OAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2011

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Report on review of consolidated interim condensed financial information

To the shareholders and Board of Directors of OAO NOVATEK

Introduction

1. We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2011 and the related consolidated interim condensed statements of income, cash flows, comprehensive income and changes in equity for the three months then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information as set out on pages 4 to 35 in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements No. 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
12 May 2011

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OAO NOVATEK

Consolidated Interim Condensed Statement of Financial Position (unaudited)

(in millions of Russian roubles)

	Notes	At 31 March 2011	At 31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	189,366	185,573
Equity investments	6	26,597	27,026
Long-term loans and receivables	7	40,908	40,151
Other non-current assets		2,913	2,858
Total non-current assets		**259,784**	**255,608**
Current assets			
Inventories		1,650	1,868
Current income tax prepayments		541	285
Trade and other receivables		12,523	8,670
Prepayments and other current assets		8,874	8,504
Cash and cash equivalents		15,392	10,238
Total current assets		**38,980**	**29,565**
Total assets		**298,764**	**285,173**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	8	77,331	47,074
Deferred income tax liabilities		10,874	9,473
Other non-current liabilities		722	917
Asset retirement obligations		2,645	2,482
Total non-current liabilities		**91,572**	**59,946**
Current liabilities			
Short-term debt and current portion of long-term debt	9	7,449	25,152
Trade payables and accrued liabilities	10	6,399	28,479
Current income tax payable		2,067	1,212
Other taxes payable		4,320	2,598
Total current liabilities		**20,235**	**57,441**
Total liabilities		**111,807**	**117,387**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(446)	(446)
Additional paid-in capital		30,865	30,865
Currency translation differences		(319)	(120)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		129,947	110,810
Total equity attributable to OAO NOVATEK shareholders		**166,057**	**147,119**
Non-controlling interest		**20,900**	**20,667**
Total equity		**186,957**	**167,786**
Total liabilities and equity		**298,764**	**285,173**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

Approved for issue and signed on behalf of the Board of Directors on 12 May 2011:

L. Mikhelson
General Director

M. Gyetvay
Financial Director

OAO NOVATEK
Consolidated Interim Condensed Statement of Income (unaudited)
(in millions of Russian roubles, except for share and per share amounts)

	Notes	Three months ended 31 March: 2011	2010
Revenues			
Oil and gas sales	13	44,793	27,237
Sales of polymer and insulation tape		-	469
Other revenues		68	36
Total revenues		**44,861**	**27,742**
Operating expenses			
Transportation expenses	14	(11,883)	(9,063)
Taxes other than income tax	15	(4,320)	(2,424)
Depreciation, depletion and amortization		(2,029)	(1,602)
General and administrative expenses		(1,995)	(1,463)
Materials, services and other		(1,282)	(1,548)
Purchases of natural gas and liquid hydrocarbons		(963)	(38)
Exploration expenses		(726)	(131)
Net impairment expenses		(12)	(26)
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress		(211)	348
Total operating expenses		**(23,421)**	**(15,947)**
Net gain on disposal of interest in subsidiaries		-	1,583
Other operating income (loss)		64	(5)
Profit from operations		**21,504**	**13,373**
Finance income (expense)			
Interest expense	16	(655)	(149)
Interest income	16	919	115
Foreign exchange gain (loss)		2,474	646
Total finance income (expense)		**2,738**	**612**
Share of profit (loss) of equity investments, net of income tax	6	(526)	(1)
Profit before income tax		**23,716**	**13,984**
Income tax expense			
Current income tax expense		(3,869)	(1,992)
Net deferred income tax (expense) benefit		(1,047)	(916)
Total income tax expense		**(4,916)**	**(2,908)**
Profit (loss)		**18,800**	**11,076**
Profit (loss) attributable to:			
Non-controlling interest		(53)	(106)
Shareholders of OAO NOVATEK		**18,853**	**11,182**
Basic and diluted earnings per share (in Russian roubles)		6.22	3.69
Weighted average number of shares outstanding (in thousands)		*3,033,184*	*3,032,114*

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)
(in millions of Russian roubles)

		Three months ended 31 March:	
	Notes	**2011**	**2010**
Profit before income tax		**23,716**	**13,984**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		2,061	1,638
Net impairment expenses		12	26
Net foreign exchange loss (gain)		(2,474)	(646)
Net loss (gain) on disposal of assets		10	(1,563)
Interest expense		655	149
Interest income		(919)	(115)
Share of loss (profit) in equity investments, net of income tax		526	1
Net change in other non-current assets and long-term receivables		457	6
Share-based compensation	20	-	44
Other adjustments		(82)	20
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(4,713)	1,609
Decrease (increase) in inventories		217	(389)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		1,290	(9)
Increase (decrease) in other taxes payable		1,717	(48)
Total effect of working capital changes		**(1,489)**	**1,163**
Income taxes paid		(3,268)	(2,253)
Net cash provided by operating activities		**19,205**	**12,454**
Cash flows from investing activities			
Purchases of property, plant and equipment		(4,608)	(4,578)
Purchases of inventories intended for construction		(47)	-
Acquisition of subsidiaries net of cash acquired		(3,082)	(1,286)
Acquisition of equity investments		(21,176)	-
Proceeds from disposals of subsidiaries net of cash disposed		71	628
Interest paid and capitalized		(627)	(523)
Loans provided		(215)	(137)
Repayments of loans provided		485	(621)
Interest received		134	50
Net cash (used for) provided by investing activities		**(29,065)**	**(6,467)**
Cash flows from financing activities			
Proceeds from long-term debt		36,494	-
Repayments of long-term debt		(3,419)	(3,394)
Repayments of short-term debt		(17,621)	(1,229)
Interest paid		-	(258)
Dividends paid		(1)	(14)
Net cash (used for) provided by financing activities		**15,453**	**(4,895)**
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		(439)	(112)
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**5,154**	**980**
Cash and cash equivalents at beginning of the period		10,238	10,532
Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale		-	(52)
Cash, cash equivalents and bank overdrafts at end of the period		**15,392**	**11,460**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OAO NOVATEK
Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)
(in millions of Russian roubles)

		Three months ended 31 March:	
	Notes	**2011**	**2010**
Other comprehensive income (loss) after income tax:			
Currency translation differences		(199)	(15)
Other comprehensive income (loss)		**(199)**	**(15)**
Profit (loss)		**18,800**	**11,076**
Total comprehensive income		**18,601**	**11,061**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(53)	(106)
Shareholders of OAO NOVATEK		**18,654**	**11,167**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

OAO NOVATEK
Consolidated Interim Condensed Statement of Changes in Equity (unaudited)
(in millions of Russian roubles, except for number of shares)

	Number of ordinary shares (in thousands)	Ordinary share capital	Treasury shares	Additional paid-in capital	Asset revaluation surplus on acquisitions	Currency translation differences	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
1 January 2010	***3,032,114***	**393**	**(599)**	**30,609**	**5,617**	**(112)**	**78,393**	**114,301**	**19,139**	**133,440**
Currency translation differences	-	-	-	-	-	(15)	-	(15)	-	(15)
Profit (loss)	-	-	-	-	-	-	11,182	11,182	(106)	11,076
Total comprehensive income	-	-	-	-	-	**(15)**	**11,182**	**11,167**	**(106)**	**11,061**
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	2,413	2,413
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(81)	(81)
Share-based compensation funded by shareholders	-	-	-	44	-	-	-	44	-	44
31 March 2010	***3,032,114***	**393**	**(599)**	**30,653**	**5,617**	**(127)**	**89,575**	**125,512**	**21,365**	**146,877**
1 January 2011	***3,033,184***	**393**	**(446)**	**30,865**	**5,617**	**(120)**	**110,810**	**147,119**	**20,667**	**167,786**
Currency translation differences	-	-	-	-	-	(199)	-	(199)	-	(199)
Profit (loss)	-	-	-	-	-	-	18,853	18,853	(53)	18,800
Total comprehensive income	-	-	-	-	-	**(199)**	**18,853**	**18,654**	**(53)**	**18,601**
Equity call option reclassification (Note 4)	-	-	-	-	-		284	284	-	284
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	286	286
31 March 2011	***3,033,184***	**393**	**(446)**	**30,865**	**5,617**	**(319)**	**129,947**	**166,057**	**20,900**	**186,957**

The accompanying notes are an integral part of this consolidated interim condensed financial information.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

OAO NOVATEK (hereinafter referred to as "NOVATEK") and its subsidiaries (hereinafter jointly referred to as the "Group") is an independent oil and gas company engaged in the acquisition, exploration, development, production and processing of hydrocarbons with its core oil and gas operations located and incorporated in the Yamal-Nenets Autonomous Region ("YNAO") of the Russian Federation.

The Group sells its natural gas on the Russian domestic market at unregulated market prices; however, the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal Tariff Service, a governmental agency. The Group's stable gas condensate and crude oil sales volumes are sold on both the Russian domestic and international markets, and are subject to fluctuations in benchmark crude oil prices. Additionally, the Group's natural gas sales fluctuate on a seasonal basis due mostly to Russian weather conditions, with sales peaking in the winter months of December and January and troughing in the summer months of July and August. The Group's liquids sales volumes comprising stable gas condensate, crude oil and oil and gas products remain relatively stable from period to period.

In 2011, the Group continued the legal process of renaming its subsidiaries to create a uniform brand image for NOVATEK and, as a result, the Group subsidiaries, Runitek GmbH and OOO Yamalgazresurs-Chelyabinsk, were renamed to Novatek Gas & Power GmbH and OOO NOVATEK-Chelyabinsk, respectively.

2 BASIS OF PRESENTATION

The consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*. This consolidated interim condensed financial information should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards ("IFRS"). The 31 December 2010 consolidated interim condensed statement of financial position data has been derived from the audited consolidated financial statements.

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial information are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2010. Estimates have principally been made in respect to useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations and assets retirement obligations.

Management reviews these estimates and judgments on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant.

Functional and presentation currency. Exchange rates used in preparation of these consolidated interim condensed financial information for the entities whose functional currency is not the Russian rouble were as follows:

For one currency unit to one Russian rouble	At 31 March 2011	At 31 December 2010	Average rate for the three months ended 31 March: 2011	2010
US dollar ("USD")	28.43	30.48	29.27	29.89
Polish Zloty ("PLN")	10.03	10.17	10.14	10.33

Exchange rates, restrictions and controls. Any re-measurement of Russian rouble amounts to US dollars or any other currency should not be construed as a representation that such Russian rouble amounts have been, could be, or will in the future be converted into other currencies at these exchange rates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2010 with the exception of implementation of IAS 24 *"Related Party Disclosures"* (revised in November 2009). These exceptions are disclosed in Note 23.

4 ACQUISITIONS AND DISPOSALS

Options for acquisition of additional ordinary shares of OAO Yamal LNG

In March 2011, the Group signed a call option agreement, which provides the Group with the right, but not the obligation, to purchase a 25.1 percent stake in Yamal LNG for USD 526 million until 1 July 2012. To enter into this call option agreement, the Group paid RR 422 million (USD 15 million), which will be offset against total consideration and was recorded as a prepayment in the consolidated interim condensed statement of financial position. The Group recognized the embedded option as a financial asset at fair value through profit or loss with nil value at both acquisition and reporting dates.

In February 2011, the Group reassigned the call option to purchase a 23.9 percent equity stake in Yamal LNG for USD 450 million from its foreign subsidiary to its Russian subsidiary. As a result, the call option is no longer considered an equity instrument and was reclassified to a financial asset at fair value through profit or loss and recognized in the consolidated interim condensed statement of financial position in the amount of RR 284 million (USD 10 million). The option was originally purchased by the Group in July 2009 and is valid until June 2012.

Disposal of ownership interest in ZAO Terneftegas

On 24 June 2009, NOVATEK and TOTAL E&P ACTIVITIES PETROLIERES ("TOTAL") signed a Heads of Agreement (the "Agreement") establishing the framework for joint cooperation in exploring and developing the Group's Termokarstovoye gas condensate field located in the YNAO.

The Agreement provides for the establishment of a joint venture through the acquisition, by TOTAL of a 49 percent ownership interest in ZAO Terneftegas (formerly a limited liability company, OOO Terneftegas), a wholly-owned subsidiary of the Group and holder of the license for exploration and production of natural gas and gas condensate at the Termokarstovoye field. Under the terms and conditions of the Agreement, the joint venture has two years to complete exploration works and prepare a field development plan, with a final investment decision to proceed further to be taken in 2011.

In December 2009, the Group signed a Sales and Purchase contract with Total Termokarstovoye B.V., an affiliate of TOTAL, for:

- the sale of a 28 percent interest in ZAO Terneftegas for total consideration of USD 24.1 million, of which USD 16 million was paid at the date of title transfer and the remaining USD 8.1 million (deferred payment) to be paid upon approval by TOTAL of the final investment decision; and
- a further increase of TOTAL's equity share in ZAO Terneftegas to 49 percent through a subscription to the entity's additional shares emission for total consideration of USD 18 million.

The Group transferred legal ownership of a 28 percent interest in ZAO Terneftegas to Total Termokarstovoye B.V. in February 2010 upon the execution of the first arrangement. In January 2010, ZAO Terneftegas registered with the Federal Service for Financial Markets (FSFM) for an additional shares emission, the acquisition of which was completed by TOTAL in June 2010. In September 2010, the legal implementation of the second arrangement of the transaction was finished and the subscription for the additional shares issued was registered by Total Termokarstovoye B.V. with the FSFM.

Based on the Agreement and the provisions of the Sales and Purchase contract, these two arrangements were accounted as a single transaction and, in February 2010, the Group recorded a disposal of a 49 percent ownership interest in ZAO Terneftegas for total consideration of RR 982 million realizing a gain of RR 1,466 million, net of associated income tax of RR 117 million.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

The following table summarizes the consideration details and shows the components of the gain from the sale of the ownership interest in ZAO Terneftegas:

	RR million
Cash	483
Receivable in respect of the deferred payment (USD 8.1 million at exchange rate of RR 30.11 to USD 1.00 discounted at 5.1 percent per annum)	222
The Group's proportion in an additional shares emission proceeds (51 percent of USD 18 million at exchange rate of RR 30.11 to USD 1.00)	277
Total consideration	982
Less: carrying amount of the Group's interest in net assets	(206)
Revaluation of the retained investment in equity investment	807
Gain on the sale of ownership interest	**1,583**

As described above, the Group retained a 51 percent interest in ZAO Terneftegas; however, the Agreement stipulates that key financial and operational decisions regarding its business shall be subject to unanimous approval by both shareholders and none of the participants have a preferential voting right. In February 2010, all operating bodies of the joint venture were established and the Group's effective control over ZAO Terneftegas ceased. As a result of these changes, the Group's interest in ZAO Terneftegas is accounted for using the equity method.

In accordance with IAS 27 *"Consolidated and Separate Financial Statements"*, the Group remeasured its retained investment in ZAO Terneftegas at fair value at the date of ceasing control, with the change in value of RR 807 million recognized as a part of the gain from disposal.

The following table reconciles the carrying value of ZAO Terneftegas prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method of accounting in these consolidated interim condensed financial information:

ZAO Terneftegas	**RR million**
Carrying value of the net assets at disposal	420
The Group's proportion in an additional shares emission proceeds	277
Less: carrying amount of the Group's interest in net assets	(206)
Revaluation of the retained investment	807
The carrying value of investment in joint venture	**1,298**

Prior to the disposal, the Group included balances and results of the operations of the disposed subsidiary within "exploration, production and marketing" in the Group's segment information.

Acquisition of controlling interests in the equity investments

On 15 February 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas, entities recorded as equity investments to 51 percent through the acquisition of an additional 26 percent participation interests in each company for the total cash consideration of RR 1,297 million. These entities are all exploration stage oil and gas companies and hold exploration licenses for the Middle-Chaselskiy, North-Russkiy, West-Tazovskiy, Anomalniy and North-Yamsoveskiy license areas. These licenses expire between 2012 and 2014. The Group intends to receive production licenses for these fields based on the exploration activities performed to date. Following the acquisition, in February 2010, OOO Oiltechproduct-Invest obtained the production license for the West-Chaselskoe field, which expires in 2030.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

4 ACQUISITIONS AND DISPOSALS (CONTINUED)

All three entities had no notable operating activities up to and as at the purchase date and are all considered to be in their early exploration stage; consequently, this acquisition is outside the definition of "business" as defined in IFRS 3, *"Business Combinations"*. The acquisition cost has been allocated based on the relative fair values of the assets acquired (largely comprised of their respective mineral licenses), and liabilities assumed.

Recognized amounts of identifiable assets acquired and liabilities assumed are presented below:

RR million	OOO Oiltechproduct-Invest	OOO Petra Invest-M	OOO Tailiksneftegas	Total
Property, plant and equipment	547	370	959	1,876
Other non-financial assets	531	199	314	1,044
Financial assets	190	9	18	217
Short-term debt	(769)	(519)	(862)	(2,150)
Other financial liabilities	(149)	(108)	(203)	(460)
Non-financial liabilities	(146)	(39)	(102)	(287)
Total identifiable net assets (liabilities)	**204**	**(88)**	**124**	**240**

The following table shows the total cost of the acquired mineral rights:

RR million	OOO Oiltechproduct-Invest	OOO Petra Invest-M	OOO Tailiksneftegas	Total
Carrying value of the 25 percent participation interest	438	369	407	1,214
Purchase consideration for the 26 percent participation interest	502	380	415	1,297
Gross up for total value of the assets acquired	903	720	791	2,414
Less: identifiable net assets (liabilities)	(204)	88	(124)	(240)
Cost of the acquired mineral rights	**1,639**	**1,557**	**1,489**	**4,685**

The aforementioned property, plant and equipment in the amount of RR 1,876 million combined with the cost of mineral rights in the amount of RR 4,685 million are included in the line "acquisition of subsidiaries" as disclosed in Note 5.

The financial and operational activities of Oiltechproduct-Invest, Petra Invest-M and Tailiksneftegas were not material to the Group's revenues and results of operations for the three months ended 31 March 2010.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the three months ended 31 March 2011 and 2010 are as follows:

For the three months ended 31 March 2010	Operating assets	Assets under construction and advances for construction	Total
Cost	163,274	19,885	183,159
Accumulated depreciation, depletion and amortization	(21,711)	-	(21,711)
Net book value at 1 January 2010	**141,563**	**19,885**	**161,448**
Acquisition of subsidiaries	4,711	1,850	6,561
Additions	242	5,988	6,230
Transfers	1,935	(1,935)	-
Depreciation, depletion and amortization	(1,653)	-	(1,653)
Disposals, net	(72)	(20)	(92)
Cost	170,070	25,768	195,838
Accumulated depreciation, depletion and amortization	(23,344)	-	(23,344)
Net book value at 31 March 2010	**146,726**	**25,768**	**172,494**

For the three months ended 31 March 2011	Operating assets	Assets under construction and advances for construction	Total
Cost	197,647	16,022	213,669
Accumulated depreciation, depletion and amortization	(28,096)	-	(28,096)
Net book value at 1 January 2011	**169,551**	**16,022**	**185,573**
Additions	334	6,008	6,342
Transfers	1,518	(1,518)	-
Depreciation, depletion and amortization	(2,064)	-	(2,064)
Disposals, net	(63)	(422)	(485)
Cost	199,411	20,090	219,501
Accumulated depreciation, depletion and amortization	(30,135)	-	(30,135)
Net book value at 31 March 2011	**169,276**	**20,090**	**189,366**

Included in additions to property, plant and equipment for the three months ended 31 March 2011 and 2010 are capitalized interest and foreign exchange loss of RR 863 million and RR 523 million, respectively.

Included within the operating assets balance at 31 March 2011 and 31 December 2010 are proved properties of RR 62,154 million and RR 62,509 million, net of accumulated depletion of RR 9,270 million and RR 8,915 million, respectively.

Included within the operating assets balance at 31 March 2011 and 31 December 2010 are unproved properties of RR 6,983 million and RR 6,991 million. The Group's management believes these costs are recoverable and has plans to explore and develop the respective properties.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

6 EQUITY INVESTMENTS

	At 31 March 2011	At 31 December 2010
Associates:		
OAO Sibneftegas	25,349	25,758
Joint ventures:		
ZAO Terneftegas	1,248	1,268
Total equity investments	**26,597**	**27,026**

The Group's investment in OOO Yamal Development at 31 March 2011 and 31 December 2010 is valued at RR nil due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The excess of the accumulated losses over the Group's cost of investment in Yamal Development were recorded as a reduction of long-term loans provided by the Group to the joint venture (see Note 7).

The table below summarizes the movement in the carrying amounts of the Group's equity investments.

	2011	2010
At 1 January	**27,026**	**1,214**
Share of profit (loss) of equity investments before income tax	(598)	(1)
Share of income tax (expense) benefit	72	-
Share of profit (loss) of equity investments, net of income tax	**(526)**	**(1)**
Disposals of subsidiaries resulting in recognition of equity investments	-	1,298
Acquisition of controlling stake resulting in derecognition of equity investments	-	(1,214)
Losses recognized in excess of equity investments, reclassified to long-term loans receivable for these companies	97	-
At 31 March	**26,597**	**1,297**

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

7 LONG-TERM LOANS AND RECEIVABLES

	At 31 March 2011	At 31 December 2010
Russian rouble denominated loans	28,057	37,955
US dollar denominated loans	94	102
Long-term interest receivable	701	31
Long-term receivables	12,056	2,063
Total long-term loans and receivables	**40,908**	**40,151**

Russian rouble denominated loans. On 15 December 2010, the Group provided two loans to OAO Sibneftegas, the Group's equity investment, for RR 7,429 million and RR 3,609 million. The first loan was issued at an annual interest rate of 10 percent and is repayable in November 2014. The second loan was issued at an annual interest rate of 9.5 percent and is repayable quarterly in equal parts starting from March 2011 until November 2014. Included in the Russian rouble denominated loans at 31 March 2011 and 31 December 2010 are the long-term portions of the loans in the total amount of RR 9,829 million and RR 10,070 million, respectively.

At 31 March 2011 and 31 December 2010, the Russian rouble denominated loans include a loan to OOO Yamal Development, the Group's equity investment, in the amount of RR 18,563 million and RR 28,123 million, respectively. The loan was issued at an annual interest rate of 8 percent and is repayable in November 2011. For the purpose of this financial information, the loan was treated as part of the Group's net investment in its equity investment and classified as long-term. At 31 March 2011 and 31 December 2010, the loan was recorded net of accumulated losses recognized by Yamal Development in excess of the Group's investment in the equity investment in the amount of RR 335 million and RR 238 million, respectively (see Note 6).

In March 2011, the participants of OOO Yamal Development made a decision to increase its charter capital by converting RR 20 billion of the loans provided to the company, including accrued interest, to equity. The legal procedures to register the new charter was not completed at 31 March 2011 and, accordingly, the aforementioned amounts were recognized as long-term receivables.

No provisions for impairment of long-term loans and receivables were recognized in the consolidated interim condensed statement of financial position at 31 March 2011 and 31 December 2010.

8 LONG-TERM DEBT

	At 31 March 2011	At 31 December 2010
US dollar denominated bonds	35,269	-
Russian rouble denominated loans	24,952	24,948
US dollar denominated loans	14,605	19,129
Russian rouble denominated bonds	9,954	9,949
Total	**84,780**	**54,026**
Less: current portion of long-term debt	(7,449)	(6,952)
Total long-term debt	**77,331**	**47,074**

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

8 LONG-TERM DEBT (CONTINUED)

At 31 March 2011 and 31 December 2010, the Group's long-term debt by facility is as follows:

	At 31 March 2011	At 31 December 2010
Eurobonds – Ten-Year Tenor	18,331	-
Eurobonds – Five-Year Tenor	16,938	-
Sberbank	14,952	14,948
Gazprombank	10,000	10,000
Russian rouble denominated bonds	9,954	9,949
Nordea Bank	5,686	6,095
UniCredit Bank	5,675	6,082
Syndicated term loan facility	3,244	6,952
Total	**84,780**	**54,026**

Eurobonds. In February 2011, the Group issued Eurobonds in an aggregate amount of USD 1,250 million. The Eurobonds were issued at par in two tranches, a five-year USD 600 million bond with a coupon rate of 5.326 percent and a ten-year USD 650 million bond with a coupon rate of 6.604 percent. The coupons are payable semi-annually. At 31 March 2011, the outstanding amount was RR 35,269 million (USD 1,241 million), net of unamortized transaction costs of RR 267 million.

Sberbank. On 16 December 2010, the Group obtained a RR 15 billion loan from Sberbank for general corporate purposes including financing capital expenditures. The loan bears an interest rate of 7.5 percent per annum and is repayable in December 2013. At 31 March 2011, the outstanding loan amount was RR 14,952 million, net of unamortized transaction cost of RR 48 million.

Gazprombank. On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion until November 2012. Throughout 2010 and first three months of 2011, the Group gradually reduced the stated interest rate from the initial 13 percent to 8 percent per annum. At 31 March 2011, the outstanding amount was RR 10,000 million.

Russian rouble denominated bonds. In June 2010, the Group issued ten million three-year non-convertible Russian rouble denominated bonds, each with a nominal value RR 1,000 and an annual coupon rate of 7.5 percent, payable semi-annually. At 31 March 2011, the outstanding amount was RR 9,954 million, net of unamortized transaction costs of RR 46 million.

Syndicated term loan facility. At 31 March 2011, the US dollar denominated loans included an unsecured syndicated term loan facility in the amount of RR 3,244 million (USD 114 million) net of unamortized transaction costs of RR 5 million. The facility paid an interest of LIBOR plus 1.5 percent per annum (1.8 percent and 1.79 percent at 31 March 2011 and 31 December 2010, respectively) and included the maintenance of certain restrictive financial covenants. In April 2011, the loan facility was fully repaid in accordance with its maturity schedule.

Nordea Bank. On 16 November 2010, the Group entered into a USD 200 million credit line facility with OAO Nordea Bank. The facility has a three-year tenure with repayments to begin in the first quarter 2013 and is to be repaid in quarterly installments thereafter until November 2013. The facility has an initial interest rate of LIBOR plus 1.9 percent per annum (2.15 percent and 2.16 percent at 31 March 2011 and 31 December 2010, respectively) and includes the maintenance of certain restrictive financial covenants. At 31 March 2011, the outstanding amount was RR 5,686 million (USD 200 million).

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

8 LONG-TERM DEBT (CONTINUED)

UniCredit Bank. On 5 October 2009, the Group obtained a USD 200 million loan until October 2012 under credit line facilities with UniCredit Bank at an initial interest rate of LIBOR plus 6.5 percent, which was subsequently reduced to LIBOR plus 4.65 percent effective from 25 February 2010 and to LIBOR plus 3.25 effective from 11 January 2011 (3.51 percent and 4.92 percent at 31 March 2011 and 31 December 2010, respectively). The loan includes the maintenance of certain restrictive financial covenants. At 31 March 2011, the amount of RR 5,675 million (USD 200 million), net of unamortized transaction costs of RR 11 million, had been drawn under this agreement.

The fair values of long-term debt at 31 March 2011 and 31 December 2010 were as follows:

	At 31 March 2011	At 31 December 2010
Eurobonds – Ten-Year Tenor	19,509	-
Eurobonds – Five-Year Tenor	17,650	-
Sberbank	14,937	15,000
Gazprombank	10,037	10,122
Russian rouble denominated bonds	10,130	10,061
UniCredit Bank	5,723	6,139
Nordea Bank	5,605	5,814
Syndicated term loan facility	3,223	6,885
Total	**86,814**	**54,021**

Scheduled maturities of long-term debt at 31 March 2011 were as follows:

Maturity period:	RR million
1 April 2012 to 31 March 2013	12,891
1 April 2013 to 31 March 2014	29,171
1 April 2014 to 31 March 2015	-
1 April 2015 to 31 March 2016	16,938
After 31 March 2016	18,331
Total long-term debt	**77,331**

9 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	At 31 March 2011	At 31 December 2010
US dollar denominated loans	-	18,200
Total	-	18,200
Add: current portion of long-term debt	7,449	6,952
Total short-term debt and current portion of long-term debt	**7,449**	**25,152**

Bridge loan facility. At 31 December 2010, the US dollar denominated loans included a RR 18,200 million (USD 597 million), net of unamortized transaction costs of RR 85 million, bridge loan facility obtained for financing of the acquisition by the Group's joint venture OOO Yamal Development of a 51 percent participation interest in OOO SeverEnergia. The bridge loan facility had one-year tenure with a bullet repayment to be made by 15 November 2011. The interest rate under the bridge facility was LIBOR plus one percent per annum. In February 2011, the bridge loan was fully repaid ahead of its maturity schedule.

9 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT (CONTINUED)

Available credit facilities. Available credit facilities at 31 March 2011 were as follows:

		Expiring	
in millions of Russian roubles	Par value in	Within one year	Between 1 and 2 years
Credit Agricole Corporate and Investment Bank [(a)]	USD	2,843	-
BNP PARIBAS Bank [(a)]	USD	2,843	-
UniCredit Bank [(a)]	USD	-	2,843
Sumitomo Mitsui Banking Corporation Europe Limited [(b)]	USD	8,529	-
Total available credit facilities		**14,215**	**2,843**

[(a)] – interest rates are predetermined or negotiated at time of each withdrawal
[(b)] – interest rate LIBOR plus 1.45 percent

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 5,544 million (USD 195 million) and RR 5,943 million (USD 195 million) at 31 March 2011 and 31 December 2010, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

10 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2011	At 31 December 2010
Financial liabilities		
Trade payables	3,463	2,194
Other payables	424	24,760
Interest payable	554	53
Non-financial liabilities		
Advances from customers	432	412
Salary payables	1,310	897
Other liabilities	216	163
Trade payables and accrued liabilities	**6,399**	**28,479**

At 31 December 2010, other payables included RR 21,176 million relating to the acquisition of a 51 percent equity stake in Sibneftegas, which was paid in March 2011.

11 SHAREHOLDERS' EQUITY

Treasury shares. In accordance with the share buyback program authorized by the Board of Directors on 11 February 2008, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, has periodically purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers. At 31 March 2011 and 31 December 2010, the Group held 312,277 GDRs (3,123 thousand ordinary shares) at a total cost of RR 446 million. The Group has decided that these GDRs do not vote.

Dividends. On 28 April 2011, the Annual General Meeting of Shareholders approved the final 2010 dividend payment totaling RR 7,591 million (including treasury shares), which is to be paid within 60 days to the shareholders of record at the close of business on 22 March 2011.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

12 SHARE-BASED COMPENSATION PROGRAM

On 12 February 2010, NOVATEK's Management Committee approved a share-based compensation program (the "Program") for a limited number of the Group's senior and key management, as well as high-potential managers, but excluding the members of the Management Committee, which aims to encourage participants to take an active interest in the future development of the Group and to provide material incentive to create shareholders value in OAO NOVATEK. The Program was established in accordance with the *Concept of the Long-Term Incentive of Senior Employees* approved by the Board of Directors on 25 September 2006 and the *Share Buyback Program*.

For the three months ended 31 March 2011 and 2010, the Group recorded RR 88 million and RR nil, respectively, as expenses under this Program, which is included in general and administrative expenses, and RR 107 million and RR 236 million were recognized as other non-current liabilities and RR 218 million and RR 164 million were recognized as trade payables and accrued liabilities at 31 March 2011 and 31 December 2010, respectively.

13 OIL AND GAS SALES

	Three months ended 31 March:	
	2011	**2010**
Natural gas	28,330	18,914
Stable gas condensate	12,192	4,933
Liquefied petroleum gas	3,714	3,032
Crude oil	515	325
Oil and gas products	42	33
Total oil and gas sales	**44,793**	**27,237**

14 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2011	**2010**
Natural gas transportation to customers	8,568	6,712
Liquids transportation by rail	2,323	1,628
Liquids transportation by tankers	932	551
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	-	119
Crude oil transportation to customers	57	48
Other	3	5
Total transportation expenses	**11,883**	**9,063**

15 TAXES OTHER THAN INCOME TAX

The Group is subject to a number of taxes other than income tax, which are detailed as follows:

	Three months ended 31 March:	
	2011	**2010**
Unified natural resources production tax	3,557	2,018
Property tax	434	336
Excise and fuel taxes	243	31
Other taxes	86	39
Total taxes other than income tax	**4,320**	**2,424**

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

16 FINANCE INCOME (EXPENSE)

Interest income	Three months ended 31 March: 2011	2010
Interest income on cash and cash equivalents	54	47
Interest income on loans issued	804	58
Interest income (on historical cost basis)	**858**	**105**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	61	10
Total interest income	**919**	**115**

Interest expense (including transaction costs)	Three months ended 31 March: 2011	2010
7.5% RR 15 billion Sberbank December 2013	282	-
8.5% RR 5 billion Sberbank February 2011 [(a)]	-	162
8% RR 10 billion Gazprombank November 2012 [(a)]	203	174
6.604% USD 650 million Eurobonds February 2021	202	-
7.5% RR 10 billion Bonds June 2013	190	-
5.326% USD 600 million Eurobonds February 2016	153	-
LIBOR+3.25% USD 200 million UniCredit Bank October 2012 [(a)]	55	91
LIBOR+1.9% USD 200 million Nordea Bank November 2013	31	-
LIBOR+1.5% USD 800 million Syndicated term loan facility April 2011	28	105
Interest expense on short-term debt [(b)]	109	20
Subtotal	**1,253**	**552**
Less: capitalised interest	(863)	(523)
Interest expense (on historical cost basis)	**390**	**29**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	212	46
Provisions for asset retirement obligations: unwinding of the present value discount	53	74
Total interest expense	**655**	**149**

[(a)] – interest rates were reduced during the periods (see Note 8)
[(b)] – including credit facility with interest rates negotiated at time of each withdrawal (see Note 9)

17 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2011 and 2010 was 20 percent. For the three months ended 31 March 2011 and 2010, the Group's consolidated effective income tax rate was 20.3 percent and 20.8 percent, respectively.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The accounting policies for financial instruments have been applied to the line items below:

Financial assets	*Financial assets at fair value through profit and loss* At 31 March 2011	At 31 December 2010	*Loans and receivables* At 31 March 2011	At 31 December 2010
Non-current				
Long-term loans receivable	-	-	28,151	38,057
Trade and other receivables	-	-	12,757	2,094
Current				
Short-term loans receivable	-	-	724	969
Trade and other receivables	-	-	12,523	8,670
Short-term bank deposits	-	-	381	-
Financial assets at fair value through profit and loss	284	-	-	-
Cash and cash equivalents	-	-	15,392	10,238
Total carrying amount	**284**	**-**	**69,928**	**60,028**

Financial liabilities	*Measured at amortized cost* At 31 March 2011	At 31 December 2010
Non-current		
Long-term debt	77,331	47,074
Other non-current liabilities	-	110
Current		
Current portion of long-term debt	7,449	6,952
Short-term debt	-	18,200
Trade and other payables	4,441	27,007
Total carrying amount	**89,221**	**99,343**

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial results. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar. Foreign exchange risk arises primarily from future commercial transactions, recognized assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. Foreign currency derivative instruments may be utilized to manage the risk exposures associated with fluctuations on certain firm commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian rouble, and certain non-Russian rouble assets and liabilities.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

At 31 March 2011	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	28,057	94	-	28,151
Trade and other receivables	12,737	-	20	12,757
Current				
Short-term loans receivable	724	-	-	724
Trade and other receivables	6,150	6,041	332	12,523
Short-term bank deposits	380	-	1	381
Financial assets at fair value through profit and loss	-	284	-	284
Cash and cash equivalents	11,960	2,571	861	15,392
Financial liabilities				
Non-current				
Long-term debt	(32,407)	(44,924)	-	(77,331)
Current				
Current portion of long-term debt	(2,499)	(4,950)	-	(7,449)
Trade and other payables	(3,462)	(905)	(74)	(4,441)
Net exposure at 31 March 2011	**21,640**	**(41,789)**	**1,140**	**(19,009)**

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2010	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	37,955	102	-	38,057
Trade and other receivables	2,072	-	22	2,094
Current				
Short-term loans receivable	969	-	-	969
Trade and other receivables	4,759	3,582	329	8,670
Cash and cash equivalents	6,085	3,169	984	10,238
Financial liabilities				
Non-current				
Long-term debt	(34,897)	(12,177)	-	(47,074)
Other non-current liabilities	-	(110)	-	(110)
Current				
Current portion of long-term debt	-	(6,952)	-	(6,952)
Short-term debt	-	(18,200)	-	(18,200)
Trade and other payables	(23,589)	(3,350)	(68)	(27,007)
Net exposure at 31 December 2010	**(6,646)**	**(33,936)**	**1,267**	**(39,315)**

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas, stable gas condensate and crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group manages the exposure to commodity price risk by optimizing its core activities to achieve stable price margins.

Natural gas. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices. Nevertheless, the Group's prices for natural gas sold are strongly influenced by the prices regulated by the Federal Tariffs Service (FTS), a governmental agency. In November 2006, the FTS approved and published a plan to liberalize the price of natural gas sold on the Russian domestic market by the year 2011. As part of the plan, in December 2010, the FTS approved an increase of 15 percent in the regulated prices effective 1 January 2011 for the year 2011.

In February 2011, the Government of the Russian Federation announced certain revisions to the domestic natural gas market liberalization plan. According to the revised plan, the target date for full liberalization of the domestic natural gas market is 1 January 2015. The regulation of the domestic natural gas price after 2015 will be based on the net-back parity of natural gas prices on the domestic and export markets while taking into account the cost of alternative fuels.

Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. However, to effectively manage the margins achieved through its natural gas trading activities, management has established targets for volumes sold to wholesale traders, end-customers and the natural gas exchange.

Liquid hydrocarbons. The Group sells all its crude oil and related products and gas condensate under spot contracts. Gas condensate volumes sold to the US, European and Asian-Pacific Region (hereinafter referred to as "APR") markets are based on benchmark reference crude oil prices of WTI, Brent IPE and Dubai or Naphtha Japan, respectively, plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(c) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

The interest rate profiles of the Group's interest-bearing financial instruments at the reporting dates were as follows:

	At 31 March 2011	At 31 December 2010
At variable rate	14,605	37,327
At fixed rate	70,175	34,899
Total debt	**84,780**	**72,226**

The Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to minimal risk of default.

The Group's trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas. Most of the Group's international liquid sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. All domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis. The Group also requires 100 percent prepayments from small customers for natural gas deliveries and partial advances from others. Although the Group generally does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated interim condensed financial information of financial position.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 March 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	2,500	7,500	42,057	18,479	70,536
Interest	4,804	4,272	7,187	5,910	22,173
Debt at variable rate					
Principal (*)	4,954	5,403	4,264	-	14,621
Interest	319	169	42	-	530
Trade and other payables	4,441	-	-	-	4,441
Total financial liabilities	**17,018**	**17,344**	**53,550**	**24,389**	**112,301**

At 31 December 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	-	10,000	25,000	-	35,000
Interest	2,725	2,372	1,411	-	6,508
Debt at variable rate					
Principal (*)	25,252	6,095	6,095	-	37,442
Interest	656	413	78	-	1,147
Trade and other payables	27,007	-	-	-	27,007
Total financial liabilities	**55,640**	**18,880**	**32,584**	**-**	**107,104**

(*) – differs from long-term debt (Note 8) for transaction costs

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

At the reporting date, the Group had investment grade credit ratings of Baa3 (stable outlook) by Moody's Investors Service and BBB- (negative outlook) by Fitch Ratings, as well as a credit rating of BBB- (negative outlook) by Standard & Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

18 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The Group manages its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet group operational requirements. All external debts are centralized at the Parent level, and all financing to Group entities is facilitated through inter-company loan arrangements or additional contributions to share capital.

The Group has a stated dividend policy that distributes at least 30 percent of its Parent company's non-consolidated statutory net profit determined according to Russian accounting standards. However, the dividend for a specific year is determined after taking into consideration future earnings, capital expenditure requirements, future business opportunities and the Group current financial position. Dividends are recommended by the Board of Directors and approved by the NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to OAO NOVATEK shareholders minus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the three months ended 31 March 2011.

19 CONTINGENCIES AND COMMITMENTS

Operating environment. The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, and relatively high inflation. The tax, currency and customs legislation is subject to varying interpretations, frequent changes and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the country.

Commitments. At 31 March 2011, the Group had contractual capital expenditures commitments aggregating approximately RR 12,284 million (at 31 December 2010: RR 9,834 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2012), development of the South-Tambeyskoye field (through 2012), construction of the terminal for the transshipment and fractionation of stable gas condensate (through 2011), development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2012) and for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2011) all in accordance with duly signed agreements. Furthermore, at 31 March 2011 and at 31 December 2010, the Group's share of capital commitments for investments in joint ventures aggregates approximately RR 4,581 million development of the Samburgskoye field through 2013.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such taxation legislation as applied to the Group's transactions and activities may be periodically challenged by the relevant regional and federal authorities. Furthermore, events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 March 2011, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued in the consolidated interim condensed financial information.

19 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Mineral licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its mineral licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any material adverse effect on the Group's financial position, results of operations or cash flows.

The Group's oil and gas fields and license areas are situated on land located in the Yamal-Nenets Autonomous Region. Licenses are issued by the Federal Agency for the Use of Natural Resources under the Ministry of Natural Resources of the Russian Federation and the Group pays unified natural resources production tax to produce crude oil, natural gas and unstable condensate from these fields and contributions for exploration of license areas.

Environmental liabilities. The Group and its predecessor entities have operated in the oil and gas industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognized as an expense immediately if no future benefit is discernible. Potential liabilities arising as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, management believes that there are no probable liabilities, which will have a material adverse effect on the Group's financial position, results of operations or cash flows.

Legal contingencies. The Group is subject of, or party to a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the consolidated interim condensed financial information.

20 RELATED PARTY TRANSACTIONS

Transactions between the NOVATEK and its subsidiaries, which are related parties of the NOVATEK, have been eliminated on consolidation and are not disclosed in this Note.

For the purposes of this consolidated interim condensed financial information, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. The Group enters into transactions with related parties based on market or regulated prices.

All natural gas producers and wholesalers operating in Russia transport their natural gas volumes through the Unified Gas Supply System (UGSS), which is owned and operated by OAO Gazprom, a State monopoly. As an independent natural gas producer, the Group utilizes the UGSS to transport natural gas to end-consumers at the tariff established by the Federal Tariff Service.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with OAO Gazprom, a shareholder of significant influence, from October 2006 until 20 December 2010, and its subsidiaries are presented below.

	Three months ended 31 March:	
Related parties – OAO Gazprom and its subsidiaries (until December 2010)	2011	2010
Transactions		
OAO Gazprom:		
Natural gas sales	-	3,721
Natural gas transportation to customers	-	6,892
Other Gazprom subsidiaries:		
Processing fees	-	177
Natural gas transportation	-	120

On 20 December 2010, OAO Gazprom sold 9.4 percent of its NOVATEK shares to a third party and consequently ceased to be a related party of the Group from that date.

	Three months ended 31 March:	
Related parties – equity investments	2011	2010
Transactions		
OAO Sibneftegas (from December 2010):		
Interest income on loans issued	263	-
Purchase of natural gas	(933)	-
OOO Yamal Development (from November 2010):		
Interest income on loans issued	522	-

Related parties – equity investments	At 31 March 2011	At 31 December 2010
Balances		
OAO Sibneftegas (from December 2010):		
Long-term loans receivable	9,829	10,070
Interest on long-term loans receivable	216	33
Short-term loans receivable	724	967
Trade payables and accrued liabilities	378	-
OOO Yamal Development (from November 2010):		
Long-term loans receivable	18,228	27,885
Interest on long-term loans receivable	487	191
Long-term receivable	10,000	-
ZAO Terneftegas (from February 2010):		
Long-term loans receivable	94	102

As discussed in Note 4, in February 2010, the Group's effective control over ZAO "Terneftegas" ceased; therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – equity investments.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

Effective 1 January 2011 the Group adopted revised of IAS 24 *"Related Party Disclosures"* which adjusted the definition of the related party. In accordance with the revised standard, parties under significant influence of key management personnel are not related parties of the Group. Thus OOO Nova, Aldi trading Limited, Orsel consultant Limited and Innecto ventures Limited are no longer considered to be a related party.

In December 2010, the Chairman of the Management Board of NOVATEK acquired an effective 25 percent stake in ZAO SIBUR Holding. As a result, the Group's balances with this company and its subsidiaries at 31 December 2010 were disclosed as with related parties – parties under significant influence of key management personnel. With the adoption of the revised IAS 24 *"Related Party Disclosures"* ZAO SIBUR Holding ceased to be a related party to the Group.

The comparative figures in the disclosure with respect to balances at 31 December 2010 and transactions for the three months ended 31 March 2010 have been adjusted to reflect the change in definitions of a related party following the adoption of the revised standard IAS 24 *"Related Party Disclosures"*.

Related parties – party under control of key management personnel	**At 31 March 2011**	**At 31 December 2010**
Balances		
OAO Pervobank:		
Cash and cash equivalents	1,645	1,760

Key management compensation. The Group paid to key management personnel (members of the Board of Directors and the Management Committee, some of whom have also direct and indirect interests in the Group) short-term compensation, including salary, bonuses, and excluding dividends the following amounts.

	Three months ended 31 March:	
Related parties – members of the key management personnel	**2011**	**2010**
Board of Directors	19	10
Management Committee	361	59
Total compensation	**380**	**69**

Such amounts include personal income tax and are net of unified social tax. The Board of Directors consists of nine members. The Management Committee consisted of 15 members until 24 March 2011 and was subsequently reduced to eight members.

The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders. Members of the Management Committee also receive certain short-term benefits related to healthcare.

In addition, RR 44 million was recognized during the three months ended 31 March 2010 as part of the share-based compensation scheme and included in general and administrative expenses. In May 2010, share-based compensation to the key members of the Group's management team was fully recognized.

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

21 SEGMENT INFORMATION

The Group's activities are considered by the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK) to comprise the following operating segments:

- Exploration, production and marketing – acquisitions, exploration, development, production, processing, marketing and transportation of natural gas, gas condensate and related products; and

- Polymer products production and marketing – production and marketing of polymer insulation tape and other polymer products (disposed in September 2010).

Segment information is provided to the CODM in accordance with Regulations on Accounting and Reporting of the Russian Federation ("RAR") with reconciling items largely representing adjustments and reclassifications recorded in the consolidated interim condensed financial information for the fair presentation in accordance with IFRS.

Segment information for the three months ended 31 March 2011 is as follows:

For the three months ended 31 March 2011	***References***	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated interim condensed financial information**
External revenues	*a*	45,062	45,062	(201)	44,861
Operating expenses	*b, c, d, e*	(23,411)	(23,411)	(10)	(23,421)
Other operating income (loss)	*c*	(192)	(192)	256	64
Interest expense	*f*	(1,403)	(1,403)	748	(655)
Interest income		840	840	79	919
Foreign exchange gain (loss)		2,486	2,486	(12)	2,474
Segment result		**23,382**	**23,382**	**860**	**24,242**
Share of loss of equity investments, net of income tax					(526)
Profit before income tax					**23,716**
Depreciation, depletion and amortization	*b, c*	2,913	2,913	(852)	2,061
Capital expenditures	*f*	4,655	4,655	1,687	6,342

Reconciling items mainly related to:

a. different methodology of stable gas condensate sales recognition under IFRS and the RAR which requires reversal of external revenues for RR 153 million;

b. different methodology in calculating depreciation, depletion and amortization for oil and gas properties between IFRS (units of production method) and management accounting (straight-line method), which resulted in reversal of RR 955 million in operating expenses under IFRS;

c. different methodology in the classification of depreciation, depletion and amortization for operating assets, which have not completed their statutory registration, between IFRS and management accounting, which resulted in the reclassification of RR 121 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

21 SEGMENT INFORMATION (CONTINUED)

d. different methodology in recognizing expenses relating to natural gas storage services and payroll (including share-based payments, pension obligation, discounting loans to employee and bonus accruals) between IFRS and management accounting, which resulted in the reversal in transportation expenses of RR 242 million and additional payroll expenses of RR 545 million recorded in operating expenses under IFRS;

e. different methodology in recognizing of exploration expenses, which resulted in additional operating expenses of RR 573 million charged under IFRS; and

f. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional interest capitalized and additional capitalization of foreign exchange loss of RR 799 million and additional capital expenditures of RR 888 million under IFRS.

Segment information for the three months ended 31 March 2010 is as follows:

For the three months ended 31 March 2010	***References***	**Exploration, production and marketing**	**Polymer products production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated interim condensed financial information**
External revenues	*a*	27,395	483	27,878	(136)	27,742
Operating expenses	*c, d*	(15,513)	(417)	(15,930)	(17)	(15,947)
Other operating income (loss)	*b, c*	372	3	375	1,203	1,578
Interest expense	*e*	(396)	-	(396)	247	(149)
Interest income		49	1	50	65	115
Foreign exchange gain (loss)		664	1	665	(19)	646
Segment result		**12,571**	**71**	**12,642**	**1,343**	**13,985**
Share of loss of equity investments, net of income tax						(1)
Profit before income tax						**13,984**
Depreciation, depletion and amortization	*c, d*	1,849	16	1,865	(227)	1,638
Capital expenditures	*e*	4,958	1	4,959	1,271	6,230

Reconciling items mainly related to:

a. different methodology of stable gas condensate sales recognition under IFRS and the RAR which requires reversal of external revenues for RR 89 million;

b. different methodology of calculation disposal of participation interest in ZAO “Terneftegas” under IFRS and RAR which requires recording RR 988 million in other operating income (loss);

c. adjustment of prior period expenses under RAR, which are recognized under IFRS as depreciation, depletion and amortization which requires reclassification of loss of RR 222 million from other operating income (loss) to depreciation, depletion and amortization;

d. different methodology of depreciation, depletion and amortization calculation for oil and gas properties between IFRS (units of production) and the RAR (straight-line) which requires reversal in external expenses of RR 449 million; and

(in Russian roubles, [tabular amounts in millions] unless otherwise stated)

21 SEGMENT INFORMATION (CONTINUED)

e. different methodology of capital expenditures recognition which requires recording an additional capital expenditures of RR 531 million and different interest capitalization policies under IFRS and RAR, which requires recording additional interest capitalized in the amount of RR 410 million.

Geographical information. The Group's two segments operate in four major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, production and sales of natural gas, crude oil, gas condensate and related products and sales of polymer and insulation tape. Activities outside the Russian Federation are conducted in the United States (sales of stable gas condensate), in Europe (sales of stable gas condensate, liquefied petroleum gas and crude oil), in Asian-Pacific region (hereinafter referred to as "APR") (sales of stable gas condensate) and other areas (sales of liquefied petroleum gas and sales of polymer and insulation tape).

Geographical information for the three months ended 31 March 2011 and 2010 is as follows:

For the three months ended 31 March 2011	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	28,330	-	-	-	-	-	-	28,330
Stable gas condensate	-	5,719	4,499	9,001	-	(7,027)	12,192	12,192
Liquefied petroleum gas	1,345	2,886	-	-	10	(527)	2,369	3,714
Crude oil	284	439	-	-	-	(208)	231	515
Oil and gas products	42	-	-	-	-	-	-	42
Oil and gas sales	**30,001**	**9,044**	**4,499**	**9,001**	**10**	**(7,762)**	**14,792**	**44,793**
Other revenues	66	2	-	-	-	-	2	68
Total external revenues	**30,067**	**9,046**	**4,499**	**9,001**	**10**	**(7,762)**	**14,794**	**44,861**

For the three months ended 31 March 2010	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	18,914	-	-	-	-	-	-	18,914
Stable gas condensate	1	1,102	7,212	(135)	-	(3,247)	4,932	4,933
Liquefied petroleum gas	1,253	1,977	-	-	-	(198)	1,779	3,032
Crude oil	159	329	-	-	-	(163)	166	325
Oil and gas products	33	-	-	-	-	-	-	33
Oil and gas sales	**20,360**	**3,408**	**7,212**	**(135)**	**-**	**(3,608)**	**6,877**	**27,237**
Polymer products sales (until September 2010)	391	-	-	-	78	-	78	469
Other revenues	36	-	-	-	-	-	-	36
Total external revenues	**20,787**	**3,408**	**7,212**	**(135)**	**78**	**(3,608)**	**6,955**	**27,742**

Revenues from external customers are based on the geographical location of customers even though all revenues are generated from assets located in the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation.

21 SEGMENT INFORMATION (CONTINUED)

Major customers. For the three months ended 31 March 2011 and 2010, the Group had two and three major customers to whom individual revenues were more than 10 percent of total external revenues. The total sales to these respective customers represented 31 percent and 32 percent of Group's total external revenues for the three months ended 31 March 2011 and 2010, respectively.

Sales to major customers are included in the results of the Exploration, production and marketing segment.

22 SUBSEQUENT EVENTS

On 5 April 2011, the full amount of RR 8,468 million (USD 300 million) had been drawn down under the loan agreement with Sumitomo Mitsui Banking Corporation Europe Limited. The facility has an interest rate of LIBOR plus 1.45 percent per annum with repayments commencing September 2011, and is to be paid in quarterly installments thereafter until December 2013.

On 29 April 2011, OOO Yamal Development proportionally reassigned its loan provided to OOO SeverEnergia in the amount of RR 7,502 million, of which RR 3,751 million is attributable to NOVATEK. In addition, NOVATEK provided proportionally a further loan facility to SeverEnergia in the amount of RR 4,154 million at interest rate of MosPrime plus three percent per annum.

23 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2011, in addition to that which is disclosed in Note 3, the Group has adopted the following new standards and interpretations:

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits;

- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt;

- Amendment to IAS 32 (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives;

- Amendment to IAS 24, *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (ii) providing a partial exemption from the disclosure requirements for government-related entities; and

- Amendment to IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

23 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The adoption of these new standards and interpretations, in case of such operations, had an insignificant effect on the Group’s consolidated interim condensed financial information, except for the related parties transactions and balances disclosures which were prepared in accordance with the new related parties definitions set in the revised IAS 24 *“Related Party Disclosures”* – see Note 20.

Recently, the International Accounting Standards Board published the following new standards and interpretations which have not been early adopted by the Group.

- IFRS 9, *Financial Instruments Part 1: Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

  - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss;

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment;

  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income;

  - While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted;

- Amendments to IFRS 7, *Financial Instruments:Disclosures* (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood; and

- Amendments to IAS 12, *Income Taxes* (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s consolidated interim condensed financial information.

OAO NOVATEK was incorporated as a joint stock company in accordance with the Russian law and is domiciled in the Russian Federation.

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