NOVATEK

OAO NOVATEK

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

**FOR THE YEARS ENDED
31 DECEMBER 2015 AND 2014**

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2015 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the years ended 31 December 2015 and 2014. 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 (commonly referred to as "CDU-TEK") for both reporting periods. In terms of proved natural gas reserves, we are the second largest holder of natural gas resources in Russia after PAO Gazprom, under the Petroleum Resources Management System ("PRMS") reserve reporting methodology.

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

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

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

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

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are sold on both the domestic and international markets (from the Port of Ust-Luga on the Baltic Sea by tankers and/or to European markets by rail).

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

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

The Group, jointly with TOTAL S.A. and China National Petroleum Corporation, through our joint venture OAO Yamal LNG, undertakes a large-scale project on constructing a liquefied natural gas plant with an annual capacity of 16.5 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula (the "Yamal LNG project"). The Yamal LNG project also requires the construction of transportation infrastructure, including the seaport and the international airport. Commercial launch of the LNG plant and start of liquefied natural gas shipments is planned in 2017. In September 2014, Yamal LNG received a license from the Ministry of Energy of the Russian Federation for the export of LNG. It is expected that the produced LNG will be sold mainly to the Asian-Pacific Region ("APR") and to the European market.

RECENT DEVELOPMENTS

Increase of production and utilization of refining capacity

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

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

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

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

In December 2015, we commenced commercial production at the Yarudeyskoye oil field and at the end of the month we reached the nameplate production capacity of approximately 3.5 million tons of crude oil per annum. The successful launch and production ramp-up of the Yarudeyskoye field allows us to significantly increase our production of crude oil and will represent the majority of liquids production growth in in 2016.

Implementation of the Yamal LNG project

In December 2015, NOVATEK and China's Silk Road Fund Co. Ltd. ("SRF") signed an agreement on the acquisition of a 9.9% equity stake in Yamal LNG by SRF. The transaction is subject to a number of conditions precedent, which is expected by the Group's management to be fulfilled in the beginning of 2016. The entrance of SRF to the Yamal LNG project is an important step in the execution of our long-term development strategy for this project.

In 2015 and 2014, we continued to form our customers portfolio for the supply of LNG produced within the Yamal LNG project and concluded a number of long-term supply agreements.

In 2015, the Group concluded long-term contracts for the supply of LNG to companies of the ENGIE Group, the Royal Dutch Shell Group and Gunvor Group with an average supply period of not less than 20 years. The supply of LNG under these contracts will be performed by the Groups' wholly owned subsidiary Novatek Gas & Power GmbH, which will purchase LNG from Yamal LNG under previously signed long-term contract.

In addition, in 2015 and 2014, Yamal LNG concluded long-term contracts for the supply of LNG to PAO Gazprom, CNPC and the companies of the TOTAL S.A. Group with different supply periods but not less than 15 years.

The Yamal LNG project has now concluded the sale of more than 95% of LNG volumes produced under long-term contractual agreements. The remaining portion of LNG will be sold on the spot market. Management believes that the conclusion of long-term LNG supply agreements by the Group and Yamal LNG is a vital step in implementing the Yamal LNG project.

In December 2014, the Russian Federation government approved the allocation of RR 150 billion from the National Wealth Fund for financing the Yamal LNG project through the purchase of interest bearing bonds from OAO Yamal LNG. In February and November 2015, the Ministry of Finance subscribed for and purchased the first and second tranches of Yamal LNG's bonds in the amount of RR 75 billion each (nominal amount of USD 1.21 billion and USD 1.16 billion, respectively). The bonds will be repaid in equal installments from 2022 to 2030 in Russian roubles at the US dollar exchange rate at the date of payment. Interest is paid semi-annually starting from September 2015. The funds received by Yamal LNG from the bonds placement were fully invested in the Yamal LNG project.

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

Group's acquisitions and disposals

In March 2014, NOVATEK and Gazprom Neft agreed in principle to achieve parity shareholdings in the SeverEnergia joint venture, owned by the parties through their respective joint ventures OOO Yamal Development and Artic Russia B.V. As part of such agreement, as of 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to Yamal Development. As a result, the Group's effective participation interest in SeverEnergia decreased from 59.8% to 54.9%.

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

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

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 previously acquired Salmanovskoye (Utrenneye) and Geofizicheskoye fields as well as the North-Obskiy license area located on the Gydan peninsula and the Gulf of Ob. Later in 2014, the Group also acquired a license for geological and geophysical research works, exploration and production of hydrocarbons at the Trekhbugorniy license area located on the Gydan peninsula for RR 435 million.

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.

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 2015, we conducted a set of exploration activities, processing and interpretation of new and existing seismic data, as well as a set of preparation works for exploratory drilling for the purpose of delineating the resource base and defining a plan to develop these fields.

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 2015 totaled 1.3 trillion cubic meters of natural gas and 49.1 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 2015 totaled 1.1 trillion cubic meters of natural gas and 71 million tons of liquid hydrocarbons. The resources of the Trekhbugorniy license area according to the Russian reserve classification C3+D as of 31 December 2015 amounted to approximately 1.0 trillion of cubic meters of natural gas and 92 million tons of liquid hydrocarbons.

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

Extension and conclusion of new natural gas supply contracts

In 2015, the Group concluded and extended a number of large natural gas supply contracts:

- concluded a contract with PAO Enel Russia for the supply of approximately 2.0 bcm of natural gas per annum for a period of three years starting from January 2016;

- concluded a number of contracts with the companies of the Novolipetsk Steel Group for the supply of 2.8 bcm of natural gas per annum for a period of five years starting from January 2016; and

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

Contract extensions and the conclusion of new major agreements are important steps for maintaining and increasing our client base.

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2015	2014	Change %
Financial results			
Total revenues [(1)]	475,325	357,643	32.9%
Operating expenses	(335,042)	(236,512)	41.7%
Normalized EBITDA [(2),(3)]	214,466	159,631	34.4%
Normalized profit attributable to shareholders of OAO NOVATEK [(3)]	73,407	35,197	108.6%
Normalized earnings per share [(3)] (in Russian roubles)	24.30	11.65	108.7%
Net debt [(4)]	329,518	204,361	61.2%
Production volumes [(5)]			
Hydrocarbons production (million barrels of oil equivalent)	521.6	456.7	14.2%
Daily production (million barrels of oil equivalent per day)	1.43	1.25	14.2%
Sales volumes			
Natural gas sales volumes (million cubic meters)	62,465	67,231	(7.1%)
Naphtha sales volumes (thousand tons)	4,120	3,319	24.1%
Stable gas condensate sales volumes (thousand tons)	2,786	303	n/a
Other gas condensate refined products (thousand tons) [(6)]	2,573	1,119	129.9%
Liquefied petroleum gas sales volumes (thousand tons)	2,306	1,434	60.8%
Crude oil sales volumes (thousand tons)	1,090	903	20.7%
Oil and gas reserves [(7)]			
Total proved reserves SEC (billion barrels of oil equivalent)	12.8	12.6	1.4%
Total natural gas proved reserves SEC (trillion cubic meters)	1.77	1.75	1.4%
Total liquids proved reserves SEC (million tons)	143	140	2.0%
Cash flow results			
Net cash provided by operating activities	132,864	111,241	19.4%
Cash used for capital expenditures [(8)]	50,584	62,040	(18.5%)
Free cash flow [(9)]	82,280	49,201	67.2%

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

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

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

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

(5) Hydrocarbons production and daily production are calculated based on 100% of net production of our subsidiaries and our proportionate share in the production of our joint ventures.

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

(7) Oil and gas reserves include 100% of reserves attributable to all consolidated subsidiaries and our proportionate share in the reserves of our joint ventures.

(8) Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

(9) Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures.

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

millions of Russian roubles	**Year ended 31 December:** **2015**	**2014**	**Change %**
Profit attributable to shareholders of OAO NOVATEK	**74,396**	**37,296**	**99.5%**
Depreciation, depletion and amortization	19,980	17,172	16.4%
Impairment expenses (reversals), net	(204)	(229)	(10.9%)
Loss (income) from changes in fair value of derivative financial instruments	1,006	(2,093)	n/a
Total finance expense (income)	16,182	46,745	(65.4%)
Total income tax expense	18,822	15,928	18.2%
Share of loss (profit) of joint ventures, net of income tax	31,607	28,175	12.2%
EBITDA from subsidiaries	**161,789**	**142,994**	**13.1%**
Share in EBITDA of joint ventures	53,666	19,260	178.6%
EBITDA	**215,455**	**162,254**	**32.8%**
Net gain on disposal of interests in joint ventures	(989)	(2,623)	(62.3%)
Normalized EBITDA	**214,466**	**159,631**	**34.4%**
Normalized EBITDA from subsidiaries	**160,800**	**140,371**	**14.6%**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, RR for one foreign currency unit [1]	1Q 2015	1Q 2014	2Q 2015	2Q 2014	3Q 2015	3Q 2014	4Q 2015	4Q 2014	Year 2015	Year 2014	Change Y-o-Y, %
US dollar (USD)											
Average for the period	62.19	34.96	52.65	35.00	62.98	36.19	65.94	47.42	60.96	38.42	58.7%
At the beginning of the period	56.26	32.73	58.46	35.69	55.52	33.63	66.24	39.39	56.26	32.73	71.9%
At the end of the period	58.46	35.69	55.52	33.63	66.24	39.39	72.88	56.26	72.88	56.26	29.5%
Depreciation (appreciation) of RR to US dollar	3.9%	9.0%	(5.0%)	(5.8%)	19.3%	17.1%	10.0%	42.8%	29.5%	71.9%	n/a
Euro											
Average for the period	70.43	47.95	58.24	48.03	70.11	47.99	72.27	59.20	67.78	50.82	33.4%
At the beginning of the period	68.34	44.97	63.37	49.05	61.52	45.83	74.58	49.95	68.34	44.97	52.0%
At the end of the period	63.37	49.05	61.52	45.83	74.58	49.95	79.70	68.34	79.70	68.34	16.6%
Depreciation (appreciation) of RR to euro	(7.3%)	9.1%	(2.9%)	(6.6%)	21.2%	9.0%	6.9%	36.8%	16.6%	52.0%	n/a

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

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Average for the period	1Q 2015	1Q 2014	2Q 2015	2Q 2014	3Q 2015	3Q 2014	4Q 2015	4Q 2014	Year 2015	Year 2014	Change Y-o-Y, %
Benchmark crude oil prices [2]											
Brent, USD per barrel	53.9	108.2	61.9	109.7	50.5	101.9	43.8	76.6	52.4	98.9	(47.0%)
Urals, USD per barrel	52.9	106.5	61.7	107.7	49.6	101.1	42.0	75.6	51.4	97.6	(47.3%)
Urals, RR per barrel	3,290	3,723	3,249	3,770	3,124	3,659	2,769	3,585	3,133	3,750	(16.5%)
Benchmark crude oil prices excluding export duties [3]											
Urals, USD per barrel	35.1	53.3	43.8	55.3	32.0	49.0	29.4	32.7	34.9	47.4	(26.4%)
Urals, RR per barrel	2,183	1,863	2,306	1,936	2,015	1,773	1,939	1,551	2,128	1,821	16.9%
World market prices for oil products [4] **and liquefied petroleum gas** [5]**, USD per ton**											
Naphtha Japan	493	935	563	951	462	913	444	646	490	862	(43.2%)
Naphtha CIF NWE	468	915	538	939	431	882	413	614	461	836	(44.9%)
Jet fuel	565	975	603	970	503	938	439	753	526	908	(42.1%)
Gasoil	519	917	574	911	480	869	405	686	493	845	(41.7%)
Fuel oil	292	625	338	637	253	584	202	418	270	565	(52.2%)
Liquefied petroleum gas	316	758	364	668	352	794	367	623	350	711	(50.8%)
Export duties, USD per ton [6]											
Crude oil, stable gas condensate	129.6	388.5	130.6	382.7	128.5	380.4	92.3	313.0	120.3	366.1	(67.1%)
Liquefied petroleum gas	16.1	189.3	0.0	101.1	0.0	152.7	0.0	131.9	4.0	143.8	(97.2%)
Naphtha	110.1	349.6	110.9	344.4	109.2	342.3	78.4	281.6	102.2	329.5	(69.0%)
Jet fuel	62.1	256.4	62.6	252.6	61.6	251.0	44.3	206.5	57.7	241.6	(76.1%)
Gasoil	62.1	252.5	62.6	248.7	61.6	247.2	44.3	203.4	57.7	237.9	(75.7%)
Fuel oil	98.5	256.4	99.2	252.6	97.6	251.0	70.1	206.5	91.3	241.6	(62.2%)

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

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

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

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

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic conditions

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

Simultaneously, during 2014, the Russian economy began experiencing signs of weakness which became especially apparent during the fourth quarter of 2014: the severe devaluation of the Russian rouble, contraction of the Country's gross domestic product, a significant increase in the Central Bank's lending rates, increased inflation and other factors. The domestic economic situation was further exasperated by the rapid commodity price decline in global oil markets. As a result, in January and February 2015, both Standard & Poor's (S&P) and Moody's downgraded the Russian sovereign rating to below investment rating status as well as made the corresponding downward adjustments to Russian issuers, including OAO NOVATEK. We strongly disagree with the position taken by both S&P and Moody's regarding our credit rating because our operating results and cash flow generating capabilities to support our liquidity position remain strong.

In 2015, the Russian rouble exchange rates relative to world currencies and benchmark commodity prices in international markets remained volatile, while the Central Bank's lending rates gradually decreased. The global oil and gas industry continues to experience negative financial and operations results from the significant downturn in benchmark commodity prices subsequent to the year ending 31 December, and this present macro situation is expected to remain volatile throughout 2016 as present crude oil supplies exceed world demand. Our financial results are obviously impacted by these global developments as our export sales are linked to the specific underlying benchmark commodity prices but we believe our business model representing one of the lowest cost producers in the world insulates us from severe financial and operational stress. We do not expect any asset impairments or write-offs resulting from a lower commodity price environment.

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets to determine if any further corrective and/or preventive measures are required to sustain and grow our business. We are also closely monitoring the present commodity price environment and its impact on our business operations.

We conduct regular reviews of our capital expenditure program and existing debt obligations. In our opinion, the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

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

Natural gas prices

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

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

Effective 1 July 2015, the Regulator adjusted the parameters used in the formula for wholesale natural gas prices calculation and, as a result, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by 7.5%.

In October 2015, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2016 and planned period 2017 and 2018" based on which wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2016, 2017 and 2018 will be increased by an average of 2.0%, 3.0% and 3.0%, respectively. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

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

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

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

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

In 2015, our average natural gas price on end-customers sales increased by 4.3% mainly due to an increase in the average regulated price by 7.5% effective 1 July 2015. At the same time, our average transportation expense per mcm increased by 1.4% due to a 2.0% increase in the natural gas transportation tariff set by the Regulator effective 1 July 2015 (see "Transportation tariffs" delow). As a result, the average natural gas price on end-customers sales excluding transportation expenses increased by 6.3%.

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

	Year ended 31 December:		**Change**
Russian roubles per mcm	**2015**	**2014**	**%**
Average natural gas price to end-customers [1]	3,678	3,527	4.3%
Average natural gas transportation expense for sales to end-customers	(1,483)	(1,463)	1.4%
Average natural gas price on end-customer sales excluding transportation expense	2,196	2,066	6.3%
Average natural gas price ex-field (wholesale traders)	1,965	1,833	7.2%
Total average natural gas price excluding transportation expense	**2,180**	**2,052**	**6.2%**

[1] Includes cost of transportation.

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

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

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

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

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

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

Stable gas condensate and refined products

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

As a result of the launch of new fields and full capacity utilization of our Ust-Luga Complex effective in the first quarter of 2015, we commenced export sales of stable gas condensate. In 2015, we sold 1,477 thousand tons of stable gas condensate at an average realized export contract price, including export duties, of USD 394 per ton and our average realized net export price, excluding export duties, amounted to USD 282.1 per ton. We will continue to export stable gas condensate to the extent that the volumes received from the processing at the Purovsky Plant exceed the processing ability at the Ust-Luga Complex and domestic sales volumes.

In 2015, our average realized export contract prices for naphtha and other gas condensate refined products produced at the Ust-Luga Complex, including export duties, decreased by USD 361 and USD 310 per ton, or 42.2% and 39.6%, to approximately USD 494 and USD 473 per ton, respectively. The decrease in our average realized export contract prices was as a result of a decrease in the underlying commodity prices of the respective products on the international markets used in the price calculation (see "Selected macro-economic data" above).

At the same time our average realized net export prices, excluding export duties, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex in 2015, decreased to a lesser extent, by USD 137.1 and USD 149.2 per ton, or 26.0% and 27.1%, and amounted to USD 389.9 and USD 401.5 per ton, respectively, due to a significant decrease in average export duties (see "Selected macro-economic data" above). Our average realized net export prices for naphtha and other gas condensate refined products in Russian roubles increased by 23.6% and 16.3%, respectively, due to a 58.7% increase in the average exchange rate of the US dollar to the Russian rouble in 2015 compared to 2014.

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

In 2015 and 2014, we sold small volumes of other gas condensate refined products produced at the Ust-Luga Complex domestically. Prices are set on an individual transaction basis and in 2015, our average realized price amounted to RR 19,320 per ton (excluding VAT), representing a decrease of RR 782 per ton, or 3.9%, as compared to 2014. We expect that we will continue to sell some volumes of other gas condensate refined products domestically.

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

Russian roubles or US dollars per ton	**Year ended 31 December: 2015**	**2014**	**Change %**
Stable gas condensate			
Net export price, RR per ton	16,842	-	n/a
Net export price, USD per ton	282.1	-	n/a
Domestic price, RR per ton	14,601	12,547	16.4%
Naphtha			
Net export price, RR per ton	23,203	18,767	23.6%
Net export price, USD per ton	389.9	527.0	(26.0%)
Other gas condensate refined products			
Net export price, RR per ton	24,064	20,692	16.3%
Net export price, USD per ton	401.5	550.7	(27.1%)
Domestic price, RR per ton	19,320	20,102	(3.9%)

Liquefied petroleum gas

In 2015, our average realized LPG export contract price, including export duties, excise and fuel taxes expense, and excluding trading activities, significantly decreased by USD 329 per ton, or 39.4%, and was approximately USD 506 per ton compared to USD 835 per ton in 2014. The decrease in our average realized contract price was due to a significant decrease in the underlying benchmark prices for LPG on international markets used in price calculation (see “Selected macro-economic data” above).

At the same time our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, decreased to a lesser extent, by USD 170.9 per ton, or 30.8%, to USD 384.8 per ton from USD 555.7 per ton due to setting a zero export duty rate by the Russian Federation government from February 2015 (see “Selected macro-economic data” above). Despite a decrease in the average realized net export price in US dollars, our average realized LPG net export price in Russian roubles increased by 9.9% due to a 58.7% increase in average exchange rate of US dollar to Russian rouble in 2015 compared to 2014.

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

In 2015, our average realized LPG domestic price decreased by RR 2,562 per ton, or 18.5%, to RR 11,307 per ton from RR 13,869 per ton in 2014 mainly due to the reallocation of our LPG sales volumes in favor of ex-works Purovsky Plant and Tobolsk-Neftekhim refining facilities sales with no additional associated transportation expenses.

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

Russian roubles or US dollars per ton	Year ended 31 December: 2015	2014	Change %
LPG			
Net export price, RR per ton	23,457	21,349	9.9%
Net export price, USD per ton	384.8	555.7	(30.8%)
Domestic price, RR per ton	11,307	13,869	(18.5%)

Crude oil

Our average realized crude oil export contract price, including export duties, decreased by USD 317 per ton, or 46.1%, and was approximately USD 371 per ton compared to USD 688 per ton in 2014. The decrease in our average crude oil contract price was a result of a decrease in the Brent benchmark crude oil price on the international markets used as the base for price setting (see "Selected macro-economic data" above).

At the same time our average realized crude oil net export price, excluding export duties, decreased to a lesser extent, by USD 67.2 per ton, or 21.1%, to USD 250.9 per ton from USD 318.1 per ton in 2014 due to a significant decrease of 67.1% in the average export duty per ton set by the Russian Federation government (see "Selected macro-economic data" above). Our average realized crude oil net export price in Russian roubles increased by 22.5% due to a 58.7% increase in average exchange rate of US dollar to Russian rouble in 2015 compared to 2014.

In 2015 and in the second half of 2014, we exported our crude oil via the port of Novorossiysk under FOB delivery terms. In addition, in 2014, we sold our crude oil under DAP (Budkovtse, Slovakia) delivery terms.

In 2015, our average realized crude oil domestic price was RR 12,967 per ton (excluding VAT) representing an increase of RR 406 per ton, or 3.2%, from RR 12,561 per ton (excluding VAT) in 2014.

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

Russian roubles or US dollars per ton	Year ended 31 December: 2015	2014	Change %
Crude oil			
Net export price, RR per ton	14,922	12,183	22.5%
Net export price, USD per ton	250.9	318.1	(21.1%)
Domestic price, RR per ton	12,967	12,561	3.2%

Transportation tariffs

Natural gas

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

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

In 2014 and in the first half of 2015, the transportation rate was set at RR 12.79 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set between RR 57.18 to RR 2,048.11 per mcm (excluding VAT).

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

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in October 2015, the increase in transportation tariffs for natural gas produced by independent producers in 2016, 2017 and 2018 will be in line with the increase in wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

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

The railroad transportation tariffs are set by the Regulator and vary depending on the type of a product, direction and the length of the transport route. In addition, the Regulator sets the range of railroad tariffs as a percentage of the regulated tariff within which RZD may vary railroad transportation tariffs within the Russian Federation territory based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

In 2014, the Regulator did not change railroad transportation tariffs. However, effective 9 August 2014, RZD, within the range of railroad tariffs set by the Regulator, increased railroad transportation tariffs within the Russian Federation territory for LPG deliveries to the export markets by 13.4%. Tariffs for transportation of our other liquid hydrocarbons remained the same.

Effective 1 January 2015, the Regulator increased railroad freight transportation tariffs for all types of hydrocarbons by 10% and effective 3 January 2016 – by additional 9% which corresponded to the Ministry of Economic Development Forecast published in October 2015.

In 2014 and 2015, we applied the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the Port of Ust-Luga and to end-customers on the domestic market. The discount coefficient is set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD. In December 2015, RZD expanded the list of transportation routes for which the discount coefficient is applied, as well as extended the validity of the coefficient of 0.94 till the end of 2016 that will allow us to apply the discount coefficient for deliveries of all stable gas condensate volumes produced.

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

Stable gas condensate and refined products by tankers

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

Crude oil

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

During 2014, crude oil transportation tariffs within the Russian Federation territory did not change. Effective 1 January 2015, crude oil transportation tariffs within the Russian Federation territory through the pipeline network were increased by an average of 6.75%. Effective 1 January 2016, crude oil transportation tariffs were increased by an average of 5.76% relative to 2015 tariffs.

Our tax burden and obligatory payments

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

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

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

UPT – natural gas and gas condensate

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

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

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

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

UPT – crude oil

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

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

As part of the tax maneuver in the oil industry (see above) effective from 1 January 2015, the formula for the crude oil UPT rate calculation was adjusted. The UPT rate is calculated as the base UPT rate multiplied by a coefficient characterizing the dynamics of world crude oil prices, and the resulting product is further decreased by a parameter characterizing crude oil production peculiarities. The base crude oil UPT rate in 2015 was set at RR 766 per ton (increased by 55.4% compared to 2014). Effective 1 January 2016, the base UPT rate was increased to RR 857 per ton and will be set at RR 919 per ton effective from 1 January 2017.

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

Export duties

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

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

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

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

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

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

Social contributions

In 2014 and 2015, the rates for social contributions to the Pension Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund of the Russian Federation paid by the employer on behalf of employees did not change and were set at 22.0%, 5.1% and 2.9%, respectively, for a cumulative social burden of 30.0%. The aforementioned rates are applied by the employer until the annual income of an employee exceeds the maximum taxable base set by the Russian Federation government. For the portion of the annual income exceeding the maximum base the reduced rates are applied.

In 2014, the rate for the excess annual income above the maximum base was set at 10.0% for the Pension Fund and nil for the other funds.

Effective 1 January 2015, the rate for social contributions to the Federal Compulsory Medical Insurance Fund was set at 5.1% regardless of the employee's annual income. The rates for social contributions to other funds did not change.

The table below provides for the rates and maximum taxable bases set by the Russian Federation government for social contributions in 2014, 2015 and 2016:

	2014		2015		2016	
	Base, RR thousand	**Rate, %**	**Base, RR thousand**	**Rate, %**	**Base, RR thousand**	**Rate, %**
Pension Fund of the Russian Federation	less 624	22.0%	less 711	22.0%	less 796	22.0%
	above 624	10.0%	above 711	10.0%	above 796	10.0%
Federal Compulsory Medical Insurance Fund	less 624	5.1%				
	above 624	5.1%	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 624	2.9%	less 670	2.9%	less 718	2.9%
	above 624	0.0%	above 670	0.0%	above 718	0.0%

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 2015 and 2014, 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.

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

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 internal technical appraisals of reserves are performed by the Group's qualified technical staff working directly with the oil and gas properties and are periodically updated during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The annual independent external appraisal of our reserves is performed by independent petroleum engineers, DeGolyer and MacNaughton ("D&M"). 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, long-term financing planning 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.

The information below provides for our oil and gas reserves under SEC and PRMS reserve classifications including 100% of 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.

The table below provides proved oil and gas reserves under SEC reserve classification in Metric units and on a total barrel of oil equivalent basis:

	As of and for the years ended 31 December:		Change
	2015	2014	%
Natural gas, billions of cubic meters	**1,775**	**1,751**	**1.4%**
Subsidiaries	1,034	1,018	1.6%
Share in joint ventures [(1)]	741	733	1.1%
Liquids, millions of metric tons	**143**	**140**	**2.0%**
Subsidiaries	68	62	9.7%
Share in joint ventures [(1)]	75	78	(3.8%)
Combined reserves, millions of boe	**12,817**	**12,643**	**1.4%**
Production, millions of boe	522	457	14.2%
Reserves replacement ratio [(2)], %	133%	114%	n/a

(1) At 31 December 2015, the Group's share in proved reserves of joint ventures under SEC classification includes reserves attributable to the 9.9% interest in Yamal LNG classified as held for sale of 51.6 bcm of natural gas and 1.5 million metric tons of liquids.

(2) The reserves replacement ratio is calculated as the difference between the reserves at the end of the year and the reserves at the beginning of the year plus production for the year and dividing the sum by production for the year.

In 2015, even though we increased overall production of natural gas and liquid hydrocarbons in our joint ventures and subsidiaries by 65 million boe, or 14.2%, primarily as a result of the launch of additional production capacities (see "Recent developments" above), we replaced our hydrocarbon reserves under SEC reserve classification by 133% mainly due to an increase in our natural gas proved reserves. The increase in natural gas proved reserves mainly related to revisions of previous estimates at our Salmanovskoye (Utrenneye) field and at the fields of SeverEnergia and Yamal LNG joint ventures, as well as to extensions and discoveries at the North-Russkiy field. The increase was partially offset by a disposal of a 1.6% effective ownership interest in our joint venture SeverEnergia. Excluding the effect from the disposal of interest in SeverEnergia the reserves replacement ratio for 2015 amounted to 148%.

As a result, as of 31 December 2015, the Group's combined proved reserves under SEC classification on a total barrel of oil equivalent basis increased by 1.4% to 12.8 billion of boe.

The following table provides for the Group's PRMS proved, probable and possible reserves in Metric units and on a total barrel of oil equivalent basis:

	Natural gas, billions of cubic meters		Liquid hydrocarbons, millions of metric tons		Combined reserves, millions of boe	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Proved reserves	2,118	2,140	177	182	15,344	15,522
Probable reserves	1,034	991	121	128	7,773	7,547
Proved and probable	**3,152**	**3,131**	**298**	**310**	**23,117**	**23,069**
Possible reserves	662	668	110	173	5,230	5,756
Proved, probable and possible	**3,814**	**3,799**	**408**	**483**	**28,347**	**28,825**

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 below table contains information about reserve to production ratios as of 31 December 2015 and 2014 under both reserves reporting methodologies:

	SEC		PRMS	
	At 31 December:		At 31 December:	
Number of years	2015	2014	2015	2014
Total proved reserves to production	25	28	29	34
Total proved and probable reserves to production	-	-	44	50
Total proved, probable and possible reserves to production	-	-	54	63

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: 2015	2014	Change %
Production costs:			
Lifting costs	10,705	9,472	13.0%
Taxes other than income tax	36,296	29,081	24.8%
Transportation expenses	83,574	89,747	(6.9%)
Total production costs before DDA	**130,575**	**128,300**	**1.8%**
Depreciation, depletion and amortization ("DDA")	17,522	15,127	15.8%
Total production costs	**148,097**	**143,427**	**3.3%**

RR per boe	Year ended 31 December: 2015	2014	Change %
Production costs:			
Lifting costs	30.1	24.9	20.9%
Taxes other than income tax	102.1	76.6	33.3%
Transportation expenses	235.1	236.3	(0.5%)
Total production costs before DDA	**367.3**	**337.8**	**8.7%**
Depreciation, depletion and amortization	49.3	39.8	23.9%
Total production costs	**416.6**	**377.6**	**10.3%**

USD per boe (1)	Year ended 31 December: 2015	2014	Change %
Production costs:			
Lifting costs	0.49	0.65	(24.6%)
Taxes other than income tax	1.67	1.99	(16.1%)
Transportation expenses	3.87	6.15	(37.1%)
Total production costs before DDA	**6.03**	**8.79**	**(31.4%)**
Depreciation, depletion and amortization	0.80	1.04	(23.1%)
Total production costs	**6.83**	**9.83**	**(30.5%)**

(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 lifting costs, 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 at 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 that the lifting costs as presented in the Group's IFRS consolidated financial statements include changes in balances of natural gas and liquid hydrocarbons 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" is set forth below:

millions of Russian roubles	**Year ended 31 December:** 2015	2014	**Change %**
Lifting costs presented in "Oil and Gas Production Costs" above	10,705	9,472	13.0%
Change in balances of natural gas and hydrocarbon liquids stated at cost in the Group's Consolidated Statement of Financial Position	(603)	(658)	(8.4%)
Lifting costs per "Unaudited Supplemental Oil and Gas Disclosures"	**10,102**	**8,814**	**14.6%**

Hydrocarbon production and sales volumes

Our natural gas sales volumes in 2015, decreased by 4,766 mmcm, or 7.1%, as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 compared to 2014. Natural gas production volumes at our main fields marginally decreased, but were completely offset by an increase in the production of our joint ventures.

Our liquids sales volumes increased significantly by 5,799 thousand tons, or 81.8%, primarily due to an increase in production of gas condensate in our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

Natural gas production volumes

As a result of increased production of our joint ventures, in 2015, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 5,776 mmcm, or 9.3%, to 67,905 mmcm from 62,129 mmcm in 2014.

millions of cubic meters	**Year ended 31 December:** 2015	2014	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	35,979	38,154	(5.7%)
East-Tarkosalinskoye field	9,075	10,348	(12.3%)
Khancheyskoye field	2,510	2,933	(14.4%)
Other fields	1,608	1,163	38.3%
Total natural gas production by subsidiaries	**49,172**	**52,598**	**(6.5%)**
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	12,624	4,129	205.7%
Nortgas	5,395	5,402	(0.1%)
Terneftegas	714	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures	**18,733**	**9,531**	**96.5%**
Total natural gas production including proportionate share in the production of joint ventures	**67,905**	**62,129**	**9.3%**

In 2015, the combined total volumes of natural gas produced by our subsidiaries decreased by 3,426 mmcm, or 6.5%, to 49,172 mmcm from 52,598 mmcm in 2014 due to natural decline in the reservoir pressure at the current gas producing horizons at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye). The decrease in production was partially offset by the launch of the North-Khancheyskoye field at the end of 2014, as well as an increase in production at the Dobrovolskoye field due to new wells drilled at the end of 2014, production of which is included in the line "Other fields" in the table above.

In 2015, our proportionate share in the production of our joint ventures increased by 9,202 mmcm, or 96.5%, to 18,733 mmcm from 9,531 mmcm in 2014 primarily as a result of the production growth in SeverEnergia. The production of SeverEnergia significantly increased due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, effective May 2015, our joint venture Terneftegas commenced production at the Termokarstovoye field (see "Recent Developments" above).

Natural gas sales volumes

In 2015, our total natural gas sales volumes decreased by 4,766 mmcm, or 7.1%, to 62,465 mmcm from 67,231 mmcm in 2014 as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

millions of cubic meters	**Year ended 31 December: 2015**	**2014**	**Change %**
Production by subsidiaries	49,172	52,598	(6.5%)
Purchases from the Group's joint ventures	7,152	5,402	32.4%
Other purchases	6,626	7,165	(7.5%)
Total production and purchases	**62,950**	**65,165**	**(3.4%)**
Purovsky Plant, own usage and methanol production	(207)	(181)	14.4%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(278)	2,247	n/a
Total natural gas sales volumes	**62,465**	**67,231**	**(7.1%)**
Sold to end-customers	*58,054*	*63,281*	*(8.3%)*
Sold ex-field	*4,411*	*3,950*	*11.7%*

In 2015, natural gas purchases from our joint ventures increased by 1,750 mmcm, or 32.4%, to 7,152 mmcm from 5,402 mmcm in 2014 primarily due to the commencement of purchases from Terneftegas as a result of the launch of the Termokarstovoye field in May 2015.

Other natural gas purchases decreased by 539 mmcm, or 7.5%, due to decreased purchases from third parties and PAO SIBUR. Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing end-customers' portfolios.

In 2015, we used 80 mmcm of natural gas as feedstock for the production of methanol compared to 78 mmcm in 2014. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

As of 31 December 2015, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure aggregated 1,327 mmcm and increased by 278 mmcm during the year as compared to a decrease by 2,247 mmcm in 2014, whereby the volumes injected into the UGSF remained relatively flat.

Liquids production volumes

In 2015, our total liquids production (including our proportionate share in the production of joint ventures) increased by 3,058 thousand tons, or 50.7%, to 9,094 thousand tons from 6,036 thousand tons in 2014 primarily due to a significant increase in the production of our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

thousands of tons	Year ended 31 December: 2015	2014	Change %
Production by subsidiaries from:			
Yurkharovskoye field	2,126	2,496	(14.8%)
East-Tarkosalinskoye field	1,365	1,293	5.6%
Khancheyskoye field	392	445	(11.9%)
Yarudeyskoye field	184	-	n/a
Other fields	131	106	23.6%
Total liquids production by subsidiaries	**4,198**	**4,340**	**(3.3%)**
including gas condensate	*2,764*	*3,272*	*(15.5%)*
including crude oil	*1,434*	*1,068*	*34.3%*
Group's proportionate share in the production of joint ventures:			
SeverEnergia (Arcticgas)	4,016	1,063	277.8%
Nortgas	622	633	(1.7%)
Terneftegas	258	-	n/a
Total Group's proportionate share in the liquids production of joint ventures	**4,896**	**1,696**	**188.7%**
Total liquids production including proportionate share in the production of joint ventures	**9,094**	**6,036**	**50.7%**

In 2015, the volumes of liquids produced by our subsidiaries slightly decreased by 142 thousand tons, or 3.3%, whereby the decrease in gas condensate production was largely offset by an increase in crude oil production. In 2015, we ramped up crude oil production due to new wells drilled and technological works performed to increase the crude oil production flow rates at the East-Tarkosalinskoye field. In addition, in December 2015, we commenced crude oil commercial production at the Yarudeyskoye field, the nameplate production capacity of which was reached at the end of December (see "Recent developments" above). Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

In 2015, our proportionate share in liquids production of joint ventures increased by 3,200 thousand tons, or 188.7%, to 4,896 thousand tons from 1,696 thousand tons in 2014 mainly as a result of the production growth in SeverEnergia. The production of SeverEnergia increased significantly due to reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, the launch of the third phase of the Samburgskoye field in September 2014, as well as the launch of the Yaro-Yakhinskoye field in April 2015, the nameplate production capacity of which was reached in June 2015. In addition, our joint venture Terneftegas commenced production at the Termokarstovoye field in May 2015.

Liquids sales volumes

In 2015, our total liquids sales volumes increased significantly by 5,799 thousand tons, or 81.8%, to 12,888 thousand tons from 7,089 thousand tons in 2014 primarily due to an increase in the production of gas condensate in our joint ventures and, to a lesser extent, crude oil production in our subsidiaries.

thousands of tons	Year ended 31 December: 2015	2014	Change %
Production by subsidiaries	4,198	4,340	(3.3%)
Purchases from the Group's joint ventures	9,045	3,180	184.4%
Other purchases	94	49	91.8%
Total production and purchases	**13,337**	**7,569**	**76.2%**
Losses [(1)] and own usage [(2)]	(278)	(276)	0.7%
Filling the system of processing facilities and pipelines at the Yarudeyskoye field	(36)	-	n/a
Decreases (increases) in liquids inventory balances	(135)	(204)	(33.8%)
Total liquids sales volumes	**12,888**	**7,089**	**81.8%**
Naphtha export	*4,120*	*3,319*	*24.1%*
Other gas condensate refined products export	*2,479*	*1,096*	*126.2%*
Other gas condensate refined products domestic	*94*	*23*	*308.7%*
Subtotal gas condensate refined products	***6,693***	***4,438***	***50.8%***
Stable gas condensate export	*1,477*	*-*	*n/a*
Stable gas condensate domestic	*1,309*	*303*	*332.0%*
Subtotal stable gas condensate	***2,786***	***303***	***n/a***
LPG export	*551*	*559*	*(1.4%)*
LPG domestic	*1,755*	*875*	*100.6%*
Subtotal LPG	***2,306***	***1,434***	***60.8%***
Crude oil export	*377*	*313*	*20.4%*
Crude oil domestic	*713*	*590*	*20.8%*
Subtotal crude oil	***1,090***	***903***	***20.7%***
Other oil products domestic	*13*	*11*	*18.2%*
Subtotal other oil products	***13***	***11***	***18.2%***

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

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

In 2015, our purchases of liquid hydrocarbons from joint ventures increased significantly by 5,865 thousand tons, or 184.4%, due to a significant increase in our purchases of gas condensate from SeverEnergia resulting from the launch of additional production facilities at the end of 2014 and in the first half of 2015 (see "Liquids production volumes" above). In addition, effective May 2015, we commenced purchases of gas condensate from our joint venture Terneftegas as a result of the launch of the Termokarstovoye field.

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

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

In 2015, our liquids inventory balances increased by 171 thousand tons to 910 thousand tons as of 31 December 2015 as compared to an increase in inventory balances by 204 thousand tons to 739 thousand tons in 2014. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations of stable gas condensate and its refined products shipments (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2015 COMPARED TO THE YEAR ENDED 31 DECEMBER 2014

The following table and discussion is a summary of our consolidated results of operations for the years ended 31 December 2015 and 2014. Each line item is also shown as a percentage of our total revenues.

	Year ended 31 December:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Total revenues (1)	**475,325**	***100.0%***	**357,643**	***100.0%***
including:				
natural gas sales	222,180	*46.7%*	230,447	*64.4%*
liquids' sales	249,827	*52.6%*	125,226	*35.0%*
Operating expenses	(335,042)	*(70.5%)*	(236,512)	*(66.1%)*
Other operating income (loss)	(542)	*(0.1%)*	4,009	*1.1%*
Profit from operations before disposals of interests in joint ventures	**139,741**	***29.4%***	**125,140**	***35.0%***
Net gain (loss) on disposal of interests in joint ventures	989	*0.2%*	2,623	*0.7%*
Profit from operations	**140,730**	***29.6%***	**127,763**	***35.7%***
Finance income (expense)	(16,182)	*(3.4%)*	(46,745)	*(13.0%)*
Share of profit (loss) of joint ventures, net of income tax	(31,607)	*(6.6%)*	(28,175)	*(7.9%)*
Profit before income tax	**92,941**	***19.6%***	**52,843**	***14.8%***
Total income tax expense	(18,822)	*(4.0%)*	(15,928)	*(4.5%)*
Profit (loss)	**74,119**	***15.6%***	**36,915**	***10.3%***
Less: profit (loss) attributable to non-controlling interest	277	*0.1%*	381	*0.1%*
Profit attributable to shareholders of OAO NOVATEK	**74,396**	***15.7%***	**37,296**	***10.4%***

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

The launch of additional production facilities at the end of 2014 and in the first half of 2015 allowed us to fully utilize our vertically integrated chain of gas condensate production, processing, refining and marketing. We sold considerably more volumes of liquid hydrocarbons with a higher added value compared to 2014, which significantly increased the Group's cash flow generation and positively impacted the Group's financial results, as most of our revenues from liquids sales is denominated in foreign currency. As a result, in 2015, our revenues from liquid hydrocarbons sales amounted to RR 250 billion and exceeded the revenues from natural gas sales.

Total revenues

The following table sets forth our sales (excluding VAT, export duties, excise and fuel taxes expense, where applicable) for the years ended 31 December 2015 and 2014:

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Natural gas sales	**222,180**	**230,447**	**(3.6%)**
End-customers	*213,513*	*223,209*	*(4.3%)*
Ex-field sales	*8,667*	*7,238*	*19.7%*
Gas condensate refined products sales	**157,066**	**85,420**	**83.9%**
Export – naphtha	*95,588*	*62,280*	*53.5%*
Export – other refined products	*59,667*	*22,668*	*163.2%*
Domestic – other refined products	*1,811*	*472*	*n/a*
Stable gas condensate sales	**43,997**	**3,797**	**n/a**
Export	*24,887*	*-*	*n/a*
Domestic	*19,110*	*3,797*	*n/a*
Liquefied petroleum gas sales	**33,467**	**24,401**	**37.2%**
Export	*12,924*	*12,177*	*6.1%*
Domestic	*20,543*	*12,224*	*68.1%*
Crude oil sales	**14,873**	**11,226**	**32.5%**
Export	*5,629*	*3,813*	*47.6%*
Domestic	*9,244*	*7,413*	*24.7%*
Other products sales	**424**	**382**	**11.0%**
Domestic	*424*	*382*	*11.0%*
Total oil and gas sales	**472,007**	**355,673**	**32.7%**
Other revenues	3,318	1,970	68.4%
Total revenues	**475,325**	**357,643**	**32.9%**

Natural gas sales

In 2015, our revenues from sales of natural gas decreased by RR 8,267 million, or 3.6%, compared to 2014 due to a decrease in sales volumes which was largely offset by an increase in average sales prices. The increase in our natural gas average sales prices was mainly due to an increase in the average regulated price by 7.5% effective 1 July 2015 (see “Natural gas prices” above). The decrease in our total sales volumes was as a result of one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes changed insignificantly and amounted to 92.9% and 94.1% in 2015 and 2014, respectively.

Gas condensate refined products sales

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

In 2015, our revenues from sales of gas condensate refined products significantly increased by RR 71,646 million, or 83.9%, as compared to 2014 due to an increase in sales volumes and average realized net export prices in Russian roubles.

In 2015, our revenues from sales of naphtha increased by RR 33,308 million, or 53.5%, as compared to 2014 due to an increase in average realized net export prices in Russian roubles by 23.6% and sales volumes by 24.1%.

In 2015 and 2014, we exported 4,120 thousand and 3,319 thousand tons of naphtha, respectively. Our average realized net export price, excluding export duties, increased by RR 4,436 per ton, or 23.6%, to RR 23,203 per ton (CIF, CFR, DES, DAP and FOB) from RR 18,767 per ton (CIF, CFR, DES and DAP) in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2015, our revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets increased by RR 38,338 million, or 165.7%, as compared to 2014 due primarily to an increase in sales volumes and, to a lesser extent, average realized net export prices in Russian roubles. In the years ended 31 December 2015 and 2014, we exported in aggregate 2,479 thousand and 1,096 thousand tons of these products to the European markets, or 96.3% and 97.9% of total sales volumes on the domestic and export markets, respectively. Our average realized net export price, excluding export duties, increased by RR 3,372 per ton, or 16.3%, to RR 24,064 per ton (CIF, DES, FOB and DAP) from RR 20,692 per ton (CIF) in 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In 2015, our revenues from sales of stable gas condensate significantly increased by RR 40,200 million, or 11.6 times, compared to 2014 due to the significant increase in volumes sold (see "Hydrocarbon production and sales volumes" above).

In 2015, we sold 1,477 thousand tons of stable gas condensate, or 53.0% of our total sales volumes, to the APR and European markets at an average realized net export price, excluding export duties, of RR 16,842 per ton (CFR, DAP, DES and CIF).

In 2015, we sold 1,309 thousand tons of stable gas condensate on the domestic market compared to 303 thousand tons in 2014. Our average realized price for stable gas condensate sales on the domestic market in 2015 amounted to RR 14,601 per ton (excluding VAT), representing an increase of RR 2,054 per ton, or 16.4%, as compared to 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In 2015, our revenues from sales of LPG increased by RR 9,066 million, or 37.2%, compared to 2014 due to an increase in total sales volumes. The impact of this factor was partially offset by the reallocation of sales volumes in favor of the domestic market with lower average realized prices compared to net export sales prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In 2015, we sold 551 thousand tons of LPG, or 23.9% of our total LPG sales volumes, to export markets as compared to sales of 559 thousand tons, or 39.0%, in 2014. Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 1,672 per ton, or 7.7%.

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

In 2015, we sold 1,755 thousand tons of LPG on the domestic market compared to sales of 875 thousand tons in 2014. Our average realized LPG domestic price, including trading activities, in 2015, was RR 11,707 per ton representing a decrease of RR 2,266 per ton, or 16.2%, compared to 2014 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In 2015, revenues from crude oil sales increased by RR 3,647 million, or 32.5%, compared to 2014 due to an increase in sales volumes and, to a lesser extent, average realized prices in Russian roubles. Our crude oil sales volumes increased by 187 thousand tons, or 20.7%, to 1,090 thousand tons from 903 thousand tons in 2014 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field, as well as the commencement of crude oil commercial production at the Yarudeyskoye field in December 2015.

In 2015, we sold 65.4% of our total crude oil volumes domestically at an average price of RR 12,967 per ton (excluding VAT) representing an increase of RR 406 per ton, or 3.2%, as compared to 2014.

The remaining 34.6% of our crude oil volumes were sold to export markets at an average net export price of RR 14,922 per ton (FOB, excluding export duties) representing an increase of RR 2,739 per ton, or 22.5%, as compared to 2014 (see “Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices” above).

Other products sales

Other products sales represent our revenues from the domestic sales of methanol, oil products (diesel fuel and petrol) purchased for resale and sold through our retail stations and other liquid hydrocarbons. In 2015, our revenues from other products sales increased by RR 42 million, or 11.0%, to RR 424 million from RR 382 million in 2014.

Other revenues

Other revenues include revenue from geological and geophysical research services, rent, sublease, repair and maintenance of energy equipment services, as well as other services. In 2015, other revenues increased by RR 1,348 million, or 68.4%, to RR 3,318 million from RR 1,970 million in 2014 primarily due to an increase in revenues from the sublease of tankers by RR 1,360 million. The related sublease of tankers expenses are included in our transportation expenses in line “Gas condensate refined products and stable gas condensate transportation by tankers”.

In addition, in 2015, other revenues increased by RR 387 million due to revenues from repair and maintenance of energy equipment services provided by our subsidiary NOVATEK-Energo.

Operating expenses

In 2015, our total operating expenses increased by RR 98,530 million, or 41.7%, to RR 335,042 million compared to RR 236,512 million in 2014, and our total operating expenses as a percentage of total revenues increased to 70.5% from 66.1% primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures that in turn allowed us to sell increased volumes of hydrocarbons to both domestic and international markets (see "Purchases of natural gas and liquid hydrocarbons" below), and, to a lesser extent, an increase in transportation expenses.

	Year ended 31 December:			
millions of Russian roubles	**2015**	**% of total revenues**	**2014**	**% of total revenues**
Transportation expenses	130,229	*27.4%*	114,511	*32.0%*
Purchases of natural gas and liquid hydrocarbons	120,504	*25.4%*	52,596	*14.7%*
Taxes other than income tax	36,630	*7.7%*	29,336	*8.2%*
Depreciation, depletion and amortization	19,980	*4.2%*	17,172	*4.8%*
General and administrative expenses	15,163	*3.2%*	11,831	*3.3%*
Materials, services and other	14,086	*3.0%*	11,442	*3.2%*
Exploration expenses	767	*0.2%*	112	*n/a*
Impairment expenses (reversals), net	(204)	*n/a*	(229)	*n/a*
Change in natural gas, liquid hydrocarbons and work-in-progress	(2,113)	*n/a*	(259)	*n/a*
Total operating expenses	**335,042**	***70.5%***	**236,512**	***66.1%***

Transportation expenses

In 2015, our total transportation expenses increased by RR 15,718 million, or 13.7%, to RR 130,229 million as compared to RR 114,511 million in 2014.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Natural gas transportation by trunk and low-pressure pipelines	86,025	92,494	(7.0%)
Stable gas condensate and liquefied petroleum gas transportation by rail	29,273	16,007	82.9%
Gas condensate refined products and stable gas condensate transportation by tankers	13,378	4,749	181.7%
Crude oil transportation by trunk pipelines	1,476	1,223	20.7%
Other	77	38	102.6%
Total transportation expenses	**130,229**	**114,511**	**13.7%**

In 2015, despite an average 2.0% increase in the natural gas regulated transportation tariff effective 1 July 2015 (see "Transportation tariffs" above), our expenses for natural gas transportation decreased by RR 6,469 million, or 7.0%, to RR 86,025 million from RR 92,494 million in 2014 due to a 8.3% decrease in our natural gas sales volumes to end-customers, for which we incurred transportation expenses.

In 2015, our total expenses for stable gas condensate and LPG transportation by rail increased by RR 13,266 million, or 82.9%, to RR 29,273 million from RR 16,007 million in 2014 due to an increase in volumes of liquids sold and transported via rail by 81.8%.

Despite an increase in the railroad transportation tariffs (see "Transportation tariffs" above) our weighted average transportation cost per unit for stable gas condensate and LPG delivered by rail increased marginally, by 0.6%, due to a decrease in the share of LPG volumes transported in total volumes (as a result of an increase in LPG volumes sold ex-works Purovsky Plant and Tobolsk-Neftekhim without transportation expenses) and a decrease in the length of the transportation route. The regulated railroad transportation tariffs for LPG are higher than for our other liquid hydrocarbons.

In 2015, our total transportation expenses for liquids delivered by tankers to international markets increased by RR 8,629 million, or 181.7%, to RR 13,378 million from RR 4,749 million in 2014 due to an increase in volumes of liquids sold and transported via tankers by 74.6%, as well as an increase in the average exchange rate of US dollar to Russian rouble by 58.7% in 2015 compared to 2014 since all our tankers transportation expenses are US dollar denominated.

The effect of increased sales volumes and increased US dollar exchange rate on the tankers transportation expenses was partially mitigated by the change in the geography of stable gas condensate and refined products shipments. Our tanker transportation expenses per ton for transportation to the markets of the APR, as well as to North and South America are significantly higher compared to the transportation costs to European markets. In 2015, we increased the share of volumes shipped to Europe from 40.6% to 51.7%, while the share of volumes shipped to the APR decreased from 46.8% to 41.8% and the share of volumes shipped to the North America decreased from 11.3% to 6.5% of total stable gas condensate and refined products export sales volumes.

In 2015, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 253 million, or 20.7%, to RR 1,476 million from RR 1,223 million in 2014 primarily due to a 21.0% increase in volumes transported.

Purchases of natural gas and liquid hydrocarbons

In 2015, our purchases of natural gas and liquid hydrocarbons significantly increased by RR 67,908 million, or 129.1%, to RR 120,504 million from RR 52,596 million in 2014.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Unstable gas condensate	91,078	26,669	241.5%
Natural gas	27,715	24,801	11.7%
Other liquid hydrocarbons	1,711	1,126	52.0%
Total purchases of natural gas and liquid hydrocarbons	**120,504**	**52,596**	**129.1%**

In 2015, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 64,409 million, or 241.5%, as compared to 2014 and were mainly due to an increase in purchases from SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) as a result of the launch of additional production capacities at the end of 2014 and in the first half of 2015 (see “Recent Developments” above).

In 2015, our purchases of natural gas increased by RR 2,914 million, or 11.7%, as compared to 2014 primarily as a result of the commencement of purchases from our joint venture Terneftegas effective May 2015.

In 2015, our purchases of other liquid hydrocarbons increased by RR 585 million, or 52.0%, as compared to 2014 mainly due to an increase in LPG purchases for the subsequent resale through small wholesale and our retail stations.

Taxes other than income tax

In 2015, taxes other than income tax increased by RR 7,294 million, or 24.9%, to RR 36,630 million from RR 29,336 million in 2014 primarily due to an increase in the unified natural resources production tax expense.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Unified natural resources production tax (UPT)	33,656	26,962	24.8%
Property tax	2,603	2,095	24.2%
Other taxes	371	279	33.0%
Total taxes other than income tax	**36,630**	**29,336**	**24.9%**

In 2015, our unified natural resources production tax expense increased by RR 6,694 million, or 24.8%, to RR 33,656 million from RR 26,962 million in 2014 primarily due to a significant increase in the UPT rate for gas condensate. From 1 January 2015, as a part of the tax maneuver in the oil industry, the formula used for gas condensate UPT rate calculation applied from 1 July 2014 was adjusted by a coefficient that increased the rate by 4.4 times (see “Our tax burden and obligatory payments” above).

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

In 2015, our property tax expense increased by RR 508 million, or 24.2%, to RR 2,603 million from RR 2,095 million in 2014 due to additions to property, plant and equipment at our production subsidiaries, as well as an insignificant additional tax charge for prior periods.

Depreciation, depletion and amortization

In 2015, our depreciation, depletion and amortization ("DDA") expense increased by RR 2,808 million, or 16.4%, to RR 19,980 million from RR 17,172 million in 2014 mainly due to additions of property, plant and equipment at our production subsidiaries (production maintenance at our Yurkharovskoye field, ongoing crude oil development activities at the East-Tarkosalinskoye field, as well as the launch of the Yarudeyskoye field in December 2015).

The Group accrues depreciation and depletion on oil and gas assets using the "units-of-production" method and straight-line method for other facilities. Our reserve base is only appraised on an annual basis as of 31 December and does not fluctuate during the year till the subsequent appraisal, whereas our depletable cost base does change each quarter due to the ongoing capitalization of our costs throughout the year.

General and administrative expenses

In 2015, our general and administrative expenses increased by RR 3,332 million, or 28.2%, to RR 15,163 million compared to RR 11,831 million in 2014. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 81.0% and 79.1% of total general and administrative expenses in the years ended 31 December 2015 and 2014, respectively.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2015**	**2014**	**%**
Employee compensation	9,766	7,147	36.6%
Social expenses and compensatory payments	1,347	1,009	33.5%
Legal, audit and consulting services	1,175	1,205	(2.5%)
Business travel expense	634	423	49.9%
Repair and maintenance expenses	458	215	113.0%
Fire safety and security expenses	313	291	7.6%
Insurance expense	306	280	9.3%
Advertising expenses	253	461	(45.1%)
Rent expense	196	130	50.8%
Other	715	670	6.7%
Total general and administrative expenses	**15,163**	**11,831**	**28.2%**

Employee compensation related to administrative personnel increased by RR 2,619 million, or 36.6%, to RR 9,766 million in 2015 from RR 7,147 million in 2014. The increase was due to higher average number of employees (the expansion of activities at our research and development center and an acquisition of a 100% equity stake in NovaEnergo at the end of 2014), an increase in the effective rate for compulsory social contributions effective from 1 January 2015, an indexation of base personnel salaries effective 1 July 2015, as well as additional bonuses paid in the second quarter of 2015 based on prior year performance and the related increase in social contributions for medical and social insurance and to the Pension Fund.

In 2015, our social expenses and compensatory payments increased by RR 338 million, or 33.5%, to RR 1,347 million compared to RR 1,009 million in 2014. The increase was mainly due to an increase in compensatory payments which related to the development of Yarudeyskoye (only in 2015), Salmanovskoye and Geofizicheskoye fields and were RR 362 million compared to RR 176 million in 2014, as well as the continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Business travel expenses increased by RR 211 million, or 49.9%, to RR 634 million in 2015 from RR 423 million in 2014 mainly due to the expansion of the Group's business activities on international markets, as well as a significant depreciation of Russian rouble relative to world currencies.

Repair and maintenance expenses significantly increased by RR 243 million, or 113.0%, to RR 458 million in 2015 from RR 215 million in 2014 mainly due to current repair works performed at the Group's Moscow head office building and other administrative buildings of subsidiaries.

Advertising expenses decreased by RR 208 million, or 45.1%, to RR 253 million in 2015 from RR 461 million in 2014 mainly due to a decrease in the Groups' advertising during public sporting events.

Other items of our general and administrative expenses changed marginally.

Materials, services and other

In 2015, our materials, services and other expenses increased by RR 2,644 million, or 23.1%, to RR 14,086 million compared to RR 11,442 million in 2014. The main components of this expense category were repair and maintenance services, as well as employee compensation, which on aggregate comprised 55.6% and 60.2% of total materials, services and other expenses in 2015 and 2014, respectively.

millions of Russian roubles	**Year ended 31 December: 2015**	**2014**	**Change %**
Employee compensation	5,866	4,862	20.6%
Repair and maintenance	1,959	2,026	(3.3%)
Complex of services for preparation, transportation and processing of hydrocarbons	1,756	807	117.6%
Materials and supplies	1,305	879	48.5%
Electricity and fuel	938	845	11.0%
Liquefied petroleum gas volumes reservation expenses	768	95	n/a
Security services	470	392	19.9%
Transportation services	452	422	7.1%
Rent expenses	59	633	(90.7%)
Other	513	481	6.7%
Total materials, services and other	**14,086**	**11,442**	**23.1%**

Operating employee compensation increased by RR 1,004 million, or 20.6%, to RR 5,866 million compared to RR 4,862 million in 2014. The increase was due to an increase in the average number of employees primarily as a result of the acquisition of a 100% equity stake in NovaEnergo at the end of 2014, an increase in the effective rate for compulsory social contributions effective from 1 January 2015, as well as an indexation of base salaries effective from 1 July 2015.

Repair and maintenance services expenses decreased by RR 67 million, or 3.3%, to RR 1,959 million in 2015 compared to RR 2,026 million in 2014 primarily as a result of costs savings in repair and maintenance services of energy generating equipment at our core production and processing subsidiaries due to the acquisition of NovaEnergo in December 2014, as well as significant planned repair works at our production subsidiary NOVATEK-Yurkharovneftegas in 2014 and absence in 2015 of expenses for repair of our own rail cars due to their disposal at the end of 2014.

Complex of services for preparation, transportation and processing of hydrocarbons expenses mainly relate to transportation of our LPG produced at the Purovsky Plant for further processing at Tobolsk-Neftekhim. These expenses increased by RR 949 million, or 117.6%, to RR 1,756 million in 2015 compared to RR 807 million in 2014 primarily due to the respective increase in our LPG volumes dispatched for processing at Tobolsk-Neftekhim.

Materials and supplies expense increased by RR 426 million, or 48.5%, to RR 1,305 million in 2015 compared to RR 879 million in 2014 primarily as a result of an increase in chemicals used for the improvement of our gas condensate pipeline capacity due to significant increase in volumes transported. In addition, in 2015, materials expense increased as a result of the acquisition of our subsidiary NovaEnergo in December 2014, as well as the commencement of commercial crude oil production at the Yarudeyskoye field.

In 2015, electricity and fuel expenses increased by RR 93 million, or 11.0%, to RR 938 million from RR 845 million in 2014 as a result of an increase in electricity consumption at processing subsidiaries due to additions of new energy-consuming facilities and an increase in hydrocarbon volumes being processed at these facilities.

In 2015, liquefied petroleum gas volumes reservation costs increased by RR 673 million to RR 768 million from RR 95 million in 2014 due to an increase in LPG volumes required to be reserved in Poland as a result of changes in the methodology of compulsory reservation volumes calculation effective 1 January 2015. The reservation of LPG is required in order to maintain the necessary strategic reserve in Poland in accordance with local regulation.

Security expenses increased by RR 78 million, or 19.9%, to RR 470 million in 2015 from RR 392 million in 2014 due to additional security services and increased security services rates effective from January 2015 in our production subsidiary NOVATEK-Tarkosaleneftegas.

Rent expenses decreased by RR 574 million, or 90.7%, to RR 59 million from RR 633 million in 2014. In the second quarter of 2014, we rented rail cars from a third party for transportation of our LPG to end-customers. We subleased the leased rail cars to the transportation services provider and include the corresponding revenues in “Other revenues”. At the end of 2014, the rental and sublease contracts were terminated.

Other items of our materials, services and other expenses changed marginally.

Exploration expenses

In 2015, our exploration expenses increased by RR 655 million, or 6.8 times, to RR 767 million from RR 112 million in 2014 primarily due to exploration works performed at the North-Obskiy license area. The exploration expenses fluctuate period-to-period in accordance with the approved working schedule of exploration works at our production subsidiaries.

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

In 2015, we recorded a reversal of RR 2,113 million to change in inventory expense due to an increase in our hydrocarbons inventory balances as of 31 December compared to 1 January. In 2014, an increase in our liquid hydrocarbons inventory balances was nearly completely offset by a significant decrease in natural gas inventory balances, as a result, we recorded a reversal of RR 259 million to change in inventory expense.

In 2015, our cumulative natural gas inventory balance in the Underground Gas Storage Facilities (“UGSF”), the GTS and own pipeline infrastructure increased by 278 mmcm compared to a 2,247 mmcm decrease in the inventory balance in 2014. At the same time, volumes injected into the UGSF remained relatively flat in both reporting periods. The decrease in natural gas inventory balances in 2014 was due to a greater build-up in natural gas inventory balance in the beginning of the period which was necessary to fulfill our contractual obligations. 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 2015, our cumulative liquid hydrocarbons inventory balance, recognized as inventory in transit or in storage, increased by 171 thousand tons mainly due to an increase in inventory balance of stable gas condensate in rail cars and tankers in transit and not realized at the reporting date, as well as an increase in inventory balance of crude oil due to the launch of the Yarudeyskoye field in December 2015. In 2014, our cumulative liquid hydrocarbons inventory balance increased by 204 thousand tons mainly as a result of an increase in inventory balance of naphtha in storage capacities of our Ust-Luga Complex. 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:

Inventory balances in transit or in storage	2015 At 31 December	2015 At 1 January	2015 Increase / (decrease)	2014 At 31 December	2014 At 1 January	2014 Increase / (decrease)
Natural gas (millions of cubic meters)	**1,327**	**1,049**	**278**	**1,049**	**3,296**	**(2,247)**
including Gazprom's UGSF	*1,245*	*1,016*	*229*	*1,016*	*2,334*	*(1,318)*
Liquid hydrocarbons (thousand tons)	**910**	**739**	**171**	**739**	**535**	**204**
including naphtha	*184*	*305*	*(121)*	*305*	*193*	*112*
stable gas condensate	*369*	*219*	*150*	*219*	*180*	*39*
crude oil	*157*	*29*	*128*	*29*	*25*	*4*

Impairment expenses (reversals), net

In 2015, we recognized a net impairment reversal of RR 204 million compared to RR 229 million in 2014 mainly due to management's revision of the probability of trade accounts receivable repayment by our customers resulted in the recovering of a portion of previously accrued provisions.

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from natural gas foreign trading on the European market under long-term and short-term purchase and sales contracts, income (loss) from the change in the fair value of aforementioned contracts, as well as other income (loss) related to penalty charges, disposal of materials, fixed assets and other transactions. In 2015, we recognized other operating loss of RR 542 million compared to other operating loss of RR 4,009 million in 2014.

In 2015, within our trading activities on the European market we purchased and sold 31.7 terawatt-hours (or approximately 3 bcm) of natural gas, as well as various derivative commodity instruments, and recognized the aggregate realized income from trading activities of RR 206 million as compared to RR 927 million of income in 2014. At the same time, in 2015, we recognized a non-cash loss of RR 1,006 million as a result of a decrease in the fair value of the hydrocarbons purchase and sales contracts as compared to RR 2,093 million of non-cash income in 2014. All trading contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

In addition, we recorded other operating income of RR 258 and RR 989 million in 2015 and 2014, 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 on disposal of interests in joint ventures

In March 2014, NOVATEK and Gazprom Neft agreed in principle to achieve parity shareholdings in SeverEnergia joint venture, owned by the parties through their respective joint ventures OOO Yamal Development and Artic Russia B.V. (see "Recent Developments" above). As part of such agreement, as of 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to Yamal Development and realized a gain on the disposal of RR 2,623 million. As a result, the Group's effective participation interest in SeverEnergia decreased from 59.8% to 54.9%.

In August 2015, within the next stage of restructuring procedures intended to achieve parity shareholdings in SeverEnergia we contributed a 6.4% ownership interest in Artic Russia B.V. to the capital of Yamal Development. As a result, we recognized a gain on the disposal in the amount of RR 989 million and the Group's effective participation interest in SeverEnergia decreased from 54.9% to 53.3%.

Profit from operations and EBITDA

As a result of the factors discussed above, our profit from operations increased by RR 12,967 million, or 10.1%, to RR 140,730 million in 2015, as compared to RR 127,763 million in 2014. Our profit from operations before disposals of interests in joint ventures increased by RR 14,601 million, or 11.7%, to RR 139,741 million in 2015, as compared to RR 125,140 million in 2014. At the same time, our share in the profit from operations of our joint ventures also increased significantly by RR 21,947 million to RR 32,052 million in 2015, as compared to RR 10,105 million in 2014 (see "Share of profit (loss) of joint ventures, net of income tax" below).

Our EBITDA, normalized for the effect of the disposal of interests in joint ventures, increased by RR 54,835 million, or 34.4%, to RR 214,466 million in 2015 from RR 159,631 million in 2014 mainly due to a significant increase in liquid hydrocarbons sales volumes by 81.8%.

Finance income (expense)

In 2015, we recorded net finance expense of RR 16,182 million compared to net finance expense of RR 46,745 million in 2014, which were due to the recognition of a non-cash foreign exchange loss as a result of the Russian rouble depreciation relative to the US dollar and Euro in both reporting periods, as well as due to the recognition of non-cash loss from the remeasurement of the shareholders' loans issued by the Group to our joint ventures.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Accrued interest expense on loans received	(14,549)	(9,311)	56.3%
Less: capitalized interest	6,047	3,837	57.6%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(290)	(248)	16.9%
Interest expense	**(8,792)**	**(5,722)**	**53.7%**
Interest income	12,622	5,063	149.3%
Change in fair value of non-commodity financial instruments	(10,505)	(20,205)	(48.0%)
Foreign exchange gain (loss), net	(9,507)	(25,881)	(63.3%)
Total finance income (expense)	**(16,182)**	**(46,745)**	**(65.4%)**

In 2015, our interest expense increased by RR 3,070 million, or 53.7%, to RR 8,792 million primarily due to the increase in our borrowings obligations as a result of the depreciation of the average Russian rouble exchange rate relative to the US dollar and Euro (see "Selected macro-economic data" above). The effect of the depreciation of the average Russian rouble exchange rate on interest expense was reduced by the partial repayment of the Groups' borrowings.

Interest income increased significantly by RR 7,559 million, or 149.3%, to RR 12,622 million in 2015 from RR 5,063 million in 2014 due to an increase in loans provided to our joint ventures for the development and expansion of their activities, as well as a result of the average Russian rouble depreciation relative to the US dollar and Euro in 2015 compared to the average exchange rate in 2014.

In 2015 and 2014, we recognized non-cash losses of RR 10,505 million and RR 20,205 million, respectively, which primarily related to the remeasurement of the new tranches of the shareholders' loans issued by the Group to our joint ventures in accordance with IAS 39 *"Financial instruments: recognition and measurement"*. The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each period due to movements between currency exchange rates. In 2015, we recorded a net non-cash foreign exchange loss of RR 9,507 million compared to a net non-cash foreign exchange loss of RR 25,881 million in 2014 primarily due to the revaluation of our foreign currency denominated borrowings and loans provided, as well as cash balances in foreign currency.

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

In 2015, the Group's proportionate share of loss of joint ventures increased by RR 3,432 million, or 12.2%, to RR 31,607 million compared to RR 28,175 million in 2014.

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Profit from operations	32,052	10,105	217.2%
Finance income (expense)	(68,821)	(43,306)	58.9%
Total income tax benefit	5,162	5,026	2.7%
Total share of profit (loss) of joint ventures, net of income tax	**(31,607)**	**(28,175)**	**12.2%**

Our proportionate share in the profit from operations of our joint ventures increased significantly by RR 21,947 million based on higher operating results of SeverEnergia due to the launch of the third phase of the Samburgskoye field in September 2014, reaching the nameplate production capacity of the first and second phases of the Urengoyskoye field in December 2014 and February 2015, respectively, as well as the launch of the Yaro-Yakhinskoye field in April 2015 (the nameplate production capacity was reached in June 2015).

Our proportionate share in the finance expense of our joint ventures increased by RR 25,515 million, or 58.9%, mainly due to a decrease in non-cash profit from the remeasurement of the fair value of shareholders' loans recorded by Yamal LNG and Terneftegas (our share amounted to RR 21.3 billion), and an increase of interest expense at Yamal Development, SeverEnergia and Nortgas (our share amounted to RR 11.2 billion) as a result of new debt obtained and discontinued capitalization of borrowing costs upon completion of assets construction in 2015. The increase of our share in the finance expense of our joint ventures was partially offset by a decrease in foreign exchange losses on foreign currency denominated loans recorded by Yamal LNG and Terneftegas (our share amounted by RR 4.6 billion).

Income tax expense

The Russian statutory income tax rate for both reporting periods was 20%. For the years ended 31 December 2015 and 2014, the consolidated Group's effective income tax rate was 20.3% and 30.1%, respectively.

The effective income tax rate was impacted primarily by the effects of profit (loss) and dividends from joint ventures, as well as the classification of the 9.9% interest in Yamal LNG as held for sale in 2015.

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

At 31 December 2015, in accordance with IAS 12, *Income taxes*, the Group recognized a deferred tax asset of RR 4,316 million related to the expected disposal of 9.9% participation interest in Yamal LNG based on the difference between its carrying amount and tax base. The gain on disposal will be recognized upon the completion of the transaction.

Without the effect of net profit (loss) and dividends from joint ventures, and the deferred tax asset relating to the 9.9% interest in Yamal LNG classified as held for sale, the effective income tax rate for the years ended 31 December 2015 and 2014 was 18.7% and 19.7%, respectively.

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.

Our profit for the period increased by RR 37,204 million, or 100.8%, to RR 74,119 million in 2015 from RR 36,915 million in 2014. The profit attributable to shareholders of OAO NOVATEK increased by RR 37,100 million, or 99.5%, to RR 74,396 million in 2015 as compared to RR 37,296 million in 2014. The profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, increased by RR 38,210 million, or 108.6%, to RR 73,407 million in 2015 as compared to RR 35,197 million in 2014.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by RR 12.29 per share, or 99.6%, to RR 24.63 per share in 2015 from RR 12.34 per share in 2014. Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, excluding the effect of the disposal of interests in joint ventures, increased by RR 12.65 per share, or 108.7%, to RR 24.30 per share in 2015 from RR 11.65 per share in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

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

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Net cash provided by **operating** activities	132,864	111,241	19.4%
Net cash used in **investing** activities	(159,074)	(48,483)	228.1%
Net cash provided by (used in) **financing** activities	12,714	(36,251)	n/a

Liquidity and credit ratios	31 December 2015	31 December 2014	Change, %
Current ratio	0.76	1.56	(51.3%)
Total debt to total equity	0.84	0.63	33.3%
Long-term debt to long-term debt and total equity	0.37	0.35	5.7%
Net debt to total capitalization (1)	0.41	0.31	32.3%
Net debt to normalized EBITDA from subsidiaries (2)	2.05	1.46	40.4%
Interest coverage ratio (3)	11	15	(26.7%)

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

(2) Net debt to normalized EBITDA from subsidiaries ratio is calculated as Net debt divided by normalized EBITDA from subsidiaries for the last twelve months.

(3) Interest coverage ratio is calculated as normalized EBITDA from subsidiaries divided by accrued interest on debt, including capitalized interest.

Our credit ratios presented in the table above are significantly affected by changes in foreign currency exchange rates. In 2015, our net debt in Russian roubles terms increased primarily as a result of the Russian rouble depreciation relative to the US dollar and Euro. Nonetheless, as a result of a significant increase in liquids production in our joint ventures, the share of our export revenues increased to approximately 42% in 2015 from 28% in 2014. A significant portion of foreign currency denominated revenues decreases the Group's exposure to foreign currency risk and enables the Group to generate sufficient cash flows to meet its foreign currency obligations.

Net cash provided by operating activities

Our net cash provided by operating activities increased by RR 21,623 million, or 19.4%, to RR 132,864 million compared to RR 111,241 million in 2014 mainly due to higher operating results (increased liquid hydrocarbons sales volumes, as well as an increase in average realized prices of natural gas and liquid hydrocarbons in Russian roubles).

millions of Russian roubles	Year ended 31 December: 2015	2014	Change %
Profit from operations before disposals of interests in joint ventures	139,741	125,140	11.7%
Non-cash adjustments (1)	20,820	14,380	44.8%
Changes in working capital and long-term advances given	(14,470)	(2,503)	n/a
Dividends received from joint ventures	1,850	-	n/a
Interest received	1,454	988	47.2%
Income taxes paid	(16,531)	(26,764)	(38.2%)
Total net cash provided by operating activities	**132,864**	**111,241**	**19.4%**

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

The changes in working capital and long-term advances given were mainly due to an increase in long-term advances payments to RZD, which were provided in accordance with the Strategic Partnership Agreement's installment schedule (see "Transportation tariffs" above) and were almost completely offset by a decrease in income taxes paid. Working capital balances and income tax payments fluctuate from period to period depending on various factors.

In addition, in 2015, we received RR 1,850 million of dividends from our joint venture Nortgas.

Net cash used for investing activities

In 2015, our net cash used for investing activities increased by RR 110,591 million, or 228.1%, to RR 159,074 million compared to RR 48,483 million in 2014.

millions of Russian roubles	**Year ended 31 December:** **2015**	**2014**	**Change %**
Cash used for capital expenditures	(50,584)	(62,040)	(18.5%)
Loans provided to joint ventures	(108,570)	(45,906)	136.5%
Repayments of loans provided to joint ventures	3,710	11,747	(68.4%)
Payments for acquisition of subsidiaries net of cash acquired	(3,630)	(1,476)	145.9%
Proceeds from disposal of participation interest in joint ventures	-	53,534	n/a
Additional capital contributions to joint ventures	-	(4,342)	n/a
Net cash used for investing activities	**(159,074)**	**(48,483)**	**228.1%**

Cash used for capital expenditures decreased by RR 11,456 million, or 18.5%, as compared to 2014. In 2015, the cash was mainly used for the development of the Yarudeyskoye and East-Tarkosalinskoye field's crude oil deposits, maintenance of production at our Yurkharovskoye field, as well as development of the Salmanovskoye (Utrenneye) field.

In 2015, we provided loans to our joint venture Yamal LNG and Yamal Development in the amount of RR 108,570 million as compared to RR 45,906 million provided to these companies in 2014. At the same time, in 2015, we received RR 3,710 million due to a partial repayment of loans provided to Terneftegas and Yamal Development, while in 2014 we received RR 11,747 million due to partial repayment of the loan provided to Yamal LNG.

In August 2014, we acquired 100% of the outstanding shares of ZAO Office for total consideration of RR 4,895 million (USD 135 million) and paid RR 1,283 million (USD 34 million) and RR 3,630 million (USD 62 million) in 2014 and 2015, respectively. 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, 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 made additional capital contributions to our joint venture Terneftegas in the amount of RR 4,342 million.

Net cash provided by (used for) financing activities

In 2015, our net cash provided by financing activities amounted to RR 12,714 million as compared to RR 36,251 million used for financing activities in 2014.

millions of Russian roubles	**Year ended 31 December:** **2015**	**2014**	**Change %**
Proceeds from (repayments of) long-term debt, net	29,105	5,551	n/a
Proceeds from (repayments of) short-term debt, net	27,180	(5,037)	n/a
Dividends paid	(35,640)	(28,967)	23.0%
Other	(7,931)	(7,798)	1.7%
Net cash provided by (used for) financing activities	**12,714**	**(36,251)**	**n/a**

In 2015, we received funds under the loan agreement with China's Silk Road Fund in the amount of RR 55,215 million (EUR 0.73 billion) for financing of the Yamal LNG project as part of the transaction for the sale of the Group's 9.9% equity stake in Yamal LNG. In addition, one of the Group's subsidiaries obtained long-term loans from its non-controlling shareholder in the amount of RR 16,130 million. In 2015, the Group partially repaid a loan obtained under our syndicated credit line facility in the amount of RR 22,240 million (USD 346 million), and fully repaid three-year tenor non-convertible Russian rouble denominated exchange-traded bonds in the amount of RR 20 billion.

In addition, in 2015, we obtained net proceeds from short-term loans in the amount of RR 27,180 million.

In 2014, we received RR 15,551 million due to a withdrawal of USD 430 million under the syndicated credit line facility and repaid a long-term loan from Sberbank in the amount of RR 10 billion. In addition, we obtained a short-term loan from a non-controlling shareholder of one of our subsidiaries in the amount of RR 1,619 million and repaid loans in the total amount of RR 6,656 million (USD 200 million) from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank and.

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

Working capital

Our net working capital position (current assets plus assets held for sale less current liabilities) as of 31 December 2015 was a negative RR 41,203 million compared to a positive RR 45,383 million as of 31 December 2014. The change in our net working capital was primarily due to an increase in the short-term debt and current portion of our long-term debt by RR 65,675 million as a result of the classification of a portion of our syndicated term credit-facility and Eurobonds in the amount of USD 600 million as part of current liabilities based on the repayment schedule and obtaining a number of short-term loans in the total amount of RR 29.4 billion.

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

Capital expenditures

In both reporting periods, our capital expenditures represent our investments primarily relating to developing our oil and gas properties. The following table shows capital expenditures at our main fields and processing facilities:

	Year ended 31 December:	
millions of Russian roubles	**2015**	**2014**
Yarudeyskoye field	25,826	18,485
East-Tarkosalinskoye field	8,745	12,543
Yurkharovskoye field	7,562	10,612
Salmanovskoye (Utrennee) field	6,165	5,741
Khancheyskoye field	1,480	3,696
North-Khancheyskoye + Khadyryakhinskoye field	1,422	3,396
North-Russkoye field	1,124	706
Purovsky Plant	556	600
Ust-Luga Complex	555	830
Olimpiyskiy license area	503	2,026
Other	3,621	4,544
Capital expenditures	**57,559**	**63,179**

Total capital expenditures on property, plant and equipment in 2015 slightly decreased by RR 5,620 million, or 8.9%, to RR 57,559 million from RR 63,179 million in 2014.

In both reporting periods, our main capital expenditures related to the development of the Yarudeyskoye and East-Tarkosalinskoye field's crude oil deposits, Yurkharovskoye field's production maintenance, as well as the development of the Salmanovskoye (Utrenneye) field.

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

The following table presents the reconciliation of our capital expenditures and additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements, as well as cash used in capital investments:

	Year ended 31 December:		Change
millions of Russian roubles	**2015**	**2014**	**%**
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**57,559**	**63,614**	**(9.5%)**
Less: payment for mineral licenses	-	(435)	n/a
Capital expenditures	**57,559**	**63,179**	**(8.9%)**
Less: capitalized foreign exchange differences, increase in accounts payables and other non-cash adjustments	(6,975)	(1,139)	n/a
Cash used in capital expenditures	**50,584**	**62,040**	**(18.5%)**

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 2015, the total amount of our long-term debt denominated in US dollars was RR 218,805 million, or 61.0% of our total borrowings at that date. Changes in the value of the Russian rouble relative to foreign currencies will impact our foreign currency-denominated costs and expenses, our debt service obligations for foreign currency-denominated borrowings, as well as receivables at our foreign subsidiaries in Russian rouble terms. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 40.0% in 2015, was denominated in US dollars.

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

As of 31 December 2015, the Russian rouble depreciated by 29.5% and 16.6% against the US dollar and the Euro, respectively, compared to 31 December 2014.

Commodity risk

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

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

As of 31 December 2015, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

TERMS AND ABBREVIATIONS

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