field, as well as the difficulty of extracting and reserve depletion of a particular hydrocarbon deposit. The base crude oil UPT rate in 2013 was set at RR 470 per ton and increased to RR 493 per ton effective 1 January 2014 (in 2015 and 2016 the base value is planned to be RR 530 per ton and RR 559 per ton, respectively). The UPT rate for crude oil is calculated in US dollar and translated into Russian roubles using the monthly average exchange rate established by the Central Bank of Russian Federation.

The Russian Tax Code provides for reduced or zero UPT rate for crude oil produced in certain geographical areas of Russian Federation. According to the Russian Tax Code a zero UPT rate is set for crude oil produced at fields located fully or partially in the YNAO to the north of the 65th degree of the northern latitude effective from 1 January 2012. Our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields are located in the mentioned geographical areas; therefore, we applied the zero UPT rate for crude oil produced at these fields.

In addition, in June 2014, the State Duma of the Russian Federation approved changes to the Russian Tax Code which set a zero UPT rate effective from 1 January 2015 for gas and gas condensate produced at fields located fully or partially in the Gydan Peninsula in YNAO and used exclusively for production of LNG. Zero UPT rates are to remain in force for the cumulative production volumes of natural gas and gas condensate up to 250 bcm and 20 million tons, respectively, and not more than 12 years from the production commencement.

The Russian Federation government continues to debate various changes to the Tax Code related to crude oil UPT rate.

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 2013, 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 60% of the difference between the average Urals crude oil price and USD 182.5 per ton. Changes in the regulations, which became effective 1 January 2014, decreased the set percentage of the difference used in the formula from 60% to 59%. In 2015 and 2016, the set percentages applied to the export duty calculation will be 57% and 55%, respectively.

The export duty rate for LPG is calculated based on the average LPG price at the Polish border (DAF, Brest) for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month.

The export duty rate for oil products is calculated based on the export duty rate for crude oil and is adjusted by a co-efficient set for each category of oil products. Effective from 1 October 2011, the export duty rate for naphtha was set at 90% of the crude oil export duty rate. The export duty rate for jet fuel and gasoil is set at 66% of the crude oil export duty rate. Effective 1 February 2014, the export duty rate for our gasoil is set at 65% of the crude oil export duty rate and will be reduced to 63% and 61% in 2015 and 2016, respectively. The export duty rate for fuel oil is set at 66% of the crude oil export duty rate until 1 January 2015 and is expected to be equal to the crude oil export duty rate thereafter.

The Russian Federation government continues to debate various approaches to calculation of export duty rates for crude oil and oil products.

Social insurance tax

In 2013 and 2014, the social insurance tax rates for contributions to the Pension Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund of the Russian Federation paid by the employer on behalf of employees did not change and were set at 22.0%, 5.1% and 2.9%, respectively, for a cumulative social burden of 30.0%. The maximum taxable base for these rates per employee was set at RR 568 thousand of annual income in 2013 and was increased to RR 624 thousand of annual income in 2014. For annual income above the maximum taxable base, the tax rate is set to 10.0% to the Pension Fund and nil for other funds.

OPERATIONAL HIGHLIGHTS

Hydrocarbon production and sales volumes

Our natural gas sales volumes in the three months ended 30 September 2014 increased by 541 mmcm, or 3.8%, due to the production growth at our Yurkharovskoye field and Olimpiyskiy licence area, as well as an increase in the natural gas production in our joint ventures.

Our liquids sales volumes increased significantly by 344 thousand tons, or 25.4%, due to an increase in production of unstable gas condensate in our joint ventures and crude oil production in our subsidiaries. At the same time, our liquids inventory balances as of 30 September 2014 increased compared to 30 June 2014 whereas in the corresponding period in 2013 our liquids inventory balance decreased. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate and its refined products shipments.

Natural gas production volumes

In the three months ended 30 September 2014, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 945 mmcm, or 6.6%, to 15,196 mmcm from 14,251 mmcm in the corresponding period in 2013 due to an increase in our subsidiaries and joint ventures production that was partially offset by the disposal of our joint venture OAO Sibneftegas in December 2013.

millions of cubic meters	**Three months ended 30 September: 2014**	**2013**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	9,492	9,030	5.1%
East-Tarkosalinskoye field	2,407	2,428	(0.9%)
Khancheyskoye field	703	708	(0.7%)
Other fields	299	33	n/m
Total natural gas production by subsidiaries	**12,901**	**12,199**	**5.8%**
Group's proportionate share in the production of joint ventures:			
Nortgas	1,270	430	195.3%
SeverEnergia	1,025	314	226.4%
Sibneftegas	-	1,308	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**2,295**	**2,052**	**11.8%**
Total natural gas production including proportionate share in the production of joint ventures	**15,196**	**14,251**	**6.6%**

In the three months ended 30 September 2014, total volumes of natural gas produced by our subsidiaries increased by 702 mmcm, or 5.8%, to 12,901 mmcm from 12,199 mmcm in the corresponding period in 2013 mainly due to increasing production from cenomanian layers at our Yurkharovskoye field. In addition, at the end of 2013, we launched our Urengoyskoye and Dobrovolskoye fields, located within the Olimpiyskiy license area, production of which is included in the line "Other fields" in the table above. At the same time, our production at East-Tarkosalinskoye and Khancheyskoye fields marginally decreased as a result of the natural decline in the reservoir pressure at the current gas producing horizons.

In the three months ended 30 September 2014, our proportionate share in the production of our joint ventures increased by 243 mmcm, or 11.8%, to 2,295 mmcm from 2,052 mmcm in the corresponding period in 2013. Our proportionate share in the production of Nortgas significantly increased due to the launch of the Eastern dome of the North-Urengoyskoye field in October 2013. The significant increase in our proportionate share in the production of SeverEnergia was influenced by an increase in the effective share in SeverEnergia from 25.5% to 54.9%, commencement of production at the Urengoyskoye field effective April 2014, as well as the launch of the third phase of the Samburgskoye field in September 2014 (see "Recent developments" above). The increase in the production of our joint ventures was partially offset by the disposal of Sibneftegas in December 2013.

Natural gas sales volumes

In the three months ended 30 September 2014, our total natural gas sales volumes increased by 541 mmcm, or 3.8%, to 14,944 mmcm from 14,403 mmcm in the corresponding period in 2013.

millions of cubic meters	**Three months ended 30 September:**		**Change**
	2014	**2013**	**%**
Natural gas production by subsidiaries	12,901	12,199	5.8%
Purchases from the Group's joint ventures	1,270	1,744	(27.2%)
Other purchases	1,815	1,441	26.0%
Total production and purchases	**15,986**	**15,384**	**3.9%**
Purovsky Plant, own usage and methanol production	(42)	(30)	40.0%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(1,000)	(951)	5.2%
Total natural gas sales volumes	**14,944**	**14,403**	**3.8%**
Sold to end-customers	*14,107*	*12,928*	*9.1%*
Sold ex-field	*837*	*1,475*	*(43.3%)*

In the three months ended 30 September 2014, natural gas purchases from our joint ventures significantly decreased to 1,270 mmcm from 1,744 mmcm in the corresponding period in 2013 due to the disposal of our equity interest in Sibneftegas in December 2013.

Other natural gas purchases increased by 374 mmcm, or 26.0%, primarily due to increased purchases from our related party OAO SIBUR Holding ("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 customers' portfolios.

In the three months ended 30 September 2014, we used 19 mmcm of natural gas as feedstock for the production of methanol compared to 16 mmcm in the corresponding period in 2013. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

As of 30 September 2014, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure comprised 2,621 mmcm and increased by 1,000 mmcm during the quarter as compared to an increase by 951 mmcm in the corresponding period in 2013. The higher quantity of natural gas injected into UGSF during the third quarter 2014 was a result of our increased demand for natural gas to fulfill our contractual obligations (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

Liquids production volumes

In the three months ended 30 September 2014, our total liquids production (including our proportionate share in the production of joint ventures) increased by 397 thousand tons, or 34.9%, to 1,533 thousand tons from 1,136 thousand tons in the corresponding period in 2013.

thousands of tons	Three months ended 30 September: 2014	2013	Change %
Production by subsidiaries from:			
Yurkharovskoye field	609	649	(6.2%)
East-Tarkosalinskoye field	319	273	16.8%
Khancheyskoye field	112	114	(1.8%)
Other fields	25	9	177.8%
Total liquids production by subsidiaries	**1,065**	**1,045**	**1.9%**
including gas condensate	*792*	*851*	*(6.9%)*
including crude oil	*273*	*194*	*40.7%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia	319	48	n/m
Nortgas	149	43	246.5%
Total Group's proportionate share in the liquids production of joint ventures	**468**	**91**	**n/m**
Total liquids production including proportionate share in the production of joint ventures	**1,533**	**1,136**	**34.9%**

In the three months ended 30 September 2014, the volumes of liquids produced by our subsidiaries increased by 20 thousand tons, or 1.9%, whereby an increase in crude oil production was partially offset by a decrease in gas condensate production. In the 2014 reporting period, we ramped up crude oil production due to the production growth at the East-Tarkosalinskoye and Khancheyskoye fields resulting from new wells drilled and technological works performed to increase the crude oil production flow rate. 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. The decrease in gas condensate production was partially offset by the launch of the Dobrovolskoye field, located within the Olimpiyskiy license area at the end of 2013 (the production at this field is included in the line "Other fields" in the table above).

In the three months ended 30 September 2014, our proportionate share in liquids production of joint ventures increased by 377 thousand tons to 468 thousand tons from 91 thousand tons in the corresponding period in 2013 due to the launch of additional production facilities by our joint ventures, as well as an increase in the effective share in SeverEnergia from 25.5% to 54.9% (see "Natural gas production volumes" above).

Liquids sales volumes

In the three months ended 30 September 2014, our total liquids sales volumes increased by 344 thousand tons, or 25.4%, to 1,697 thousand tons from 1,353 thousand tons in the corresponding period in 2013.

thousands of tons	Three months ended 30 September: 2014	2013	Change %
Liquids production by subsidiaries	1,065	1,045	1.9%
Purchases from the Group's joint ventures	879	272	223.2%
Other purchases	33	3	n/m
Total production and purchases	**1,977**	**1,320**	**49.8%**
Losses and own usage [1]	(84)	(32)	162.5%
Decreases (increases) in liquids inventory balances	(196)	65	n/a
Total liquids sales volumes	**1,697**	**1,353**	**25.4%**
Naphtha export	*736*	*562*	*31.0%*
Other gas condensate refined products export	*289*	*128*	*125.8%*
Subtotal gas condensate refined products	***1,025***	***690***	***48.6%***
LPG export	*142*	*154*	*(7.8%)*
LPG domestic	*219*	*103*	*112.6%*
Subtotal LPG	***361***	***257***	***40.5%***
Crude oil export	*84*	*46*	*82.6%*
Crude oil domestic	*157*	*116*	*35.3%*
Subtotal crude oil	***241***	***162***	***48.8%***
Stable gas condensate export	*-*	*207*	*n/a*
Stable gas condensate domestic	*67*	*34*	*97.1%*
Subtotal stable gas condensate	***67***	***241***	***(72.2%)***
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.

In the three months ended 30 September 2014, our purchases of liquid hydrocarbons from joint ventures increased by 607 thousand tons, or 223.2%, and were primarily related to a significant increase in our purchases of unstable gas condensate from SeverEnergia resulting from the commencement of production at the Urengoyskoye field effective April 2014 and the launch of the third phase of the Samburgskoye field in September 2014, as well as an increase in unstable gas condensate purchases from Nortgas resulting from the launch of the Eastern dome of the North-Urengoyskoye field in October 2013.

Other purchases increased by 30 thousand tons and represent purchases of oil products and LPG for resale (see "Purchases of natural gas and liquid hydrocarbons" below).

From July 2013, 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 in the 2014 reporting period (see the table above). Jet fuel, gasoil and fuel oil sales volumes received from the processing of stable gas condensate are disclosed as "Other gas condensate refined products export".

Our liquids inventory balances significantly increased to 666 thousand tons as of 30 September 2014 as compared to 470 thousand tons as of 30 June 2014. The inventory balance will be sold in next reporting period thus increasing our sales volumes in the fourth quarter of 2014. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate and its refined products shipments (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2014 COMPARED TO THE CORRESPONDING PERIOD IN 2013

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 September 2014 and 2013. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 September:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Total revenues **(net of VAT, export duties, excise and fuel taxes)**	**84,733**	***100.0%***	**75,648**	***100.0%***
including:				
natural gas sales	52,608	*62.1%*	50,214	*66.4%*
liquids' sales	31,482	*37.2%*	25,327	*33.5%*
Operating expenses	(55,870)	*(65.9%)*	(47,080)	*(62.2%)*
Other operating income (loss)	100	*0.1%*	36	*0.0%*
Profit from operations	**28,963**	***34.2%***	**28,604**	***37.8%***
Finance income (expense)	(6,019)	*(7.1%)*	(27)	*(0.0%)*
Share of profit (loss) of joint ventures, net of income tax	(11,777)	*(13.9%)*	647	*0.9%*
Profit before income tax	**11,167**	***13.2%***	**29,224**	***38.6%***
Total income tax expense	(3,664)	*(4.3%)*	(5,792)	*(7.7%)*
Profit (loss)	**7,503**	***8.9%***	**23,432**	***31.0%***
Minus: profit (loss) attributable to non-controlling interest	124	*0.1%*	26	*0.0%*
Profit attributable to shareholders of OAO NOVATEK	**7,627**	***9.0%***	**23,458**	***31.0%***

Total revenues

The following table sets forth our sales (net of VAT, export duties, excise and fuel taxes expense, where applicable) for the three months ended 30 September 2014 and 2013:

millions of Russian roubles	Three months ended 30 September: 2014	2013	Change %
Natural gas sales	**52,608**	**50,214**	**4.8%**
End-customers	*51,074*	*47,304*	*8.0%*
Ex-field sales	*1,534*	*2,910*	*(47.3%)*
Gas condensate refined products sales	**20,828**	**14,022**	**48.5%**
Export (naphtha)	*14,840*	*11,155*	*33.0%*
Export (other refined products)	*5,988*	*2,867*	*108.9%*
Liquefied petroleum gas sales	**6,677**	**4,880**	**36.8%**
Export	*3,363*	*3,288*	*2.3%*
Domestic	*3,314*	*1,592*	*108.2%*
Crude oil sales	**2,999**	**2,111**	**42.1%**
Export	*1,034*	*599*	*72.6%*
Domestic	*1,965*	*1,512*	*30.0%*
Stable gas condensate sales	**865**	**4,213**	**(79.5%)**
Export	*-*	*3,743*	*n/a*
Domestic	*865*	*470*	*84.0%*
Other refined products sales	**113**	**101**	**11.9%**
Domestic	*113*	*101*	*11.9%*
Total oil and gas sales	**84,090**	**75,541**	**11.3%**
Other revenues	643	107	500.9%
Total revenues	**84,733**	**75,648**	**12.0%**

Natural gas sales

In the three months ended 30 September 2014, our revenues from sales of natural gas increased by RR 2,394 million, or 4.8%, compared to the corresponding period in 2013 due to an increase in our total sales volumes, as well as an increase in the proportion of end-customer sales to total natural gas sales volumes, that was partially offset by a marginal decrease in our average realized natural gas prices. The decrease in our average realized natural gas prices was due to the closer location of our end-customers to our production fields in the third quarter of 2014 as compared to the corresponding period in 2013 (see “Natural gas prices” above).

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 94.4% in the three months ended 30 September 2014 as compared to 89.8% in the corresponding period in 2013 due to the cessation of natural gas deliveries to a major trader in December 2013. In addition, we significantly increased natural gas deliveries to our end-customers located at the Khanty-Mansiysk Autonomous Region under long-term natural gas sales contracts.

Gas condensate refined products sales

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

In the three months ended 30 September 2014, our revenues from sales of gas condensate refined products increased by RR 6,806 million, or 48.5%, as compared to the corresponding period in 2013 primarily due to significant increase in sales volumes.

In the three months ended 30 September 2014, our revenues from sales of naphtha increased by RR 3,685 million, or 33.0%, as compared to the corresponding period in 2013 mainly due to an increase in sales volumes by 31.0%.

In the 2014 reporting period we exported 736 thousand tons of naphtha, or 100.0% of our total sales volumes, to the Asian Pacific Region (APR), United States, European markets and Canada whereas 562 thousand tons, or 100.0% of our total sales volumes, in the corresponding period in 2013 were delivered to the APR and South America. In addition, our average realized naphtha net export price, excluding export duties, increased by RR 295 per ton, or 1.5%, to RR 20,154 per ton (CFR, CIF, DAP and DES) from RR 19,859 per ton (CFR, CIF, DAP, FOB and DES) in the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In the three months ended 30 September 2014, our revenues from sales of jet fuel, gasoil and fuel oil increased by RR 3,121 million, or 108.9%, as compared to the corresponding period in 2013 due to an increase in sales volumes which was partially offset by a decrease in the average realized prices in Russian roubles although the Russian rouble depreciated against the US dollar by 10.3% in the reporting period as compared to the corresponding period in 2013. In the 2014 and 2013 reporting periods, we exported in aggregate 289 thousand and 128 thousand tons of these products, or 100.0% of our total sales volumes, to the European markets. In addition, our average realized net export price,excluding export duties, decreased by RR 1,635 per ton, or 7.3%, to RR 20,751 per ton (CIF) from RR 22,386 per ton (CIF) in the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In the three months ended 30 September 2014, our revenues from sales of LPG increased by RR 1,797 million, or 36.8%, compared to the corresponding period in 2013 due to an increase in sales volumes as a result of an increase in volumes of de-ethanized condensate processed at the Purovsky Plant and optimization of our LPG distribution logistics and sales effective June 2014 (see "Recent developments" above).

In the three months ended 30 September 2014, we sold 142 thousand tons of LPG, or 39.3% of our total LPG sales volumes, to export markets as compared to sales of 154 thousand tons, or 59.9%, in the corresponding period in 2013. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 2,310 per ton, or 10.8%, (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In both reporting periods our main export LPG markets were Poland and Finland and our cumulative LPG export sales volumes to these markets in the 2014 reporting period exceeded 95% of total LPG export volumes, while in the corresponding period in 2013 sales volumes to these markets exceeded 80% of total LPG export volumes.

In the three months ended 30 September 2014, we sold 219 thousand tons of LPG on the domestic market compared to sales of 103 thousand tons in the corresponding period in 2013. Our average realized LPG domestic price, including trading activities, in the three months ended 30 September 2014, was RR 15,139 per ton representing a decrease of RR 271 per ton, or 1.8%, compared to the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In the three months ended 30 September 2014, revenues from sales of crude oil increased by RR 888 million, or 42.1%, compared to the corresponding period in 2013 due to an increase in sales volumes. Our crude oil sales volumes increased by 79 thousand tons, or 48.8%, to 241 thousand tons from 162 thousand tons in the corresponding period in 2013 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In the three months ended 30 September 2014, we sold 65.1% of our total crude oil volumes domestically at an average price of RR 12,485 per ton (excluding VAT) representing a decrease of RR 567 per ton, or 4.3%, as compared to the corresponding period in 2013.

The remaining 34.9% of our crude oil volumes were sold to export markets at an average price of RR 12,338 per ton (DAP and FOB, excluding export duties) representing a decrease of RR 685 per ton, or 5.3%, as compared to the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In the three months ended 30 September 2014, our revenues from sales of stable gas condensate decreased by RR 3,348 million, or 79.5%, compared to the corresponding period in 2013 due to a decrease in volumes sold resulting from the start of processing of stable gas condensate at the Ust-Luga Complex into naphtha and other gas condensate refined products effective June 2013.

Our total stable gas condensate sales volumes decreased by 174 thousand tons, or 72.2%, due to the transfer of substantially all stable gas condensate produced at the Purovsky Plant as raw material feedstock to be subsequently processed at the Ust-Luga Complex in the 2014 reporting period. As a result, in the three months ended 30 September 2014, we did not sell stable gas condensate to the export markets. In the corresponding period in 2013, we sold 207 thousand tons of stable gas condensate, or 85.9% of our total sales volumes, to the APR at an average realized net export price, excluding export duties, of RR 18,119 per ton (DAP and CFR).

In the three months ended 30 September 2014, we sold 67 thousand tons of stable gas condensate on the domestic market compared to 34 thousand tons in the corresponding period in 2013. Our average realized price for stable gas condensate sales on the domestic market in the three months ended 30 September 2014 amounted to RR 12,955 per ton (net of VAT), representing a decrease of RR 765 per ton, or 5.6%, as compared to the corresponding period in 2013 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

We expect that our aggregate stable gas condensate sales volumes will be insignificant in 2014.

Other refined products sales

Other refined products sales represent our revenues from methanol sales on the domestic market, revenues from trading operations with oil products (diesel fuel and petrol) through our retail stations and revenues from other refined products sales. In the three months ended 30 September 2014, our revenues from other refined products sales increased by RR 12 million, or 11.9%, to RR 113 million from RR 101 million in the corresponding period in 2013.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation and other services. In the three months ended 30 September 2014, other revenues increased by RR 536 million, or sixfold, to RR 643 million from RR 107 million in the corresponding period in 2013 primarily due to RR 226 million of revenues from the sublease of tankers and RR 257 million of revenues from the sublease of rail cars in the 2014 reporting period, as well as a RR 53 million increase in revenues from geological and geophysical research services provided primarily to our joint ventures. The remaining change in other revenues related to various immaterial items.

Operating expenses

In the three months ended 30 September 2014, our total operating expenses increased by RR 8,790 million, or 18.7%, to RR 55,870 million compared to RR 47,080 million in the corresponding period in 2013 primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures and related parties, as well as increased transportation expenses and taxes other than income tax. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 60.6% in the three months ended 30 September 2014 compared to 65.9% in the corresponding period in 2013 primarily due to a significant increase in purchases of hydrocarbons combined with a moderate increase in transportation expenses and taxes other than income tax.

In the three months ended 30 September 2014, our total operating expenses as a percentage of total revenues increased to 65.9% compared to 62.2% in the corresponding period in 2013, as shown in the table below. The increase in this ratio was mainly due to a significant increase in purchases of natural gas and liquid hydrocarbons from our joint ventures and related parties that allowed us to realize increased volumes of our hydrocarbons in domestic and international markets (see "Purchases of natural gas and liquid hydrocarbons" below).

	Three months ended 30 September:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Transportation expenses	26,643	*31.4%*	25,064	*33.1%*
Taxes other than income tax	7,198	*8.5%*	5,958	*7.9%*
Subtotal non-controllable expenses	**33,841**	***39.9%***	**31,022**	***41.0%***
Purchases of natural gas and liquid hydrocarbons	14,532	*17.2%*	8,518	*11.3%*
Depreciation, depletion and amortization	4,316	*5.1%*	3,589	*4.7%*
Materials, services and other	3,014	*3.6%*	2,248	*3.0%*
General and administrative expenses	2,543	*3.0%*	2,610	*3.5%*
Exploration expenses	101	*n/m*	26	*n/m*
Net impairment expenses	11	*n/m*	14	*n/m*
Change in natural gas, liquid hydrocarbons and work-in-progress	(2,488)	*n/m*	(947)	*n/m*
Total operating expenses	**55,870**	***65.9%***	**47,080**	***62.2%***

Non-controllable expenses

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

In the three months ended 30 September 2014, our non-controllable expenses increased by RR 2,819 million, or 9.1%, to RR 33,841 million from RR 31,022 million in the corresponding period in 2013. An increase in transportation expenses was mainly due to an increase in the natural gas volumes sold to end-customers in which we incurred transportation expenses (see "Transportation expenses" below). Taxes other than income tax increased due to significantly increased natural gas production tax rate (see "Our tax burden and obligatory payments" above). Despite an increase in non-controllable expenses, as a percentage of total revenues they decreased to 39.9% in the three months ended 30 September 2014 compared to 41.0% in the corresponding period in 2013 due to a higher increase in revenues as a result of the commencement of higher value added products sales from the Ust-Luga Complex.

Transportation expenses

In the three months ended 30 September 2014, our total transportation expenses increased by RR 1,579 million, or 6.3%, to RR 26,643 million as compared to RR 25,064 million in the corresponding period in 2013.

million of Russian roubles	**Three months ended 30 September:** 2014	2013	**Change** %
Natural gas transportation by trunk and low-pressure pipelines	21,686	20,337	6.6%
Stable gas condensate and liquefied petroleum gas transportation by rail	3,659	3,559	2.8%
Gas condensate refined products and stable gas condensate transportation by tankers	978	927	5.5%
Crude oil transportation by trunk pipeline	314	232	35.3%
Other	6	9	(33.3%)
Total transportation expenses	**26,643**	**25,064**	**6.3%**

In the three months ended 30 September 2014, our transportation expenses for natural gas increased by RR 1,349 million, or 6.6%, to RR 21,686 million from RR 20,337 million in the corresponding period in 2013. The increase was mainly due to a 9.1% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expenses, as well as an increase in natural gas transportation tariff set by the FTS by an average of 6.4% effective from 1 August 2013 (see "Transportation tariffs" above), that was partially offset by a decrease in our average transportation distance related to higher natural gas deliveries to the Khanty-Mansiysk Autonomous Region. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

In the three months ended 30 September 2014, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 100 million, or 2.8%, to RR 3,659 million from RR 3,559 million in the corresponding period in 2013 due to an increase in volumes of liquids sold and transported via rail by 104 thousand tons, or 8.8%, to 1,292 thousand tons from 1,188 thousand tons.

Our weighted average transportation tariff for stable gas condensate and LPG delivered by rail depends on the products type and the geography of deliveries and fluctuates period-to-period. Although, effective 9 August 2014 RZD has increased the railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%, our weighted average transportation tariff for liquids delivered by rail decreased by 5.5% to RR 2,831 per ton from RR 2,997 per ton in the corresponding period in 2013 primarily due to a decrease in the share of LPG volumes in total liquids volumes sold and transported via rail (effective January 2014 we started selling part of the LPG ex-works Purovsky Plant without incurring transportation expenses). The change in the share of LPG volumes in our total liquids volumes delivered by rail affects the weighted average railroad tariff due to the relatively high transportation expense for LPG compared to other liquid hydrocarbons. In addition, the launch of our Ust-Luga Complex had an impact on the decrease of transportation expenses as the distance from Purovsky Plant to the Port of Ust-Luga is almost 400 kilometers less than the route to the Port of Vitino.

Total transportation expenses for liquids delivered by tankers to international markets increased by RR 51 million, or 5.5%, to RR 978 million in the three months ended 30 September 2014 from RR 927 million in the corresponding period in 2013 due to an increase in volumes of liquids sold and transported via tankers by 14.4%. The increase was partially offset by the change in the geography of stable gas condensate and refined products shipments (see below), closer location of the Port of Ust-Luga to our sales markets as compared to the Port of Vitino, as well as usage of greater capacity tankers for liquids transportation.

The change in the geography of stable gas condensate and refined products shipments affects our tanker transportation expenses per ton since expenses incurred for transportation to the APR, as well as to North and South America are higher compared to the European sales markets. In the three months ended 30 September 2014, we sold to the APR, Europe and North America 42.0%, 38.2% and 19.8% of our total gas condensate refined products export volumes, respectively, whereas in the corresponding period in 2013 we sold to the APR, Europe and South America 76.8%, 14.3% and 8.9%, respectively, of our stable gas condensate and refined products volumes.

In the three months ended 30 September 2014, our expenses for crude oil transportation to customers through the pipeline network increased by RR 82 million, or 35.3%, to RR 314 million from RR 232 million in the corresponding period in 2013 due to a 49.4% increase in volumes transported.

Other transportation expenses include liquid hydrocarbons motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other expenses. In the three months ended 30 September 2014, other transportation expenses marginally decreased by RR three million to RR six million.

Taxes other than income tax

In the three months ended 30 September 2014, taxes other than income tax increased by RR 1,240 million, or 20.8%, to RR 7,198 million from RR 5,958 million in the corresponding period in 2013 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	**Three months ended 30 September:**		**Change**
	2014	**2013**	**%**
Unified natural resources production tax (UPT)	6,650	5,445	22.1%
Property tax	487	455	7.0%
Other taxes	61	58	5.2%
Total taxes other than income tax	**7,198**	**5,958**	**20.8%**

In the three months ended 30 September 2014, our unified natural resources production tax expense increased by RR 1,205 million, or 22.1%, to RR 6,650 million from RR 5,445 million in the corresponding period in 2013 due to a significant increase in the natural gas production tax rate compared to the third quarter 2013 as a result of an increase of the tax rate by 17.2% from 1 January 2014 and changes to the Russian Federation Tax Code which became effective 1 July 2014. In addition, our UPT expense increased due to a 5.8% increase in natural gas production at our production subsidiaries.

In the three months ended 30 September 2014, as well as in the corresponding period in 2013, we applied a zero UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields (see "Our tax burden and obligatory payments" above).

In the three months ended 30 September 2014, our property tax expense marginally increased by RR 32 million, or 7.0%, to RR 487 million from RR 455 million in the corresponding period in 2013 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 September 2014, our purchases of natural gas and liquid hydrocarbons increased by RR 6,014 million, or 70.6%, to RR 14,532 million from RR 8,518 million in the corresponding period in 2013.

millions of Russian roubles	**Three months ended 30 September:**		**Change**
	2014	**2013**	**%**
Unstable gas condensate	7,668	2,670	187.2%
Natural gas	6,147	5,759	6.7%
Other liquid hydrocarbons	717	89	n/a
Total purchases of natural gas and liquid hydrocarbons	**14,532**	**8,518**	**70.6%**

In the three months ended 30 September 2014, our purchases of unstable gas condensate from our joint ventures increased by RR 4,998 million, or threefold, as compared to the corresponding period in 2013. We significantly increased our purchases of unstable gas condensate from Nortgas as a result of the launch of the Eastern dome of the North-Urengoyskoye field in October 2013, as well as purchases from SeverEnergia as a result of the commenced production at the Urengoyskoye field effective April 2014 and the launch of the third phase of the Samburgskoye field in September 2014.

In the three months ended 30 September 2014, our purchases of natural gas increased by RR 388 million, or 6.7%, as compared to the corresponding period in 2013 primarily due to higher purchases from our joint venture Nortgas as a result of the launch of the Eastern dome of the North-Urengoyskoye field in October 2013 which significantly increased the production capacity of Nortgas. In addition, in the 2014 reporting period we increased purchases from our related party SIBUR. The increase in our purchases of natural gas was partially offset by the termination of purchases from Sibneftegas as a result of its disposal in December 2013.

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In the three months ended 30 September 2014, our purchases of other liquid hydrocarbons increased by RR 628 million, or eightfold, as compared to the corresponding period in 2013 due to LPG purchases for subsequent resale caused by the temporary reduction of volumes refined at Tobolsk-Neftekhim due to the planned repair works.

Depreciation, depletion and amortization

In the three months ended 30 September 2014, our depreciation, depletion and amortization ("DDA") expense increased by RR 727 million, or 20.3%, to RR 4,316 million from RR 3,589 million in the corresponding period in 2013 mainly due to addition of property, plant and equipment at our production subsidiaries and a 5.3% increase in our total hydrocarbon production (excluding our proportionate share in the production of joint ventures) in barrels of oil equivalent basis. The Group accrues depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities.

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

Materials, services and other

In the three months ended 30 September 2014, our materials, services and other expenses increased by RR 766 million, or 34.1%, to RR 3,014 million compared to RR 2,248 million in the corresponding period in 2013. The main components of this expense category were employee compensation and repair and maintenance services, which on aggregate comprised 55.7% and 67.7% of total materials, services and other expenses in the three months ended 30 September 2014 and 2013, respectively.

millions of Russian roubles	**Three months ended 30 September: 2014**	**2013**	**Change %**
Employee compensation	1,149	927	23.9%
Repair and maintenance	531	596	(10.9%)
Services for preparation, transportation and processing of hydrocarbons	269	25	n/a
Rent expenses	231	18	n/a
Materials and supplies	217	222	(2.3%)
Electricity and fuel	198	131	51.1%
Transportation services	150	90	66.7%
Security services	99	86	15.1%
Other	170	153	11.1%
Total materials, services and other	**3,014**	**2,248**	**34.1%**

Operating employee compensation increased by RR 222 million, or 23.9%, to RR 1,149 million compared to RR 927 million in the corresponding period in 2013. The increase was due to an increase in the average number of employees primarily as a result of the expansion of our activities at the Ust-Luga Complex (launch of the second stage in October 2013) and at the Purovsky Plant (launch of the third stage in January 2014), as well as the indexation of base salaries effective 1 July 2014.

Repair and maintenance services expenses decreased by RR 65 million, or 10.9%, to RR 531 million in the three months ended 30 September 2014 compared to RR 596 million in the corresponding period in 2013 due to decreased volumes of repair works at our production subsidiaries and at our roads to the Group's fields in the reporting period in 2014. The decrease in repair expenses was partially offset by an increase in our maintenance expenses as a result of the expansion of our activities at the Ust-Luga Complex and Purovsky Plant in 2013 and 2014.

Services for preparation, transportation and processing of hydrocarbons expense increased by RR 244 million, or 11 times, to RR 269 million in the three months ended 30 September 2014 compared to RR 25 million in the corresponding period in 2013 mostly due to the change in our LPG sales and logistics arrangement from the second quarter 2014 (see “Recent developments” above).

Rent expenses increased by RR 213 million, or 13 times, to RR 231 million from RR 18 million in the corresponding period in 2013 primarily due to the commencement of LPG rail deliveries from the Tobolsk station from the second quarter of 2014 utilizing rail cars rented by us from a third party. Subsequently, we sublease the leased rail cars to the transportation services provider and include the corresponding revenues in “Other revenues”. In 2013, we used leased rail cars for transportation of our own LPG and included these costs as part of our transportation by rail expenses.

Materials and supplies expense marginally decreased by RR five million, or 2.3%, to RR 217 million in the three months ended 30 September 2014 compared to RR 222 million in the corresponding period in 2013 as a result of a decrease in expenses related to the repair works at our roads to the Group’s fields in the reporting period in 2014, which was partially offset by an increase in materials used at the Ust-Luga Complex as a result of the launch of its second stage in October 2013.

In the three months ended 30 September 2014, electricity and fuel expenses increased by RR 67 million, or 51.1%, to RR 198 million from RR 131 million in the corresponding period in 2013. The increase was due to higher electricity rates, as well as an increase in electricity consumption at our processing facilities related to new energy-consuming projects and an increase in hydrocarbon volumes being processed at these facilities.

In the three months ended 30 September 2014, transportation expenses increased by RR 60 million, or 66.7%, to RR 150 million from RR 90 million in the corresponding period in 2013 due to an increase in expenses related to the delivery of materials to our main fields and processing facilities, as well as our operating personnel transportation.

Security expenses increased by RR 13 million, or 15.1%, to RR 99 million in the three months ended 30 September 2014 from RR 86 million in the corresponding period in 2013 due to additional security services related to recently completed capital construction projects in our production subsidiaries, as well as an increase in security services rates effective January 2014.

In the three months ended 30 September 2014, other material, services and other expenses increased by RR 17 million, or 11.1%, to RR 170 million from RR 153 million in the corresponding period in 2013 primarily as a result of research works on wells at our East-Tarkosalinskoye, Khancheyskoye and Dobrovolskoye fields.

General and administrative expenses

In the three months ended 30 September 2014, our general and administrative expenses decreased by RR 67 million, or 2.6%, to RR 2,543 million compared to RR 2,610 million in the corresponding period in 2013. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 79.6% and 82.8% of total general and administrative expenses in the three months ended 30 September 2014 and 2013, respectively.

millions of Russian roubles	**Three months ended 30 September: 2014**	**2013**	**Change %**
Employee compensation	1,462	1,746	(16.3%)
Legal, audit and consulting services	315	167	88.6%
Social expenses and compensatory payments	247	249	(0.8%)
Business trips expense	103	95	8.4%
Fire safety and security expenses	78	56	39.3%
Insurance expense	72	59	22.0%
Repair and maintenance expenses	60	53	13.2%
Rent expense	55	28	96.4%
Advertising expenses	23	19	21.1%
Other	128	138	(7.2%)
Total general and administrative expenses	**2,543**	**2,610**	**(2.6%)**

Employee compensation related to administrative personnel decreased by RR 284 million, or 16.3%, to RR 1,462 million in the three months ended 30 September 2014 from RR 1,746 million in the corresponding period in 2013 as a result of a decrease in bonuses accrued to key management based on results achieved for the third quarter of 2014 that was partially offset by an indexation of base personnel salaries effective 1 July 2014.

In the three months ended 30 September 2014, legal, audit, and consulting services expenses increased by RR 148 million, or 88.6%, to RR 315 million compared to RR 167 million in the corresponding period in 2013 primarily due to consulting services related to research works on production methods and construction of potential production facilities in the Yamal and Gydan Peninsulas and the Gulf of Ob.

In the three months ended 30 September 2014, our social expenses and compensatory payments marginally decreased by RR two million, or 0.8%, to RR 247 million compared to RR 249 million in the corresponding period in 2013 and were mainly related to our donations to sport clubs and sports activities, educational schools, as well as continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the funding needs and the implementation schedules of specific programs we support.

Fire safety and security expenses increased by RR 22 million, or 39.3%, to RR 78 million in the three months ended 30 September 2014 from RR 56 million in the corresponding period in 2013 primarily due to an increase in rates charged for security services starting from January 2014.

Insurance expenses increased by RR 13 million, or 22.0%, to RR 72 million in the three months ended 30 September 2014 from RR 59 million in the corresponding period in 2013 mainly due to the commencement of operations and property insurance at the Ust-Luga Complex from May 2014.

Rent expenses increased by RR 27 million, or 96.4%, to RR 55 million in the three months ended 30 September 2014 from RR 28 million in the corresponding period in 2013 as a result of the rent of new offices by our recently established subsidiaries.

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In the three months ended 30 September 2014, our exploration expenses increased by RR 75 million, or 288.5%, to RR 101 million from RR 26 million in the corresponding period in 2013.

millions of Russian roubles	**Three months ended 30 September: 2014**	**2013**	**Change %**
Cost of seismic surveys	464	74	n/m
Less: capitalized 3-D seismic surveys	(363)	(48)	n/m
Total exploration expenses per the Consolidated Statement of Income	**101**	**26**	**288.5%**

In the three months ended 30 September 2014, our costs of seismic surveys increased by RR 390 million, or sixfold, to RR 464 million from RR 74 million in the corresponding period in 2013 primarily due to conducting 3-D seismic surveys at the Geofizicheskoye field. Our costs of seismic surveys fluctuate period-to-period depending on the season and the approved working schedule of seismic surveys at our production subsidiaries. The costs of 3-D seismic surveys to sustain production, increase reserves' recoverability and the efficiency of drilling additional development wells on our proved properties are capitalized to property, plant and equipment used in oil and gas exploration according to our accounting policy.

In the three months ended 30 September 2014, our exploration expenses increased by RR 75 million as compared to the corresponding period in 2013 due to exploration works performed at our North-Obskiy license area with resources under C3 and D categories in accordance with the Russian reserve classification system.

Net impairment expenses

In the three months ended 30 September 2014, we recognized impairment expenses of RR 11 million compared to RR 14 million in the corresponding period in 2013. Net impairment expenses in both periods were primarily related to the impairment of trade accounts receivable for natural gas sold to small-scale companies and residential customers.

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

In the three months ended 30 September 2014, we recorded a reversal of RR 2,488 million to change in inventory expense as compared to a reversal of RR 947 million in the corresponding period in 2013:

	Three months ended 30 September:	
millions of Russian roubles	**2014**	**2013**
Natural gas	(1,030)	(841)
Naphtha	(653)	(300)
Stable gas condensate	(390)	279
Other	(415)	(85)
Increase (decrease) in operating expenses due to change in inventory balances and work-in-progress	**(2,488)**	**(947)**

In the three months ended 30 September 2014, we recorded a reversal to our operating expenses of RR 1,030 million due to a one (1) bcm increase in our cumulative natural gas inventory balance in UGSF, GTS and own pipeline infrastructure, as well as a slight increase in the cost of natural gas inventories on a per mcm basis. Our volumes of natural gas injected into Gazprom's underground gas storage facilities fluctuate period-to-period depending on market conditions, storage capacity constraints and our development plans to sustain and/or grow production during periods of seasonal fluctuation.

In the three months ended 30 September 2014, we recorded reversals to our operating expenses of RR 653 million and RR 390 million due to increases in our naphtha and stable gas condensate inventory balances by 99 thousand tons and 65 thousand tons, respectively, which were recognized as inventory in transit and storage, as well as a slight increase in the cost of inventories on a per ton basis. 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:

	2014			**2013**		
Inventory balances in transit or in storage	**At 30 September**	**At 30 June**	**Increase / (decrease)**	**At 30 September**	**At 30 June**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**2,621**	**1,621**	**1,000**	**2,394**	**1,443**	**951**
including Gazprom's UGSF	*2,575*	*1,589*	*986*	*2,362*	*1,411*	*951*
Liquid hydrocarbons (thousand tons)	**666**	**470**	**196**	**494**	**559**	**(65)**
including naphtha	*240*	*141*	*99*	*172*	*146*	*26*
stable gas condensate	*244*	*179*	*65*	*185*	*261*	*(76)*

Other operating income (loss)

Other operating income (loss) includes income (loss) from natural gas foreign trading in the European markets under long-term and short-term purchase and sales contracts, purchases and sales of various derivative instruments (trading activities), income (loss) from the change in the fair value of aforementioned contracts, as well as other income (loss) related to penalty charges, disposal of materials, fixed assets and other transactions. In the three months ended 30 September 2014, we recognized other operating income of RR 100 million compared to RR 36 million in the corresponding period in 2013.

In the three months ended 30 September 2014, within our trading activities on the European market we purchased and sold 9.5 terawatt-hours (or approximately 910 mmcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate gross income from trading activities of RR 762 million as compared to RR 81 million of income in the corresponding period in 2013. At the same time, in the three months ended 30 September 2014, we recognized a non-cash loss of RR 715 million as a result of a significant decrease in the fair value of the purchase and sales contracts as compared to RR 13 million of non-cash loss in the corresponding period in 2013. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

In addition, in the three months ended 30 September 2014, we recorded other operating income of RR 53 million which was primarily related to penalties charges received from our suppliers due to non-compliance of their contractual obligations, as compared to other operating loss of RR 32 million in the corresponding period in 2013 mostly related to other insignificant items, including profit (loss) on disposal of materials and fixed assets, as well as other similar transactions.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 359 million, or 1.3%, to RR 28,963 million in the three months ended 30 September 2014, as compared to RR 28,604 million in the corresponding period in 2013. In the three months ended 30 September 2014, our profit from operations, as a percentage of total revenues, decreased to 34.2% as compared to 37.8% in the corresponding period in 2013 mainly as a result of a significant increase in purchases of liquid hydrocarbons from our joint ventures in the reporting period of 2014 and, correspondingly, the lower profit margin we receive from such sales as compared to sales of our own hydrocarbons.

Finance income (expense)

In the three months ended 30 September 2014, we recorded net finance expense of RR 6,019 million due to the recognition of a significant foreign exchange loss from the depreciation of the Russian rouble relative to the US dollar. The insignificant net finance expense of RR 27 million in the corresponding period in 2013 was caused by the excess of interest expense over interest income and net foreign exchange gain.

In the three months ended 30 September 2014, accrued interest expense on loans received increased by RR 62 million, or 2.9%, to RR 2,202 million from RR 2,140 million in the corresponding period in 2013 as a result of an increase in the aggregate amount of loans received by the Group, as well as the depreciation of the average rate of Russian rouble relative to the US dollar in the third quarter of 2014 compared to the average rate in the corresponding period in 2013 (see "Selected macro-economic data" above) that was mostly offset by decreased weighted-average interest rate of loans received by the Group.

	Three months ended 30 September:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Accrued interest expense on loans received	2,202	2,140	2.9%
Less: capitalized interest	(1,004)	(845)	18.8%
Provisions for asset retirement obligations: effect of the present value discount unwinding	76	63	20.6%
Total interest expense per the Consolidated Statement of Income	**1,274**	**1,358**	**(6.2%)**

Interest income significantly increased by RR 774 million, or 133.4%, to RR 1,354 million in the three months ended 30 September 2014 from RR 580 million in the corresponding period in 2013 primarily due to a significant increase in loans provided to our joint ventures related to the development and expansion of their activities compared to the third quarter of 2013.

In the three months ended 30 September 2014, we recorded a net foreign exchange loss of RR 6,099 million compared to a net foreign exchange gain of RR 751 million in the corresponding period in 2013 due primarily to the revaluation of our foreign currency denominated borrowings and loans provided. The Russian rouble depreciated by 17.1% against the US dollar at 30 September 2014 compared to 30 June 2014, whereas in the corresponding period in 2013 the Russian rouble appreciated by 1.1%. We will continue to record foreign exchange gains and losses each period based on the movements between exchange rates and the currency denomination of our debt portfolio.

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

In the three months ended 30 September 2014, the Group's proportionate share of loss of joint ventures accounted for RR 11,777 million as compared to a profit of RR 647 million in the corresponding period in 2013.

The change in our proportionate share of profit (loss) of joint ventures was due to the recognition of a significant foreign exchange loss on foreign currency denominated loans at our joint ventures Yamal LNG and Terneftegas in the 2014 reporting period. As of 30 September 2014, the Russian rouble depreciated against the US dollar by 17.1% relative to 30 June 2014, which resulted in our share of foreign currency loss of Yamal LNG and Terneftegas in the amount of RR 13.9 billion. The significant foreign exchange loss in the current reporting period was partially offset by higher operating results at Nortgas and SeverEnergia as well as an increase in our participation interest in SeverEnergia.

Income tax expense

Our overall consolidated effective income tax rates (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) were 32.8% and 19.8% for the three months ended 30 September 2014 and 2013, respectively.

The Russian statutory income tax rate for both reporting periods was 20%. The higher effective income tax rate for the three months ended 30 September 2014 was due to recording of the Group's share of losses from joint ventures. These losses, caused by significant foreign exchange losses, are recorded in the financial statements of joint ventures on an after-tax basis, and are not subject to additional income taxes on the Group's level. Without the effect described above, our effective income tax rate, in the three months ended 30 September 2014, was 18.2%. The lower effective income tax rate, in the three months ended 30 September 2014, was mainly due to our ability to use a reduced income tax rate of 15.5 percent on a number of the Group's investment projects in the Russian Federation included by the regional government authorities in the list of priority projects. Also, the difference between our effective and statutory income tax rates is related to other certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, our profit for the period decreased by RR 15,929 million, or 68.0%, to RR 7,503 million in the three months ended 30 September 2014 from RR 23,432 million in the corresponding period in 2013. The profit attributable to shareholders of OAO NOVATEK decreased by RR 15,831 million, or 67.5%, to RR 7,627 million in the three months ended 30 September 2014 from RR 23,458 million in the corresponding period in 2013.

Our EBITDA increased by RR 4,329 million, or 12.6%, to RR 38,757 million in the three months ended 30 September 2014, from RR 34,428 million in the corresponding period in 2013 primarily due to an increase in sales of hydrocarbons.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, decreased by RR 5.22 per share, or 67.4%, to RR 2.53 per share in the three months ended 30 September 2014 from RR 7.75 per share in the corresponding period in 2013.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2014 and 2013:

millions of Russian roubles	Three months ended 30 September: 2014	2013	Change %
Net cash provided by **operating** activities	18,844	25,992	(27.5%)
Net cash provided by (used in) **investing** activities	(33,759)	(29,202)	15.6%
Net cash provided by (used in) **financing** activities	(1,148)	6,658	n/a

Liquidity and credit ratios	30 September 2014	31 December 2013	Change, %
Current ratio	2.50	1.38	81.2%
Total debt to total equity	0.43	0.44	(2.3%)
Long-term debt to long-term debt and total equity	0.29	0.28	3.6%
Net debt to total capitalization (1)	0.23	0.28	(17.9%)
Net debt to EBITDA (2)	0.93	1.30	(28.5%)

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

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

Net cash provided by operating activities

In the three months ended 30 September 2014, our net cash provided by operating activities decreased by RR 7,148 million, or 27.5%, to RR 18,844 million compared to RR 25,992 million in the corresponding period in 2013 mainly due to increased income tax payments in the 2014 reporting period that fluctuate period-on-period and, to a lesser extent, due to the working capital changes (see “Working capital” below) which was partially offset by higher operating results (higher sales volumes of natural gas and liquid hydrocarbons).

millions of Russian roubles	Three months ended 30 September: 2014	2013	Change %
Operating profit	33,973	32,327	5.1%
Working capital changes	(7,938)	(6,237)	27.3%
Income taxes paid	(7,191)	(98)	n/m
Total net cash provided by operating activities	**18,844**	**25,992**	**(27.5%)**

Net cash provided by (used for) investing activities

In the three months ended 30 September 2014, our net cash used for investing activities increased by RR 4,557 million, or 15.6%, to RR 33,759 million from RR 29,202 million in the corresponding period in 2013.

millions of Russian roubles	Three months ended 30 September: 2014	2013	Change %
Purchases of property, plant and equipment (financing of capital expenditures)	(10,823)	(11,884)	(8.9%)
Loans provided to joint ventures	(18,310)	(15,821)	15.7%
Acquisition of subsidiaries net of cash acquired	(1,283)	-	n/a
Additional capital contributions to joint ventures	(992)	(811)	22.3%
Other	(2,351)	(686)	242.7%
Net cash provided by (used for) investing activities	**(33,759)**	**(29,202)**	**15.6%**

Our cash used for purchases of property, plant and equipment decreased by RR 1,061 million, or 8.9%, and mainly related to the development of crude oil deposits at the Yarudeyskiy license area, further development of crude oil deposits at the East-Tarkosalinskoye field, as well as the ongoing development of the Salmanovskoye (Utrenneye) field and North-Khancheyskiy license area in the 2014 reporting period.

In the three months ended 30 September 2014, we provided loans to our joint ventures Yamal LNG and Yamal Development in the amount of RR 18,310 million as compared to RR 15,821 million provided to Yamal LNG and Terneftegas in the corresponding period in 2013 (see "Loans provided" below).

In the 2014 reporting period, we acquired 100 percent of the outstanding shares of ZAO Office for total consideration of RR 4,895 million (USD 135 million), of which RR 1,283 million (USD 34 million) was paid in August-September 2014.

In the three months ended 30 September 2014 and 2013, we made an additional capital contribution to our joint venture Terneftegas in the amount of RR 992 million and RR 811 million, respectively.

Net cash provided by (used for) financing activities

In the three months ended 30 September 2014, our net cash used for financing activities amounted to RR 1,148 million as compared to RR 6,658 million provided by financing activities in the corresponding period in 2013.

	Three months ended 30 September:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Proceeds from long-term loans	-	8,172	n/a
Repayments of long-term loans	-	(970)	n/a
Other	(1,148)	(544)	111.0%
Net cash provided by (used for) financing activities	**(1,148)**	**6,658**	**n/a**

In the three months ended 30 September 2014, we did not obtain or repay existing loans and borrowings (see "Debt obligation" below). In the 2013 reporting period, we received RR 8,172 million due to a withdrawal of USD 250 million under our unsecured syndicated term credit line facility in July 2013 and repaid a loan from Sumitomo Mitsui Banking Corporation Europe Limited in the amount of RR 970 million (USD 30 million).

The remaining change related to the repayment of interest on borrowings and loans and other miscellaneous items.

Working capital

Our net working capital position (current assets less current liabilities) as of 30 September 2014 was a positive RR 63,458 million compared to RR 22,553 million as of 31 December 2013. The change of our net working capital position was primarily due to a significant increase in our cash and cash equivalents by RR 26,961 million (or 341.8%), as well as a decrease in short-term debt and current portion of long-term debt (see "Debt obligations" below) by RR 13,396 million (or 55.8%) which was partially offset by a decrease in trade and other receivables by RR 18,476 million (or 37.3%). The significant increase in our cash and cash equivalents as of 30 September 2014 mainly related to cash proceeds in January and March 2014 from the disposal of 20% participation interests in Yamal LNG and Artic Russia B.V. The decrease in short-term debt and current portion of long-term debt was due to the repayment of short-term loans, including bank overdrafts, in the amount of USD 431 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014. The decrease in trade and other receivables by RR 18,420 million represented the repayment from CNPC related to the disposal of a 20% participation interest in Yamal LNG in January 2014 (recorded in other receivables as of 31 December 2013).

The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all current liabilities and to finance the Group's capital construction programs.

Capital expenditures

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

millions of Russian roubles	Three months ended 30 September: 2014	2013
Yarudeyskiy license area	3,328	377
Salmanovskoye (Utrennee) field	2,053	375
East-Tarkosalinskoye field	1,960	2,938
Khancheyskoye field	1,366	867
North-Khancheyskiy license area	931	53
Olimpiyskiy license area	674	796
Ust-Luga Complex	434	1,414
Geofizicheskoye field	394	28
Yurkharovskoye field	242	5,512
Purovsky Plant	197	2,680
North-Russkiy license area	100	77
Other	605	1,159
Capital expenditures	**12,284**	**16,276**

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2014 decreased by RR 3,992 million, or 24.5%, to RR 12,284 million from RR 16,276 million in the corresponding period in 2013. In the 2014 reporting period, our main investments related to the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, Salmanovskoye (Utrenneye) field's development, as well as an ongoing development of the North-Khancheyskiy license area. In the corresponding period in 2013, we invested in the ongoing development activities at our Yurkharovskoye field, further development of the East-Tarkosalinskoye field's crude oil deposits, construction of the third stage development at the Purovsky Plant (launched in January 2014), as well as the construction of the second stage development at the Ust-Luga Complex (launched in October 2013).

Loans provided

Total loans provided by the Group increased from RR 47,638 million at 31 December 2013 to RR 76,894 million at 30 September 2014, or by RR 29,256 million.

Our loans provided with a breakdown by borrowers (remeasured based on commercial market borrowing rates in accordance with IAS 39 *"Financial instruments: recognition and measurement"*) at 30 September 2014 and 31 December 2013 were as follows (in millions of Russian roubles):

Borrower	Currency	Maturity	Interest rate	At 30 September 2014	At 31 December 2013
Yamal LNG	USD	after the commencement of commercial production	5.09%-4.46%	55,277	42,804
Yamal Development	RR	December 2015, 2021	9.25%-10.9%	11,367	2,200
Yamal LNG	EUR	after the commencement of commercial production	4.46%	7,058	-
Terneftegas	USD	after the commencement of commercial production	3.88%-4.52%	3,192	2,611
Other				-	23
Total loans provided				**76,894**	**47,638**

The increase in total loans provided was due primarily to the increase in loans to our joint ventures, as well as the depreciation of the Russian rouble relative to the US dollar by 20.3% at 30 September 2014 compared to 31 December 2013.

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 either Russian roubles or US dollars.

Overview

Our total debt increased from RR 165,621 million at 31 December 2013 to RR 182,430 million at 30 September 2014 primarily due to the Russian rouble depreciation relative to the US dollar by 20.3% at 30 September 2014 compared to 31 December 2013. In addition, we withdrew a final tranche of USD 430 million under our syndicated credit line facility obtained in June 2013 in the amount of USD 1.5 billion, and received a short-term loan from a non-controlling shareholder in the amount of RR 1,619 million. The Group repaid short-term loans, including bank overdrafts, in the amount of USD 431 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014, as well as repaid a loan from Sberbank in the amount of RR 10 billion in March 2014 ahead of its maturity schedule, that partially offset the increase in total debt. 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 September 2014 and 31 December 2013 was as follows:

Facility	Amount	Maturity	Interest rate	At 30 September 2014	At 31 December 2013
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	58,573	34,363
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	39,240	32,595
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	25,485	21,163
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	23,591	19,583
Russian bonds	RR 20 billion	October 2015	8.35%	19,988	19,980
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,934	13,911
Sberbank	RR 10 billion	December 2014	7.9%-8.9%	-	9,911
Total				**180,811**	**151,506**
Short-term debt				1,619	14,115
Total debt				**182,430**	**165,621**

Maturities of long-term loans

Scheduled maturities of our long-term debt at 30 September 2014 were as follows:

Maturity schedule:	**RR million**
1 October 2015 to 30 September 2016	61,602
1 October 2016 to 30 September 2017	31,956
1 October 2017 to 30 September 2018	13,517
1 October 2018 to 30 September 2019	-
After 30 September 2019	64,725
Total long-term debt	**171,800**

Available credit facilities

At 30 September 2014, the Group also had funds available under credit facilities with interest rates predetermined or negotiated at time of each withdrawal:

	Par value	Expiring within one year
Credit Agricole Corporate and Investment Bank	USD 100 million	3,939
UniCredit Bank	USD 69 million	2,718
Gazprombank	RR 10 billion	10,000
Total available credit facilities		**16,657**

At 30 September 2014, the Group had available funds in the form of bank overdrafts with various international banks in the aggregate amount of RR 10.8 billion (USD 275 million) on variable interest rates subject to the specific type of credit facility. The receipt of funds under the credit lines described above is available in different currencies and is negotiated at each time of withdrawal.

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

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar. As of 30 September 2014, the total amount of our long-term debt denominated in US dollars was RR 137,878 million, or 75.6% of our total borrowings at that date. Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms, as well as receivables at our foreign subsidiaries. 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 27.0% in the three months ended 30 September 2014, is denominated in US dollars. In addition, our share of profit (loss) of joint ventures is exposed to foreign currency exchange rate due to the significant amount of foreign currency-denominated borrowings in our joint ventures. As of 30 September 2014, the Russian rouble depreciated by approximately 20.3% against the US dollar since 31 December 2013.

A hypothetical and instantaneous 10% depreciation in the Russian rouble in relation to the US dollar as of 30 September 2014 would have resulted in an estimated non-cash foreign exchange loss of approximately RR 14,689 million on foreign currency denominated borrowings held at that date.

Commodity risk

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

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

As of 30 September 2014, 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.