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

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 June 2014 and 2013 together with our unaudited consolidated interim condensed financial information as of and for the three and six months ended 30 June 2014. The unaudited consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". This consolidated interim condensed financial information should be read together with the audited consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards (IFRS).

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

OVERVIEW

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

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

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

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

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

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

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

RECENT DEVELOPMENTS

Yamal LNG project

In May 2014, under the framework agreement with China National Petroleum Corporation ("CNPC") regarding the Yamal LNG project, the Group signed a long-term contract with CNPC for the supply of three million tons of liquefied natural gas ("LNG") per annum for a period of 15 years with possible supply extension. The heads of agreement were signed in October 2013.

Also, in May 2014, the Group and OAO Gazprom signed the heads of agreement for the supply of three million tons of LNG per annum for a period of no less than 20 years, produced by the Yamal LNG project.

Management believes that the conclusion of such supply agreements is an important milestone in the implementation of the Yamal LNG project.

Share purchase program

In May 2014, the Group approved the extension of the share purchase program effective until 7 June 2015, which reflects management's confidence in the Group's considerable development potential.

Acquisitions and disposals

In March 2014, the Group approved a series of transactions which, when concluded, will enable the Group and OAO Gazprom Neft to equalize their equity stakes in the SeverEnergia joint venture. Consequently, on 31 March 2014, the Group sold its 20% equity stake in Artic Russia B.V. to its joint venture Yamal Development thus decreasing its effective interest in SeverEnergia from 59.8% to 54.9%. The remaining 4.9% effective interest in SeverEnergia will be disposed within the framework of the restructuring activities during the twelve months following the conclusion of the first transaction.

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

Increasing refining capacity

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

Optimization of our liquefied petroleum gas distribution logistics and sales

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

Fire at Urengoyskoye field

In April 2014, we had a fire at the gas condensate de-ethanization facility at the Urengoyskoye field operated by our SeverEnergia joint venture, which required the cessation of wet gas production at this field. We subsequently restarted limited production at this field in July 2014 and expect to bring the field to planned production capacity by the end of 2014.

Sectoral sanctions imposed by the US government

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

Management has assessed the potential 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 impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and exchange listed shares and debt, and does not have a material effect on the Group's financial position.

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

In addition to the events described above, we together with our international partners are analyzing the impact of these sectoral sanctions on the implementation of our joint investment projects.

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 30 June: 2014	2013	Change %
Financial results			
Total revenues (1)	88,370	58,030	52.3%
Operating expenses	(55,670)	(39,613)	40.5%
Profit attributable to shareholders of OAO NOVATEK	31,950	11,602	175.4%
EBITDA (2)	40,323	23,426	72.1%
EBITDAX (3)	40,326	23,665	70.4%
Earnings per share (in Russian roubles)	10.58	3.83	176.3%
Net debt (4)	114,496	127,658	(10.3%)
Production volumes (5)			
Total hydrocarbons production (million barrels of oil equivalent)	111.2	107.8	3.2%
Total daily production (thousand barrels of oil equivalent per day)	1,221	1,184	3.2%
Operating results			
Natural gas sales volumes (million cubic meters)	15,528	14,628	6.2%
Naphtha sales volumes (thousand tons)	887	-	n/a
Liquefied petroleum gas sales volumes (thousand tons)	331	261	26.8%
Crude oil sales volumes (thousand tons)	223	164	36.0%
Other gas condensate refined products (thousand tons) (6)	200	-	n/a
Stable gas condensate sales volumes (thousand tons)	43	632	(93.2%)
Cash flow results			
Net cash provided by operating activities	23,657	15,758	50.1%
Capital expenditures (7)	19,576	17,393	12.6%
Free cash flow (8)	4,081	(1,635)	n/a

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

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Profit attributable to shareholders of OAO NOVATEK	**31,950**	**11,602**	**175.4%**
Depreciation, depletion and amortization	4,167	3,054	36.4%
Net impairment reversals (expenses)	22	68	(67.6%)
Loss (income) from changes in fair value of derivative financial instruments	(1,861)	89	n/a
Total finance expense (income)	(808)	3,455	n/a
Total income tax expense	7,193	2,873	150.4%
Share of loss (profit) of joint ventures, net of income tax	(3,768)	472	n/a
Share in EBITDA of joint ventures	3,428	1,813	89.1%
EBITDA (2)	**40,323**	**23,426**	**72.1%**
Exploration expenses	3	239	(98.7%)
EBITDAX (3)	**40,326**	**23,665**	**70.4%**

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

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

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

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

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

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

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

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

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one US dollar [(1)]	Three months ended 30 June: 2014	2013	Change %
Average for the period	35.00	31.61	10.7%
At the beginning of the period	35.69	31.08	14.8%
At the end of the period	33.63	32.71	2.8%
Depreciation (appreciation) of Russian rouble to US dollar	(5.8%)	5.2%	n/a

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

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Crude oil prices, USD per bbl	Three months ended 30 June: 2014	2013	Change %
Brent [(2)]			
Average for the period	109.7	102.4	7.1%
At the end of the period	111.0	102.5	8.3%
Dubai [(2)]			
Average for the period	106.1	100.8	5.3%
At the end of the period	109.2	100.4	8.8%
Urals [(2)]			
Average for the period	107.7	102.1	5.5%
At the end of the period	109.2	102.5	6.5%

(2) Based on Brent (Dtd) prices, Dubai prices and Russian Urals/ESPO spot assessments prices as provided by Reuters to Platts. ESPO stands for East Siberian Pipeline Ocean crude oil.

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Oil products prices, USD per ton	Three months ended 30 June: 2014	2013	Change %
Naphtha Japan [(3)]			
Average for the period	951	858	10.8%
At the end of the period	981	856	14.6%
Jet fuel [(3)]			
Average for the period	970	930	4.3%
At the end of the period	987	938	5.2%
Gasoil [(3)]			
Average for the period	911	872	4.5%
At the end of the period	918	886	3.6%
Fuel oil [(3)]			
Average for the period	637	609	4.6%
At the end of the period	643	607	5.9%

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

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Liquefied petroleum gas prices, USD per ton [(4)]	Three months ended 30 June: 2014	2013	Change %
Average for the period	668	605	10.4%
At the end of the period	769	570	34.9%

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

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Export duties, USD per ton [5]	Three months ended 30 June: 2014	2013	Change %
Crude oil, stable gas condensate			
Average for the period	382.7	379.7	0.8%
At the end of the period	385.0	359.3	7.2%
Liquefied petroleum gas			
Average for the period	101.1	71.4	41.6%
At the end of the period	86.0	72.2	19.1%
Naphtha			
Average for the period	344.4	341.8	0.8%
At the end of the period	346.5	323.3	7.2%
Jet fuel, fuel oil			
Average for the period	252.6	250.6	0.8%
At the end of the period	254.1	237.1	7.2%
Gasoil			
Average for the period	248.7	250.6	(0.8%)
At the end of the period	250.2	237.1	5.5%

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current financial market conditions

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

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

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

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

Natural gas prices

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

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

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

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

Based on the Ministry of Economic Development Forecast developed in September 2013, wholesale natural gas prices for sales to all customer categories (excluding residential customers) in July 2015 and 2016 will be increased by 4.8% and 4.9%, respectively. The Russian Federation government continues to debate various policies relating to the natural gas industry and natural gas pricing on the Russian domestic market.

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

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

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

In the three months ended 30 June 2014, our average natural gas price to end-customers increased by 14.6% primarily due to a cumulative increase in the average regulated FTS price by 18.5% as compared to the corresponding period in 2013 (the cumulative effect of a 15.0%, 3.1% and 1.9% increase in gas tariffs effective from 1 July, 1 August and 1 October 2013 and a 1.9% decrease effective from 1 January 2014), that was partially offset by sales to our end-customers located closer to our production fields in the second quarter 2014 as compared to the corresponding period in 2013. This factor also had a significant impact on the dynamics of our average transportation expense per mcm resulting in a slight 0.9% increase although the natural gas transportation tariff set by the FTS increased by 6.4% effective from 1 August 2013 (see "Transportation tariffs" below).

As a result, our average netback price on end-customers sales increased by 26.6%, while our total average natural gas price excluding transportation expense increased by 26.4% compared to the respective prices in the corresponding period in 2013.

Our average natural gas price for sales to wholesale traders also increased as compared to the corresponding period in 2013 due to an increase in the regulated FTS price that was partially offset by a change in the mix of wholesale traders while the proportion of natural gas sold to end-customers increased. Therefore, our average natural gas price for sales to wholesale traders increased by 16.0%.

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

Russian roubles per mcm	Three months ended 30 June: 2014	2013	Change %
Average natural gas price to end-customers [(1)]	3,571	3,117	14.6%
Average natural gas transportation expense for sales to end-customers	(1,472)	(1,459)	0.9%
Average natural gas netback price on end-customer sales	2,101	1,659	26.6%
Average natural gas price ex-field (wholesale traders)	1,834	1,581	16.0%
Total average natural gas price excluding transportation expense	**2,085**	**1,650**	**26.4%**

(1) Includes cost of transportation.

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

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

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management, such as movements in international benchmark crude oil and oil products prices. Crude oil that we sell bound for international markets is transported through the pipeline system where it is blended with other crude oil of varying qualities to produce an export blend commonly referred to as "Urals blend", which historically trades at a discount to the international benchmark Brent crude oil. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the ultimate prices we receive for our liquids volumes sold on both the domestic and international markets.

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

Stable gas condensate and refined products

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

In the corresponding period in 2013, our average realized stable gas condensate export contract price, including export duties, was USD 829 per ton and our average realized net export price for stable gas condensate, excluding export duties and translated to US dollars using the average exchange rate for the period, amounted to USD 446.5 per ton.

Our average realized export contract prices for naphtha and other gas condensate refined products produced at the Ust-Luga Complex, including export duties, in the three months ended 30 June 2014, were approximately USD 998 and USD 902 per ton, respectively. In the three months ended 30 June 2014, our average realized net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, for naphtha and other gas condensate refined products produced at the Ust-Luga Complex amounted to USD 661.3 per ton and USD 652.7 per ton, respectively. There were no sales of naphtha, jet fuel, gasoil or fuel oil ("gas condensate refined products") in the corresponding period in 2013 as the Ust-Luga Complex was formally commissioned in June 2013.

In the three months ended 30 June 2014, we sold naphtha and other gas condensate refined products at different delivery terms: cost and freight (CFR), priced at cost, insurance and freight (CIF), delivery to the port of destination ex-ship (DES), or delivery at point of destination (DAP).

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

Russian roubles or US dollars per ton	Three months ended 30 June: 2014	2013	Change %
Stable gas condensate			
Net export price, RR per ton	-	14,114	n/a
Net export price, USD per ton	-	446.5	n/a
Domestic price, RR per ton	14,220	11,661	21.9%
Naphtha			
Net export price, RR per ton	23,144	-	n/a
Net export price, USD per ton	661.3	-	n/a
Other gas condensate refined products			
Net export price, RR per ton	22,844	-	n/a
Net export price, USD per ton	652.7	-	n/a

Liquefied petroleum gas

In the three months ended 30 June 2014, our average export contract price for LPG, including export duties, excise and fuel taxes expense, and excluding trading activities, increased by USD 89 per ton, or 12.5%, and was approximately USD 800 per ton compared to USD 711 per ton in the corresponding period in 2013. The increase in our average realized contract price was due to an increase in the underlying benchmark of LPG prices on international markets used in price calculation (see "Selected macro-economic data" above). Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense, and translated to US dollars using the average exchange rate for the period, increased by USD 42.3 per ton, or 7.5%, to USD 603.8 per ton from USD 561.5 per ton due to an increase in the average realized contract prices, that was partially offset by a 41.6% increase in our average export duty per ton set by the Russian Federation government (see "Selected macro-economic data" above).

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

In the three months ended 30 June 2014, our average realized LPG domestic price decreased by RR 899 per ton, or 6.8%, to RR 12,351 per ton from RR 13,250 per ton in the corresponding period in 2013 as a result of the commencement of ex-works Purovsky Plant LPG sales effective January 2014 with no railroad transportation expenses associated with such sales.

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

Russian roubles or US dollars per ton	Three months ended 30 June: 2014	2013	Change %
LPG			
Net export price, RR per ton	21,133	17,750	19.1%
Net export price, USD per ton	603.8	561.5	7.5%
Domestic price, RR per ton	12,351	13,250	(6.8%)

Crude oil

Our average realized crude oil export contract price, including export duties, increased by USD 42 per ton, or 5.8%, and was approximately USD 770 per ton compared to USD 728 per ton in the corresponding period in 2013. The increase in our average crude oil contract price was a result of an increase in Brent benchmark crude oil price on the international markets (see "Selected macro-economic data" above). Our average realized crude oil net export price, excluding export duties and translated to US dollars using the average exchange rate for the period, increased by USD 28.3 per ton, or 8.0%, to USD 381.5 per ton from USD 353.2 per ton in the corresponding period in 2013 primarily due to an increase in our average contract price.

In the three months ended 30 June 2014, as well as in the corresponding period in 2013, our crude oil export delivery terms were DAP (Budkovtse, Slovakia).

In the three months ended 30 June 2014, our average realized crude oil domestic price was RR 12,950 per ton (excluding VAT) representing an increase of RR 2,296 per ton, or 21.6%, from RR 10,654 per ton (excluding VAT) in the corresponding period in 2013 as a result of changes in customer mix and delivery of crude oil to the more remote regions.

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

	Three months ended 30 June:		**Change**
Russian roubles or US dollars per ton	**2014**	**2013**	**%**
Crude oil			
Net export price, RR per ton	13,352	11,165	19.6%
Net export price, USD per ton	381.5	353.2	8.0%
Domestic price, RR per ton	12,950	10,654	21.6%

Transportation tariffs

Natural gas

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

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

From the beginning of 2013, the transportation rate was set at RR 12.02 (excluding VAT) per mcm per 100 km, and the rate for utilization of the trunk pipeline was set on an average between RR 50.78 to RR 1,995.44 (excluding VAT) per mcm. Effective 1 August 2013, the FTS approved a 6.4% average increase of the transportation tariff for natural gas. As a result, the transportation rate was increased to RR 12.79 (excluding VAT) per mcm per 100 km and the rate for utilization of the trunk pipeline was set on an average between RR 57.18 to RR 2,048.11 (excluding VAT) per mcm.

According to the Ministry of Economic Development Forecast of the Russian Federation developed in September 2013, transportation tariffs for natural gas produced by independent producers in 2014 to 2016 will not exceed the increase in wholesale natural gas prices and will be increased by zero percent in 2014 and by 4.8% and 4.9% in 2015 and 2016, respectively.

Stable gas condensate and LPG by rail

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

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

Our transportation tariffs for transport by rail are set by the FTS and vary depending on the type of a product and the length of the transport route.

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

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

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

Stable gas condensate and refined products by tankers

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

Crude oil

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

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

Our tax burden and obligatory payments

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

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

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

UPT

According to the Russian Federation Tax Code, the UPT rate for natural gas produced by independent natural gas producers is determined by a stated base rate and a reducing co-efficient for independent natural gas producers. Effective from 1 January 2013, the UPT rate for independent natural gas producers was set at RR 265 per mcm and was increased to RR 402 per mcm effective from 1 July 2013. From 1 January 2014, the UPT rate for independent gas producers is set at RR 471 per mcm, and it was in effect until 1 July 2014 when the amendments to the Russian Tax Code on the new methodology of UPT rate calculation became effective (see below).

In 2013, the UPT rate for gas condensate was set at RR 590 per ton and was increased to RR 647 per ton effective from 1 January 2014. This rate was also in effect until 1 July 2014 when the amendments to the Russian Tax Code on the new methodology of UPT rate calculation became effective (see below).

In September 2013, the Russian Federation government made the amendments to the Russian Federation Tax Code that changed the current approach to natural gas and gas condensate UPT rate calculation (fixed rate) to a formula-based approach that takes into account the base UPT rate, the base value of a standard fuel equivalent and a co-efficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The new approach to the calculation of UPT rates became effective 1 July 2014. Furthermore, from 1 January 2015, the UPT rate will also depend on the excess of the set average transportation tariff for the prior year over the 2013 tariff adjusted to the change in consumer prices. The base UPT rate is set at RR 35 per one thousand meter of extracted natural gas and at RR 42 per one ton of extracted gas condensate. A co-efficient characterizing the difficulty of extracting natural gas and gas condensate is defined as a minimum value from the co-efficients characterizing either the reserves' depletion, the field's geographical location, the deposit's (or reservoir's) depth, assignment of the field to the regional gas supply chain or particular features of certain field deposits development.

The UPT rate for crude oil is calculated each month based on a formula that links the base UPT rate and co-efficients characterizing crude oil price dynamics, reserve depletion and the size of a particular field, as well as the difficulty of extracting and reserve depletion of a particular hydrocarbon deposit. The base crude oil UPT rate in 2013 was set at RR 470 per ton.

In September 2013, the Government of the Russian Federation approved changes to the regulations that increased the base UPT rate to RR 493 per ton effective 1 January 2014 (in 2015 and 2016 the base value is set at RR 530 per ton and RR 559 per ton, respectively). Also, the formula for crude oil export duty rate calculation was changed (see "Export duties" below). The UPT rate for crude oil is calculated in US dollar and translated into Russian roubles using the monthly average exchange rate established by the Central Bank of Russian Federation.

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

In addition, in June 2014, the Government of the Russian Federation approved changes to the Russian Tax Code which set a zero UPT rate effective from 1 January 2015 for gas and gas condensate produced at fields located fully or partially in the Gydan Peninsula in YNAO and used exclusively for production of LNG. Such changes to the Russian Tax Code will allow us to apply a zero UPT rate for gas and gas condensate produced at our Salmanovskoye (Utrenneye) and Geofizicheskoye fields, as well as at the North-Obskoye and East-Tambeyskoye license areas located in the Gydan Peninsula assuming our gas and gas condensate is used for LNG production.

Export duties

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

The export duty rate for stable gas condensate and crude oil is calculated based on the average Urals crude oil price for the period from the 15th calendar day in the previous month to the 14th calendar day of the current month and is set for the following month after the current calendar month. In 2013, calculation of the export duty rate when the average Urals crude oil price is more than USD 182.5 per ton was set as follows: USD 29.2 plus 60% of the difference between the average Urals crude oil price and USD 182.5 per ton. Changes in the regulations, which became effective 1 January 2014, decreased the set percentage of the difference used in the formula from 60% to 59%. In 2015 and 2016, the set percentages applied to the export duty calculation will be 57% and 55%, respectively.

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

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

Social insurance tax

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

Operational Highlights

Hydrocarbon production and sales volumes

Our natural gas sales volumes in the three months ended 30 June 2014 increased by 900 mmcm, or 6.2%, due to the production growth at our Olimpiyskiy licence area, the Yurkharovskoye and East-Tarkosalinskoye fields as well as lower volumes of natural gas injected into the Underground Gas Storage Facilities ("UGSF") compared to the corresponding period in 2013.

Our liquids sales volumes increased significantly by 627 thousand tons, or 59.2%, due to an increase in production of unstable gas condensate in our joint ventures and crude oil production in our subsidiaries. In addition, we decreased our liquids inventory balances in the reporting period whereas in the corresponding period in 2013 as a result of the launch of the first stage of our Ust-Luga Complex we had to significantly build-up our an inventory balance of raw materials prior to the processing commencement. Our liquids inventory balances tend to fluctuate periodically due to loading schedules and final destinations of stable gas condensate and its refined products shipments.

Natural gas production volumes

In the three months ended 30 June 2014, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 290 mmcm, or 1.9%, to 15,239 mmcm from 14,949 mmcm in the corresponding period in 2013 due to an increase in our subsidiaries and, to a greater extent, joint ventures production that was largely offset by the disposal of our joint venture OAO Sibneftegas.

	Three months ended 30 June:		**Change**
millions of cubic meters	**2014**	**2013**	**%**
Production by subsidiaries from:			
Yurkharovskoye field	9,418	9,377	0.4%
East-Tarkosalinskoye field	2,681	2,523	6.3%
Khancheyskoye field	754	852	(11.5%)
Other fields	278	32	n/m
Total natural gas production by subsidiaries	**13,131**	**12,784**	**2.7%**
Group's proportionate share in the production of joint ventures:			
Nortgas	1,375	489	181.2%
SeverEnergia	733	312	134.9%
Sibneftegas	-	1,364	(100.0%)
Total Group's proportionate share in the natural gas production of joint ventures	**2,108**	**2,165**	**(2.6%)**
Total natural gas production including proportionate share in the production of joint ventures	**15,239**	**14,949**	**1.9%**

In the three months ended 30 June 2014, our volumes of natural gas produced by our subsidiaries increased by 347 mmcm, or 2.7%, to 13,131 mmcm from 12,784 mmcm in the corresponding period in 2013 due to an increase in natural gas production at our Urengoyskoye and Dobrovolskoye fields (disclosed as "Other fields" in the table above), located within the Olimpiyskiy license area, which were launched in December 2013. In addition, we intensified natural gas production at our East-Tarkosalinskoye and Yurkharovskoye fields which was partially offset by decreased production at Khancheyskoye field as a result of the natural decline in the reservoir pressure at the current gas producing horizons.

In the three months ended 30 June 2014, our proportionate share in the production of our joint ventures decreased by 57 mmcm, or 2.6%, to 2,108 mmcm from 2,165 mmcm in the corresponding period in 2013 as a result of Sibneftegas disposal in December 2013. Our proportionate share in the production of Nortgas significantly increased due to the launch of the Eastern dome of the North-Urengoyskoye field in October 2013 and mostly offset the Sibneftegas disposal.

Natural gas sales volumes

In the three months ended 30 June 2014, our total natural gas sales volumes increased by 900 mmcm, or 6.2%, to 15,528 mmcm from 14,628 mmcm in the corresponding period in 2013.

millions of cubic meters	Three months ended 30 June: 2014	2013	Change %
Natural gas production by subsidiaries	13,131	12,784	2.7%
Purchases from the Group's joint ventures	1,375	1,870	(26.5%)
Other purchases	1,848	1,365	35.4%
Total production and purchases	**16,354**	**16,019**	**2.1%**
Purovsky Plant, own usage and methanol production	(42)	(32)	31.3%
Decrease (increase) in GTS, UGSF and own pipeline infrastructure	(784)	(1,359)	(42.3%)
Total natural gas sales volumes	**15,528**	**14,628**	**6.2%**
Sold to end-customers	*14,604*	*13,008*	*12.3%*
Sold ex-field	*924*	*1,620*	*(43.0%)*

In the three months ended 30 June 2014, natural gas purchases from our joint ventures significantly decreased to 1,375 mmcm from 1,870 mmcm in the corresponding period in 2013 due to the disposal of our equity interest in Sibneftegas in December 2013.

Other natural gas purchases increased by 483 mmcm, or 35.4%, primarily due to increased purchases from our related party OAO SIBUR Holding ("SIBUR"). Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as optimizing customers' portfolios.

In the three months ended 30 June 2014, we used 18 mmcm of natural gas as feedstock for the production of methanol compared to 20 mmcm in the corresponding period in 2013. A significant portion of the methanol we produce is used for our own internal purposes to prevent hydrate formation during the production, preparation and transportation of hydrocarbons.

As of 30 June 2014, our natural gas inventory balance in the GTS, the UGSF and our own pipeline infrastructure comprised 1,621 mmcm and increased by 784 mmcm during the quarter as compared to an increase by 1,359 mmcm in the corresponding period in 2013. The lower quantity of natural gas injected into UGSF during the second quarter 2014 was a result of sufficient quantities of natural gas inventory balance in the end of the reporting period (including our inventory balance in the beginning of the second quarter 2014) to fulfill our contractual obligations (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

Liquids production volumes

In the three months ended 30 June 2014, our total liquids production (including our proportionate share in the production of joint ventures) increased by 186 thousand tons, or 15.6%, to 1,380 thousand tons from 1,194 thousand tons in the corresponding period in 2013.

thousands of tons	Three months ended 30 June: 2014	2013	Change %
Production by subsidiaries from:			
Yurkharovskoye field	631	687	(8.2%)
East-Tarkosalinskoye field	320	280	14.3%
Khancheyskoye field	113	126	(10.3%)
Other fields	21	10	110.0%
Total liquids production by subsidiaries	**1,085**	**1,103**	**(1.6%)**
including gas condensate	*831*	*918*	*(9.5%)*
including crude oil	*254*	*185*	*37.3%*
Group's proportionate share in the production of joint ventures:			
Nortgas	165	50	230.0%
SeverEnergia	130	41	217.1%
Total Group's proportionate share in the liquids production of joint ventures	**295**	**91**	**224.2%**
Total liquids production including proportionate share in the production of joint ventures	**1,380**	**1,194**	**15.6%**

In the three months ended 30 June 2014, the volumes of liquids produced by our subsidiaries marginally decreased by 18 thousand tons, or 1.6%, whereby a decrease in gas condensate production was largely offset by an increase in crude oil production. Gas condensate production at our mature fields (Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye) decreased due to the natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons. The decrease in gas condensate production was partially offset by the launch of the Dobrovolskoye field, located within the Olimpiyskiy license area at the end of 2013 (the production at this field is disclosed as "Other fields" in the table above). In the 2014 reporting period, we ramped up liquids production at the East-Tarkosalinskoye field due to the intensification of crude oil production including new wells drilled and technological works performed to increase crude oil production flow rate.

In the three months ended 30 June 2014, our proportionate share in liquids production of joint ventures increased by 204 thousand tons to 295 thousand tons from 91 thousand tons in the corresponding period in 2013 due to the launch of the Eastern dome of the North-Urengoyskoye field in our joint venture Nortgas in October 2013, as well as an increase in the effective share in SeverEnergia from 25.5% to 54.9%.

Liquids sales volumes

In the three months ended 30 June 2014, our total liquids sales volumes increased by 627 thousand tons, or 59.2%, to 1,687 thousand tons from 1,060 thousand tons in the corresponding period in 2013.

thousands of tons	**Three months ended 30 June:** 2014	2013	**Change** %
Liquids production by subsidiaries	1,085	1,103	(1.6%)
Purchases from the Group's joint ventures	564	265	112.8%
Other purchases	6	2	200.0%
Total production and purchases	**1,655**	**1,370**	**20.8%**
Losses and own usage [(1)]	(53)	(19)	178.9%
Filling the system of processing facilities and pipelines at the Ust-Luga Complex	-	(3)	n/a
Decreases (increases) in liquids inventory balances	85	(288)	n/a
Total liquids sales volumes	**1,687**	**1,060**	**59.2%**
Naphtha export	*887*	*-*	*n/a*
Other gas condensate refined products export	*200*	*-*	*n/a*
Subtotal gas condensate refined products	***1,087***	***-***	***n/a***
LPG export	*138*	*141*	*(2.1%)*
LPG domestic	*193*	*120*	*60.8%*
Subtotal LPG	***331***	***261***	***26.8%***
Crude oil export	*77*	*61*	*26.2%*
Crude oil domestic	*146*	*103*	*41.7%*
Subtotal crude oil	***223***	***164***	***36.0%***
Stable gas condensate export	*-*	*599*	*(100.0%)*
Stable gas condensate domestic	*43*	*33*	*30.3%*
Subtotal stable gas condensate	***43***	***632***	***(93.2%)***
Other oil products domestic	*3*	*3*	*0.0%*
Subtotal other oil products	***3***	***3***	***0.0%***

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

In the three months ended 30 June 2014, our purchases of liquid hydrocarbons from joint ventures increased by 299 thousand tons, or 112.8%, and were primarily related to a significant increase in our purchases of unstable gas condensate from Nortgas resulting from the launch of the Eastern dome of the North-Urengoyskoye field in October 2013.

From July 2013, most of our stable gas condensate produced at the Purovsky Plant was sent as raw material feedstock to the Ust-Luga Complex for further processing. As a result, there were no stable gas condensate sales to export markets in the 2014 reporting period (see the table above). Jet fuel, gasoil and fuel oil sales volumes received from the processing of stable gas condensate are disclosed as "Other gas condensate refined products export".

A decrease in our liquids sales volumes in the corresponding period in 2013 was largely influenced by an increase in liquids inventory balances by 288 thousand tons as a result of the transfer in that reporting period of 214 thousand tons of stable gas condensate to the Ust-Luga Complex prior to its launch. As of 30 June 2013 gas condensate refined products were not sold and were recorded as inventory in transit and/or storage (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below).

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

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

	Three months ended 30 June:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Total revenues (net of VAT, export duties, excise and fuel taxes)	**88,370**	***100.0%***	**58,030**	***100.0%***
including:				
natural gas sales	53,846	*60.9%*	43,109	*74.3%*
liquids' sales	34,035	*38.5%*	14,809	*25.5%*
Operating expenses	(55,670)	*(63.0%)*	(39,613)	*(68.3%)*
Other operating income (loss)	1,791	*2.0%*	(34)	*(0.1%)*
Profit from operations	**34,491**	***39.0%***	**18,383**	***31.7%***
Finance income (expense)	808	*0.9%*	(3,455)	*(6.0%)*
Share of profit (loss) of joint ventures, net of income tax	3,768	*4.3%*	(472)	*(0.8%)*
Profit before income tax	**39,067**	***44.2%***	**14,456**	***24.9%***
Total income tax expense	(7,193)	*(8.1%)*	(2,873)	*(5.0%)*
Profit (loss)	**31,874**	***36.1%***	**11,583**	***20.0%***
Minus: profit (loss) attributable to non-controlling interest	76	*0.1%*	19	*0.0%*
Profit attributable to shareholders of OAO NOVATEK	**31,950**	***36.2%***	**11,602**	***20.0%***

Total revenues

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

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Natural gas sales	**53,846**	**43,109**	**24.9%**
End-customers	*52,152*	*40,548*	*28.6%*
Ex-field sales	*1,694*	*2,561*	*(33.9%)*
Gas condensate refined products sales	**25,097**	**-**	**n/a**
Export (naphtha)	*20,529*	*-*	*n/a*
Export (other refined products)	*4,568*	*-*	*n/a*
Liquefied petroleum gas sales	**5,312**	**4,097**	**29.7%**
Export	*2,921*	*2,498*	*16.9%*
Domestic	*2,391*	*1,599*	*49.5%*
Crude oil sales	**2,915**	**1,776**	**64.1%**
Export	*1,022*	*682*	*49.9%*
Domestic	*1,893*	*1,094*	*73.0%*
Stable gas condensate sales	**607**	**8,843**	**(93.1%)**
Export	*-*	*8,462*	*n/a*
Domestic	*607*	*381*	*59.3%*
Other refined products sales	**104**	**93**	**11.8%**
Domestic	*104*	*93*	*11.8%*
Total oil and gas sales	**87,881**	**57,918**	**51.7%**
Other revenues	489	112	336.6%
Total revenues	**88,370**	**58,030**	**52.3%**

Natural gas sales

In the three months ended 30 June 2014, our revenues from sales of natural gas increased by RR 10,737 million, or 24.9%, compared to the corresponding period in 2013 due to an increase in our average realized natural gas prices, as well as an increase in our total sales volumes. The increase in our average realized natural gas prices was due to an increase in the regulated FTS prices for natural gas by 18.5% as compared to the corresponding period in 2013 (see "Natural gas prices" above), as well as an increase in the proportion of end-customer sales to total natural gas sales volumes.

Our proportion of natural gas sold to end-customers to total natural gas sales volumes increased to 94.0% in the three months ended 30 June 2014 as compared to 88.9% in the corresponding period in 2013 due to the cessation of natural gas deliveries to a major trader in December 2013. In addition, we significantly increased natural gas deliveries to our end-customers located at the Khanti-Mansiiskiy Autonomous Region under long-term natural gas sales contracts.

Gas condensate refined products sales

Gas condensate refined products sales represent our revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced at the Ust-Luga Complex. In the three months ended 30 June 2014, our revenues from sales of gas condensate refined products amounted to RR 25,097 million. There were no sales of gas condensate refined products in the corresponding period in 2013 as the Ust-Luga Complex was formally commissioned in June 2013.

In the three months ended 30 June 2014, our revenues from sales of naphtha amounted to RR 20,529 million. In the reporting period we exported 887 thousand tons of naphtha, or 100.0% of our total sales volumes, to the APR, Europe, the United States and South America. Our average realized naphtha net export price, excluding export duties, amounted to RR 23,144 per ton (CFR, CIF, DES and DAP).

In the three months ended 30 June 2014, our revenues from sales of jet fuel, gasoil and fuel oil amounted to RR 4,568 million. In the reporting period we exported in aggregate 200 thousand tons of these products, or 100.0% of our total sales volumes, to the European markets at an average price of RR 22,844 per ton (CIF, excluding export duties).

Liquefied petroleum gas sales

In the three months ended 30 June 2014, our revenues from sales of LPG increased by RR 1,215 million, or 29.7%, compared to the corresponding period in 2013 primarily due to increases in our sales volumes and, to a lesser extent, average realized export prices.

In the three months ended 30 June 2014, we sold 138 thousand tons of LPG, or 41.7% of our total LPG sales volumes, to export markets as compared to sales of 141 thousand tons, or 54.0%, in the corresponding period in 2013. In both reporting periods our main export LPG markets were Poland and Finland and our cumulative LPG export sales volumes to these markets in the 2014 reporting period exceeded 95% of total LPG export volumes, while in the corresponding period in 2013 sales volumes to these markets exceeded 80% of total LPG export volumes.

Our average realized LPG net export price, excluding export duties, excise and fuel taxes expense and including trading activities, increased by RR 3,453 per ton, or 19.5%, to RR 21,203 per ton in the three months ended 30 June 2014 (DAP and FCA) compared to RR 17,750 per ton in the corresponding period in 2013 (DAP and FCA).

In the three months ended 30 June 2014, we sold 193 thousand tons of LPG on the domestic market compared to sales of 120 thousand tons in the corresponding period in 2013. Our average realized LPG domestic price, including trading activities, in the three months ended 30 June 2014, was RR 12,389 per ton representing a decrease of RR 861 per ton, or 6.5%, compared to the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In the three months ended 30 June 2014, revenues from sales of crude oil increased by RR 1,139 million, or 64.1%, compared to the corresponding period in 2013 primarily due to an increase in sales volumes and, to a lesser extent, an increase in average realized crude oil prices. Our crude oil sales volumes increased by 59 thousand tons, or 36.0%, to 223 thousand tons from 164 thousand tons in the corresponding period in 2013 mainly due to an increase in crude oil production at our East-Tarkosalinskoye field.

In the three months ended 30 June 2014, we sold 65.5% of total crude oil volumes domestically at an average price of RR 12,950 per ton (excluding VAT) representing an increase of RR 2,296 per ton, or 21.6%, as compared to the corresponding period in 2013.

The remaining 34.5% of our crude oil volumes were sold to export markets at an average price of RR 13,352 per ton (DAP, excluding export duties) representing an increase of RR 2,187 per ton, or 19.6%, as compared to the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In the three months ended 30 June 2014, our revenues from sales of stable gas condensate decreased by RR 8,236 million, or 93.1%, compared to the corresponding period in 2013 due to a decrease in volumes sold resulting from the start of processing of stable gas condensate at the Ust-Luga Complex into naphtha and other gas condensate refined products effective June 2013.

Our total stable gas condensate sales volumes decreased by 589 thousand tons, or 93.2%, due to the transfer of substantially all stable gas condensate produced at the Purovsky Plant as raw material feedstock to be subsequently processed at the Ust-Luga Complex in the 2014 reporting period. As a result, in the three months ended 30 June 2014, we did not sell stable gas condensate to the export markets. In the corresponding period in 2013, we sold 599 thousand tons of stable gas condensate, or 94.8% of our total sales volumes, to the APR and Europe at an average realized net export price, excluding export duties, of RR 14,114 per ton (CFR, DES and DAP).

In the three months ended 30 June 2014, we sold 43 thousand tons of stable gas condensate on the domestic market compared to 33 thousand tons in the corresponding period in 2013. Our average realized price for stable gas condensate sales on the domestic market in the three months ended 30 June 2014 amounted to RR 14,220 per ton (net of VAT), representing an increase of RR 2,559 per ton, or 21.9%, as compared to the corresponding period in 2013 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

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

Other refined products sales

Other refined products sales represent our revenues from methanol sales on the domestic market, as well as revenues from trading operations with oil products (diesel fuel and petrol) through our retail stations. In the three months ended 30 June 2014, our revenues from other refined products sales increased by RR 11 million, or 11.8%, to RR 104 million from RR 93 million in the corresponding period in 2013.

Other revenues

Other revenues include geological and geophysical research services, rent, sublease, transportation and other services. In the three months ended 30 June 2014, other revenues increased by RR 377 million, or 336.6%, to RR 489 million from RR 112 million in the corresponding period in 2013 primarily due to RR 177 million of revenues from the sublease of tankers and RR 122 million of revenues from the sublease of rail cars, as well as a RR 59 million increase in revenues from geological and geophysical research services provided primarily to our joint ventures. The remaining change in other revenues related to various immaterial items.

Operating expenses

In the three months ended 30 June 2014, our total operating expenses increased by RR 16,057 million, or 40.5%, to RR 55,670 million compared to RR 39,613 million in the corresponding period in 2013 primarily due to increased purchases of natural gas and liquid hydrocarbons from our joint ventures and related parties, as well as increased transportation expenses and taxes other than income tax. As a percentage of total operating expenses, our non-controllable expenses, such as transportation and taxes other than income tax, decreased to 61.2% in the three months ended 30 June 2014 compared to 68.9% in the corresponding period in 2013 primarily due to a significant increase in purchases of hydrocarbons combined with a moderate increase in transportation expenses.

In the three months ended 30 June 2014, our total operating expenses as a percentage of total revenues decreased to 63.0% compared to 68.3% in the corresponding period in 2013, as shown in the table below. The decrease in this ratio was mainly due to an increase in the average realized natural gas prices and the commencement of higher value added products sales from the Ust-Luga Complex combined with a lower growth of transportation expenses resulted, mainly, from the deliveries of our hydrocarbons markets closer to our production and processing facilities (see "Transportation expenses" below).

	Three months ended 30 June:			
millions of Russian roubles	**2014**	**% of total revenues**	**2013**	**% of total revenues**
Transportation expenses	26,695	*30.2%*	22,859	*39.4%*
Taxes other than income tax	7,353	*8.3%*	4,436	*7.6%*
Subtotal non-controllable expenses	**34,048**	***38.5%***	**27,295**	***47.0%***
Purchases of natural gas and liquid hydrocarbons	11,859	*13.4%*	6,890	*11.9%*
Depreciation, depletion and amortization	4,167	*4.7%*	3,054	*5.3%*
General and administrative expenses	3,155	*3.6%*	2,258	*3.9%*
Materials, services and other	2,909	*3.3%*	1,866	*3.2%*
Net impairment expenses	22	*n/m*	68	*n/m*
Exploration expenses	3	*n/m*	239	*0.4%*
Change in natural gas, liquid hydrocarbons and work-in-progress	(493)	*n/m*	(2,057)	*n/m*
Total operating expenses	**55,670**	***63.0%***	**39,613**	***68.3%***

Non-controllable expenses

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

In the three months ended 30 June 2014, our non-controllable expenses increased by RR 6,753 million, or 24.7%, to RR 34,048 million from RR 27,295 million in the corresponding period in 2013. An increase in transportation expenses was mainly due to an increase in the natural gas volumes sold to end-customers in which we incurred transportation expenses, as well as increased liquid hydrocarbons volumes transported (see "Transportation expenses" below). Taxes other than income tax increased due to significantly increased natural gas production tax rate by 51.7% from 1 July 2013 and by 17.2% from 1 January 2014 (see "Our tax burden and obligatory payments" above). Despite an increase in non-controllable expenses, as a percentage of total revenues they decreased to 38.5% in the three months ended 30 June 2014 compared to 47.0% in the corresponding period in 2013 as a result of higher increase in revenues due to an increase in average realized natural gas prices and the commencement of higher value added products sales from the Ust-Luga Complex.

Transportation expenses

In the three months ended 30 June 2014, our total transportation expenses increased by RR 3,836 million, or 16.8%, to RR 26,695 million as compared to RR 22,859 million in the corresponding period in 2013.

million of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Natural gas transportation to customers	21,468	18,969	13.2%
Liquid hydrocarbons transportation by rail	3,828	2,768	38.3%
Liquid hydrocarbons transportation by tankers	1,105	910	21.4%
Crude oil transportation by pipeline	286	205	39.5%
Other	8	7	14.3%
Total transportation expenses	**26,695**	**22,859**	**16.8%**

In the three months ended 30 June 2014, our transportation expenses for natural gas increased by RR 2,499 million, or 13.2%, to RR 21,468 million from RR 18,969 million in the corresponding period in 2013. The increase was mainly due to a 12.3% increase in our natural gas sales volumes to end-customers, for which we incurred transportation expenses, as well as an increase in natural gas transportation tariff set by the FTS by an average of 6.4% effective from 1 August 2013 (see "Transportation tariffs" above), that was partially offset by a decrease in our average transportation distance related to higher natural gas deliveries to the Khanti-Mansiiskiy Autonomous Region. Our average transportation distance for natural gas sold to end-customers fluctuates period-to-period and depends on the location of end-customers and the specific routes of transportation.

In the three months ended 30 June 2014, our total expenses for liquids transportation by rail increased by RR 1,060 million, or 38.3%, to RR 3,828 million from RR 2,768 million in the corresponding period in 2013 due to a significant increase in volumes of liquids sold and transported via rail by 450 thousand tons, or 50.4%, to 1,343 thousand tons from 893 thousand tons (see "Liquids sales volumes" above). The increase in transportation expenses was partially offset by a decrease in our weighted average transportation tariff for liquids delivered by rail by 7.9% to RR 2,851 per ton from RR 3,097 per ton in the corresponding period in 2013 primarily due to a decrease in the share of LPG volumes in total liquids volumes sold and transported via rail. The change in the share of LPG volumes in our total liquids volumes delivered by rail affects the weighted average railroad tariff due to the relatively high transportation expense for LPG compared to other liquid hydrocarbons. In addition, the launch of our Ust-Luga Complex had an impact on the decrease of transportation expenses as the distance from Purovsky Plant to the Port of Ust-Luga is almost 400 kilometers less than the route to the Port of Vitino. Our weighted average transportation tariff for liquids delivered by rail fluctuates period-to-period and depends on products type and the geography of deliveries.

Total transportation expenses for liquids delivered by tankers to international markets increased by RR 195 million, or 21.4%, to RR 1,105 million in the three months ended 30 June 2014 from RR 910 million in the corresponding period in 2013 due to a significant increase in volumes of liquids sold and transported via tankers by 81.2% (stable gas condensate in the 2013 reporting period and its refined products in the second quarter of 2014). The increase in volumes transported in the 2014 reporting period was mostly caused by a build-up of inventory balances of gas condensate refined products as of 30 June 2013 as a result of the start of the refining process at our Ust-Luga Complex in the second quarter of 2013 (see "Change in natural gas, liquid hydrocarbons and work-in-progress" below). The increase was mostly offset by the change in the geography of stable gas condensate and refined products shipments (see below), closer location of the Port of Ust-Luga to our sales markets as compared to the Port of Vitino, as well as usage of greater capacity tankers for liquids transportation.

The change in the geography of stable gas condensate and refined products shipments affects our tanker transportation expenses per ton since expenses incurred for transportation to the APR and the United States are higher compared to the European sales markets. In the three months ended 30 June 2014, we sold to the APR, Europe, the United States and South America 49.8%, 34.6%, 10.5% and 5.1% of our total gas condensate refined products export volumes, respectively, whereas in the corresponding period in 2013 we sold to the APR and Europe 69.4% and 30.6%, respectively, of our stable gas condensate volumes.

In the three months ended 30 June 2014, our expenses for crude oil transportation to customers through the pipeline network increased by RR 81 million, or 39.5%, to RR 286 million from RR 205 million in the corresponding period in 2013. The change was primarily due to a 36.2% increase in volumes transported and, to a lesser extent, due to an increase in our sales to more distant regions on the domestic market.

Other transportation expenses include motor transportation expenses, insurance expenses related to our liquid hydrocarbons transportation and other expenses. In the three months ended 30 June 2014, other transportation expenses marginally increased by RR one million to RR eight million from RR seven million in the corresponding period in 2013.

Taxes other than income tax

In the three months ended 30 June 2014, taxes other than income tax increased by RR 2,917 million, or 65.8%, to RR 7,353 million from RR 4,436 million in the corresponding period in 2013 primarily due to an increase in the unified natural resources production tax expense.

	Three months ended 30 June:		Change
millions of Russian roubles	**2014**	**2013**	**%**
Unified natural resources production tax (UPT)	6,791	3,955	71.7%
Property tax	477	418	14.1%
Other taxes	85	63	34.9%
Total taxes other than income tax	**7,353**	**4,436**	**65.8%**

In the three months ended 30 June 2014, our unified natural resources production tax expense increased by RR 2,836 million, or 71.7%, to RR 6,791 million from RR 3,955 million in the corresponding period in 2013 due to a significant increase in the natural gas production tax rate. The tax rate for natural gas was increased from RR 265 to RR 402 per mcm, or 51.7%, from 1 July 2013 and from RR 402 to RR 471 per mcm, or 17.2%, from 1 January 2014, respectively.

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

In the three months ended 30 June 2014, our property tax expense increased by RR 59 million, or 14.1%, to RR 477 million from RR 418 million in the corresponding period in 2013 due to additions to property, plant and equipment at our production subsidiaries.

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 June 2014, our purchases of natural gas and liquid hydrocarbons increased by RR 4,969 million, or 72.1%, to RR 11,859 million from RR 6,890 million in the corresponding period in 2013.

	Three months ended 30 June:		Change
millions of Russian roubles	**2014**	**2013**	**%**
Natural gas	6,346	4,851	30.8%
Unstable gas condensate	5,387	1,976	172.6%
Other liquid hydrocarbons	126	63	100.0%
Total purchases of natural gas and liquid hydrocarbons	**11,859**	**6,890**	**72.1%**

In the three months ended 30 June 2014, our purchases of natural gas increased by RR 1,495 million, or 30.8%, to RR 6,346 million from RR 4,851 million in the corresponding period in 2013 primarily due to higher purchases from our joint venture Nortgas as a result of the launch of the Eastern dome of the North-Urengoyskoye field in October 2013 which significantly increased the production capacity of Nortgas. In addition, in the reporting period we increased purchases from our related party SIBUR. The increase in our purchases was partially offset by the termination of purchases from Sibneftegas as a result of its disposal in December 2013.

In the three months ended 30 June 2014, our purchases of unstable gas condensate from our joint ventures significantly increased by RR 3,411 million, or three times, to RR 5,387 million from RR 1,976 million in the corresponding period in 2013 due to increases in purchase volumes and, to a lesser extent, average purchase prices. We increased our purchases of unstable gas condensate primarily from Nortgas due to the launch of the Eastern dome of the North-Urengoyskoye field in October 2013 and, to a lesser extent, from SeverEnergia as a result of the start of production at the Urengoyskoye field.

In the three months ended 30 June 2014, our purchases of other liquid hydrocarbons increased by RR 63 million, or 100.0%, to RR 126 million from RR 63 million in the corresponding period in 2013. Other liquid hydrocarbons purchases represent our purchases of oil products and LPG for subsequent resale.

Depreciation, depletion and amortization

In the three months ended 30 June 2014, our depreciation, depletion and amortization ("DDA") expense increased by RR 1,113 million, or 36.4%, to RR 4,167 million from RR 3,054 million in the corresponding period in 2013 mainly due to the launch of the first and second stages of the Ust-Luga Complex in June and October 2013, respectively, as well as additions to property, plant and equipment at our production subsidiaries and a 2.2% increase in our total hydrocarbon production (excluding our proportionate share in the production of joint ventures) in barrels of oil equivalent basis. The Group accrues depreciation and depletion using the "units of production" method for producing assets 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, 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 the three months ended 30 June 2014, our general and administrative expenses increased by RR 897 million, or 39.7%, to RR 3,155 million compared to RR 2,258 million in the corresponding period in 2013. The main components of these expenses were employee compensation, social expenses and compensatory payments, as well as legal, audit and consulting services, which, on aggregate, comprised 77.2% and 78.6% of total general and administrative expenses in the three months ended 30 June 2014 and 2013, respectively.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Employee compensation	1,752	1,352	29.6%
Social expenses and compensatory payments	435	221	96.8%
Legal, audit and consulting services	250	202	23.8%
Advertising expenses	200	36	455.6%
Business trips expense	110	89	23.6%
Fire safety and security expenses	74	58	27.6%
Insurance expense	69	51	35.3%
Repair and maintenance expenses	42	44	(4.5%)
Bank charges	27	16	68.8%
Other	196	189	3.7%
Total general and administrative expenses	**3,155**	**2,258**	**39.7%**

Employee compensation related to administrative personnel increased by RR 400 million, or 29.6%, to RR 1,752 million in the three months ended 30 June 2014 from RR 1,352 million in the corresponding period in 2013. The increase was mainly due to an increase in bonuses accrued to key management based on results achieved for the second quarter of 2014, as well as an increase in insurance payments to medical and social insurance and pension funds.

In the three months ended 30 June 2014, our social expenses and compensatory payments increased by RR 214 million, or 96.8%, to RR 435 million compared to RR 221 million in the corresponding period in 2013. The increase was primarily related to compensatory payments in the amount of RR 176 million made in the second quarter of 2014 as a part of the development mainly of Salmanovskoye and Geofizicheskoye fields. In 2013 such payments were made in the first quarter. Social expenses changed marginally and were mainly related to our donations to sport clubs and sports activities, educational schools, as well as continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the funding needs and the implementation schedules of specific programs we support.

In the three months ended 30 June 2014, legal, audit, and consulting services expenses increased by RR 48 million, or 23.8%, to RR 250 million compared to RR 202 million in the corresponding period in 2013 primarily due to consulting services expenses related to research works of our fields in the Gydan and Yamal Peninsulas.

Advertising expenses increased to RR 200 million in the three months ended 30 June 2014 from RR 36 million in the corresponding period in 2013 primarily due to the commencement of a corporate sponsorship contract for advertising during sporting events.

Fire safety and security expenses increased by RR 16 million, or 27.6%, to RR 74 million in the three months ended 30 June 2014 from RR 58 million in the corresponding period in 2013 primarily due to an increase in rates charged for security services starting from January 2014.

Insurance expenses increased by RR 18 million, or 35.3%, to RR 69 million in the three months ended 30 June 2014 from RR 51 million in the corresponding period in 2013 due to an increase in rates charged for insurance in our key subsidiaries from May 2014.

Repair and maintenance expenses marginally decreased by RR two million, or 4.5%, to RR 42 million from RR 44 million in the corresponding period in 2013.

Bank charges increased to RR 27 million in the three months ended 30 June 2014 from RR 16 million as a result of an increase in service fees charged by banks for the acceptance of payments for natural gas supplied by our regional natural gas traders to residential and small-scale customers.

In the three months ended 30 June 2014, other general and administrative expenses marginally increased by RR seven million, or 3.7%, to RR 196 million from RR 189 million in the corresponding period in 2013. The increase was related to immaterial expense items of an administrative nature.

Materials, services and other

In the three months ended 30 June 2014, our materials, services and other expenses increased by RR 1,043 million, or 55.9%, to RR 2,909 million compared to RR 1,866 million in the corresponding period in 2013. The main components of this expense category were employee compensation and repair and maintenance services, which on aggregate comprised 64.1% and 71.5% of total materials, services and other expenses in the three months ended 30 June 2014 and 2013, respectively.

millions of Russian roubles	**Three months ended 30 June: 2014**	**2013**	**Change %**
Employee compensation	1,331	1,005	32.4%
Repair and maintenance	533	330	61.5%
Materials and supplies	188	130	44.6%
Preparation, transportation and processing of hydrocarbons	183	26	n/m
Electricity and fuel	180	129	39.5%
Rent expenses	152	18	n/m
Transportation services	102	59	72.9%
Security services	101	79	27.8%
Other	139	90	54.4%
Total materials, services and other	**2,909**	**1,866**	**55.9%**

Operating employee compensation increased by RR 326 million, or 32.4%, to RR 1,331 million compared to RR 1,005 million in the corresponding period in 2013. The increase was due to an increase in the average number of employees as a result of the launch of the Ust-Luga Complex and an expansion of our activities at the Purovsky Plant due to the launch of the third stage development, indexation of base salaries effective from 1 July 2013, as well as increased payments to medical, social insurance and pension funds.

Repair and maintenance services expenses increased by RR 203 million, or 61.5%, to RR 533 million in the three months ended 30 June 2014 compared to RR 330 million in the corresponding period in 2013 due to repair works at our production subsidiaries, as well as maintenance expenses, related to the launch of the Ust-Luga Complex.

Materials and supplies expense increased by RR 58 million, or 44.6%, to RR 188 million in the three months ended 30 June 2014 compared to RR 130 million in the corresponding period in 2013 due to an increase in materials used for general maintenance at our East-Tarkosalinskoye field and the purchase of materials and supplies at the Ust-Luga Complex.

Our preparation, transportation and processing of hydrocarbons expenses increased by RR 157 million, or eight times, to RR 183 million in the three months ended 30 June 2014 compared to RR 26 million in the corresponding period in 2013 mostly due to additional expenses related to transportation and processing of our LPG at Tobolsk-Neftekhim refining facilities.

In the three months ended 30 June 2014, electricity and fuel expenses increased by RR 51 million, or 39.5%, to RR 180 million from RR 129 million in the corresponding period in 2013. The increase was due to higher electricity rates, as well as an increase in electricity consumption at our processing facilities related to new energy-consuming projects and an increase in volumes being processed at these facilities.

Rent expenses increased by RR 134 million, or eight times, to RR 152 million from RR 18 million in the corresponding period in 2013 primarily due to the commencement of LPG rail road deliveries from the Tobolsk station utilizing rail cars rented by us from a third party and subsequently rented to the transportation services provider. The corresponding revenues are included in “Other revenues”.

In the three months ended 30 June 2014, transportation expenses increased by RR 43 million, or 72.9%, to RR 102 million from RR 59 million in the corresponding period in 2013 due to an increase in expenses related to the delivery of materials and equipment to our main fields and processing facilities, as well as our operating personnel transportation.

Security expenses increased by RR 22 million, or 27.8%, to RR 101 million in the three months ended 30 June 2014 from RR 79 million in the corresponding period in 2013 due to additional security services related to recently completed capital construction projects in our production subsidiaries, as well as an increase in security services rates effective from January 2014.

In the three months ended 30 June 2014, other material, services and other expenses increased by RR 49 million, or 54.4%, to RR 139 million from RR 90 million in the corresponding period in 2013 primarily as a result of research works on wells at our East-Tarkosalinskoye and Khancheyskoye fields, as well as expenses related to ensuring ecological safety at our Ust-Luga Complex.

Net impairment expenses

In the three months ended 30 June 2014, we recognized impairment expenses of RR 22 million compared to impairment expenses of RR 68 million in the corresponding period in 2013. Net impairment expenses in both periods were primarily related to trade accounts receivable for natural gas sold to small-scale companies and residential customers.

Exploration expenses

In the three months ended 30 June 2014, our exploration expenses decreased by RR 236 million, or 98.7%, to RR three million from RR 239 million in the corresponding period in 2013.

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Cost of seismic surveys	114	645	(82.3%)
Less: capitalized 3-D seismic surveys	(111)	(406)	(72.7%)
Total exploration expenses per the Consolidated Statement of Income	**3**	**239**	**(98.7%)**

In the three months ended 30 June 2014, our costs of seismic surveys decreased by RR 531 million, or 82.3%, to RR 114 million from RR 645 million in the corresponding period in 2013. Our costs of seismic surveys fluctuate period-to-period depending on the season and the approved working schedule of seismic surveys at our production subsidiaries. The costs of 3-D seismic surveys to sustain production, increase reserves’ recoverability and the efficiency of drilling additional development wells on our proved properties are capitalized to property, plant and equipment used in oil and gas exploration according to our accounting policy.

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

In the three months ended 30 June 2014, we recorded a reversal of RR 493 million to change in inventory expense as compared to a reversal of RR 2,057 million in the corresponding period in 2013:

millions of Russian roubles	Three months ended 30 June: 2014	2013
Natural gas	(805)	(1,007)
Naphtha	462	(540)
Stable gas condensate	(17)	(335)
Other	(133)	(175)
Increase (decrease) in operating expenses due to change in inventory balances and work-in-progress	**(493)**	**(2,057)**

In the three months ended 30 June 2014, we recorded a reversal to our operating expenses of RR 805 million due to a 784 mmcm increase in our cumulative natural gas inventory balance in UGSF, GTS and own pipeline infrastructure, as well as a slight increase in the cost of natural gas per mcm. 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.

In the three months ended 30 June 2014, we recorded a charge to our operating expenses of RR 462 million due to a decrease in our naphtha inventory balance by 80 thousand tons, which were recognized as inventory in transit and storage, as well as a slight increase in the cost of naphtha per ton.

The following table highlights movements in our hydrocarbons inventory balances:

	2014			2013		
Inventory balances in transit or in storage	**At 30 June**	**At 31 March**	**Increase / (decrease)**	**At 30 June**	**At 31 March**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**1,621**	**837**	**784**	**1,443**	**84**	**1,359**
including Gazprom's UGSF	*1,589*	*806*	*783*	*1,411*	*33*	*1,378*
Liquid hydrocarbons (thousand tons)	**470**	**555**	**(85)**	**559**	**268**	**291**
including naphtha	*141*	*221*	*(80)*	*146*	*-*	*146*
stable gas condensate	*179*	*184*	*(5)*	*261*	*159*	*102*

Other operating income (loss)

In the three months ended 30 June 2014, we recognized other operating income of RR 1,791 million compared to other operating loss of RR 34 million in the corresponding period in 2013.

In the three months ended 30 June 2014, within our trading activities on the European market we purchased and sold approximately 6.4 terawatt-hours (or approximately 610 mmcm) of natural gas and recognized RR 131 million of operating income as compared to RR 54 million of operating income in the corresponding period in 2013. At the same time, in the three months ended 30 June 2014, we recognized a non-cash income of RR 1,861 million as a result of a significant increase in the fair value of the purchase and sales contracts as compared to RR 89 million of non-cash loss in the corresponding period in 2013. These contracts are classified as derivative instruments in accordance with IAS 39 *"Financial instruments: recognition and measurement"*.

In addition, in the three months ended 30 June 2014 we recorded other operating loss of RR 201 million mostly related to the recognition of losses from the disposal of fixed assets no longer part of the Group's activities compared to other operating income of RR one million in the corresponding period in 2013.

Profit from operations

As a result of the factors discussed above, our profit from operations increased by RR 16,108 million, or 87.6%, to RR 34,491 million in the three months ended 30 June 2014, as compared to RR 18,383 million in the corresponding period in 2013. In the three months ended 30 June 2014, our profit from operations, as a percentage of total revenues, increased to 39.0% as compared to 31.7% in the corresponding period in 2013 as a result of a higher growth rate of revenues over operating expenses due to significantly increased average natural gas prices as well as the commencement of higher value added products sales from the Ust-Luga Complex combined with a lower increase in transportation expenses.

Finance income (expense)

In the three months ended 30 June 2014, we recorded net finance income of RR 808 million compared to a net finance expense of RR 3,455 million in the corresponding period in 2013 primarily due to the appreciation of the Russian rouble relative to the US dollar in the 2014 reporting period compared to the depreciation in the corresponding period in 2013.

In the three months ended 30 June 2014, accrued interest expense on loans received slightly increased by RR 21 million, or 1.0%, to RR 2,137 million from RR 2,116 million in the corresponding period in 2013 as a result of the depreciation of the average rate of Russian rouble relative to the US dollar in the second quarter of 2014 compared to the average rate in the corresponding period in 2013 (see "Selected macro-economic data" above) that was mostly offset by decreased weighted-average interest rate of loans received by the Group.

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Accrued interest expense on loans received	2,137	2,116	1.0%
Less: capitalized interest	(858)	(938)	(8.5%)
Provisions for asset retirement obligations: effect of the present value discount unwinding	68	62	9.7%
Total interest expense per the Consolidated Statement of Income	**1,347**	**1,240**	**8.6%**

Interest income increased by RR 530 million, or 112.3%, to RR 1,002 million in the three months ended 30 June 2014 from RR 472 million in the corresponding period in 2013 primarily due to a significant increase in loans provided to our joint ventures related to the development and expansion of their activities compared to the second quarter of 2013.

In the three months ended 30 June 2014, we recorded a net foreign exchange gain of RR 1,153 million compared to a net foreign exchange loss of RR 2,687 million in the corresponding period in 2013 due primarily to the revaluation of our US dollar denominated borrowings and loans provided. The Russian rouble appreciated by 5.8% against the US dollar in the three months ended 30 June 2014 compared to the depreciation of the Russian rouble by 5.2% in the corresponding period in 2013. We will continue to record foreign exchange gains and losses each period based on the movements between exchange rates and the currency denomination of our debt portfolio.

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

In the three months ended 30 June 2014, the Group's proportionate share in profit of joint ventures accounted for RR 3,768 million as compared to a loss of RR 472 million in the corresponding period in 2013.

The change in our proportionate share in profit (loss) of joint ventures was due to the recognition of a significant net foreign exchange gain on US dollar denominated loans at our joint ventures Yamal LNG and Terneftegas in the reporting period 2014 in the amount of RR 4,407 million. In addition, our share in profit increased due to higher operating results (increased hydrocarbons production and sales prices) in Nortgas and SeverEnergia, as well as an increase in our participation interest in SeverEnergia which was partially offset by the RR 1,436 million write-off of property, plant and equipment in SeverEnergia due to the fire accident at Urengoyskoye field (of which RR 788 million was attributable to NOVATEK and included in the share of profit (loss) of joint ventures before income tax).

Income tax expense

Our overall consolidated effective income tax rates (total income tax expense calculated as a percentage of our reported IFRS profit before income tax) were 18.4% and 19.9% for the three months ended 30 June 2014 and 2013, respectively.

The Russian statutory income tax rate for both periods was 20%. Our effective income tax rate in the 2014 reporting period was lower mainly due to the Group's ability to use an incentive income tax rate of 15.5% in relation to a number of Group's investment projects included in the list of priority projects by regional tax authorities. Also, the difference between our effective and statutory income tax rates is related to certain non-deductible expenses or non-taxable income.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed above, our profit for the period increased by RR 20,291 million, or 175.2%, to RR 31,874 million in the three months ended 30 June 2014 from RR 11,583 million in the corresponding period in 2013. The profit attributable to shareholders of OAO NOVATEK increased by RR 20,348 million, or 175.4%, to RR 31,950 million in the three months ended 30 June 2014 from RR 11,602 million in the corresponding period in 2013.

Our EBITDA increased by RR 16,897 million, or 72.1%, to RR 40,323 million in the three months ended 30 June 2014, from RR 23,426 million in the corresponding period in 2013 primarily due to an increase in natural gas sales prices and volumes, as well as the commencement of the Ust-Luga Complex products sales in third quarter 2013, that was partially offset by an increase in our transportation expenses and purchases of hydrocarbons.

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of OAO NOVATEK, increased by RR 6.75 per share, or 176.3%, to RR 10.58 per share in the three months ended 30 June 2014 from RR 3.83 per share in the corresponding period in 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Net cash provided by **operating** activities	23,657	15,758	50.1%
Net cash provided by (used in) **investing** activities	(1,098)	(17,909)	(93.9%)
Net cash provided by (used in) **financing** activities	(15,725)	(9,537)	64.9%

Liquidity and credit ratios	30 June 2014	31 December 2013	Change, %
Current ratio	3.15	1.38	128.3%
Total debt to total equity	0.38	0.44	(13.6%)
Long-term debt to long-term debt and total equity	0.27	0.28	(3.6%)
Net debt to total capitalization (1)	0.19	0.28	(32.1%)
Net debt to EBITDA (2)	0.74	1.30	(43.1%)

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

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

Net cash provided by operating activities

In the three months ended 30 June 2014, our net cash provided by operating activities increased by RR 7,899 million, or 50.1%, to RR 23,657 million compared to RR 15,758 million in the corresponding period in 2013 mainly due to higher operating results (higher natural gas sales prices, as well as higher liquid hydrocarbons sales prices as a result of the commencement of our Ust-Luga Complex products sale from the third quarter of 2013).

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Operating profit	37,141	21,698	71.2%
Working capital changes	(8,929)	(4,374)	104.1%
Income taxes paid	(4,555)	(1,566)	190.9%
Total net cash provided by operating activities	**23,657**	**15,758**	**50.1%**

Net cash provided by (used for) investing activities

In the three months ended 30 June 2014, our net cash used for investing activities decreased by RR 16,811 million, or 93.9%, to RR 1,098 million from RR 17,909 million in the corresponding period in 2013.

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Purchases of property, plant and equipment (financing of capital expenditures)	(13,756)	(16,712)	(17.7%)
Loans provided to joint ventures	(15,536)	(6,248)	148.7%
Repayments of loans provided to joint ventures	-	7,717	n/a
Proceeds from disposal of participation interest in joint ventures	34,893	-	n/a
Acquisition of additional stakes in joint ventures	-	(1,703)	n/a
Additional capital contributions to joint ventures	(3,350)	-	n/a
Other	(3,349)	(963)	247.8%
Net cash provided by (used for) investing activities	**(1,098)**	**(17,909)**	**(93.9%)**

Our cash used for purchases of property, plant and equipment decreased by RR 2,956 million, or 17.7%, and mainly related to the development of crude oil deposits at the Yarudeyskiy license area, further development of crude oil deposits at the East-Tarkosalinskoye field as well as the ongoing development of the North-Khancheyskiy license area.

In the three months ended 30 June 2014, we provided loans to our joint ventures Yamal LNG and Yamal Development to the amount of RR 15,536 million as compared to RR 6,248 million provided to Yamal LNG in the corresponding period in 2013. In addition, in the 2013 reporting period we received RR 7,717 million as a result of a repayment of the loan provided to Sibneftegas (see "Loans provided" below).

In the three months ended 30 June 2014, we received RR 34,893 million from the disposal of 20% participation interest in Artic Russia B.V. in March 2014.

In the three months ended 30 June 2014, we made an additional capital contribution to our joint venture Terneftegas in the amount of RR 3,350 million whereas in the corresponding period in 2013 we increased our participation interest in Nortgas from 49% to 50% as a result of entity's additional shares emission acquisition in the amount of RR 1,703 million.

Net cash provided by (used for) financing activities

In the three months ended 30 June 2014, our net cash used for financing activities increased by RR 6,188 million, or 64.9%, to RR 15,725 million from RR 9,537 million in the corresponding period in 2013.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2014**	**2013**	**%**
Proceeds from loans	-	15,323	n/a
Repayments of loans	-	(10,987)	n/a
Dividends paid	(13,569)	(11,704)	15.9%
Other	(2,156)	(2,169)	(0.6%)
Net cash provided by (used for) financing activities	**(15,725)**	**(9,537)**	**64.9%**

In the three months ended 30 June 2014, we did not obtain or repay existing loans and borrowings. In the corresponding period in 2013 we received RR 15,323 million as a result of the withdrawal of USD 500 million under our syndicated credit line facility. Furthermore, in the corresponding period in 2013 we used RR 10,987 million primarily for the repayment of the Russian rouble denominated bonds in the amount of RR 10 billion (see "Debt obligation" below).

The remaining change related to dividends paid, as well as the repayment of interest on debts and other miscellaneous categories

Working capital

Our net working capital position (current assets less current liabilities) as of 30 June 2014 was a positive RR 73,346 million compared to RR 22,553 million as of 31 December 2013. The change of our net working capital position was primarily due to a significant increase in our cash and cash equivalents by RR 38,418 million (or 487.0%), as well as a decrease in short-term debt and current portion of long-term debt (see "Debt obligations" below) by RR 18,570 million (or 77.3%) which was partially offset by a decrease in trade and other receivables by RR 19,759 million (or 39.9%). The significant increase in our cash and cash equivalents in the 2014 reporting period mainly related to cash proceeds from the disposal of 20% participation interests in Yamal LNG in December 2013 and Artic Russia B.V. in March 2014. The decrease in trade and other receivables was caused by the RR 18,420 million payment from CNPC related to the disposal of a 20% participation interest in Yamal LNG in January 2014 (recorded in other receivables as of 31 December 2013).

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

Capital expenditures

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

millions of Russian roubles	Three months ended 30 June: 2014	2013	Change %
Capital expenditures	19,576	17,393	12.6%
Payment for mineral licenses	-	3,196	(100.0%)
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**19,576**	**20,589**	**(4.9%)**

Our total capital expenditures represent our investments in developing our oil and gas properties. In addition, in the second quarter of 2013, the Group paid RR 3,196 million for East-Tazovskoye field's oil and gas exploration and production license. The following table shows the expenditures at our main fields and processing facilities:

millions of Russian roubles	Three months ended 30 June: 2014	2013
Yurkharovskoye field	5,290	4,757
Yarudeyskiy license area	5,170	578
East-Tarkosalinskoye field	4,300	2,526
Khancheyskoye field	1,488	671
North-Khancheyskiy license area	1,387	203
Olimpiyskiy license area	634	990
Salmanovskoye (Utrennee) field	433	505
Purovsky Plant	183	2,613
Ust-Luga Complex	160	2,323
North-Russkiy license area	91	281
Other	440	1,946
Capital expenditures	**19,576**	**17,393**

Total capital expenditures on property, plant and equipment in the three months ended 30 June 2014 increased by RR 2,183 million, or 12.6%, to RR 19,576 million from RR 17,393 million in the corresponding period in 2013. The increase was primarily related to the development of the Yarudeyskiy license area's crude oil deposits, further development of the East-Tarkosalinskoye field's crude oil deposits, as well as an ongoing development of the North-Khancheyskiy license area.

Loans provided

Total loans provided by the Group increased from RR 47,638 million at 31 December 2013 to RR 51,749 million at 30 June 2014, or by RR 4,111 million.

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

Borrower	Currency	Maturity	Interest rate	At 30 June 2014	At 31 December 2013
Yamal LNG	USD	after the commencement of commercial production	5.09%-4.46%	43,401	42,804
Yamal Development	RR	December 2015	9.25%	5,618	2,200
Terneftegas	USD	after the commencement of commercial production	3.88%-4.52%	2,718	2,611
Other				12	23
Total loans provided				**51,749**	**47,638**

The increase in total loans provided was due to the increase in loans provided to our joint ventures, as well as a Russian rouble depreciation relative to the US dollar by 2.7% at 30 June 2014 compared to 31 December 2013. During the six months ended 30 June 2014, we provided loans to Yamal Development and to Yamal LNG, while in January 2014, Yamal LNG partially repaid the loan in the amount of RR 12,045 million (USD 364 million) as a result of the 20% equity stake sale in Yamal LNG to CNPC.

Debt obligations

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

Overview

Our total debt decreased from RR 165,621 million at 31 December 2013 to RR 160,803 million at 30 June 2014. The Group repaid short-term loans, including bank overdrafts in the amount of USD 431 million from BNP PARIBAS Bank and Credit Agricole Corporate and Investment Bank in January 2014 as well as a loan to Sberbank in the amount of RR 10 billion in March 2014 ahead of its maturity schedule. Also, we withdrew a final tranche of USD 430 million under our syndicated credit line facility obtained in June 2013 in the amount of USD 1.5 billion, and received a short-term loan from a non-controlling shareholder in the amount of RR 1,619 million. In addition, the Russian rouble depreciation relative to the US dollar by 2.7% at 30 June 2014 compared to 31 December 2013 increased our total debt in Russian roubles. We utilize credit facilities to supplement our internally generated cash flows for the financing of capital expenditures related to the development of our fields and to construct and/or expand processing assets, as well as acquisitions of new oil and gas assets.

Our total debt position (net of unamortized transaction costs) at 30 June 2014 and 31 December 2013 was as follows:

Facility	Amount	Maturity	Interest rate	At 30 June 2014	At 31 December 2013
Syndicated term credit line facility	USD 1.5 billion	June 2018	LIBOR+1.75%	49,880	34,363
Eurobonds Ten-Year	USD 1 billion	December 2022	4.422%	33,502	32,595
Eurobonds Ten-Year	USD 650 million	February 2021	6.604%	21,756	21,163
Eurobonds Five-Year	USD 600 million	February 2016	5.326%	20,136	19,583
Russian bonds	RR 20 billion	October 2015	8.35%	19,986	19,980
Eurobonds Four-Year	RR 14 billion	February 2017	7.75%	13,924	13,911
Sberbank	RR 10 billion	December 2014	7.9%-8.9%	-	9,911
Total				**159,184**	**151,506**
Short-term debt				1,619	14,115
Total debt				**160,803**	**165,621**

Maturities of long-term loans

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

Maturity schedule:	**RR million**
1 July 2015 to 30 June 2016	55,469
1 July 2016 to 30 June 2017	29,272
1 July 2017 to 30 June 2018	15,348
1 July 2018 to 30 June 2019	-
After 30 June 2019	55,258
Total long-term debt	**155,347**

Available credit facilities

At 30 June 2014, the Group has available credit facility with Gazprombank in the amount of RR 10 billion until July 2015 with interest rate negotiated at time of each withdrawal.

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

QUALITATIVE AND QUANTITATIVE DISCLOSURES AND MARKET RISKS

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar. As of 30 June 2014, the total amount of our long-term debt denominated in US dollars was RR 121,437 million, or 75.5% of our total borrowings at that date. Changes in the value of the Russian rouble relative to the US dollar will impact our foreign currency-denominated costs and expenses and our debt service obligations for foreign currency-denominated borrowings in Russian rouble terms, as well as receivables at our foreign subsidiaries. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, approximately 30.7% in the three months ended 30 June 2014, is denominated in US dollars. As of 30 June 2014, the Russian rouble depreciated by approximately 2.7% against the US dollar since 31 December 2013.

A hypothetical and instantaneous 10% depreciation in the Russian rouble in relation to the US dollar as of 30 June 2014 would have resulted in an estimated non-cash foreign exchange loss of approximately RR 12,527 million on foreign currency denominated borrowings held at that date.

Commodity risk

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

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

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

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

Pipeline access

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

Ability to reinvest

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

Off balance sheet activities

As of 30 June 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.