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 as of 31 December 2014 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2014 and 2013. The consolidated financial statements and the related notes thereto have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

OVERVIEW

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

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

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

We deliver our extracted unstable gas condensate through our own pipelines to our Purovsky Gas Condensate Plant for processing into stable gas condensate and liquefied petroleum gas ("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 as raw material feedstock for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the Port of Ust-Luga on the Baltic Sea. The remaining stable gas condensate volumes are sold domestically.

The Ust-Luga Complex consists of two stable gas condensate fractionation units (launched in June and October 2013) with a total capacity of six (6) million tons per annum. The complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets. 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. The remaining LPG volumes produced at the Purovsky Plant are sold directly from the plant without incurring additional transportation expenses.

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

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

RECENT DEVELOPMENTS

Acquisitions and disposals

In December 2014, the Group acquired a 100% equity stake in OOO NovaEnergo for RR 229 million. NovaEnergo provides repair and maintenance services of energy generating equipment and was acquired for servicing the Group's production facilities located in the Yamal-Nenets Autonomous region ("YNAO").

In August 2014, the Group purchased a land plot for RR 4,895 million next to our corporate head office in Moscow for construction of a future new office building that became necessary as a result of expansion of Group's activities.

In December 2013, our joint venture OOO Yamal Development acquired a 60% equity stake in Artic Russia B.V. from Eni, the Italian energy company. Artic Russia B.V. owns a 49% participation interest in SeverEnergia. In December 2013, the Group also swapped its 51% stake in OAO Sibneftegas for a 40% stake in Artic Russia B.V. Following the completion of these two transactions, the Group's effective share in SeverEnergia increased to 59.8%. SeverEnergia produces hydrocarbons at the Samburgskoye and Urengoyskoye fields, and is currently undertaking the preparatory works to launch the Yevo-Yakhinskoye, Yaro-Yakhinskoye and Severo-Chaselskoye fields located in YNAO.

In March 2014, the Group approved a series of transactions which, when concluded, will enable the shareholders to equalize their equity stakes in the SeverEnergia joint venture. Consequently, on 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to its joint venture Yamal Development thus decreasing its effective interest in SeverEnergia from 59.8% to 54.9%. Further restructuring procedures to achieve parity shareholdings in SeverEnergia are subject to formal corporate approvals and are expected to be completed within two years following the first transaction.

In February 2014, the Group acquired an additional 15% equity stake in OOO NOVATEK-Kostroma, a regional natural gas trader in the Kostroma region of the Russian Federation, thus increasing the Group's effective participation interest to 100 percent.

Increasing our resource base

In December 2014, based on auction results held by the Federal Agency for the Use of Natural Resources of the Russian Federation, the Group acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhbugorniy license area located in the YNAO. As of 31 December 2014, the field's recoverable reserves according to the Russian reserve classification C1+C2 totaled 5.9 billion cubic meters ("bcm") of natural gas. The resources of natural gas and liquid hydrocarbons according to the Russian reserve classification C3+D amounted to approximately 1.0 trillion of cubic meters of natural gas and 92 million tons of liquid hydrocarbons, respectively. We paid RR 435 million for the license.

In June 2013 and August 2014, as a result of geological and geophysical research works performed at the North-Russkiy license area located in the YNAO, the Group discovered Dorogovskoye and Kharbeyskoye oil and gas condensate fields. The Dorogovskoye field's recoverable reserves as of 31 December 2014 according to the Russian reserve classification C1+C2 totaled to 35.1 bcm of natural gas and 2.5 million tons of liquid hydrocarbons. The recoverable reserves of the Kharbeyskoye field as of 31 December 2014 according to the Russian reserve classification C1+C2 totaled 26.7 bcm of natural gas and 7.8 million tons of liquid hydrocarbons.

In March 2013, the Group won the right to purchase an oil and gas exploration and production license for the East-Tazovskoye field located in the YNAO, based on auction results held by the Federal Agency for the Use of Natural Resources of the Russian Federation. As of 31 December 2014, the estimated proved reserves appraised under the PRMS reserve methodology totaled to 17.1 bcm of natural gas and 2.5 million tons of liquid hydrocarbons. We paid RR 3.2 billion for the mineral license.

Production growth

In December 2014, our joint venture SeverEnergia reached the capacity of the first phase of the Urengoyskoye field located within the Samburgskoye license. Furthermore, in December, the second stage of field development that includes the second gas condensate de-ethanization unit was launched. The cumulative capacity of the two phases totaled approximately 13 bcm of natural gas and more than 4.7 million tons of gas condensate per annum.

In September 2014, SeverEnergia launched the third phase of the Samburgskoye field, also located within the Samburgskoye license area. The launch of the third phase 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 October 2013, our joint venture ZAO Nortgas launched the Eastern dome of the North-Urengoyskoye field as a result of which the field reached its planned production capacity of 10.8 bcm of natural gas and 1.3 million tons of gas condensate per annum.

In October 2013, the Group launched production at the Urengoyskoye field located within the Group's Olimpiyskiy license area, with an annual natural gas production capacity estimated at approximately one (1) bcm.

Increasing refining capacity

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 1.5 million tons each. The completion of this strategic project allowed us to achieve a balance between our gas condensate production potential and processing capacity. We increased volumes processed at the Purovsky Plant during 2014 by approximately 36% compared to 2013.

In June and October 2013, the Group launched the first and the second stages of a stable gas condensate fractionation unit located at the Port of Ust-Luga on the Baltic Sea (the as of 31 December 2014 Ust-Luga Complex"). The Ust-Luga Complex consists of two stable gas condensate fractionation units with a total nameplate capacity of six (6) million tons per annum (three (3) million tons each), 520 thousand cubic meters of storage facilities for feedstock and products, two deep-water berths and other infrastructure facilities. The commissioning of the Ust-Luga Complex increased the added value of our liquid hydrocarbons sales and allowed us to diversify our sales market.

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 rail from the plant to the domestic and international sales markets. Effective January 2014, we optimized our liquefied petroleum gas production, transportation and sales and began producing natural gas liquids ("NGL") at our Purovsky Plant in addition to other sorts of liquefied petroleum gas, and, as a result, commenced selling NGL ex-works Purovsky Plant without incurring additional transportation expenses.

Effective June 2014, we completely ceased the production of other sorts of liquefied petroleum gas (technical propane, technical propane-butane, technical butane) at the Purovsky Plant and produced only NGL which, except volumes sold directly at the plant, we dispatch to the 1,100 kilometers long pipeline launched in 2014 to the refining capacities of OOO Tobolsk-Neftekhim where, after processing, we receive liquefied petroleum gas of the required quality. Volumes received after processing are transported by rail from the Tobolsk station to our end-customers in the domestic and international markets. Such sales and distribution logistics of our liquefied petroleum gas allows us to bypass one of the busiest areas of the Russian railroad and diversify our sales. In the Consolidated financial statements and this "Management's discussion and analysis of financial condition and results of operations", we disclose NGL, as well as liquefied petroleum gas, received from the additional processing at Tobolsk-Neftekhim, as "liquefied petroleum gas".

Implementation of the Yamal LNG project

The Yamal LNG project envisages the construction of a liquefied natural gas ("LNG") plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula. The project also requires the construction of transportation infrastructure including the seaport at Sabetta and an international airport. Estimated capital cost of the project is USD 26.9 billion. The commercial launch of the first LNG train is planned in 2017.

In September 2014, our joint venture OAO Yamal LNG, received a license from the Russian Federation Ministry of Energy for export of LNG in accordance with the LNG export liberalization law (Federal Law 318-FZ) passed in December 2013. According to this law, companies with mineral licenses as of 1 January 2013 stipulating LNG plant construction or shipment of gas produced to a LNG plant for liquefaction are allowed to export LNG. 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 LNG per annum for a period of 15 years with possible supply extensions. In January 2015, we also signed a long-term contract with OAO Gazprom for the supply of 2.9 million tons of LNG per annum for a period of no less than 20 years produced from the project. Management believes that the conclusion of LNG supply agreements is also an important step in the implementation of the Yamal LNG project.

In December 2013, under the framework agreement with CNPC on the Yamal LNG project signed in September 2013, the Group sold a 20% equity stake in OAO Yamal LNG to CNPC. As a result, the Group's share of Yamal LNG decreased to 60%.

In 2014, Yamal LNG signed a number of long-term agreements for time chartering of ten LNG carriers with an ice classification of ARC7 for shipments of LNG produced within the Yamal LNG project and obtained an exclusive right to use these tankers for the period of up to 2045. Furthermore, in December 2014, Yamal LNG entered into an agreement with Daewoo Shipbuilding & Marine Engineering to build additional five tankers of the same ice classification which, in the future, may be sold to and leased back from the shipping companies.

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

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

In May 2014, the Group established wholly-owned subsidiaries OOO Arctic LNG 1, OOO Arctic LNG 2, and OOO 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 2014 totaled 1.2 trillion cubic meters of natural gas and 46.9 million tons of liquid hydrocarbons. The resources of the North-Obskiy license area according to the Russian reserve classification C3+D1L as of 31 December 2014 totaled 1.1 trillion cubic meters of natural gas and 71 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 a 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 fields located fully or partially in 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 up to 250 bcm of natural gas and 20 million tons of gas condensate and not more than 12 years from the production commencement for each field.

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

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 the commodity exchange. The changes allow companies to trade natural gas at both the commodity exchanges and at electronic trading systems registered according to established procedures, facilitating the development of natural gas spot trading in the Russian Federation. We believe that this measure is an important step towards forming a competitive natural gas market on the territory of the Russian Federation.

The trading sessions for "Natural gas" takes place each month commencing from the 24 October 2014 on the Saint-Petersburg International Mercantile Commodities Exchange. In December 2014, the Group concluded contracts for the purchase of small volumes of natural gas at the commodity exchange during January 2015, and plans to take an active part in the natural gas exchange trading in the future.

Inclusion of the Group to the OFAC's Sectoral List

On 16 July 2014, OAO NOVATEK was included on the OFAC's Sectoral Sanctions Identification List (the "List") which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 90 days. Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place on its territory.

Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group's business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and exchange listed shares and debt, and does not have a material effect on the Group's financial position.

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 and will continue to monitor 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.

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2014	2013	Change %
Financial results			
Total revenues [(1)]	357,643	298,158	20.0%
Operating expenses	(236,512)	(192,761)	22.7%
Profit attributable to shareholders of OAO NOVATEK	37,296	110,006	(66.1%)
Normalized profit attributable to shareholders of OAO NOVATEK [(2)]	35,197	79,825	(55.9%)
EBITDA [(3)]	162,254	167,019	(2.9%)
Normalized EBITDA [(2)]	159,631	129,370	23.4%
Normalized EBITDAX [(4)]	159,743	129,797	23.1%
Earnings per share (in Russian roubles)	12.34	36.31	(66.0%)
Normalized earnings per share (in Russian roubles) [(2)]	11.65	26.35	(55.8%)
Net debt [(5)]	204,361	157,732	29.6%
Production costs (USD per barrel of oil equivalent)	9.53	10.63	(10.3%)
Production volumes [(6)]			
Total hydrocarbons production (million barrels of oil equivalent)	456.7	439.0	4.0%
Total daily production (thousand barrels of oil equivalent per day)	1,251	1,203	4.0%
Operating results			
Natural gas sales volumes (million cubic meters)	67,231	64,152	4.8%
Naphtha sales volumes (thousand tons)	3,319	1,328	149.9%
Liquefied petroleum gas sales volumes (thousand tons)	1,434	1,078	33.0%
Other gas condensate refined products (thousand tons) [(7)]	1,119	278	302.5%
Crude oil sales volumes (thousand tons)	903	627	44.0%
Stable gas condensate sales volumes (thousand tons)	303	2,117	(85.7%)
Oil and gas reserves [(8)]			
Total proved reserves SEC (million barrels of oil equivalent)	12,578	12,537	0.3%
Total natural gas proved reserves SEC (billion cubic meters)	1,747	1,740	0.4%
Total natural gas proved reserves PRMS (billion cubic meters)	2,134	2,141	(0.3%)
Total liquids proved reserves SEC (million tons)	135	134	0.7%
Total liquids proved reserves PRMS (million tons)	174	187	(7.0%)
Cash flow results			
Net cash provided by operating activities	110,253	88,525	24.5%
Capital expenditures [(9)]	63,179	59,254	6.6%
Free cash flow [(10)]	47,074	29,271	60.8%

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

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Profit attributable to shareholders of OAO NOVATEK	**37,296**	**110,006**	**(66.1%)**
Depreciation, depletion and amortization	17,172	13,503	27.2%
Net impairment reversals (expenses)	(229)	2,611	n/a
Loss (income) from changes in fair value of derivative financial instruments	(2,093)	(549)	281.2%
Total finance expense (income)	46,745	6,684	n/a
Total income tax expense	15,928	27,185	(41.4%)
Share of loss (profit) of joint ventures, net of income tax	28,175	112	n/a
EBITDA from subsidiaries	**142,994**	**159,552**	**(10.4%)**
Share in EBITDA of joint ventures	19,260	7,467	157.9%
EBITDA [(3)]	**162,254**	**167,019**	**(2.9%)**
Net loss (gain) on disposal of interest in subsidiaries and joint ventures	(2,623)	(37,649)	(93.0%)
Normalized EBITDA [(2)]	**159,631**	**129,370**	**23.4%**
Exploration expenses	112	427	(73.8%)
Normalized EBITDAX [(4)]	**159,743**	**129,797**	**23.1%**

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

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

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

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

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

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

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

(8) Oil and gas reserves are attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields.

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

(10) 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]	1Q		2Q		3Q		4Q		Year		Change
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**Y-o-Y, %**
Average for the period	34.96	30.41	35.00	31.61	36.19	32.80	47.42	32.53	38.42	31.85	20.6%
At the beginning of the period	32.73	30.37	35.69	31.08	33.63	32.71	39.39	32.35	32.73	30.37	7.8%
At the end of the period	35.69	31.08	33.63	32.71	39.39	32.35	56.26	32.73	56.26	32.73	71.9%
Depreciation (appreciation) of Russian rouble to US dollar	9.0%	2.3%	(5.8%)	5.2%	17.1%	(1.1%)	42.8%	1.2%	71.9%	7.8%	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]	1Q		2Q		3Q		4Q		Year		Change
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**Y-o-Y, %**
Brent											
Average for the period	108.2	112.6	109.7	102.4	101.9	110.3	76.6	109.2	98.9	108.7	(9.0%)
At the end of the period	106.0	107.4	111.0	102.5	94.8	108.1	55.0	110.3	55.0	110.3	(50.1%)
Dubai											
Average for the period	104.4	108.1	106.1	100.8	101.4	106.2	74.4	106.8	96.7	105.5	(8.3%)
At the end of the period	104.8	107.1	109.2	100.4	94.6	104.8	52.9	108.1	52.9	108.1	(51.1%)
Urals											
Average for the period	106.5	110.8	107.7	102.1	101.1	109.7	75.6	108.2	97.6	107.7	(9.4%)
At the end of the period	105.3	106.5	109.2	102.5	93.2	106.4	53.4	109.1	53.4	109.1	(51.1%)

(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]	1Q		2Q		3Q		4Q		Year		Change
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**Y-o-Y, %**
Naphtha Japan											
Average for the period	935	960	951	858	913	919	646	946	862	920	(6.3%)
At the end of the period	936	922	981	856	850	900	461	984	461	984	(53.2%)
Naphtha CIF NWE											
Average for the period	915	945	939	831	882	906	614	928	836	903	(7.4%)
At the end of the period	918	881	965	831	811	886	415	949	415	949	(56.3%)
Jet fuel											
Average for the period	975	1,038	970	930	938	993	753	997	908	990	(8.3%)
At the end of the period	956	984	987	938	881	977	574	1,023	574	1,023	(43.9%)
Gasoil											
Average for the period	917	961	911	872	869	932	686	932	845	924	(8.5%)
At the end of the period	899	918	918	886	809	918	517	950	517	950	(45.6%)
Fuel oil											
Average for the period	625	654	637	609	584	615	418	609	565	622	(9.2%)
At the end of the period	647	628	643	607	554	608	273	607	273	607	(55.0%)

(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]	1Q		2Q		3Q		4Q		Year		Change
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**Y-o-Y, %**
Average for the period	758	699	668	605	794	674	623	828	711	702	1.3%
At the end of the period	654	633	769	570	725	762	398	838	398	838	(52.5%)

(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]	1Q		2Q		3Q		4Q		Year		Change
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**Y-o-Y, %**
Crude oil, stable gas condensate											
Average for the period	388.5	406.5	382.7	379.7	380.4	383.2	313.0	399.3	366.1	392.2	(6.7%)
At the end of the period	384.4	420.6	385.0	359.3	367.6	400.7	277.5	385.7	277.5	385.7	(28.1%)
Liquefied petroleum gas											
Average for the period	189.3	176.8	101.1	71.4	152.7	53.7	131.9	159.7	143.8	115.4	24.6%
At the end of the period	169.1	131.4	86.0	72.2	221.0	75.5	124.8	203.5	124.8	203.5	(38.7%)
Naphtha											
Average for the period	349.6	365.9	344.4	341.8	342.3	344.9	281.6	359.4	329.5	353.0	(6.7%)
At the end of the period	345.9	378.6	346.5	323.3	330.8	360.6	249.7	347.1	249.7	347.1	(28.1%)
Jet fuel, fuel oil											
Average for the period	256.4	268.3	252.6	250.6	251.0	252.9	206.5	263.5	241.6	258.8	(6.6%)
At the end of the period	253.7	277.6	254.1	237.1	242.6	264.4	183.1	254.5	183.1	254.5	(28.1%)
Gasoil											
Average for the period	252.5	268.3	248.7	250.6	247.2	252.9	203.4	263.5	237.9	258.8	(8.1%)
At the end of the period	249.8	277.6	250.2	237.1	238.9	264.4	180.3	254.5	180.3	254.5	(29.2%)

[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.

During 2014, the Russian economy began experiencing signs of weakness on the domestic market which became especially apparent during the fourth quarter of 2014: the severe devaluation of the Russian rouble, a contraction of the Country's gross domestic product (GDP), a significant increase in the Central Bank's lending rates as well as a general weakening of other macro-economic indicators. The domestic market situation was further exasperated by the rapid commodity price decline in global oil markets and the Russian Federation's dependence on the strength and vitality of the oil and gas industry and the collection of tax revenues for budgetary purposes.

More recently, the international credit rating agencies have placed the Russian sovereign credit rating on negative credit watch implying the likelihood of potential rating downgrades of the Russian Federation, which in turn, implies the likelihood of possible future downgrading of private and state-owned companies with external credit ratings. In January and February of 2015, both Standard & Poor's (S&P) and Moody's downgraded the Russian sovereign rating to below investment rating status as well as the corresponding downward adjustments to Russian issuers, including NOVATEK. We strongly disagree with the position taken by both S&P and Moody's regarding our credit rating because our operating results and cash flow generating capabilities to support our liquidity position remain strong. As of this date, the aforementioned downgrades have not had a negative effect on our exchange listed shares.

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

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 31 December 2014, the Russian rouble depreciated relative to the US dollar by approximately 71.9% since 31 December 2013, with significant Russian rouble currency volatility to US dollar and euro noted in December 2014. The Russian Federation government took and continues to take necessary efforts to stabilize the Russian rouble, including regulation of the Russian Federation Central Bank's lending rate, support of the banking system and provision of the currency liquidity to the members of the market.

The significant depreciation of the Russian rouble in the fourth quarter of 2014 resulted in a significant revaluation of our assets and liabilities denominated in foreign currency, primarily US dollar denominated long-term debt. Furthermore, significant non-cash losses were also realized by our joint ventures, which have significant US dollar denominated loans. Despite significant non-cash foreign currency exchange losses realized in 2014, we believe that the Group's financial results are mitigated from the negative effect of the foreign currency fluctuations since approximately 26% of our revenues for the year ended 31 December 2014 are denominated in US dollars. With the launches of new fields at the end of 2014, as well as an increased capacity of the Purovsky Plant, we intend to continue increasing our proportional share of liquids sales, which will result in an increased share of foreign currency dominated revenues.

A significant non-cash foreign exchange loss recognized by our joint venture Yamal LNG was primarily due to the revaluation its long term debt as of the balance sheet date. We expect that once commercial production commences, the 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, stable gas condensate and refined products) delivered to international markets will be denominated in US dollars and other foreign currencies.

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.

In 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. The price formula 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 them 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 did not change during 2014 (effectively remained 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. The majority of our natural gas volumes are sold directly to end-customers in the region of natural gas consumption so transportation tariff to the end customer's location is included in the contract sales price. The remaining small volumes of natural gas we sell "ex-field" primarily to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

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

In 2014, our average natural gas price on end-customers sales increased by 4.8% due to a cumulative increase in the average regulated FTS price by 7.4% as compared to 2013 (the cumulative effect of a decrease of 3.0% from 1 April 2013 and 1.9% effective from 1 January 2014 and an increase of 15.0%, 3.1% and 1.9% effective from 1 July, 1 August and 1 October 2013), that was partially offset by sales to our end-customers located closer to our production fields in the reporting period as compared to 2013. The change in the sales geography also had an impact on the dynamics of our average transportation expense per mcm resulting in a 0.7% 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 increased by 9.0%, while our total average natural gas price excluding transportation expense increased by 8.7% compared to the respective prices in 2013.

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

	Year ended 31 December:		Change
Russian roubles per mcm	**2014**	**2013**	**%**
Average natural gas price to end-customers [(1)]	3,527	3,366	4.8%
Average natural gas transportation expense for sales to end-customers	(1,463)	(1,473)	(0.7%)
Average natural gas netback price on end-customer sales	2,066	1,895	9.0%
Average natural gas price ex-field (wholesale traders)	1,833	1,830	0.2%
Total average natural gas price excluding transportation expense	**2,052**	**1,887**	**8.7%**

[(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 producers' crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend", which historically trades at a discount to the international benchmark Brent crude oil. 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 (except domestic sales), 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 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 gas condensate refined products.

In 2013, our average realized stable gas condensate export contract price, including export duties, was USD 904 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 493.0 per ton.

In 2014, our average realized export contract prices for naphtha and all other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 118 and USD 167 per ton, or 12.1% and 17.6%, to approximately USD 855 and USD 783 per ton, respectively. The decrease in our average realized export contract prices was as a result of a decrease in the underlying commodity prices of the respective products on the international markets used in the price calculation (see "Selected macro-economic data" above).

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 2014 decreased by USD 145.0 and USD 175.8 per ton, or 22.9% and 24.6%, and amounted to USD 488.5 and USD 538.6 per ton, respectively. Our average realized net export prices in Russian roubles showed a lower decrease due to a 20.6% increase in the average exchange rate of US dollar to Russian rouble in 2014 compared to 2013.

In both reporting periods we sold naphtha and other gas condensate refined products to the export markets at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), delivery to the port of destination ex-ship (DES), or delivery at point of destination (DAP) or free on board (FOB) (only in 2013).

In 2014, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically at an average price of RR 20,102 per ton. We expect that we will continue to sell small volumes of other gas condensate refined products domestically in 2015 depending on the situation in the domestic and export markets.

The following table shows our average realized stable gas condensate and refined products sales prices, excluding trading activities. 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:

	Year ended 31 December:		**Change**
Russian roubles or US dollars per ton	**2014**	**2013**	**%**
Stable gas condensate			
Net export price, RR per ton	-	15,703	n/a
Net export price, USD per ton	-	493.0	n/a
Domestic price, RR per ton	12,547	12,979	(3.3%)
Naphtha			
Net export price, RR per ton	18,767	20,176	(7.0%)
Net export price, USD per ton	488.5	633.5	(22.9%)
Other gas condensate refined products			
Net export price, RR per ton	20,692	22,674	(8.7%)
Net export price, USD per ton	538.6	711.9	(24.3%)
Domestic price, RR per ton	20,102	-	n/a

Liquefied petroleum gas

In 2014, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, increased by USD 28 per ton, or 3.5%, and was approximately USD 835 per ton compared to USD 807 per ton in 2013. The increase in our average realized contract price was due to an increase in the underlying benchmark prices for LPG on international markets used in price calculation (see "Selected macro-economic data" above). 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 69.0 per ton, or 11.0%, to USD 555.7 per ton from USD 624.7 per ton due to a significant 24.6% increase in our average export duty per ton set by the Russian Federation government (see "Selected macro-economic data" above). Our average realized LPG net export price in Russian roubles increased by 7.3% due to a 20.6% increase in average exchange rate of US dollar to Russian rouble in 2014 compared to 2013.

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 2014, our average realized LPG domestic price decreased by RR 658 per ton, or 4.5%, to RR 13,869 per ton from RR 14,527 per ton 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	**Year ended 31 December: 2014**	**2013**	**Change %**
LPG			
Net export price, RR per ton	21,349	19,897	7.3%
Net export price, USD per ton	555.7	624.7	(11.0%)
Domestic price, RR per ton	13,869	14,527	(4.5%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 80 per ton, or 10.4%, and was approximately USD 688 per ton compared to USD 768 per ton 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 58.4 per ton, or 15.6%, to USD 317.1 per ton from USD 375.5 per ton in 2013. Our average realized crude oil net export price in Russian roubles increased by 1.9% due to a 20.6% increase in average exchange rate of Russian rouble to US dollar in 2014 compared to 2013.

In 2014 and 2013, our crude oil export delivery terms were DAP (Budkovtse, Slovakia). In addition, in 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 2014, our average realized crude oil domestic price was RR 12,561 per ton (excluding VAT) representing an increase of RR 742 per ton, or 6.3%, from RR 11,819 per ton (excluding VAT) in 2013 as a result of changes in customer mix and delivery of crude oil to the more 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	**Year ended 31 December: 2014**	**2013**	**Change %**
Crude oil			
Net export price, RR per ton	12,183	11,959	1.9%
Net export price, USD per ton	317.1	375.5	(15.6%)
Domestic price, RR per ton	12,561	11,819	6.3%

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. The transportation tariffs for natural gas did not change during 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 by 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 (and to the Port of Vitino on the White Sea in 2013) and to customers on the domestic markets 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 to further processing due to the route from the Purovsky Plant to the Port of Ust-Luga being 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 January 2014, we commenced selling part of our produced LPG ex-works Purovsky Plant, and from April 2014 began dispatching LPG via pipeline for further processing at the Tobolsk-Neftekhim facilities 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 and commenced transporting LPG to our end-customers from the Tobolsk rail station located near the Tobolsk-Neftekhim facilities thus decreasing our LPG rail transportation distance.

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. According to the amendments, the FTS sets the range of railroad tariffs (the minimum and maximum range) for the transportation of all types of goods transported by the railroad system and for certain segments of railroad services within which the monopoly railway operator RZD may vary railroad transportation tariffs based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

In 2013 and 2014, the FTS did not change the range of railroad tariffs. Effective 1 January 2015, the FTS increased railroad freight transportation tariffs by 10% in accordance with the Ministry of Economic Development Forecast published in September 2014.

Effective 18 April 2013, we applied 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 of the same year. 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. In December 2014, the Management Board of RZD extended the validity of the discount co-efficient of 0.94 to the existing railroad transportation tariffs related to stable gas condensate deliveries from the Limbey rail station. We will apply the discount co-efficient during the whole year of 2015.

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

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

In both reporting periods crude oil transportation tariffs within the Russian Federation territory did not change. Effective 1 January 2015, the FTS increased crude oil transportation tariffs within the Russian Federation territory through pipeline network owned by Transneft by an average of 6.75%.

Our tax burden and obligatory payments

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

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

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

UPT

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. 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 approved the amendments to the Russian Federation Tax Code that substituted the current approach to natural gas and gas condensate UPT rate calculation based on a fixed rate with a new approved formula-based approach. Effective 1 July 2014, the UPT rates for natural gas and gas condensate are calculated according to a formula based on which the base UPT rate is multiplied by the base value of a standard fuel equivalent and a co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. Furthermore, from 1 January 2015, the UPT rate for natural gas also depends on the excess of the set average transportation tariff for the prior year over the 2013 tariff adjusted to the change in consumer prices. The base UPT rate is set at RR 35 per one thousand cubic meters of extracted natural gas and at RR 42 per one ton of extracted gas condensate. The base value of a standard fuel equivalent is calculated monthly and depends, among other parameters, on natural gas prices, Urals crude oil prices and crude oil export duty rate. A co-efficient characterizing the difficulty of extracting natural gas and gas condensate defined as a minimum value from the co-efficients characterizing either the reserves' depletion, the field's geographical location, the deposit's (or reservoir's) depth, assignment of the field to the regional gas supply chain or particular features of certain field deposits development.

In addition, in June 2014, the State Duma of the Russian Federation approved changes to the Tax Code of the Russian Federation which set a zero UPT rate effective from 1 January 2015 for natural 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 for each field 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, but not more than 12 years from the production commencement.

During the years of 2013 and 2014, the UPT rate for crude oil was calculated each month by multiplying the base UPT rate and co-efficients characterizing crude oil world price dynamics and production peculiarities (reserve depletion and the amount of reserves for a particular field, the difficulty of extracting and reserve depletion of a particular hydrocarbon deposit). 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. 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 Tax Code of the Russian Federation 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 November 2014, as part of the tax maneuver in the oil industry, the State Duma of the Russian Federation adopted a federal law №366-FZ "Concerning introducing changes to the second part of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation" which envisages the increase in national budgetary income as a result of the phased (during three (3) years) increases in UPT rates with a simultaneous decrease in excise taxes and export duties. As a result of these changes, the UPT rate for gas condensate was increased by 4.4, 5.5 and 6.5 times from 1 January 2015, 2016 and 2017, respectively, in relation to 2014 UPT rate.

As a result of the changes in the Tax Code of the Russian Federation, effective from 1 January 2015, the UPT rate for crude oil is calculated as the base UPT rate multiplied by a co-efficient characterizing the dynamics of world crude oil prices decreased by a co-efficient characterizing crude oil production peculiarities. The base crude oil UPT rate in 2015 is set as RR 766 and increased to RR 857 and RR 919 per ton effective from 1 January 2016 and 2017, respectively. For crude oil produced by the Group from the fields located fully or partially in the YNAO to the north of the 65th degree of the northern latitude, effective from 1 January 2015, the UPT rate is calculated using a base rate of RR 236 per ton (the rate will increase to RR 298 and RR 360 per ton from 1 January 2016 and 2017, respectively) multiplied by a co-efficient characterizing the dynamics of world crude oil prices.

Export duties

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

The export duty rate for stable gas condensate and crude oil is calculated based on the average Urals crude oil price for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month. In 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. The set percentage of the difference used in the formula was decreased from 60% to 59%. Changes in the regulations, which became effective 1 January 2015, decreased the set percentage as part of the tax maneuver (see above) to 42%, 36% and 30% in 2015, 2016 and 2017, respectively.

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

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

Co-efficients, % from the crude oil export duty rate	**2013**	**2014**	**2015**	**2016**	**2017 and further**
Naphtha	90%	90%	85%	71%	55%
Jet fuel	66%	66%	48%	40%	30%
Gasoil	66%	65%	48%	40%	30%
Fuel oil	66%	66%	76%	82%	100%

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

Social insurance tax

In 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 was set to 10.0% to the Pension Fund and nil for other funds.

In 2015, social insurance tax rates to non-budgetary funds will not change; however, the maximum taxable base will only be accepted for contributions to the Pension Fund of the Russian Federation (increased to RR 711 thousand of annual income) and to the Social Insurance Fund of the Russian Federation (increased to RR 670 thousand of annual income). Contribution to the Federal Compulsory Medical Insurance Fund in 2015 will be applied at a 5.1% tax rate regardless of the employee's annual income.

OIL AND GAS RESERVES

We do not file with the Securities and Exchange Commission ("SEC") nor are obliged to report our reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves as unaudited supplemental information in the Group's IFRS audited consolidated financial statements. The Group's total proved reserves, comprised of proved developed and proved undeveloped reserves as of 31 December 2014 and 2013, are provided using the SEC reserves reporting classification. We also provide additional information about our hydrocarbon reserves based on the widely-industry accepted PRMS reserves reporting classification, which in addition to total proved reserves discloses information on our probable and possible reserves. Our reserves estimates are appraised annually by the Group's independent petroleum engineers, DeGolyer and MacNaughton ("D&M").

Proved reserves disclosed in the *"Unaudited Supplemental Oil and Gas Disclosures"* in the Group's IFRS consolidated financial statements are presented under SEC reserve reporting methodology based on 100% of the reserves attributable to all consolidated subsidiaries (whether or not wholly owned), as well as our proportionate share of proved reserves in companies accounted for by the equity method based on our equity ownership interest.

Our total SEC proved reserves, as presented in the tables below, differ from the total net proved reserves as reported in the *"Unaudited Supplemental Oil and Gas Disclosures"* in the Group's IFRS consolidated financial statements, in that total net proved reserves as presented in the Group's IFRS consolidated financial statements include net proved reserves of natural gas and liquids attributable to non-controlling interest in our subsidiaries. Thus the proved reserves disclosure in this report differs from the proved reserves disclosure in the consolidated financial statements, and reconciliation of our reserves is provided.

The tables below provide a comparison of the Group's estimated proved reserves under SEC and PRMS reserve classifications attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields.

	Natural gas			
	SEC		**PRMS**	
Based on our equity ownership interest in the fields	***Billions of cubic feet***	***Billions of cubic meters***	***Billions of cubic feet***	***Billions of cubic meters***
Total proved reserves at 31 December 2012	**62,087**	**1,758**	**77,514**	**2,195**
including subsidiaries	*38,324*	*1,085*	*44,062*	*1,248*
including joint ventures	*23,763*	*673*	*33,452*	*947*
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	2,899	82	1,880	53
Acquisitions [(1)]	5,699	161	7,727	219
Disposals [(2)]	(7,073)	(200)	(9,349)	(265)
Production	(2,157)	(61)	(2,157)	(61)
Total proved reserves at 31 December 2013	**61,455**	**1,740**	**75,615**	**2,141**
including subsidiaries	*36,824*	*1,042*	*42,622*	*1,207*
including joint ventures	*24,631*	*698*	*32,993*	*934*
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	3,240	92	2,456	69
Acquisitions in 2013 [(3)]	24	1	559	16
Disposals [(4)]	(841)	(24)	(1,066)	(30)
Production	(2,192)	(62)	(2,192)	(62)
Total proved reserves at 31 December 2014	**61,686**	**1,747**	**75,372**	**2,134**
including subsidiaries	*35,807*	*1,014*	*42,063*	*1,191*
including joint ventures	*25,879*	*733*	*33,309*	*943*
Plus: non-controlling interest	149	4		
Total proved reserves at 31 December 2014 per the consolidated financial statements	**61,835**	**1,751**		

(1) Acquisitions represent reserves attributable to the East-Tazovskoye field acquired in March 2013, as well as acquisition of additional shares of our joint ventures Nortgas and SeverEnergia acquired in June and December 2013, respectively.

(2) Disposals represent reserves related to the sale of a 51% ownership interest in Sibneftegas and a 20% ownership interest in Yamal LNG in December 2013.

(3) Acquisitions in 2013 represent natural gas reserves related to the expansion of Geofizicheskoye field borders in November 2013, which was assessed in 2014.

(4) Disposals represent reserves related to the sale of a 4.9% effective interest in our joint venture SeverEnergia in March 2014.

Based on our equity ownership interest in the fields	Crude oil, gas condensate and natural gas liquids			
	SEC		PRMS	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Total proved reserves at 31 December 2012	**896**	**106**	**1,242**	**149**
including subsidiaries	*526*	*63*	*706*	*86*
including joint ventures	*370*	*43*	*536*	*63*
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	98	10	64	6
Acquisitions [(1)]	236	27	375	43
Disposals [(2)]	(34)	(4)	(51)	(6)
Production	(40)	(5)	(40)	(5)
Total proved reserves at 31 December 2013	**1,156**	**134**	**1,590**	**187**
including subsidiaries	*485*	*58*	*649*	*79*
including joint ventures	*671*	*76*	*941*	*108*
Changes attributable to:				
Revisions of previous estimates, extensions and discoveries	89	11	(11)	(1)
Disposals [(3)]	(40)	(4)	(55)	(6)
Production	(51)	(6)	(51)	(6)
Total proved reserves at 31 December 2014	**1,154**	**135**	**1,473**	**174**
including subsidiaries	*474*	*57*	*608*	*74*
including joint ventures	*680*	*78*	*865*	*100*
Plus: non-controlling interest	38	5		
Total proved reserves at 31 December 2014 per the consolidated financial statements	**1,192**	**140**		

[(1)] Acquisitions represent reserves attributable to the East-Tazovskoye field acquired in March 2013, as well as acquisition of additional shares of our joint ventures Nortgas and SeverEnergia acquired in June and December 2013, respectively.

[(2)] Disposals represent reserves related to the sale of a 51% ownership interest in Sibneftegas and a 20% ownership interest in Yamal LNG in December 2013.

[(3)] Disposals represent reserves related to the sale of a 4.9% effective interest in our joint venture SeverEnergia in March 2014.

The following table provides for our combined SEC and PRMS proved reserves on a total barrel of oil equivalent basis.

Based on our equity ownership interest in the fields	Combined natural gas, crude oil, gas condensate and natural gas liquids in millions of barrels of oil equivalent	
	SEC	PRMS
Total proved reserves:		
At 31 December 2012	12,394	15,597
At 31 December 2013	12,537	15,593
At 31 December 2014	12,578	15,431
including subsidiaries	*7,105*	*8,397*
including joint ventures	*5,473*	*7,034*

As of 31 December 2014, the Group's SEC proved reserves attributable to all consolidated subsidiaries and joint ventures based on the Group's equity ownership interest in the respective fields aggregated approximately 1.75 trillion cubic meters ("tcm") of natural gas and 135 million tons of crude oil, gas condensate and natural gas liquids. Combined, these proved reserves represent approximately 12.58 billion barrels of oil equivalent.

A slight increase in our total SEC proved reserves in barrels of oil equivalent basis from 12.54 billion to 12.58 billion barrels of oil equivalent in 2014 was primarily due to the increase in our natural gas reserves by seven (7) billion cubic meters to 1,747 billion cubic meters related to revisions of previous estimates, extensions and discoveries in our SeverEnergia joint venture, discoveries of reserves at our Salmanovskoye (Utrenneye) field as well as the acquisition of natural gas related to the expansion of Geofizicheskoye field borders, which was assessed in 2014. The increase was mostly offset by a disposal of a 4.9% effective ownership interest in our joint venture SeverEnergia as well as increased production of natural gas and liquid hydrocarbons in our joint ventures as a result of the launch of additional production capacities (see "Recent developments" above).

As we continue to invest capital into the development of our fields, we anticipate that we will increase our resource base as well as migrate reserves among the reserve categories.

The PRMS reserve classification standards allows for the reporting of reserves estimates for probable and possible reserves as presented in the following table:

	Natural gas		**Crude oil, gas condensate and natural gas liquids**	
Under PRMS classification (based on our equity ownership interest in the fields)	***Billions of cubic feet***	***Billions of cubic meters***	***Millions of barrels***	***Millions of metric tons***
Probable reserves:				
At 31 December 2012	32,168	911	801	98
At 31 December 2013	34,760	984	1,055	126
At 31 December 2014	34,895	988	992	119
including subsidiaries	*22,837*	*647*	*477*	*58*
including joint ventures	*12,058*	*341*	*515*	*61*
Possible reserves:				
At 31 December 2012	24,664	698	1,193	146
At 31 December 2013	23,649	670	1,390	171
At 31 December 2014	23,553	666	1,364	170
including subsidiaries	*14,548*	*411*	*601*	*75*
including joint ventures	*9,005*	*255*	*763*	*95*

The increase in the Group's PRMS natural gas probable reserves during 2014 was primarily due to the increased probable reserves at our Geofizicheskoye and Yarudeyskoye fields while our liquid hydrocarbons reserves decreased mostly due to the sale of a 4.9% effective share in our SeverEnergia joint venture.

The Group's reserves are located in the Russian Federation, in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The below table contains information about reserve/production ratios for the years ended 31 December 2014 and 2013 under both reserves reporting methodologies based on our equity ownership interest in the fields attributable to consolidated subsidiaries and joint ventures:

	SEC		**PRMS**	
	At 31 December:		**At 31 December:**	
Number of years (based on our equity ownership interest in the fields)	**2014**	**2013**	**2014**	**2013**
Total proved reserves to production	28	29	34	36
Total proved and probable reserves to production	-	-	50	53
Total proved, probable and possible reserves to production	-	-	63	66

The Group's oil and gas estimation and reporting process involves an annual independent external appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified technical staff working directly with the oil and gas properties. The Group periodically updates reserves estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserve appraisal. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the petroleum industry. The Group and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group ("RMAG") is comprised of qualified technical staff from various departments – geological and geophysical, gas and liquids commercial operations, capital construction, production, financial planning and analysis and includes technical and financial representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserve estimates is the sole responsibility of the Group's senior management.

OPERATIONAL HIGHLIGHTS

Oil and Gas Production Costs

Oil and gas production costs are derived from our results of operations for oil and gas producing activities as reported in the *"Unaudited Supplemental Oil and Gas Disclosures"* in our consolidated financial statements and relate to the fields of our consolidated subsidiaries. Oil and gas production costs do not include general corporate overheads or their associated tax effects. The following tables set forth certain operating information with respect to our oil and gas production costs during the years presented in millions of Russian roubles and on a barrel of oil equivalent (boe) basis in Russian roubles and US dollars:

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Production costs:			
Lifting costs	7,177	7,103	1.0%
Taxes other than income tax	29,035	21,296	36.3%
Transportation expenses	87,043	87,157	(0.1%)
Total production costs before DDA	**123,255**	**115,556**	**6.7%**
Depreciation, depletion and amortization ("DDA")	15,913	12,274	29.6%
Total production costs	**139,168**	**127,830**	**8.9%**

RR per boe	Year ended 31 December: 2014	2013	Change %
Production costs:			
Lifting costs	18.9	18.8	0.5%
Taxes other than income tax	76.4	56.4	35.5%
Transportation expenses	229.1	230.8	(0.7%)
Total production costs before DDA	**324.4**	**306.0**	**6.0%**
Depreciation, depletion and amortization	41.9	32.6	28.5%
Total production costs	**366.3**	**338.6**	**8.2%**

USD per boe (1)	Year ended 31 December: 2014	2013	Change %
Production costs:			
Lifting costs	0.49	0.59	(16.9%)
Taxes other than income tax	1.99	1.77	12.4%
Transportation expenses	5.96	7.25	(17.8%)
Total production costs before DDA	**8.44**	**9.61**	**(12.2%)**
Depreciation, depletion and amortization	1.09	1.02	6.9%
Total production costs	**9.53**	**10.63**	**(10.3%)**

(1) Production costs in US dollars per boe were translated from Russian roubles per boe using the average exchange rate for the period (see "Selected macro-economic data" above).

Oil and gas production costs represent the amounts directly related to the extraction of natural gas, gas condensate and crude oil from the reservoir and other related costs; including production expenses, taxes other than income tax (unified natural resources production tax, property tax and other taxes), insurance expenses and shipping, transportation and handling costs to end-customers. The average production cost on a barrel of oil equivalent basis is calculated by dividing the applicable costs by the respective barrel of oil equivalent of our hydrocarbons produced during the year. Natural gas, gas condensate and crude oil volumes produced by our fields are converted to a barrel of oil equivalent based on the relative energy content of each fields' hydrocarbons.

Our lifting costs, as presented in the tables above, differ from lifting costs as reflected in the *"Unaudited Supplemental Oil and Gas Disclosures"* in the Group's IFRS consolidated financial statements, in that the lifting costs as presented in the Group's IFRS consolidated financial statements include changes in balances of natural gas and hydrocarbon liquids to more appropriately match costs incurred to revenues under the IFRS matching principles. A reconciliation of lifting costs as reflected in the *"Unaudited Supplemental Oil and Gas Disclosures"* in the Group's IFRS consolidated financial statements is set forth below:

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Lifting costs presented in "Oil and Gas Production Costs" above	7,177	7,103	1.0%
Change in balances of natural gas and hydrocarbon liquids stated at cost in the Group's Consolidated Statement of Financial Position	1,019	1,927	(47.1%)
Lifting costs per "Unaudited Supplemental Oil and Gas Disclosures"	**8,196**	**9,030**	**(9.2%)**

Hydrocarbon production and sales volumes

Our natural gas sales volumes in 2014 increased by 3,079 mmcm, or 4.8%, due to increased volumes of natural gas withdrawn from the Underground Gas Storage Facilities ("UGSF") with relatively stable volumes of injection compared to 2013. Furthermore, increased sales volumes were a result of the natural gas production growth at our Olimpiyskiy license area and the Yurkharovskoye field, as well as an increase in the natural gas production in our Nortgas joint venture.

Our liquids sales volumes increased significantly by 1,651 thousand tons, or 30.4%, 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 31 December 2014 increased compared to 31 December 2013 whereas in 2013 our liquids inventory balance decreased. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and delivery points of our liquid hydrocarbons.

Natural gas production volumes

In 2014, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 913 mmcm, or 1.5%, to 62,129 mmcm from 61,216 mmcm in 2013 due to an increase in our subsidiaries and joint ventures production that was mostly offset by the disposal of our joint venture OAO Sibneftegas in December 2013.

millions of cubic meters	Year ended 31 December: 2014	2013	Change %
Production by subsidiaries from:			
Yurkharovskoye field	38,154	37,775	1.0%
East-Tarkosalinskoye field	10,348	10,946	(5.5%)
Khancheyskoye field	2,933	3,256	(9.9%)
Other fields	1,163	237	390.7%
Total natural gas production by subsidiaries	**52,598**	**52,214**	**0.7%**
Group's proportionate share in the production of joint ventures:			
Nortgas	5,402	2,382	126.8%
SeverEnergia	4,129	1,224	237.3%
Sibneftegas	-	5,396	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**9,531**	**9,002**	**5.9%**
Total natural gas production including proportionate share in the production of joint ventures	**62,129**	**61,216**	**1.5%**

In 2014, total volumes of natural gas produced by our subsidiaries increased by 384 mmcm, or 0.7%, to 52,598 mmcm from 52,214 mmcm in 2013 mainly due to the launch at the end of 2013 of Urengoyskoye and Dobrovolskoye fields, located within the Olimpiyskiy license area, production of which is included in the line "Other fields" in the table above, as well as an increased production from cenomanian layers at our Yurkharovskoye field. At the same time, our production at East-Tarkosalinskoye and Khancheyskoye fields decreased as a result of the natural decline in the reservoir pressure at the current gas producing horizons.

In 2014, our proportionate share in the production of our joint ventures increased by 529 mmcm, or 5.9%, to 9,531 mmcm from 9,002 mmcm 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 in 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 completely offset the volumes disposed due to the sale of Sibneftegas in December 2013.

Natural gas sales volumes

In 2014, our total natural gas sales volumes increased by 3,079 mmcm, or 4.8%, to 67,231 mmcm from 64,152 mmcm in 2013.

millions of cubic meters	**Year ended 31 December: 2014**	**2013**	**Change %**
Natural gas production by subsidiaries	52,598	52,214	0.7%
Purchases from the Group's joint ventures	5,402	7,799	(30.7%)
Other purchases	7,165	6,443	11.2%
Total production and purchases	**65,165**	**66,456**	**(1.9%)**
Purovsky Plant, own usage and methanol production	(181)	(137)	32.1%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	2,247	(2,167)	n/a
Total natural gas sales volumes	**67,231**	**64,152**	**4.8%**
Sold to end-customers	*63,281*	*57,021*	*11.0%*
Sold ex-field	*3,950*	*7,131*	*(44.6%)*

In 2014, natural gas purchases from our joint ventures decreased to 5,402 mmcm from 7,799 mmcm in 2013 due to the disposal of our equity interest in Sibneftegas in December 2013.

Other natural gas purchases increased by 722 mmcm, or 11.2%, due to increased purchases from SIBUR and third parties. Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing customers' portfolios.

In 2014, we used 78 mmcm of natural gas as feedstock for the production of methanol compared to 77 mmcm 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 31 December 2014, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure comprised 1,049 mmcm and decreased by 2,247 mmcm during the year as compared to an increase by 2,167 mmcm in 2013. Decreased natural gas inventory balances in 2014 was a result of the increased demand for natural gas from our end-customers during the winter period, while increased inventory balances of natural gas in 2013 was related to an abnormally warm winter in Russian Federation in the fourth quarter of 2013 (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

Liquids production volumes

In 2014, our total liquids production (including our proportionate share in the production of joint ventures) increased by 1,285 thousand tons, or 27.0%, to 6,036 thousand tons from 4,751 thousand tons in 2013.

thousands of tons	Year ended 31 December: 2014	2013	Change %
Production by subsidiaries from:			
Yurkharovskoye field	2,496	2,712	(8.0%)
East-Tarkosalinskoye field	1,293	1,094	18.2%
Khancheyskoye field	445	483	(7.9%)
Other fields	106	38	178.9%
Total liquids production by subsidiaries	**4,340**	**4,327**	**0.3%**
including gas condensate	*3,272*	*3,582*	*(8.7%)*
including crude oil	*1,068*	*745*	*43.4%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia	1,063	174	n/m
Nortgas	633	250	153.2%
Total Group's proportionate share in the liquids production of joint ventures	**1,696**	**424**	**300.0%**
Total liquids production including proportionate share in the production of joint ventures	**6,036**	**4,751**	**27.0%**

In 2014, the volumes of liquids produced by our subsidiaries slightly increased by 13 thousand tons, or 0.3%, whereby a decrease in gas condensate production was completely offset by an increase in crude oil production. In 2014, we ramped up crude oil production due to the production growth at the East-Tarkosalinskoye and Khancheyskoye fields resulting from new wells drilled and technological works performed to increase the crude oil production flow rates. Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons. The decrease in gas condensate production was partially offset by the launch at the end of 2013 of the Dobrovolskoye field, located within the Olimpiyskiy license area (the production at this field is included in the line "Other fields" in the table above).

In 2014, our proportionate share in liquids production of joint ventures increased by 1,272 thousand tons to 1,696 thousand tons from 424 thousand tons 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 "Recent Developments" above).

Liquids sales volumes

In 2014, our total liquids sales volumes increased by 1,651 thousand tons, or 30.4%, to 7,089 thousand tons from 5,438 thousand tons in the corresponding period in 2013.

thousands of tons	Year ended 31 December: 2014	2013	Change %
Liquids production by subsidiaries	4,340	4,327	0.3%
Purchases from the Group's joint ventures	3,180	1,170	171.8%
Other purchases	49	15	226.7%
Total production and purchases	**7,569**	**5,512**	**37.3%**
Losses and own usage [(1)]	(276)	(102)	170.6%
Filling the system of processing facilities and pipelines at the Ust-Luga Complex	-	(3)	n/a
Decreases (increases) in liquids inventory balances	(204)	31	n/a
Total liquids sales volumes	**7,089**	**5,438**	**30.4%**
Naphtha export	*3,319*	*1,328*	*149.9%*
Other gas condensate refined products export	*1,096*	*278*	*294.2%*
Other gas condensate refined products domestic	*23*	*-*	*n/a*
Subtotal gas condensate refined products	***4,438***	***1,606***	***176.3%***
LPG export	*559*	*576*	*(3.0%)*
LPG domestic	*875*	*502*	*74.3%*
Subtotal LPG	***1,434***	***1,078***	***33.0%***
Crude oil export	*313*	*231*	*35.5%*
Crude oil domestic	*590*	*396*	*49.0%*
Subtotal crude oil	***903***	***627***	***44.0%***
Stable gas condensate export	*-*	*1,973*	*n/a*
Stable gas condensate domestic	*303*	*144*	*110.4%*
Subtotal stable gas condensate	***303***	***2,117***	***(85.7%)***
Other oil products domestic	*11*	*10*	*10.0%*
Subtotal other oil products	***11***	***10***	***10.0%***

(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 2014, our purchases of liquid hydrocarbons from joint ventures increased by 2,010 thousand tons, or 171.8%, and 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 34 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 2014. Jet fuel, gasoil and fuel oil sales volumes received from the processing of stable gas condensate are disclosed as "Other gas condensate refined products export" and "Other gas condensate refined products domestic".

Our liquids inventory balances significantly increased to 739 thousand tons as of 31 December 2014 as compared to 535 thousand tons as of 31 December 2013. The accumulated inventory balance will be sold in next reporting period thus increasing our sales volumes in the first quarter of 2015. 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 YEAR ENDED 31 DECEMBER 2014 COMPARED TO THE YEAR ENDED 31 DECEMBER 2013

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2014 and 2013. Each line item is also shown as a percentage of our total revenues.

	Year ended 31 December:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Total revenues [(1)]	**357,643**	***100.0%***	**298,158**	***100.0%***
including:				
natural gas sales	230,447	*64.4%*	204,969	*68.7%*
liquids' sales	125,226	*35.0%*	92,530	*31.0%*
Operating expenses	(236,512)	*(66.1%)*	(192,761)	*(64.7%)*
Other operating income (loss)	4,009	*1.1%*	880	*0.3%*
Profit from operations before disposal of interests in joint ventures	**125,140**	***35.0%***	**106,277**	***35.6%***
Net gain (loss) on disposal of interests in joint ventures	2,623	*0.7%*	37,649	*12.7%*
Profit from operations	**127,763**	***35.7%***	**143,926**	***48.3%***
Finance income (expense)	(46,745)	*(13.0%)*	(6,684)	*(2.3%)*
Share of profit (loss) of joint ventures, net of income tax	(28,175)	*(7.9%)*	(112)	*(0.0%)*
Profit before income tax	**52,843**	***14.8%***	**137,130**	***46.0%***
Total income tax expense	(15,928)	*(4.5%)*	(27,185)	*(9.1%)*
Profit (loss)	**36,915**	***10.3%***	**109,945**	***36.9%***
Minus: profit (loss) attributable to non-controlling interest	381	*0.1%*	61	*0.0%*
Profit attributable to shareholders of OAO NOVATEK	**37,296**	***10.4%***	**110,006**	***36.9%***

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

Total revenues

The following table sets forth our sales (net of VAT, export duties, excise and fuel taxes expense, where applicable) for the years ended 31 December 2014 and 2013:

millions of Russian roubles	**Year ended 31 December:** 2014	2013	**Change** %
Natural gas sales	**230,447**	**204,969**	**12.4%**
End-customers	*223,209*	*191,920*	*16.3%*
Ex-field sales	*7,238*	*13,049*	*(44.5%)*
Gas condensate refined products sales	**85,420**	**33,111**	**158.0%**
Export – naphtha	*62,280*	*26,789*	*132.5%*
Export – other refined products	*22,668*	*6,322*	*258.6%*
Domestic – other refined products	*472*	*-*	*n/a*
Liquefied petroleum gas sales	**24,401**	**18,770**	**30.0%**
Export	*12,177*	*11,474*	*6.1%*
Domestic	*12,224*	*7,296*	*67.5%*
Crude oil sales	**11,226**	**7,443**	**50.8%**
Export	*3,813*	*2,760*	*38.2%*
Domestic	*7,413*	*4,683*	*58.3%*
Stable gas condensate sales	**3,797**	**32,847**	**(88.4%)**
Export	*-*	*30,980*	*n/a*
Domestic	*3,797*	*1,867*	*103.4%*
Other refined products sales	**382**	**359**	**6.4%**
Domestic	*382*	*359*	*6.4%*
Total oil and gas sales	**355,673**	**297,499**	**19.6%**
Other revenues	1,970	659	198.9%
Total revenues	**357,643**	**298,158**	**20.0%**

Natural gas sales

In 2014, our revenues from sales of natural gas increased by RR 25,478 million, or 12.4%, compared to 2013 due to an increase in our average sales prices and sales volumes. An increase in our natural gas average sales prices was due to a cumulative increase of regulated FTS prices by 7.4% compared to 2013, as well as an increase in the proportion of end-customer sales to total natural gas sales volumes that was partially offset by a closer location of our end-customers to our production fields in 2014 as compared to the prior year (see "Natural gas prices" above).

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 94.1% in 2014 as compared to 88.9% 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 our stable gas condensate at the Ust-Luga Complex.

In 2014, our revenues from sales of gas condensate refined products increased by RR 52,309 million, or 158.0%, as compared to 2013 due to a significant increase in sales volumes as a result of the commencement of gas condensate refined products sales effective from the second half of 2013.

In 2014, our revenues from sales of naphtha increased by RR 35,491 million, or 132.5%, as compared to 2013 mainly due to an increase in sales volumes by 149.9%.

In 2014, we exported 3,319 thousand tons of naphtha to the Asian Pacific Region (APR), European markets, United States, South America and Canada whereas in 2013, we exported 1,328 thousand tons of naphtha to the APR and South America. Our average realized naphtha net export price, excluding export duties, decreased by RR 1,409 per ton, or 7.0%, to RR 18,767 per ton (CFR, CIF, DES and DAP) from RR 20,176 per ton (CFR, CIF, DAP, DES and FOB) in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2014, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 16,818 million, or 266.0%, as compared to 2013 also due to an increase in sales volumes. In 2014 and 2013, we exported in aggregate 1,096 thousand and 278 thousand tons of these products, or 97.9% of our total sales volumes, to the European markets. Our average realized net export price, excluding export duties, decreased by RR 2,062 per ton, or 9.1%, to RR 20,692 per ton (CIF) from RR 22,754 per ton (CIF) in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In 2014, our revenues from sales of LPG increased by RR 5,631 million, or 30.0%, compared to 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 (see "Recent developments" above).

In 2014, we sold 559 thousand tons of LPG, or 39.0% of our total LPG sales volumes, to export markets as compared to sales of 576 thousand tons, or 53.4%, in 2013. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 1,870 per ton, or 9.4%, (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 countries in 2014 exceeded 95% of total LPG export volumes, while in 2013 sales volumes to these markets exceeded 80% of total LPG export volumes.

In 2014, we sold 875 thousand tons of LPG on the domestic market compared to sales of 502 thousand tons in 2013. Our average realized LPG domestic price, including trading activities, in 2014, was RR 13,973 per ton representing a decrease of RR 554 per ton, or 3.8%, compared to 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In 2014, revenues from sales of crude oil increased by RR 3,783 million, or 50.8%, compared to 2013 primarily due to an increase in sales volumes and, to a lesser extent, an increase in average realized crude oil domestic prices. Our crude oil sales volumes increased by 276 thousand tons, or 44.0%, to 903 thousand tons from 627 thousand tons in 2013 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In 2014, we sold 65.3% of our total crude oil volumes domestically at an average price of RR 12,561 per ton (excluding VAT) representing an increase of RR 742 per ton, or 6.3%, as compared to 2013.

The remaining 34.7% of our crude oil volumes were sold to export markets at an average price of RR 12,183 per ton (DAP and FOB, excluding export duties) representing an increase of RR 224 per ton, or 1.9%, as compared to 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In 2014, our revenues from sales of stable gas condensate decreased by RR 29,050 million, or 88.4%, compared to 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 1,814 thousand tons, or 85.7%, 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. As a result, in 2014, we did not sell stable gas condensate to the export markets. In 2013, we sold 1,973 thousand tons of stable gas condensate, or 93.2% of our total sales volumes, to the APR, Europe and United States at an average realized net export price, excluding export duties, of RR 15,703 per ton (CFR, DES, DAP and CIF).

In 2014, we sold 303 thousand tons of stable gas condensate on the domestic market compared to 144 thousand tons in 2013. Our average realized price for stable gas condensate sales on the domestic market in 2014 amounted to RR 12,547 per ton (net of VAT), representing a decrease of RR 432 per ton, or 3.3%, as compared to 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Other refined products sales

Other refined products sales represent our revenues from methanol sales on the domestic market and revenues from trading operations with oil products (diesel fuel and petrol) through our retail stations. In 2014, our revenues from other refined products sales increased by RR 23 million, or 6.4%, to RR 382 million from RR 359 million in 2013.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation and other services. In 2014, other revenues increased by RR 1,311 million, or threefold, to RR 1,970 million from RR 659 million in 2013 primarily due to RR 648 million of revenues from the sublease of rail cars in 2014, as well as increases in revenues from the sublease of tankers by RR 505 million and from geological and geophysical research services provided primarily to our joint ventures by RR 183 million. The related sublease of rail cars and tankers expenses are included in our transportation expenses in lines "Stable gas condensate and liquefied petroleum gas transportation by rail" and "Gas condensate refined products and stable gas condensate transportation by tankers", respectively.

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

Operating expenses

In 2014, our total operating expenses increased by RR 43,751 million, or 22.7%, to RR 236,512 million compared to RR 192,761 million in 2013 primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures, 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 60.8% in 2014 compared to 64.8% in 2013 primarily due to a significant increase in purchases of hydrocarbons, the growth rate of which exceeded the growth rate of transportation expenses and taxes other than income tax.

In 2014, our total operating expenses as a percentage of total revenues increased to 66.1% compared to 64.7% 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 that allowed us to realize increased volumes of our hydrocarbons in the sales markets (see "Purchases of natural gas and liquid hydrocarbons" below).

	Year ended 31 December:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Transportation expenses	114,511	*32.0%*	103,245	*34.6%*
Taxes other than income tax	29,336	*8.2%*	21,645	*7.3%*
Subtotal non-controllable expenses	**143,847**	***40.2%***	**124,890**	***41.9%***
Purchases of natural gas and liquid hydrocarbons	52,596	*14.7%*	34,707	*11.6%*
Depreciation, depletion and amortization	17,172	*4.8%*	13,503	*4.5%*
General and administrative expenses	11,831	*3.3%*	11,029	*3.7%*
Materials, services and other	11,442	*3.2%*	8,282	*2.8%*
Exploration expenses	112	*n/m*	427	*n/m*
Net impairment expenses (reversals)	(229)	*n/m*	2,611	*0.9%*
Change in natural gas, liquid hydrocarbons and work-in-progress	(259)	*n/m*	(2,688)	*n/m*
Total operating expenses	**236,512**	***66.1%***	**192,761**	***64.7%***

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 2014, our non-controllable expenses increased by RR 18,957 million, or 15.2%, to RR 143,847 million from RR 124,890 million 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, as well as an increase in liquid hydrocarbons transportation volumes (see "Transportation expenses" below). Taxes other than income tax increased due to a 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 40.2% in 2014 compared to 41.9% in 2013 due to a higher increase in revenues as a result of the average realized natural gas prices growth and the commencement of higher value added products sales from the Ust-Luga Complex.

Transportation expenses

In 2014, our total transportation expenses increased by RR 11,266 million, or 10.9%, to RR 114,511 million as compared to RR 103,245 million in 2013.

million of Russian roubles	**Year ended 31 December: 2014**	**2013**	**Change %**
Natural gas transportation by trunk and low-pressure pipelines	92,494	83,884	10.3%
Stable gas condensate and liquefied petroleum gas transportation by rail	16,007	13,996	14.4%
Gas condensate refined products and stable gas condensate transportation by tankers	4,749	4,439	7.0%
Crude oil transportation by trunk pipeline	1,223	885	38.2%
Other	38	41	(7.3%)
Total transportation expenses	**114,511**	**103,245**	**10.9%**

In 2014, our transportation expenses for natural gas increased by RR 8,610 million, or 10.3%, to RR 92,494 million from RR 83,884 million in 2013. The increase was mainly due to an 11.0% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expenses. 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) was entirely 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 2014, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 2,011 million, or 14.4%, to RR 16,007 million from RR 13,996 million in 2013 due to an increase in volumes of liquids sold and transported via rail by 822 thousand tons, or 17.1%, to 5,618 thousand tons from 4,796 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 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 2.4% to RR 2,849 per ton from RR 2,918 per ton in 2013 primarily due to a decrease in the share of LPG volumes in total liquids volumes transported via rail (effective January 2014 we started selling part of the LPG ex-works Purovsky Plant). The change in the share of LPG volumes in our total liquids volumes delivered by rail affects the weighted average tariff due to higher transportation expense for LPG per ton compared to other liquid hydrocarbons. Furthermore, our liquefied petroleum gas rail transportation distance to our end customers has decreased as a result of the implementation of the new transportation arrangement from January 2014. In addition, the launch of our Ust-Luga Complex had an impact on the decrease of transportation expenses per ton 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 310 million, or 7.0%, to RR 4,749 million in 2014 from RR 4,439 million in 2013 due to an increase in volumes of liquids sold and transported via tankers by 23.4%, as well as a 20.6% increase in the Russian rouble average exchange rate against the US dollar since most of our tankers transportation expenses are US dollar denominated. The increase was mostly offset by the change in the geography of stable gas condensate sales in 2013 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 the usage of larger capacity tankers for liquids transportation. Furthermore, as a result of the Ust-Luga Complex launch in June 2013, we began saving on costs for our liquid hydrocarbons transshipment into tankers as such services are performed internally at the Ust-Luga Complex as compared to the Port of Vitino.

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 2014, we sold to the APR, Europe and North and South America 46.8%, 40.6%, 11.3% and 1.3% of our total gas condensate refined products export volumes, respectively, whereas in 2013 we sold to these markets 65.8%, 28.6%, 3.4% and 2.2%, respectively, of our stable gas condensate and refined products volumes.

In 2014, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 338 million, or 38.2%, to RR 1,223 million from RR 885 million in 2013 due to a 44.5% increase in volumes transported.

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

Taxes other than income tax

In 2014, taxes other than income tax increased by RR 7,691 million, or 35.5%, to RR 29,336 million from RR 21,645 million in 2013 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	**Year ended 31 December: 2014**	**2013**	**Change %**
Unified natural resources production tax (UPT)	26,962	19,619	37.4%
Property tax	2,095	1,790	17.0%
Other taxes	279	236	18.2%
Total taxes other than income tax	**29,336**	**21,645**	**35.5%**

In 2014, our unified natural resources production tax expense increased by RR 7,343 million, or 37.4%, to RR 26,962 million from RR 19,619 million in 2013 due primarily to a significant increase in the natural gas production tax rate per mcm from RR 265 to RR 402 from 1 July 2013 and to RR 471 from 1 January 2014.

In 2014 and 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 2014, our property tax expense increased by RR 305 million, or 17.0%, to RR 2,095 million from RR 1,790 million in 2013 due to additions to property, plant and equipment at our production subsidiaries.

Purchases of natural gas and liquid hydrocarbons

In 2014, our purchases of natural gas and liquid hydrocarbons increased by RR 17,889 million, or 51.5%, to RR 52,596 million from RR 34,707 million in 2013.

millions of Russian roubles	**Year ended 31 December: 2014**	**2013**	**Change %**
Unstable gas condensate	26,669	10,304	158.8%
Natural gas	24,801	23,992	3.4%
Other liquid hydrocarbons	1,126	411	174.0%
Total purchases of natural gas and liquid hydrocarbons	**52,596**	**34,707**	**51.5%**

In 2014, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 16,365 million, or 158.8%, as compared to 2013. We 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 and 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 2014, our purchases of natural gas increased by RR 809 million, or 3.4%, as compared to 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. In addition, in 2014 we increased purchases from our related party SIBUR and from third parties due to the Group’s demand for additional natural gas volumes to fulfill our contractual obligations as a result of the termination of purchases from Sibneftegas (disposed in December 2013).

Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale. In 2014, our purchases of other liquid hydrocarbons increased by RR 715 million, or 174.0%, as compared to 2013 mainly due to LPG purchases for subsequent resale caused by the temporary reduction of volumes refined at Tobolsk-Neftekhim in the third quarter 2014 due to the planned repair works.

Depreciation, depletion and amortization

In 2014, our depreciation, depletion and amortization ("DDA") expense increased by RR 3,669 million, or 27.2%, to RR 17,172 million from RR 13,503 million in 2013 mainly due to the launch of the first and second stages at the Ust-Luga Complex in June and October 2013, respectively, and the third stage of our Purovsky Gas Condensate Plant in January 2014, as well as additions of property, plant and equipment at our production subsidiaries with a slight decrease of our proved reserves estimates as of 31 December 2014 compared to 31 December 2013 at our core producing fields. The Group accrues depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities.

In 2014, our DDA per barrel of oil equivalent was RR 33.7 as compared to RR 27.6 in 2013. The increase in our DDA charge calculated on a barrel of oil equivalent basis was due to the capitalization of costs primarily related to further development of our Yurkharovskoye field and ongoing crude oil development activities at the East-Tarkosalinskoye field, as well as a slight decrease in our proved reserves estimates as of 31 December 2014 compared to 31 December 2013 at our core producing fields.

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.

General and administrative expenses

In 2014, our general and administrative expenses increased by RR 802 million, or 7.3%, to RR 11,831 million compared to RR 11,029 million 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 79.1% and 82.4% of total general and administrative expenses in the years ended 31 December 2014 and 2013, respectively.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Employee compensation	7,147	6,983	2.3%
Legal, audit and consulting services	1,205	924	30.4%
Social expenses and compensatory payments	1,009	1,178	(14.3%)
Advertising expenses	461	213	116.4%
Business trips expense	423	363	16.5%
Fire safety and security expenses	291	231	26.0%
Insurance expense	280	191	46.6%
Repair and maintenance expenses	215	192	12.0%
Rent expense	130	118	10.2%
Other	670	636	5.3%
Total general and administrative expenses	**11,831**	**11,029**	**7.3%**

Employee compensation related to administrative personnel increased by RR 164 million, or 2.3%, to RR 7,147 million in 2014 from RR 6,983 million in 2013 as a result of an indexation of base personnel salaries effective 1 July 2014 and the related increase in insurance payments to medical and social insurance and pension funds that was partially offset by a decrease in bonuses accrued to key management based on second half of 2014 results.

In 2014, legal, audit, and consulting services expenses increased by RR 281 million, or 30.4%, to RR 1,205 million compared to RR 924 million 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 2014, our social expenses and compensatory payments decreased by RR 169 million, or 14.3%, to RR 1,009 million compared to RR 1,178 million in 2013 primarily due to decreased donations to sport clubs and sport activities. Our compensatory payments as a part of the development of Salmanovskoye and Geofizicheskoye fields in 2013 and 2014 changed insignificantly. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Advertising expenses increased by RR 248 million, or 116.4%, to RR 461 million in 2014 from RR 213 million in 2013 primarily due to the commencement of a corporate sponsorship contract for advertising during sporting events at the end of 2013.

Fire safety and security expenses increased by RR 60 million, or 26.0%, to RR 291 million in 2014 from RR 231 million in 2013 primarily due to an increase in rates charged for security services starting from January 2014.

Insurance expenses increased by RR 89 million, or 46.6%, to RR 280 million in 2014 from RR 191 million in 2013 due to the commencement of operations and property insurance at the Ust-Luga Complex and an increase in insurance rates in our production subsidiaries from May 2014.

Other items of our general and administrative expenses changed marginally.

Materials, services and other

In 2014, our materials, services and other expenses increased by RR 3,160 million, or 38.2%, to RR 11,442 million compared to RR 8,282 million in 2013. The main components of this expense category were employee compensation and repair and maintenance services, which on aggregate comprised 60.2% and 68.5% of total materials, services and other expenses in 2014 and 2013, respectively.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Employee compensation	4,862	3,920	24.0%
Repair and maintenance	2,026	1,755	15.4%
Materials and supplies	879	698	25.9%
Electricity and fuel	845	638	32.4%
Services for preparation, transportation and processing of hydrocarbons	807	161	n/m
Rent expenses	633	47	n/m
Transportation services	422	307	37.5%
Security services	392	327	19.9%
Other	576	429	34.3%
Total materials, services and other	**11,442**	**8,282**	**38.2%**

Operating employee compensation increased by RR 942 million, or 24.0%, to RR 4,862 million compared to RR 3,920 million in 2013. The increase was due to an increase in the average number of employees as a result of the launch of the Ust-Luga Complex in June 2014 and an expansion of our activities at the Purovsky Plant in January 2014, indexation of base salaries effective from 1 July 2014 and the related increase in payments to medical, social insurance and pension funds.

Repair and maintenance services expenses increased by RR 271 million, or 15.4%, to RR 2,026 million in 2014 compared to RR 1,755 million in 2013 due to planned repair works at our production subsidiary NOVATEK-Yurkharovneftegas and increased maintenance expenses related to an expansion of our activities at the Ust-Luga Complex and Purovsky Plant.

Materials and supplies expense increased by RR 181 million, or 25.9%, to RR 879 million in 2014 compared to RR 698 million in 2013 as a result of an increase in materials used to support the technological process at our East-Tarkosalinskoye field.

In 2014, electricity and fuel expenses increased by RR 207 million, or 32.4%, to RR 845 million from RR 638 million 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 processed at these facilities.

Services for preparation, transportation and processing of hydrocarbons expense increased by RR 646 million, or five-fold, to RR 807 million in 2014 compared to RR 161 million in 2013 mostly due to the change in our LPG sales and logistics arrangement in the first half of 2014 (see “Recent developments” above).

Rent expenses increased by RR 586 million, or 13.5 times, to RR 633 million from RR 47 million 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 subleased 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.

In 2014, transportation expenses increased by RR 115 million, or 37.5%, to RR 422 million from RR 307 million 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 65 million, or 19.9%, to RR 392 million in 2014 from RR 327 million 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 from January 2014.

In 2014, other material, services and other expenses increased by RR 147 million, or 34.3%, to RR 576 million from RR 429 million in 2013 primarily due to ensuring ecological safety at our Ust-Luga Complex.

Exploration expenses

In 2014, our exploration expenses decreased by RR 315 million, or 73.8%, to RR 112 million from RR 427 million in 2013.

millions of Russian roubles	**Year ended 31 December: 2014**	**2013**	**Change %**
Cost of seismic surveys	1,049	1,680	(37.6%)
Less: capitalized 3-D seismic surveys	(937)	(1,253)	(25.2%)
Total exploration expenses per the Consolidated Statement of Income	**112**	**427**	**(73.8%)**

In 2014, our costs of seismic surveys decreased by RR 631 million, or 37.6%, to RR 1,049 million from RR 1,680 million in 2013 in accordance with 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.

Net impairment expenses (reversals)

In 2014, we recognized a reversal to our net impairment expense of RR 229 million related to the management’s revision of the probability of trade accounts receivable repayment by our customers, as a result of which we recovered a portion of a provision for impairment of receivables made at the end of 2013. In 2013, we recognized an impairment expense of RR 2,611 million of which RR 2,203 million related to the impairment of oil and gas properties at West-Tazovskiy and Pilyalkinskiy license areas, and the remaining net impairment expense primarily related to 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 2014, we recorded a reversal of RR 259 million to change in inventory expense as compared to a reversal of RR 2,688 million in 2013:

millions of Russian roubles	Year ended 31 December: 2014	2013
Natural gas	1,680	(2,148)
Naphtha	(968)	(963)
Stable gas condensate	(501)	746
Other	(470)	(323)
Increase (decrease) in operating expenses due to change in natural gas, liquid hydrocarbons and work-in-progress	**(259)**	**(2,688)**

In 2014, we recorded a charge to our operating expenses of RR 1,680 million due to a 2,247 mmcm decrease in our cumulative natural gas inventory balance in the UGSF, the GTS and own pipeline infrastructure, that was partially offset by an increase in the cost of natural gas inventories on a per mcm basis. The decrease in natural gas inventory balance at the end of 2014 was a result of the increased demand for natural gas from our end-customers during the winter period whereby the increase in natural gas inventory balances at the end of 2013 related to an abnormally warm winter in Russian Federation in the fourth quarter of 2013. 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 2014, we recorded reversals to our operating expenses of RR 968 million and RR 501 million due to increases in our naphtha and stable gas condensate inventory balances by 112 thousand tons and 39 thousand tons, respectively, which were recognized as inventory in transit or in 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 31 December**	**At 1 January**	**Increase / (decrease)**	**At 31 December**	**At 1 January**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**1,049**	**3,296**	**(2,247)**	**3,296**	**1,129**	**2,167**
including Gazprom's UGSF	*1,016*	*2,334*	*(1,318)*	*2,334*	*1,096*	*1,238*
Liquid hydrocarbons (thousand tons)	**739**	**535**	**204**	**535**	**563**	**(28)**
including naphtha	*305*	*193*	*112*	*193*	*-*	*193*
stable gas condensate	*219*	*180*	*39*	*180*	*461*	*(281)*

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 2014, we recognized other operating income of RR 4,009 million compared to RR 880 million in 2013.

In 2014, within our trading activities on the European market we purchased and sold 29.5 terawatt-hours (or approximately 2.8 bcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate gross income from trading activities of RR 927 million as compared to RR 180 million of income in 2013. At the same time, in 2014, we recognized a non-cash income of RR 2,093 million as a result of a significant increase in the fair value of the purchase and sales contracts as compared to RR 549 million of non-cash income in 2013. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

We recorded other operating income of RR 989 and RR 151 million in 2014 and 2013, respectively, which primarily related to the income from sales of rail cars (in 2014), penalties charges received from our suppliers due to non-compliance of their contractual obligations, profit (loss) on disposal of materials and fixed assets, as well as other similar transactions.

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

In 2014, the Group recorded a gain on the disposal of interest in joint venture Artic Russia B.V. in the amount of RR 2,623 million as compared to a gain on the disposal of interest in joint ventures Sibneftegas and Yamal LNG in the aggregate amount of RR 37,649 million in 2013.

In March 2014, the Group approved a series of transactions on restructuring procedures to achieve parity shareholdings in SeverEnergia (see "Recent Developments" above). As part of these transactions, the Group sold a 20% ownership interest in Artic Russia B.V. for RR 34,972 million to its joint venture Yamal Development (both Artic Russia B.V. and Yamal Development hold participation interests in SeverEnergia) and realized a gain on disposal of RR 2,623 million.

In December 2013, the Group exchanged its 51% of equity stake in joint venture Sibneftegas for a 40% of equity stake in Artic Russia B.V., which holds a 49% participation interest in SeverEnergia. As a result of the transaction, the Group recorded a gain of RR 27,111 million, net of associated income tax of RR 6,693 million.

In December 2013, the Group sold its 20% equity stake in Yamal LNG, the Group's joint venture, to CNPC, a partner of the Group in the Yamal LNG project, which resulted in a gain of RR 3,070 million, net of associated income tax of RR 775 million.

Profit from operations

As a result of the factors discussed above, our profit from operations decreased by RR 16,163 million, or 11.2%, to RR 127,763 million in 2014, as compared to RR 143,926 million in 2013. Our normalized profit from operations net of gain (loss) on the disposal of interests in joint ventures increased by RR 18,863 million, or 17.7%, to RR 125,140 million in 2014 as compared to RR 106,277 million in 2013 mainly due to an increase in average realized natural gas prices, natural gas and liquid hydrocarbons sales volumes and the commencement of higher value added products sales from the Ust-Luga Complex. In 2014, our profit from operations net of gain (loss) on the disposal of interests in joint ventures, as a percentage of total revenues, did not change significantly (35.0% as compared to 35.6% in 2013).

Finance income (expense)

In 2014, we recorded net finance expense of RR 46,745 million mainly due to the recognition of a significant foreign exchange loss, as well as a result of the remeasurement of the shareholders' loans provided to our joint ventures. The net finance expense of RR 6,684 million in 2013 was mainly due to a net foreign exchange loss, as well as the excess of interest expense over interest income.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Foreign exchange gain (loss)	(25,881)	(3,678)	n/m
Change in fair value of non-commodity financial instruments	(20,205)	-	n/a
Interest expense	(5,722)	(5,347)	7.0%
Interest income	5,063	2,341	116.3%
Total finance income (expense)	**(46,745)**	**(6,684)**	**n/m**

In 2014, we recorded a net foreign exchange loss of RR 25,881 million compared to a net foreign exchange loss of RR 3,678 million in 2013 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided. At 31 December 2014, the Russian rouble depreciated by 71.9% against the US dollar at 31 December 2013 compared to the depreciation by 7.8% in 2013. The Group 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.

In 2014, we recognized a loss of RR 20,205 million from the remeasurement of shareholders' loans issued to our joint ventures due to the increase in the underlying discount rate used in the fair value calculation of these loans in accordance with Group's accounting policy as a result of a significant increase in interest rates in the market in the fourth quarter of 2014. The effect of the fair value remeasurement of shareholders' loans may change period to period due to the change in interest rates in the market and other macroeconomic parameters and does not affect real future cashflows of loans repayments.

In 2014, accrued interest expense on loans received increased by RR 752 million, or 8.8%, to RR 9,311 million from RR 8,559 million in 2013 as a result of an increase in loans received by the Group and denominated in foreign currencies, while the weighted-average interest rate in 2014 was lower compared to 2013 due to more favorable conditions for loans received by the Group, as well as the depreciation of the average exchange rate of the Russian rouble relative to the US dollar in 2014 as compared to the average rate in 2013 (see "Selected macro-economic data" above).

	Year ended 31 December:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Accrued interest expense on loans received	9,311	8,559	8.8%
Less: capitalized interest	(3,837)	(3,460)	10.9%
Provisions for asset retirement obligations: effect of the present value discount unwinding	248	248	0.0%
Total interest expense per the Consolidated Statement of Income	**5,722**	**5,347**	**7.0%**

Interest income significantly increased by RR 2,722 million, or 116.3%, to RR 5,063 million in 2014 from RR 2,341 million in 2013 due to a significant increase in loans provided to our joint ventures mostly denominated in foreign currencies related to the development and expansion of their activities, as well as the result of the average Russian rouble depreciation relative to the US dollar in 2014 compared to the average rate in 2013.

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

In 2014, the Group's proportionate share of loss of joint ventures accounted for RR 28,175 million as compared to a loss of RR 112 million in 2013.

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
SeverEnergia	5,213	708	n/m
Nortgas	4,243	1,316	222.4%
Terneftegas	(4,128)	(30)	n/m
Yamal Development	(5,787)	(1,419)	307.8%
Yamal LNG	(27,716)	(2,038)	n/m
Sibneftegas	-	1,351	n/a
Total share of profit (loss) of joint ventures, net of income tax	**(28,175)**	**(112)**	**n/m**

In 2014, our proportionate share of profit of SeverEnergia and Nortgas significantly increased due to higher operating results (increased hydrocarbons production and sales prices), as well an increase in the effective share in SeverEnergia from 25.5% in 2013 to 54.9%.

Our proportionate share of loss of Yamal LNG and Terneftegas related to the recognition of a significant non-cash foreign exchange loss on foreign currency denominated loans as a result of the Russian rouble depreciation against the US dollar by 71.9% as of 31 December 2014 relative to 31 December 2013 as compared to the 7.8% depreciation during 2013. The depreciation of the Russian rouble in 2014 resulted in our share of non-cash foreign currency losses in the amount of RR 60.9 and RR 6.3 billion of Yamal LNG and Terneftegas, respectively. We expect that once commercial production commences, the 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, stable gas condensate and refined products) delivered to international markets will be denominated in US dollars and other foreign currencies. Our share of non-cash foreign currency loss was partly offset by our share of non-cash profit from remeasuring the fair value of shareholders' loans in Yamal LNG and Terneftegas by RR 29.5 and RR 1.3 billion, respectively.

Our proportionate share of the loss from Yamal Development increased primarily due to an increase in interest expense on loans received by Yamal Development in 2014.

We had no share of profit of Sibneftegas in 2014 due to its disposal in December 2013.

Income tax expense

Our overall consolidated effective income tax rate (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) was 30.1% and 19.8% for the years ended 31 December 2014 and 2013, respectively.

The Russian statutory income tax rate for both reporting periods was 20%. The income tax rate of 30.1% was due to recording of the Group's share of losses from joint ventures. The higher effective income tax rate for 2014 was due to recognition by the Group of its share of net losses from joint ventures which decreased the consolidated profit of the Group but has not resulted in additional income tax expense (benefit) on the Group's level. Net losses of certain joint ventures were caused mostly by significant non-cash foreign exchange losses and were recorded in the financial statements of joint ventures on an after-tax basis. The Group holds at least a 50% interest in each of its joint ventures, and dividend income from these joint ventures is subject to a zero withholding tax rate according to the Russian tax legislation. Without the effect described above, our effective income tax rate in 2014 was 19.7%.

The effective income tax rate of 19.7% was due to our ability to use a reduced income tax rate of 15.5% on a number of the Group's investment projects in the Russian Federation included by the regional government authorities in the list of priority projects.

Also, the difference between our effective and statutory income tax rates is related to other certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

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

As a result of the factors discussed in the respective sections above, our profit for the period decreased by RR 73,030 million, or 66.4%, to RR 36,915 million in 2014 from RR 109,945 million in 2013. The profit attributable to shareholders of OAO NOVATEK decreased by RR 72,710 million, or 66.1%, to RR 37,296 million in 2014 from RR 110,006 million in 2013. The profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, decreased by RR 44,628 million, or 55.9%, to RR 35,197 million in 2014 as compared to RR 79,825 million in 2013.

Our EBITDA, excluding the effect of the disposal of interests in joint ventures, increased by RR 30,261 million, or 23.4%, to RR 159,631 million in 2014 from RR 129,370 million in 2013 due to an increase in average natural gas sales prices, increased natural gas and liquid hydrocarbons sales volumes, commencement of the Ust-Luga Complex higher value added products sales from the third quarter of 2013, as well as an increase in our share of our joint ventures' EBITDA that was partially offset by an increase in our expenses related to purchases and transportation of natural gas and liquid hydrocarbons.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, decreased by RR 23.97 per share, or 66.0%, to RR 12.34 per share in 2014 from RR 36.31 per share in 2013. Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, decreased by RR 14.70 per share, or 55.8%, to RR 11.65 per share in 2014 from RR 26.35 per share in 2013.

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2014 and 2013:

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Net cash provided by operating activities	110,253	88,525	24.5%
Net cash provided by (used in) investing activities	(47,495)	(100,492)	(52.7%)
Net cash provided by (used in) financing activities	(36,251)	(7,132)	n/m

Liquidity and credit ratios	31 December 2014	31 December 2013	Change, %
Current ratio	1.56	1.38	13.0%
Total debt to total equity	0.63	0.44	43.2%
Long-term debt to long-term debt and total equity	0.35	0.28	25.0%
Net debt to total capitalization (1)	0.31	0.28	10.7%
Net debt to EBITDA (2)	1.26	0.94	34.0%
Net debt to normalized EBITDA (2)	1.28	1.22	4.9%
Interest coverage ratio (3)	37	21	76.2%

(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 and to normalized EBITDA ratios are calculated as Net debt divided by EBITDA or normalized EBITDA for the last twelve months.

(3) Interest coverage ratio is calculated as normalized EBITDA divided by interest expense, including capitalized interest, less interest income from the Consolidated Statement of Income.

Net cash provided by operating activities

In 2014, our net cash provided by operating activities increased by RR 21,728 million, or 24.5%, to RR 110,253 million compared to RR 88,525 million in 2013 mainly due to the working capital changes (see "Working capital" below) and higher operating results (higher sales volumes of natural gas and liquid hydrocarbons, as well as higher average realized natural gas prices).

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Operating profit	134,451	119,478	12.5%
Working capital changes	2,566	(16,276)	n/a
Income taxes paid	(26,764)	(14,677)	82.4%
Total net cash provided by operating activities	**110,253**	**88,525**	**24.5%**

Net cash provided by (used for) investing activities

In 2014, our net cash used for investing activities decreased by RR 52,997 million, or 52.7%, to RR 47,495 million from RR 100,492 million in 2013.

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Purchases of property, plant and equipment (financing of capital expenditures)	(56,233)	(51,127)	10.0%
Acquisition of subsidiaries net of cash acquired	(1,476)	(556)	165.5%
Additional capital contributions to joint ventures	(4,342)	(2,247)	93.2%
Proceeds from disposal of participation interest in joint ventures	53,534	-	n/a
Loans provided to joint ventures	(45,906)	(45,801)	0.2%
Repayments of loans provided to joint ventures	11,747	8,564	37.2%
Acquisition of additional stakes in joint ventures	-	(1,703)	n/a
Other	(4,819)	(7,622)	(36.8%)
Net cash provided by (used for) investing activities	**(47,495)**	**(100,492)**	**(52.7%)**

Our cash used for purchases of property, plant and equipment increased by RR 5,106 million, or 10.0%, and related in 2014 mainly to the development of the Yarudeyskoye and the East-Tarkosalinskoye field's crude oil deposits, ongoing development activities at the Yurkharovskoye field, as well as Salmanovskoye (Utrenneye) field development.

In August 2014, we acquired 100% of the outstanding shares of ZAO Office for total consideration of RR 4,895 million, of which RR 1,283 million was paid in 2014. In addition, in December 2014, we acquired a 100% equity stake in OOO NovaEnergo for RR 229 million (RR 193 million net of cash acquired).

In 2014 and 2013, we made additional capital contributions to our joint venture Terneftegas in the amount of RR 4,342 million and RR 2,247 million, respectively.

In 2014, we received RR 34,893 million from the disposal of 20% participation interest in Artic Russia B.V. in March 2014, as well as RR 18,641 million from the disposal of 20% participation interest in Yamal LNG joint venture in December 2013.

In 2014, we provided loans to our joint ventures Yamal LNG and Yamal Development in the amount of RR 45,906 million as compared to RR 45,801 million provided to Yamal LNG, Terneftegas and Yamal Development in 2013. In addition, in 2014, we received RR 11,747 million as a partial repayment of the loan provided to Yamal LNG as compared to RR 8,564 million as a repayment of the loan provided to Sibneftegas in 2013 (see "Loans provided" below).

In 2013, we increased our participation interest in Nortgas from 49% to 50% as a result of entity's additional shares emission acquisition in the amount of RR 1,703 million.

Net cash provided by (used for) financing activities

In 2014, our net cash used for financing activities amounted to RR 36,251 million as compared to RR 7,132 million in 2013.

millions of Russian roubles	**Year ended 31 December: 2014**	**2013**	**Change %**
Proceeds from loans	17,170	56,867	(69.8%)
Repayments of loans	(16,656)	(37,464)	(55.5%)
Dividends paid	(28,967)	(22,002)	31.7%
Other	(7,798)	(4,533)	72.0%
Net cash provided by (used for) financing activities	**(36,251)**	**(7,132)**	**n/m**

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

In 2013, we received RR 56,867 million due to the issuance of Russian rouble denominated Eurobonds in the amount of RR 14 billion, a withdrawal of USD 1.07 billion under the syndicated term credit line facility, as well as obtaining short-term loans in the amount of USD 200 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank. Furthermore, we repaid loans from Sberbank in the amount of RR 15 billion in February 2013 and a USD 200 million loan from Nordea Bank in March 2013, as well as repaid Russian rouble denominated bonds in the amount of RR 10 billion in June 2013.

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

Working capital

Our net working capital position (current assets less current liabilities) as of 31 December 2014 was a positive RR 45,383 million compared to RR 22,553 million as of 31 December 2013. The increase in our working capital was primarily due to an increase in our cash and cash equivalents as a result of a sale of our 4.9% effective share in SeverEnergia and increased current assets as a result of a portion of a loan issued to our joint venture Yamal Development being classified as current assets (repayment is scheduled in December of 2015), which was partially offset by increased current portion of a long-term debt (see “Debt obligations” below).

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

Total capital expenditures on property, plant and equipment were as follows:

millions of Russian roubles	Year ended 31 December: 2014	2013	Change %
Capital expenditures	63,179	59,254	6.6%
Payment for mineral licenses	435	3,196	(86.4%)
Total additions to property, plant and equipment per Note “Property, plant and equipment” in the Group’s IFRS Consolidated Financial Statements	**63,614**	**62,450**	**1.9%**

Our total capital expenditures represent our investments in developing our oil and gas properties. In addition, in 2014, the Group acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhbugorniy license area for RR 435 million, whereas in 2013 the Group paid RR 3,196 million for East-Tazovskoye field’s oil and gas exploration and production license. The following table shows the expenditures at our main fields and processing facilities:

millions of Russian roubles	Year ended 31 December: 2014	2013
Yarudeyskiy license area	18,485	1,499
East-Tarkosalinskoye field	12,543	10,788
Yurkharovskoye field	10,612	18,777
Salmanovskoye (Utrennee) field	5,741	1,963
Khancheyskoye field	3,696	2,478
North-Khancheyskiy license area	3,396	872
Olimpiyskiy license area	2,026	2,793
Ust-Luga Complex	830	6,360
Geofizicheskoye field	723	209
North-Russkiy license area	706	662
Purovsky Plant	600	8,633
Other	3,821	4,220
Capital expenditures	**63,179**	**59,254**

Total capital expenditures on property, plant and equipment in 2014 increased by RR 3,925 million, or 6.6%, to RR 63,179 million from RR 59,254 million in 2013.

In 2014, our main investments related to the development of the Yarudeyskoye and East-Tarkosalinskoye field’s crude oil deposits, Yurkharovskoye field’s production maintenance, as well as Salmanovskoye (Utrenneye) field’s development. In 2013, we invested in the development activities at 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 two stages development at the Ust-Luga Complex (launched in June and October 2013, respectively).

Loans provided

Total loans provided by the Group increased from RR 47,638 million at 31 December 2013 to RR 96,474 million at 31 December 2014, or by RR 48,836 million.

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

Borrower	Currency	Maturity	Interest rate	At 31 December 2014	At 31 December 2013
Yamal LNG	USD	after the commencement of commercial production	5.09%-4.46%	62,547	42,804
Yamal LNG	EUR	after the commencement of commercial production	4.46%	16,278	-
Yamal Development	RR	December 2015, 2021	9.25%, 10.9%	13,361	2,200
Terneftegas	USD	after the commencement of commercial production	3.88%-4.52%	4,288	2,611
Other				-	23
Total loans provided				**96,474**	**47,638**

The increase in total loans provided was due to the depreciation of the Russian rouble relative to the US dollar by 71.9% at 31 December 2014 compared to 31 December 2013, as well as the increase in loans provided to our joint ventures. In 2014, we issued USD 492 million and EUR 324 million loans to our joint venture Yamal LNG (while USD 364 million was repaid by Yamal LNG in January 2014), as well as a total of RR 11.2 billion to our joint venture Yamal Development under credit line facilities provided in December 2013 and August 2014.

Debt obligations

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

Overview

Our total debt (in Russian roubles and translated to Russian roubles from US dollars using the exchange rate at the end of the current reporting period) increased from RR 165,621 million at 31 December 2013 to RR 245,679 million at 31 December 2014, or by RR 80.1 billion, out of which RR 86.9 billion related to the revaluation of our US dollar denominated loans as a result of the Russian rouble depreciation relative to the US dollar partially offset by loans repaid in 2014. In March 2014, 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. Furthermore, 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 31 December 2014 and 31 December 2013 was as follows:

Facility	Amount	Maturity	Interest rate	At 31 December 2014	At 31 December 2013
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	83,938	34,363
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	56,059	32,595
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	36,409	21,163
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	33,707	19,583
Russian bonds	RR 20 billion	October 2015	8.35%	19,991	19,980
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,956	13,911
Sberbank	RR 10 billion	December 2014	8.9%-7.9%	-	9,911
Total				**244,060**	**151,506**
Less: current portion of long-term debt				(39,361)	(9,911)
Total long-term debt				**204,699**	**141,595**
Short-term debt				1,619	14,115
Plus: current portion of long-term debt				39,361	9,911
Total short-term debt and current portion of long-term debt				**40,980**	**24,026**
Total debt				**245,679**	**165,621**

Maturities of long-term loans

Scheduled maturities of our long-term debt at 31 December 2014 were as follows:

Maturity schedule:	**RR million**
1 January to 31 December 2016	59,534
1 January to 31 December 2017	39,783
1 January to 31 December 2018	12,914
1 January to 31 December 2019	-
After 31 December 2019	92,468
Total long-term debt	**204,699**

Available credit facilities

At 31 December 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**
UniCredit Bank	USD 180 million	10,127
Credit Agricole Corporate and Investment Bank	USD 100 million	5,626
Gazprombank	RR 10 billion	10,000
Total available credit facilities		**25,753**

At 31 December 2014, the Group had available funds in the form of bank overdrafts with various international banks in the aggregate amount of RR 15.5 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 31 December 2014, the total amount of our long-term debt denominated in US dollars was RR 190,742 million, or 77.6% 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 26% in 2014, was denominated in US dollars.

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

As of 31 December 2014, the Russian rouble depreciated by 71.9% against the US dollar since 31 December 2013.

Commodity risk

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

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

As of 31 December 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.