Management's discussion and analysis of financial condition and results of operations

The following report represents discussion and analysis of the financial condition of OAO LUKOIL as of March 31, 2015 and the results of it's operations for the first quarter of 2015, compared to the first quarter of 2014, as well as significant factors that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to OAO LUKOIL and its subsidiaries and equity affiliates. All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil and natural gas liquids produced are translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and actual density of liquids produced at our gas processing plants. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results.

Key financial and operational results

	3 months of		Change, %
	2015	**2014**	
	(millions of US dollars)		
Sales	23,190	35,681	(35.0)
Net income attributable to OAO LUKOIL	690	1,733	(60.2)
EBITDA	2,816	3,995	(29.5)
Taxes other than income taxes, excise and export tariffs	(5,172)	(8,933)	(42.1)
	(US dollars)		
Earning per share of common stock attributable to OAO LUKOIL:			
Basic	0.91	2.30	(60.2)
Diluted	0.91	2.25	(59.6)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	213,187	199,296	7.0
Daily hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE per day)	2,369	2,214	7.0
Crude oil and natural gas liquids produced by the Group including our share in equity affiliates (thousands of barrels)	182,968	169,674	7.8
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	5,135	5,034	2.0
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes)	14,080	15,385	(8.5)

In the first quarter of 2015, net income attributable to OAO LUKOIL decreased by $1,043 million, or by 60.2%, while our EBITDA decreased by $1,179 million, or by 29.5%, compared to the first quarter of 2014. In the first quarter of 2015, our net income was significantly affected by a two-fold decrease in the hydrocarbon prices. At the same time, our net income for the first quarter of 2014 was affected by a loss on the expected disposal of our share in Caspian Investment Resources Ltd. in the amount of $358 million and write-offs related to our exploration projects in Africa in the total amount of $162 million. In the first quarter of 2015, our EBITDA was supported by cost compensation at the West Qurna-2 project in Iraq.

Business overview

The primary activities of OAO LUKOIL and its subsidiaries are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of a vertically integrated group of companies.

OAO LUKOIL was established in accordance with Presidential Decree No. 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 34 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 17.6 billion BOE as of January 1, 2015 and comprised of 13.6 billion barrels of crude oil and 23.9 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway and Romania.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

Each of our four main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on page 8, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyse either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 19 "Segment information" to our interim consolidated financial statements.

Changes in Group structure

On April 15, 2014, a Group company entered into a contract with a Sinopec group company, to sell the Group's 50% interest in Caspian Investment Resources Ltd., an exploration and production company operating in Kazakhstan. On June 3, 2015, a Group company made a substitute transaction with a Sinopec group company for the sale at a price of $1,067 million. The transaction's closing is subject to requisite governmental consents and approvals and is to occur by December 1, 2015.

In April 2015, in line with the strategy to optimize downstream portfolio a Group company sold 100% of interest in LUKOIL Ukraine, a distribution company operating in Ukraine, to AMIC Energy Management GmbH. Also, in December 2014, Group companies sold 100% of shares in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o. to Slovnaft Česká Republica, Spol. s.r.o. and Norm Benzinkút Kft at the price of €98 million (approximately $123 million) which is subject to certain working capital adjustments.

In March 2015, a Group company closed a transaction to enter a project to develop the Etinde block offshore the Republic of Cameroon in the Gulf of Guinea. The Etinde project is being executed under the production sharing agreement. The project partners are LUKOIL (30% interest), New Age (African Global Energy) Ltd (30% interest, operator), Bowleven Plc (20% interest), and state-owned Societe Nationale des Hydrocarbures of Cameroon (20% interest). The license to develop the Etinde area was issued on July 29, 2014 and is valid for 20 years.

In December 2014, LUKOIL sold to OAO NK Rosneft its 20% share in OOO National oil consortium ("NOC"), established by Russian oil companies in 2008 within development of economic cooperation between Russia and Venezuela. In 2010, NOC and PDVSA, Venezuelan state-owned oil company, established a joint venture, PetroMiranda, to develop the "Junin-6" block in the Orinoko river basin.

West Qurna-2 project

On December 12, 2009, a consortium of a Group company and Statoil won the tender for development of the West Qurna-2 field in Iraq, one of the largest crude oil fields discovered in the world, with estimated recoverable oil reserves of 12.9 billion barrels (1.8 billion tonnes). The service agreement for West Qurna-2 field development and production was signed on January 31, 2010 and then ratified by the Ministry cabinet of the Iraq Republic. After Statoil withdrew from the West Qurna-2 project in May 2012, the parties of the project are Iraq's state-owned South Oil Company and a consortium of contractors, consisting of a Group company (75% interest) and Iraq's state-owned North Oil Company (25% interest).

The Group launched the "Mishrif Early Oil" stage on the West Qurna-2 field and reached the planned production of 120 thousand barrels per day in March 2014. According to the service agreement, costs are compensated after this level of production is achieved and maintained during any 90 days within a 120-day period. In June 2014, we met this term and from the second quarter of 2014 started to receive cost compensation. In the first quarter of 2015, the Group accrued revenue from the West Qurna-2 project in the total amount of $642 million, consisting of cost recovery of $612 million and remuneration fee of $30 million. This revenue was classified as crude oil sales revenue. Attributable amount of 2,059 thousand tonnes, or 14,121 thousand barrels, of crude oil was included in Group's crude oil production for the first quarter of 2015 that represented approximately 53% of total production from the field. During the first quarter of 2015, the cost compensation increased the Group's EBITDA by $395 million.

Accounting for the cost compensation within the West Qurna-2 project in the Group consolidated statement of comprehensive income is as follows. The crude oil sales revenue is recognized after the Iraqi party has approved the actual invoice for the spending quarter. The invoice total amount depends on crude oil production volumes and the market prices for crude oil during the period. Subsequently, crude oil purchases are recognized based on actual crude oil shipments by the Iraqi party against its debt for cost compensation. Then this crude oil is either sold to third parties or supplied to the Group refineries and the respective sales revenues are recognized.

The project's target production level is 1.2 million barrels per day and the total term of the contract is 25 years.

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors the risks associated with the projects in Iraq and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

Sectorial sanctions against the Russian companies

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a number of sectorial sanctions on Russian entities, including OAO LUKOIL. These sanctions prohibit the US and the EU companies and individuals from the provision of goods, services or technology (except for financial services to OAO LUKOIL) that can be used on the territory of the Russian Federation in deepwater exploration and production of crude oil, exploration and production of crude oil in Arctic offshore and shale projects. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

Operational highlights

Hydrocarbon production

The table below summarizes the results of our exploration and production activities.

	3 months of	
	2015	**2014**
Crude oil and natural gas liquids production[1]	(thousand BOE per day)	
Consolidated subsidiaries		
Western Siberia	944	980
Timan-Pechora	325	310
Ural region	311	309
Volga region	139	134
Other in Russia	37	37
Total in Russia	1,756	1,770
Iraq[2]	157	–
Other regions outside Russia	63	63
Total outside Russia	220	63
Total consolidated subsidiaries	**1,976**	**1,833**
Our share in equity affiliates		
in Russia	15	8
outside Russia	42	44
Total share in equity affiliates	**57**	**52**
Total crude oil and natural gas liquids	**2,033**	**1,885**
Natural gas production available for sale[3]		
Consolidated subsidiaries		
Western Siberia	180	189
Timan-Pechora	12	12
Ural region	25	20
Volga region	7	6
Total in Russia	224	227
Total outside Russia	103	93
Total consolidated subsidiaries	**327**	**320**
Share in equity affiliates		
in Russia	1	1
outside Russia	8	8
Total share in production of equity affiliates	**9**	**9**
Total natural gas available for sale	**336**	**329**
Total daily hydrocarbon production	**2,369**	**2,214**
	(US dollar per BOE)	
Hydrocarbon extraction expenses	4.24	5.23
- in Russia	3.21	5.26
- outside Russia	10.39	4.97
	(millions of US dollars)	
Hydrocarbon extraction expenses	881	1,011
- in Russia	571	942
- outside Russia	310	69
Exploration expenses	79	205
- in Russia	50	85
- outside Russia	29	120
Mineral extraction tax	1,924	3,099
- in Russia	1,918	3,081
- outside Russia	6	18

(1) Natural gas liquids produced at the Group gas processing plants.
(2) Compensation oil that represents approximately 53% of production from the West Qurna-2 field in the first quarter of 2015.
(3) Including petroleum gas sold to third parties.

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-PERM. Currently, the Group is restructuring its international upstream segment that includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, Norway, and Cameroon.

Crude oil production. In the first quarter of 2015, we produced (including the Company's share in equity affiliates) 24.6 million tonnes, or 180.2 million barrels, of crude oil.

The following table represents our crude oil production in the first quarter of 2015 and 2014 by major regions.

(thousands of tonnes)	3 months of 2015	Change from 2014 Total, %	Change in structure	Organic change	3 months of 2014
Western Siberia	11,273	(3.4)	–	(402)	11,675
Timan-Pechora	4,050	5.2	–	200	3,850
Ural region	3,694	3.5	–	126	3,568
Volga region	1,680	3.8	–	62	1,618
Other in Russia	459	0.4	–	2	457
Crude oil produced in Russia	21,156	(0.1)		(12)	21,168
Iraq[(1)]	2,059	100.0	–	2,059	–
Other regions outside of Russia	744	0.1	–	1	743
Crude oil produced internationally	2,803	277.3	–	2,060	743
Total crude oil produced by consolidated subsidiaries	**23,959**	**9.3**	**–**	**2,048**	**21,911**
Group share in crude oil produced by equity affiliates:					
in Russia	174	87.1	–	81	93
outside Russia	476	(6.5)	–	(33)	509
Total crude oil produced	**24,609**	**9.3**	–	**2,096**	**22,513**

(1) Compensation oil that represents approximately 53% of production from the West Qurna-2 field in the first quarter of 2015.

The main oil producing region for the Company is Western Siberia where we produced 47.1% of our crude oil in the first quarter of 2015 (53.3% in the first quarter of 2014).

Crude oil production in Western Siberia continued to decline due to natural depletion of reserves and an increase in water cut. Nevertheless, this was partially compensated for by the development of greenfields, successful employment of new technologies and an increase in drilling footage. Our daily domestic crude oil and natural gas liquids production decreased by 0.8%, compared to the first quarter of 2014.

The increase in our international production was a result of commencement of commercial production at the West Qurna-2 oilfield in Iraq (for details see p. 3).

The increase in our share in crude oil produced by equity affiliates in Russia was due to the commencement of production at the Trebs and Titov oilfields by OOO Bashneft-Polus, where the Group holds a 25.1% interest.

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased on international markets is normally used for trading activities, for supplying our international refineries or for processing at third party refineries.

	3 months of 2015 (thousand of barrels)	2015 (thousand of tonnes)	2014 (thousand of barrels)	2014 (thousand of tonnes)
Purchases in Russia	2,236	305	2,133	291
Purchases for refining internationally	17,049	2,326	16,778	2,289
Purchases for trading internationally	37,823	5,160	23,390	3,191
The West Qurna-2 compensation crude oil	16,654	2,272	–	–
Total crude oil purchased	**73,762**	**10,063**	**42,301**	**5,771**

A significant part of our crude oil purchases is for refining. Compared to the first quarter of 2014, our purchases for refining at international refineries remained relatively unchanged. At the same time, our purchases for trading increased significantly compared to the first quarter of 2014. Moreover, in the first quarter of 2015, the Group received 2.3 million tonnes of compensation crude from Iraq's state-owned South Oil Company as cost compensation within the West Qurna-2 project.

Production of gas and natural gas liquids. During the first quarter of 2015, we produced 5,135 million cubic meters (30.2 million BOE) of gas available for sale (including our share in equity affiliates), that is 2.0% more than in the first quarter of 2014.

Our major gas field is the Nakhodkinskoe field, where we produced 1,866 million cubic meters of natural gas in the first quarter of 2015 (2,055 million cubic meters in the first quarter of 2014). Our international gas production increased by 10.2%, compared to the first quarter of 2014, largely resulting from the increase in production in Uzbekistan and Azerbaijan.

In the first quarter of 2015, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 2.7 million BOE, compared to 3.7 million BOE in the first quarter of 2014.

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Romania and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands.

Compared to the first quarter of 2014, the total volume of refined products produced by the Group (including our share in production at the Zeeland refinery) decreased by 8.5%. Production volumes decreased by 12.7% at our Russian refineries and increased by 1.4% at our international refineries. In Russia, the decrease was a result of amendments in the tax legislation that decreased the refining margins of Russian refineries and decrease in domestic demand.

Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan.

The following table summarizes key figures for our refining activities.

	3 months of 2015	3 months of 2014
	(thousand barrels per day)	
Refinery throughput at the Group refineries	1,116	1,224
- in Russia	808	921
- outside Russia(1)	308	303
Refinery throughput at Zeeland refinery (1)	104	87
Refinery throughput at third party refineries	17	16
Total refinery throughput	**1,237**	**1,327**
	(thousands of tonnes)	
Production of the Group refineries in Russia	9,436	10,804
Production of the Group refineries outside Russia	3,378	3,516
Production of Zeeland refinery	1,266	1,065
Refined products produced by the Group including our share in Zeeland refinery	**14,080**	**15,385**
Refined products produced at third party refineries	200	185
Total refined products produced	**14,280**	**15,570**
	(millions of US dollars)	
Refining expenses at the Group refineries	332	480
- in Russia	138	230
- outside Russia	194	250
Refining expenses at Zeeland refinery	41	57
Refining expenses at third party refineries	9	7
Capital expenditures	358	399
- in Russia	276	201
- outside Russia	82	198

(1) Including refined product processed.

Marketing and trading. Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the USA, Central and Eastern Europe, the Baltic States and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The Group retails its refined products in 23 countries through nearly 5.3 thousand petrol stations (including franchisees). Most of the stations operate under the LUKOIL brand.

The table below summarizes figures for our trading activities.

	3 months of	
	2015	**2014**[1]
	(thousands of tonnes)	
Retail sales	4,313	4,420
Wholesale sales	25,197	23,753
Total refined products sales	**29,510**	**28,173**
Refined products purchased in Russia	385	437
Refined products purchased internationally	15,606	14,678
Total refined products purchased	**15,991**	**15,115**

(1) From the first quarter of 2015, our international volumes of small wholesales are included in retail sales. Figures for 2014 were adjusted accordingly.

In April 2015, in line with the strategy to optimize its downstream operations, a Group company sold 100% of the Group's interest in LUKOIL Ukraine, a distribution company operating in Ukraine. Also, in December 2014, Group companies sold 100% of shares in LUKOIL Slovakia s.r.o., LUKOIL Hungary Ltd. and LUKOIL Czech Republic s.r.o. that together operated approximately 140 petrol stations.

Exports of crude oil and refined products from Russia. The volumes of crude oil and refined products exported from Russia by our subsidiaries are summarized as follows:

	3 months of			
	2015		**2014**	
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil using Transneft export routes	54,418	7,424	41,539	5,667
Exports of crude oil bypassing Transneft	13,370	1,824	12,080	1,648
Total crude oil exports	**67,788**	**9,248**	**53,619**	**7,315**
Exports of refined products		**5,259**		**6,324**

Following the amendments in tax legislation in the Russian oil industry, we increased our exports of crude and decreased the refined products exports. During the first quarter of 2015, the volume of our crude oil exports from Russia increased by 26.4%, and we exported 43.7% of our domestic crude oil production (34.6% – in the first quarter of 2014). The volume of our exported refined products from Russia decreased by 16.8% compared to the first quarter of 2014. Primarily, we export from Russia diesel fuel, fuel oil and gasoil. These products accounted for approximately 87.5% of our exported refined products volumes.

Primarily, all the volume of crude oil exported that bypassed Transneft in the periods considered was routed through our own export infrastructure.

In the first quarter of 2015, the Company exported 365 thousand tonnes of light crude oil through the Eastern Siberia – Pacific Ocean pipeline. This allowed us to preserve the premium quality of crude oil and thus increased the efficiency of exports, compared to exports to traditional Western markets.

During the first quarter of 2015, our revenue from exports of crude oil and refined products from Russia both to Group companies and third parties amounted to $3,216 million and $1,886 million, respectively ($5,253 million for crude oil and $4,720 million for refined products in the first quarter of 2014).

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. Compared to the first quarter of 2014, crude oil price dropped two-fold and in the first quarter of 2015, the price for the Brent crude oil fluctuated between $45 and $62 per barrel and reached its maximum of $62.0 in the end of February.

Substantially all the crude oil the Group exports is Urals blend. The following table shows the average crude oil and refined product prices in the first quarters of 2015 and 2014.

	3 months of 2015	3 months of 2014	Change, %
	(in US dollars per barrel, except for figures in percent)		
Brent crude	53.94	108.21	(50.2)
Urals crude (CIF Mediterranean) [1]	53.26	106.81	(50.1)
Urals crude (CIF Rotterdam) [1]	52.59	106.24	(50.5)
	(in US dollars per metric tonne, except for figures in percent)		
Fuel oil 3.5% (FOB Rotterdam)	276.29	571.37	(51.6)
Diesel fuel 10 ppm (FOB Rotterdam)	530.15	924.69	(42.7)
High-octane gasoline (FOB Rotterdam)	548.78	959.20	(42.8)

Source: Platts.

(1) The Company sells crude oil on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern Europe markets.

Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Domestic prices for refined products are determined to some extent by world market prices, but they are also directly affected by local demand and competition.

The table below represents average domestic wholesale prices of refined products in the first quarter of 2015 and 2014.

	3 months of 2015	3 months of 2014	Change, %
	(in US dollars per metric tonne, except for figures in percent)		
Fuel oil	102.65	257.56	(60.1)
Diesel fuel	455.63	806.79	(43.5)
High-octane gasoline (Regular)	455.92	809.35	(43.7)
High-octane gasoline (Premium)	478.63	842.52	(43.2)

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, a depreciation of the ruble against the US dollar generally causes our costs to decrease in US dollar terms, and vice versa. The appreciation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 34.7% in the first quarter of 2015, compared to the first quarter of 2014, while the nominal ruble depreciation against the first quarter of 2014 was 43.8%.

The following table gives data on inflation in Russia and the change in the ruble-dollar exchange rate.

	3 months of	
	2015	**2014**
Ruble inflation (CPI), %	7.4	2.3
Average exchange rate for the period (ruble to US dollar)	62.19	34.96
Exchange rate at the end of the period (ruble to US dollar)	58.46	35.69

Tax burden

Starting from January 1, 2015, the method for calculation of certain tax and duty rates applied to oil companies in Russian Federation is amended. The mineral extraction tax rate increases significantly along with simultaneous decrease of export duty rates and excises.

The following table represents average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

		3 months of		Change, %
		2015	**2014**	
Export tariffs on crude oil	$/tonne	130.19	390.71	(66.7)
Export tariffs on refined products				
Light and middle distillates	$/tonne	62.40	257.83	(75.8)
Fuel oil	$/tonne	98.92	257.83	(61.6)
Gasoline	$/tonne	101.50	351.60	(71.1)
Straight-run gasoline	$/tonne	110.61	351.60	(68.5)
Diesel fuel	$/tonne	62.40	255.27	(75.6)
Mineral extraction tax				
Crude oil	RUR/tonne	6,833.88	6,078.49	12.4
Crude oil	$/tonne(1)	109.88	173.87	(36.8)

(1) Translated to US dollars using average ruble-dollar exchange rates.

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble-dollar exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase in the tax rate by $1.80 per tonne extracted (or $0.25 per barrel extracted using a conversion factor of 7.33) above the base rate.

In the first quarter of 2015, the base rate was 766 rubles per metric tonne extracted (493 rubles in the first quarter of 2014).

The crude oil extraction tax rate varies depending on the development, depletion and complexity of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea, the Nenetsky Autonomous District and some other regions, depending on the period and volume of production.

The Group produces crude oil in the Caspian Sea, extra-heavy crude oil in Timan-Pechora and benefits from the application of a zero extraction tax rate.

Natural gas extraction tax rate. The mineral extraction tax on natural gas produced by independent producers in Russia was calculated using a flat rate until July 1, 2014. The rate was 471 rubles per thousand cubic meters during the first half of 2014.

Starting from July 1, 2014, the base rate amounts to 35 rubles per thousand cubic meters and is adjusted depending on average wholesale natural gas price in Russia, share of gas production in total hydrocarbon production of particular taxpayer, and complexity of particular gas field. In the first quarter of 2015, actual average natural gas extraction tax rate calculated for our major gas field – Nakhodkinskoe in Western Siberia amounted to 143.23 rubles per thousand cubic meters.

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately $15.00 per barrel ($109.50 per metric tonne). If the Urals blend price is between $15.00 and $20.00 per barrel ($146.00 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $15.00 results in an increase in the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is between $20.00 and $25.00 per barrel ($182.50 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $20.00 results in an increase in the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 per barrel increase in the Urals blend price over $25.00 per barrel results in an increase in the crude oil export duty rate no more than by $0.65 per barrel exported. From January 1, 2014 to December 31, 2014, the maximum increase in export duty rate was $0.59 per barrel for each $1.00 per barrel increase in the Urals blend price. From January 1, 2015, the maximum increase in export duty rate is $0.42 per barrel for each $1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. The list of the oilfields where the reduced rate is applied includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea and extra-heavy crude oil fields in Timan-Pechora.

Export duty rates on refined products are to be calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

	From January 1, 2015 to December 31, 2015	**From January 1, 2014 to December 31, 2014**
Multiplier for:		
Light and middle distillates	0.48	0.66
Diesel fuel	0.48	0.65
Gasolines	0.78	0.90
Straight-run gasoline	0.85	0.90
Fuel oil	0.76	0.66

Crude oil and refined products exports from Russia are subject to two steps of customs declaration and duties payments: temporary and complete. Temporary declaration is submitted based on preliminary exports volumes and the duty is paid in rubles translated from US dollars as at the date of the temporary declaration. Complete declaration is submitted after receiving the actual data on the exported volumes, but not later than six months after the date of the temporary declaration. The final amount of the export duty is adjusted depending on the actual volumes, US dollar exchange rate as at the date of the complete declaration (except for pipeline deliveries when the exchange rate as at the temporary declaration date is used) and the export duty rate. If temporary and complete declarations are submitted in the different reporting periods, the final amount of the export duty is adjusted in the period of submission of the complete declaration. The high volatility of the ruble-dollar exchange rates may lead to significant value of such adjustments.

Crude oil and refined products exported to the member countries of the Custom Union – Belarus and Kazakhstan, are not subject to export duties.

Excise on refined products. The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

In other countries where the Group operates, excises are paid either by producers or retailers depending on the local legislation.

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for the first quarter of 2015 and 2014 are listed below. Translation to the US dollars was made using average exchange rate for the period.

		3 months of 2015	2014	Change, %
Gasoline				
Below Euro-3	RUR/tonne	7,300.00	11,110.00	(34.3)
Euro-3	RUR/tonne	7,300.00	10,725.00	(31.9)
Euro-4	RUR/tonne	7,300.00	9,916.00	(26.4)
Euro-5	RUR/tonne	5,530.00	6,450.00	(14.3)
Diesel fuel				
Below Euro-3	RUR/tonne	3,450.00	6,446.00	(46.5)
Euro-3	RUR/tonne	3,450.00	6,446.00	(46.5)
Euro-4	RUR/tonne	3,450.00	5,427.00	(36.4)
Euro-5	RUR/tonne	3,450.00	4,767.00	(27.6)
Motor oils	RUR/tonne	6,500.00	8,260.00	(21.3)
Straight-run gasoline	RUR/tonne	11,300.00	11,252.00	0.4

		3 months of 2015	2014	Change, %
Gasoline				
Below Euro-3	$/tonne	117.38	317.79	(63.1)
Euro-3	$/tonne	117.38	306.78	(61.7)
Euro-4	$/tonne	117.38	283.64	(58.6)
Euro-5	$/tonne	88.92	184.50	(51.8)
Diesel fuel				
Below Euro-3	$/tonne	55.47	184.38	(69.9)
Euro-3	$/tonne	55.47	184.38	(69.9)
Euro-4	$/tonne	55.47	155.24	(64.3)
Euro-5	$/tonne	55.47	136.36	(59.3)
Motor oils	$/tonne	104.51	236.27	(55.8)
Straight-run gasoline	$/tonne	181.69	321.86	(43.5)

Income tax. The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The Company and its Russian subsidiaries file income tax returns in Russia. A number of Group companies in Russia are paying income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

Transportation of crude oil and refined products in Russia

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important macroeconomic factor affecting our net income.

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of the state-owned company, OAO AK Transneft, or by railway transport.

Transportation of refined products in Russia is performed by railway transport and the pipeline system of OAO AK Transnefteproduct. The Russian railway infrastructure is owned and operated by OAO Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System ("UGSS"). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by OAO Gazprom. The Federal Service for Tariffs of the Russian Federation regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

Three months ended March 31, 2015, compared to three months ended March 31, 2014

The table below sets forth data from our consolidated statements of comprehensive income for the periods indicated.

	3 months of	
	2015	2014
	(millions of US dollars)	
Revenues		
Sales (including excise and export tariffs)	23,190	35,681
Costs and other deductions		
Operating expenses	(1,808)	(2,309)
Cost of purchased crude oil, gas and products	(11,238)	(17,243)
Transportation expenses	(1,303)	(1,553)
Selling, general and administrative expenses	(665)	(856)
Depreciation, depletion and amortization	(1,819)	(1,512)
Taxes other than income taxes	(2,139)	(3,446)
Excise and export tariffs	(3,033)	(5,487)
Exploration expense	(79)	(205)
Loss on disposals and impairments of assets	(83)	(415)
Income from operating activities	**1,023**	**2,655**
Interest expense	(169)	(140)
Interest and dividend income	81	57
Equity share in income of affiliates	54	182
Currency translation loss	(37)	(270)
Other non-operating expense	(36)	(80)
Income before income taxes	**916**	**2,404**
Current income taxes	(338)	(805)
Deferred income taxes	119	138
Total income tax expense	**(219)**	**(667)**
Net income	**697**	**1,737**
Net income attributable to non-controlling interests	(7)	(4)
Net income attributable to OAO LUKOIL	**690**	**1,733**
Earning per share of common stock attributable to OAO LUKOIL (in US dollars):		
Basic	0.91	2.30
Diluted	0.91	2.25

The analysis of the main financial indicators of the financial statements is provided below.

Sales revenues

Sales breakdown	3 months of	
	2015	2014
	(millions of US dollars)	
Crude oil		
Exports and sales on international markets other than Customs Union countries	5,917	6,958
Exports and sales to Customs Union countries	246	536
Domestic sales	602	984
	6,765	**8,478**
Refined products		
Exports and sales on international markets[1]		
Wholesale	10,439	17,758
Retail	2,405	3,561
Domestic sales		
Wholesale	891	1,612
Retail	1,254	2,092
	14,989	**25,023**
Petrochemicals		
Exports and sales on international markets	132	255
Domestic sales	50	132
	182	**387**
Gas and gas products		
Exports and sales on international markets	446	553
Domestic sales	150	298
	596	**851**
Sales of energy and related services		
Sales on international markets	40	11
Domestic sales	288	490
	328	**501**
Other		
Sales on international markets	184	236
Domestic sales	146	205
	330	**441**
Total sales	**23,190**	**35,681**

Sales volumes	3 months of	
	2015	2014
Crude oil	(thousands of barrels)	
Exports and sales on international markets other than Customs Union countries	117,617	65,061
Exports and sales to Customs Union countries	7,513	10,511
Domestic sales	18,977	20,568
	144,107	**96,140**
Crude oil	(thousands of tonnes)	
Exports and sales on international markets other than Customs Union countries	16,046	8,876
Exports and sales to Customs Union countries	1,025	1,434
Domestic sales	2,589	2,806
	19,660	**13,116**
Refined products	(thousands of tonnes)	
Exports and sales on international markets[1]		
Wholesale	22,947	21,357
Retail	2,164	2,266
Domestic sales		
Wholesale	2,250	2,397
Retail	2,149	2,153
	29,510	**28,173**
Total sales volume of crude oil and refined products	**49,170**	**41,289**

[1] From the first quarter of 2015, our volumes of small wholesales are included in retail sales. Figures for 2014 were adjusted accordingly.

Realized average sales prices		**3 months of**	
		2015	**2014**
Average realized price international			
Oil (excluding Customs Union countries)	($/barrel)	50.31	106.94
Oil (Customs Union countries)	($/barrel)	32.74	51.00
Refined products			
Wholesale...	($/tonne)	454.92	831.48
Retail..	($/tonne)	1,111.37	1,570.76
Average realized price within Russia			
Oil	($/barrel)	31.72	47.83
Refined products			
Wholesale...	($/tonne)	396.00	672.75
Retail..	($/tonne)	583.53	971.77

During the first quarter of 2015, our revenues decreased by $12,491 million, or by 35.0%, compared to the first quarter of 2014. Our revenues from crude oil sales decreased by $1,713 million, or by 20.2%. Our revenues from sales of refined products decreased by $10,034 million, or by 40.1%.

The changes in ruble-nominated revenues against the first quarter of 2014 were significantly affected by the nominal ruble devaluation by 43.8%.

Sales of crude oil

Despite the decrease of the international realized crude oil prices by 53.0%, our international sales revenue decreased by 15.0%, or by $1,041 million, compared to the first quarter of 2014. Our international sales volumes (beyond the Customs Union) increased by 7,170 thousand tonnes, or by 80.8%, as a result of increased volumes of crude oil trading, commencement of commercial production from the West Qurna-2 field and the increase in crude oil exports from Russia.

During the first quarter of 2015, as a result of the ruble devaluation and the drop of international crude oil prices, our realized domestic crude oil price decreased by 33.7% and our domestic sales volumes decreased by 217 thousand tonnes, or by 7.7%. As a consequence, our domestic sales revenue decreased by 38.8%, or by $382 million.

During the first quarter of 2015, our revenue from crude oil exports from Russia both to the Group companies and third parties amounted to $3,216 million.

Sales of refined products

Compared to the first quarter of 2014, our revenue from the wholesale of refined products outside of Russia decreased by $7,319 million, or by 41.2%. The decrease in sales prices by 45.3% in the first quarter of 2015 was partially compensated by the increase in sales volumes by 7.4%.

During the first quarter of 2015, our realized retail prices outside of Russia decreased by 29.2% and sales volumes decreased by 4.5%, that resulted in the decrease of retail revenue by $1,156 million, or by 32.5%, compared to the first quarter of 2014.

In the first quarter of 2015, our revenue from the wholesale of refined products on the domestic market decreased by 44.7%, or by $721 million. Our realized prices and sales volumes decreased by 41.1% and 6.1%, respectively.

During the first quarter of 2015, our revenue from retail sales in Russia decreased by $838 million, or by 40.1%. Our average domestic retail prices decreased by 40.0%, while retail volumes remained unchanged.

During the first quarter of 2015, our revenue from exports of refined products from Russia both to Group companies and third parties amounted to $1,886 million.

Sales of petrochemical products

In the first quarter of 2015, our revenue from sales of petrochemical products decreased by $205 million, or by 53.0%. In Russia, the decrease was a result of lower production volumes as a consequence of the fire at our plant in Stavropol region of Russia in the end of the first quarter of 2014 and the ruble devaluation. Outside of Russia, the decrease was largely due to lower realized prices.

Sales of gas and gas products

Sales of gas and gas refined products decreased by $255 million, or by 30.0%, compared to the first quarter of 2014.

During the first quarter of 2015, gas products wholesales revenue decreased by $111 million, or by 45.3%. Average realized wholesale prices decreased by 50.8% and sales volumes for gas products increased by 11.2%. Retail gas products revenue decreased by $76 million, or by 37.5%, compared to the first quarter of 2014 also due to the decrease in average realized prices.

Natural gas sales revenue decreased by $68 million, or by 17.0%, as a result of the decrease in international hydrocarbon prices.

Sales of energy and related services

In the first quarter of 2015, our revenue from sales of electricity, heat and related services decreased by $173 million, or by 34.5%. The decrease in revenue in Russia due to the ruble devaluation was partially offset by the increase in international sales revenue related to the acquisition of ISAB Energy in the third quarter of 2014.

Other sales

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

During the first quarter of 2015, revenue from other sales decreased by $111 million, or by 25.2%, largely as a result of the impact of the ruble devaluation on the revenue from sales of other products in Russia. At the same time, since the second quarter of 2014, we increased the volume of rendering crude oil extraction services and since the third quarter of 2014, other sales also included revenue from sales of diamonds.

Operating expenses

Operating expenses include the following:

	3 months of	
	2015	**2014**
	(millions of US dollars)	
Hydrocarbon extraction expenses	881	1,011
Own refining expenses	332	480
Refining expenses at third parties and affiliated refineries	50	64
Expenses for crude oil transportation to refineries	169	273
Power generation and distribution expenses	158	190
Petrochemical expenses	38	66
Other operating expenses	180	225
Total operating expenses	**1,808**	**2,309**

The method of allocation of operating expenses above differs from the approach used in preparing the data for Note 19 “Segment information” to our interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred**.**

During the first quarter of 2015, our operating expenses decreased by $501 million, or by 21.7%. The changes in ruble-nominated operating expenses against the first quarter of 2014 were significantly affected by the nominal ruble devaluation by 43.8%.

Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

In the first quarter of 2015, our extraction expenses decreased by $130 million, or by 12.9%. In the first quarter of 2015, our extraction expenses included start-up costs and production expenses related to West Qurna-2 project in the amount of $245 million. In Russia, the increase in costs was offset by the ruble devaluation.

Our average hydrocarbon extraction expenses decreased from $5.23 per BOE to $4.24 per BOE in the first quarter of 2015, or by 18.9%. In Russia, average hydrocarbon extraction expenses decreased by 39.0% to $3.21 per BOE as a result of the ruble devaluation.

Own refining expense

During the first quarter of 2015, our own refining expenses decreased by $148 million, or by 30.8%.

Refining expenses at our domestic refineries decreased by 40.0%, or by $92 million, as a result of the ruble devaluation and the decrease in production volumes, that was partially offset by higher consumption of additives, increased energy and overhaul costs.

Refining expenses at our international refineries decreased by 22.4%, or by $56 million, largely, as a result of depreciation of the euro against the US dollar.

Refining expenses at third party and affiliated refineries

Along with our own production of refined products we refine crude oil at third party and affiliated refineries both in Russia and abroad.

During the first quarter of 2015, refining expenses at third party and affiliated refineries decreased by 21.9%, or by $14 million, against the background of high overhauls expenses at the Zeeland refinery in the first quarter of 2014 and due to the euro depreciation against the US dollar.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to delivery of the Group's own crude oil to refineries for further processing.

During the first quarter of 2015, our expenses for crude oil transportation to refineries decreased by $104 million, or by 38.1%, largely due to the ruble devaluation and the decrease in crude oil refining volumes in Russia.

Petrochemical expenses

During the first quarter of 2015, operating expenses of our petrochemical plants decreased by $28 million, or by 42.4%, compared to the first quarter of 2014. This was largely due to the ruble devaluation.

Power generation and distribution expenses

Our power generation and distribution expenses decreased by $32 million, or by 16.8%, compared to the first quarter of 2014. The decrease in expenses in Russia due to the ruble devaluation was partially offset by the increase in expenses as a result of the acquisition of ISAB Energy in the third quarter of 2014.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

During the first quarter of 2015, other operating expenses decreased by $45 million, or by 20.0%, largely as a result of the ruble devaluation. Our other operating expenses in the first quarter of 2015 included expenses related to the production of diamonds commenced in the third quarter of 2014.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products includes the cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

During the first quarter of 2015, cost of purchased crude oil, gas and products decreased by $6,005 million, or by 34.8%, following the sharp decrease in hydrocarbon prices, that was partially offset by the increase in crude oil trading volumes. Crude oil purchases in the first quarter of 2015 also included $676 million related to 2,272 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company within the West Qurna-2 project.

During the first quarter of 2015, we recognized a $149 million net loss from hedging, compared to a $73 million net gain in the first quarter of 2014.

Transportation expenses

During the first quarter of 2015, transportation expenses decreased by $250 million, or by 16.1%, compared to the first quarter of 2014. The decrease of expenses as a result of the decrease in tariffs largely due to the ruble devaluation and decreased volume of refined products exports from Russia was partially offset by effect from increased volumes of crude oil trading and crude oil exports from Russia, compared to the first quarter of 2014.

Our actual transportation tariffs related to crude oil and refined products deliveries to various exports destinations, weighted by volumes transported, changed to the first quarter of 2014 as follows: crude oil pipeline tariffs decreased by 36.9%, railway tariffs for refined products transportation decreased by 40.0%, crude oil freight rates decreased by 58.9%, and refined products freight rates decreased by 17.3%.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

Our selling, general and administrative expenses decreased by $191 million, or by 22.3%, in the first quarter of 2015. Compared to the first quarter of 2014, our expenses decreased by $140 million, or by 29.4%, in Russia and by $45 million, or by 12.3%, internationally. Largely, this was due to the devaluation of the ruble and the euro against the US dollar.

Depreciation, depletion and amortization

In the first quarter of 2015, our depreciation, depletion and amortization expenses increased by $307 million, or by 20.3%, compared to the first quarter of 2014. Depreciation, depletion and amortization expenses in the first quarter of 2015 included $368 million related to the West Qurna-2 field, where we commenced commercial production in the second quarter of 2014.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in the Netherlands. Currently, our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, the Zeeland refinery in the Netherlands and OOO Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfelds in Timan-Pechora, Russia.

Our share in income of affiliates decreased by $128 million, or by 70.3%, compared to the first quarter of 2014 largely as a result of the decrease in income of our upstream affiliates in Kazakhstan.

Taxes other than income taxes

	3 months of	
	2015	**2014**
	(millions of US dollars)	
In Russia		
Mineral extraction taxes	1,918	3,081
Social security taxes and contributions	86	145
Property tax	71	124
Other taxes	10	21
Total in Russia	**2,085**	**3,371**
International		
Mineral extraction taxes	6	18
Social security taxes and contributions	24	31
Property tax	9	9
Other taxes	15	17
Total internationally	**54**	**75**
Total	**2,139**	**3,446**

Our taxes other than income taxes decreased by $1,307 million, or by 37.9%, compared to the first quarter of 2014, which was driven largely by the effect of the decrease in the international crude oil prices and the ruble devaluation on the mineral extraction tax rate. The decrease in social security taxes and contributions and property tax in Russia against the first quarter of 2014 was also due to the ruble devaluation.

During the first quarter of 2015, application of the reduced rate for crude oil produced from depleted oilfields and the zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to $296 million mineral extraction tax reduction ($584 million in the first quarter of 2014).

Excise and export tariffs

	3 months of	
	2015	**2014**
	(millions of US dollars)	
In Russia		
Excise tax on refined products	198	417
Crude oil export tariffs	1,158	2,548
Refined products export tariffs	910	1,626
Total in Russia	**2,266**	**4,591**
International		
Excise tax on refined products	735	821
Crude oil export tariffs	22	52
Refined products export tariffs	10	23
Total internationally	**767**	**896**
Total	**3,033**	**5,487**

During the first quarter of 2015, export tariffs decreased by $2,149 million, or by 50.6%, largely, due to nearly three-fold decrease in export duty rates for crude oil and refined products. At the same time, the volumes of our crude oil exports beyond the Customs Union increased by 29.1%, while the volumes of the refined products exports decreased by 18.3%.

Exploration expenses

In the first quarter of 2015, our exploration expenses decreased by $126 million, or by 61.5%, that mostly was a result of the decrease in the amount of dry hole write-offs, compared to the first quarter of 2014. In the first quarter of 2014, we charged to expense the costs of dry exploratory well in Cote d'Ivoire in the amount of $95 million.

Loss on disposals and impairments of assets

In April 2014, a Group company entered into a contract with a Sinopec group company, to sell the Group's 50% interest in Caspian Investment Resources Ltd. Subsequently, on June 3, 2015, a substitute transaction was made in regard of this sale. In the first quarter of 2014, the Group recognized the loss on this expected disposal in the amount of $358 million. In the first quarter of 2015, the Group recognized an additional impairment loss related to this transaction amounting to $80 million.

Also, in the first quarter of 2014, the Group wrote off signing bonuses related to projects in Sierra Leone and Cote d'Ivoire in the total amount of $67 million.

Income taxes

The maximum statutory income tax rate in Russia is 20%. Nevertheless, the actual effective income tax rate may be higher due to non-deductible expenses or lower due to certain non-taxable gains. Moreover, quarterly deviations of the effective income tax rates from the maximum statutory rate may happen due to currency translation losses and gains reported by Russian Group companies, that decrease or increase taxable income in the respective periods.

In the first quarter of 2015, our total income tax expense decreased by $448 million, or by 67.2%, compared to the first quarter of 2014. Our income before income tax decreased by $1,488 million, or by 61.9%.

During the first quarter of 2015, our effective income tax rate was 23.9% compared to 27.7% in the first quarter of 2014. The high level of our effective income tax rate in the first quarter of 2014 was a result of non-deductible losses and write-offs as well as taxable currency translation gains reported by Russian Group companies.

Reconciliation of net income to EBITDA (earnings before interest, income taxes, depreciation and amortization)

	3 months of	
	2015	**2014**
	(millions of US dollars)	
Net income	**690**	**1,733**
Add back:		
Income tax expense	219	667
Depreciation and amortization	1,819	1,512
Interest expense	169	140
Interest and dividend income	(81)	(57)
EBITDA	**2,816**	**3,995**

EBITDA is a non-US GAAP financial measure. EBITDA is defined as net income before interest, taxes and depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered as operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not include our need to replace our capital equipment over time.

Liquidity and capital resources

	3 months of 2015	2014
	(millions of US dollars)	
Net cash provided by operating activities	3,289	3,292
Net cash used in investing activities	(2,565)	(3,200)
Net cash (used in) provided by financing activities	(685)	970

Operating activities

Our primary source of cash flow is funds generated from our operations. In the first quarter of 2015, cash generated from operations didn't change significantly, compared to the first quarter of 2014, and amounted to $3,289 million.

Investing activities

In the first quarter of 2015, the amount of cash used in investing activities decreased by 19.8% due to the decrease in capital expenditures.

Our capital expenditures, including non-cash transactions, decreased by 24.8% and amounted to $2,430 million.

	3 months of 2015	2014
	(millions of US dollars)	
Capital expenditures, including non-cash transactions and prepayments		
Exploration and production		
Russia	1,171	1,973
International	805	752
Total exploration and production	1,976	2,725
Refining, marketing and distribution		
Russia	292	227
International	109	220
Total refining, marketing and distribution	401	447
Chemicals		
Russia	29	32
International	–	–
Total chemicals	29	32
Power generation and distribution	8	8
Other	16	20
Total capital expenditures	**2,430**	**3,232**

Capital expenditures in the exploration and production segment decreased by $749 million, or by 27.5%. In Russia, despite the increase in volumes and cost of production drilling, capital expenditures decreased due to the effect of ruble devaluation. Outside of Russia, our capital expenditures didn't change significantly compared to the first quarter of 2014.

The increase in capital expenditures in domestic refining, marketing and distribution segment in Russia was due to continuing construction of a vacuum gasoil refinery complex at the Volgograd refinery and construction of a heavy residue processing complex and a power generation facility at our refinery in Perm. The decrease in the international segment was a result of the completion of the construction of heavy residue processing complex at our Bulgarian refinery.

The table below shows our exploration and production capital expenditures in promising new production regions.

	3 months of 2015	2014
	(millions of US dollars)	
Yamal	92	76
Caspian region[1]	231	235
Ghana	12	2
Cote d'Ivoire	13	80
Iraq	223	376
Uzbekistan	160	133
Romania	98	–
Cameroon	125	–
Total	**954**	**902**

[1] Russian and international projects.

Financing activities

In the first quarter of 2015, net movements of short-term and long-term debt generated an outflow of $58 million, compared to an inflow of $989 million in the first quarter of 2014.

In the first quarter of 2014, the Company received the loans from OAO Sberbank in the amount of $500 million maturing in 2021 and bearing interest at twelve month LIBOR plus 2.75% per annum and from OAO Promsvyazbank in the amount of $300 million maturing in 2019 and bearing interest at three month LIBOR plus 2.75% per annum.