OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

AND INDEPENDENT AUDITOR'S REPORT

CONTENTS **Page**

Independent Auditor's Report ... 3
Consolidated Statement of Financial Position ... 4
Consolidated Statement of Income ... 5
Consolidated Statement of Comprehensive Income ... 6
Consolidated Statement of Cash Flows ... 7
Consolidated Statement of Changes in Equity ... 9
Notes to the Consolidated Financial Statements:
Note 1. Organization and principal activities ... 11
Note 2. Basis of presentation ... 11
Note 3. Summary of significant accounting policies ... 12
Note 4. Critical accounting estimates and judgments ... 21
Note 5. Acquisitions and disposals ... 24
Note 6. Property, plant and equipment ... 29
Note 7. Investments in joint ventures ... 30
Note 8. Long-term loans and receivables ... 33
Note 9. Inventories ... 34
Note 10. Trade and other receivables ... 34
Note 11. Prepayments and other current assets ... 35
Note 12. Cash and cash equivalents ... 36
Note 13. Long-term debt ... 36
Note 14. Pension obligations ... 38
Note 15. Short-term debt and current portion of long-term debt ... 40
Note 16. Trade payables and accrued liabilities ... 40
Note 17. Shareholders' equity ... 41
Note 18. Share-based compensation program ... 42
Note 19. Oil and gas sales ... 43
Note 20. Transportation expenses ... 43
Note 21. Taxes other than income tax ... 44
Note 22. General and administrative expenses ... 44
Note 23. Materials, services and other ... 45
Note 24. Purchases of natural gas and liquid hydrocarbons ... 45
Note 25. Finance income (expense) ... 46
Note 26. Income tax ... 47
Note 27. Financial instruments and financial risk factors ... 49
Note 28. Contingencies and commitments ... 57
Note 29. Principal subsidiaries and joint ventures ... 59
Note 30. Related party transactions ... 60
Note 31. Segment information ... 62
Note 32. Exploration for and evaluation of mineral resources ... 65
Note 33. Subsequent events ... 65
Note 34. New accounting pronouncements ... 66
Unaudited supplemental oil and gas disclosures ... 69
Contact Information ... 74

Independent Auditor's Report

To the shareholders and Board of Directors of OAO NOVATEK

We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

4 March 2013

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
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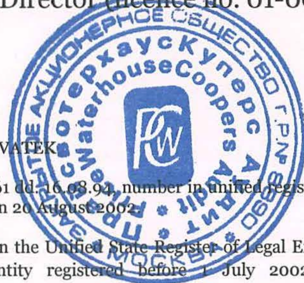
Independent Auditor's Report (Continued)

O.V. Salnikova, Director (licence no. 01-000068), ZAO PricewaterhouseCoopers Audit



Audited entity: OAO NOVATEK

State registration № 1461 dd. 16.08.94, number in unified register № 1026303117642 issued on 20 August 2002.

Certificate of inclusion in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1026303117642 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Novokuybyshevsk, Samara Region on 20 August 2002.

Address: 629850, Yamalo-Nanetski state, Purovsky region, Tarko-Sale, Pobedi str., 22 "a"

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

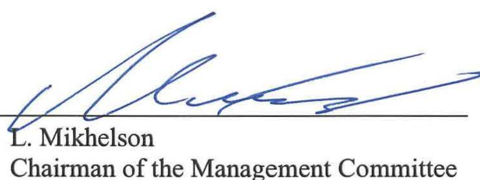
Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

OAO NOVATEK
Consolidated Statement of Financial Position
(in millions of Russian roubles)

	Notes	At 31 December 2012	At 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	197,376	166,784
Investments in joint ventures	7	189,136	123,029
Long-term loans and receivables	8	13,150	32,130
Other non-current assets		5,228	3,173
Total non-current assets		**404,890**	**325,116**
Current assets			
Inventories	9	3,091	1,683
Current income tax prepayments		1,756	1,153
Trade and other receivables	10	16,409	16,699
Prepayments and other current assets	11	18,567	14,950
Cash and cash equivalents	12	18,420	23,831
Total current assets		**58,243**	**58,316**
Total assets		**463,133**	**383,432**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	97,805	75,180
Deferred income tax liabilities	26	13,969	12,805
Asset retirement obligations		2,879	2,734
Other non-current liabilities		2,049	917
Total non-current liabilities		**116,702**	**91,636**
Current liabilities			
Short-term debt and current portion of long-term debt	15	34,682	20,298
Trade payables and accrued liabilities	16	15,925	24,922
Current income tax payable		198	611
Other taxes payable		4,325	4,283
Total current liabilities		**55,130**	**50,114**
Total liabilities		**171,832**	**141,750**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(584)	(281)
Additional paid-in capital		31,220	31,220
Currency translation differences		(202)	193
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		253,606	203,871
Total equity attributable to OAO NOVATEK shareholders	17	**290,050**	**241,013**
Non-controlling interest		**1,251**	**669**
Total equity		**291,301**	**241,682**
Total liabilities and equity		**463,133**	**383,432**

The accompanying notes are an integral part of these consolidated financial statements.

Approved for issue and signed on behalf of the Board of Directors on 4 March 2013:



L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Financial Director

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

	Notes	Year ended 31 December: 2012	2011
Revenues			
Oil and gas sales	19	210,246	174,811
Other revenues		727	462
Total revenues		**210,973**	**175,273**
Operating expenses			
Transportation expenses	20	(60,848)	(48,329)
Taxes other than income tax	21	(16,846)	(16,559)
Purchases of natural gas and liquid hydrocarbons	24	(17,483)	(5,994)
Depreciation, depletion and amortization	6	(11,185)	(9,277)
General and administrative expenses	22	(10,936)	(8,218)
Materials, services and other	23	(7,216)	(5,947)
Exploration expenses		(2,022)	(1,819)
Net impairment expenses		(325)	(782)
Change in natural gas, liquid hydrocarbons and work-in-progress		1,086	105
Total operating expenses		**(125,775)**	**(96,820)**
Net gain (loss) on disposal of interest in subsidiaries		(60)	62,948
Other operating income (loss)		196	207
Profit from operations		**85,334**	**141,608**
Finance income (expense)			
Interest expense	25	(3,236)	(2,150)
Interest income	25	1,731	3,392
Foreign exchange gain (loss)		4,491	(3,945)
Total finance income (expense)		**2,986**	**(2,703)**
Share of profit (loss) of joint ventures, net of income tax	7	(2,105)	(3,880)
Profit before income tax		**86,215**	**135,025**
Income tax expense			
Current income tax expense		(16,142)	(12,467)
Net deferred income tax expense		(632)	(3,267)
Total income tax expense	26	**(16,774)**	**(15,734)**
Profit (loss)		**69,441**	**119,291**
Profit (loss) attributable to:			
Non-controlling interest		(17)	(364)
Shareholders of OAO NOVATEK		**69,458**	**119,655**
Basic and diluted earnings per share (in Russian roubles)		22.89	39.45
Weighted average number of shares outstanding (in thousands)		*3,034,245*	*3,033,302*

The accompanying notes are an integral part of these consolidated financial statements.

	Year ended 31 December:	
	2012	**2011**
Profit (loss)	**69,441**	**119,291**
Other comprehensive income (loss) after income tax:		
Currency translation differences	(395)	313
Other comprehensive income (loss)	**(395)**	**313**
Total comprehensive income (loss)	**69,046**	**119,604**
Total comprehensive income (loss) attributable to:		
Non-controlling interest	(17)	(364)
Shareholders of OAO NOVATEK	**69,063**	**119,968**

The accompanying notes are an integral part of these consolidated financial statements.

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

	Notes	Year ended 31 December: 2012	2011
Profit before income tax		**86,215**	**135,025**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		11,499	9,475
Net impairment expenses		325	782
Net foreign exchange loss (gain)		(4,491)	3,945
Net loss (gain) on disposal of assets		101	(62,811)
Interest expense		3,236	2,150
Interest income		(1,731)	(3,392)
Share of loss (profit) in joint ventures, net of income tax	7	2,105	3,880
Net change in other non-current assets and long-term receivables		780	1,132
Change in pension obligations		709	120
Other adjustments		(195)	82
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(8,086)	(6,103)
Decrease (increase) in inventories		(1,425)	(132)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		5,014	567
Increase (decrease) in other taxes payable		(624)	1,120
Total effect of working capital changes		**(5,121)**	**(4,548)**
Income taxes paid		(17,607)	(13,933)
Net cash provided by operating activities		**75,825**	**71,907**
Cash flows from investing activities			
Purchases of property, plant and equipment		(37,378)	(25,335)
Prepayments for participation in tender for mineral licenses	6	-	(6,870)
Purchases of inventories intended for construction		(1,938)	(773)
Acquisition of subsidiaries net of cash acquired		184	(4,188)
Acquisition of joint ventures	5, 7	(42,697)	(21,176)
Additional capital contributions to joint ventures	8	(5,213)	(3,955)
Proceeds from disposals of subsidiaries net of cash disposed	5	302	11,796
Interest paid and capitalized		(2,698)	(3,508)
Loans provided		(4,818)	(6,729)
Repayments of loans provided		8,102	13,166
Interest received		2,030	929
Net cash (used for) provided by investing activities		**(84,124)**	**(46,643)**
Cash flows from financing activities			
Proceeds from long-term debt		81,149	44,885
Proceeds from short-term debt		-	3,700
Repayments of long-term debt		(40,412)	(8,552)
Repayments of short-term debt		-	(21,321)
Interest paid		(2,320)	(818)
Dividends paid	17	(19,718)	(15,166)
Acquisition of non-controlling interest	5	(16,290)	(14,817)
Capital contributions to the Group's subsidiaries by non-controlling shareholders		497	-
Sales of treasury shares	17	-	354
Purchases of treasury shares	17	(303)	-
Net cash (used for) provided by financing activities		**2,603**	**(11,735)**

	Notes	Year ended 31 December: 2012	2011
Net effect of exchange rate changes on cash, cash equivalents		285	64
Net increase (decrease) in cash, cash equivalents		**(5,411)**	**13,593**
Cash and cash equivalents at beginning of the period		23,831	10,238
Cash, cash equivalents at end of the period		**18,420**	**23,831**

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK
Consolidated Statement of Changes in Equity
(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**
For the year ended 31 December 2011										
1 January 2011	***3,033,184***	**393**	**(446)**	**30,865**	**5,617**	**(120)**	**110,810**	**147,119**	**20,667**	**167,786**
Currency translation differences	-	-	-	-	-	313	-	313	-	313
Profit (loss)	-	-	-	-	-	-	119,655	119,655	(364)	119,291
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**313**	**119,655**	**119,968**	**(364)**	**119,604**
Dividends (Note 17)	-	-	-	-	-	-	(15,166)	(15,166)	-	(15,166)
Equity call option reclassification	-	-	-	-	-	-	322	322	-	322
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	286	286
Acquisition of non-controlling interest (Note 5)	-	-	-	-	-	-	(11,750)	(11,750)	(19,920)	(31,670)
Sales of treasury shares (Note 17)	*1,154*	-	165	355	-	-	-	520	-	520
31 December 2011	***3,034,338***	**393**	**(281)**	**31,220**	**5,617**	**193**	**203,871**	**241,013**	**669**	**241,682**

The accompanying notes are an integral part of these consolidated financial statements.

OAO NOVATEK
Consolidated Statement of Changes in Equity
(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**
For the year ended 31 December 2012										
1 January 2012	***3,034,338***	**393**	**(281)**	**31,220**	**5,617**	**193**	**203,871**	**241,013**	**669**	**241,682**
Currency translation differences	-	-	-	-	-	(395)	-	(395)	-	(395)
Profit (loss)	-	-	-	-	-	-	69,458	69,458	(17)	69,441
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(395)**	**69,458**	**69,063**	**(17)**	**69,046**
Dividends (Note 17)	-	-	-	-	-	-	(19,723)	(19,723)	-	(19,723)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	497	497
Purchase of treasury shares (Note 17)	*(925)*	-	(303)	-	-	-	-	(303)	-	(303)
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	102	102
31 December 2012	***3,033,413***	**393**	**(584)**	**31,220**	**5,617**	**(202)**	**253,606**	**290,050**	**1,251**	**291,301**

The accompanying notes are an integral part of these consolidated financial statements.

1 ORGANIZATION 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 (except for deliveries to residential customers); however, the majority of natural gas sold on the domestic market is sold at prices regulated by the Federal Tariffs 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 December 2012, the Group acquired an 82 percent participation interest in OOO Gazprom mezhregiongas Kostroma, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Kostroma Region of the Russian Federation (see Note 5).

In December 2012, the Group established a wholly owned subsidiary, OOO NOVATEK Moscow region, to support the Group's current natural gas deliveries as well as to expand potential sales opportunities in the Moscow region of the Russian Federation.

In December 2012, the Group disposed of its wholly owned non-core subsidiary, OOO Purovsky Terminal (see Note 5).

In November 2012, the Group acquired a 49 percent ownership interest in ZAO Nortgas, an oil and gas producing company, which holds the license for the North-Urengoyskoye field located in the YNAO (see Note 5).

During 2012, the Group signed long-term natural gas purchase and sales contracts with third parties to commence commercial trading activities in the European market. The contracts were signed for a period of ten years starting from 1 October 2012 with the expected total volume of natural gas traded over this period of approximately 20 billion cubic meters (see Notes 27, 31).

In January and June 2012, the Group merged its wholly owned subsidiaries OOO Yamalenergogas and OOO Gazprom mezhregiongas Chelyabinsk into its wholly owned subsidiaries OOO NOVATEK-Perm and OOO NOVATEK-Chelyabinsk, respectively. The mergers did not affect the Group's consolidated financial and operational results.

2 BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. In the absence of specific IFRS guidance for oil and gas producing companies, the Group has developed accounting policies in accordance with other generally accepted accounting principles for oil and gas producing companies, mainly US GAAP, insofar as they do not conflict with IFRS principles. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentation in accordance with IFRS. The principal adjustments primarily relate to (a) depreciation, depletion and amortization, and valuation of property, plant and equipment, (b) consolidation of subsidiaries, (c) business combinations, (d) accounting for income taxes, and (e) valuation of unrecoverable assets, expense recognition and other provisions.

2 BASIS OF PRESENTATION (CONTINUED)

Functional and presentation currency. The consolidated financial statements are presented in Russian roubles, the Group's reporting (presentation) currency and the functional currency for the majority of Group's entities. The assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian rouble are translated into Russian roubles at the closing exchange rate at each balance sheet date. All items included in the shareholders' equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian roubles using average exchange rates for each reporting period. Exchange adjustments arising on the opening net assets and the profits for the reporting period are taken to a separate component of equity until the disposal of the foreign operation and reported as currency translation differences in the consolidated statement of changes in equity and the consolidated statement of comprehensive income.

Exchange rates used in preparation of this consolidated financial statements for the entities whose functional currency is not the Russian rouble were as follows:

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2012**	**At 31 December 2011**	**2012**	**2011**
US dollar ("USD")	30.37	32.20	31.09	29.39
Polish Zloty ("PLN")	9.87	9.47	9.56	9.94

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.

Reclassifications. Certain reclassifications have been made to the comparative figures to conform to the current period presentation with no effect on profit for the period or shareholder's equity. The export sales of liquefied petroleum gas for the year ended 31 December 2012 are presented net of excise and fuel tax. Accordingly, liquefied petroleum gas sales and excise and fuel tax expenses for the year ended 31 December 2011 were decreased by RR 998 million.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement. Acquisition-related costs are recognized as expenses rather than included in goodwill.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity. Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

Acquisition of non-controlling interests. The difference between the purchase consideration and the carrying amount of non-controlling interests acquired is recognized within equity to account for acquisitions of non-controlling minority stakes.

Investments in associates and joint ventures. Associated companies and joint ventures are entities over which the Group has significant influence or joint control, respectively, but which it does not control. Generally, significant influence exists when the Group has between 20 and 50 percent of voting rights. Associated companies and joint ventures are accounted for using the equity method and are initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the associate's identifiable net assets represents goodwill upon acquiring the associated company. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. The carrying amount of associates and joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. Other post-acquisition changes in the Group's share of net assets of an associate or joint venture are recognized as follows: (a) the Group's share of profits or losses is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures; (b) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately; and (c) all other changes in the Group's share of the carrying value of net assets of associates or joint ventures are recognized in profit or loss within the share of result of associates or joint ventures. When the Group's share of losses in an associate or joint ventures equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets held for sale. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less selling costs. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment are not depreciated once classified as held for sale.

Property, plant and equipment. Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling and license acquisition costs are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

The Group's principal oil and gas reserves have been independently estimated by internationally recognized petroleum engineers whereas other oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by management in accordance with internationally recognized definitions. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using the unit-of-production method.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components that extend the life of property, plant and equipment items are capitalized and depreciated over the estimated remaining life of the major part or component. All components that are replaced are written off.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the consolidated statement of income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with the carrying amount. Gains and losses are recognized in the consolidated statement of income.

Exploration costs. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and license acquisition costs, are charged to the consolidated statement of income as incurred. License acquisition costs and exploratory drilling costs are recognized as assets until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the capitalized drilling costs are charged to the consolidated statement of income. License acquisition costs and exploratory drilling costs recognized as assets are reviewed for impairment on an annual basis.

The cost of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation. Depreciation, depletion and amortization of oil and gas properties and equipment (except for processing facilities) is calculated using the unit-of-production method for each field based upon proved developed reserves for development costs, and total proved reserves for costs associated with acquisitions of proved properties. A portion of the reserves used for depreciation, depletion and amortization calculations include reserves expected to be produced beyond license expiry dates. Management believes that there is requisite legislation and past results (or experience) to extend mineral licenses at the initiative of the Group and, as such, intends to extend its licenses for properties expected to produce beyond the current license expiry dates.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment, other than oil and gas properties and equipment, are as follows:

	Years
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

Intangible assets. Intangible assets that have a finite useful life are amortized using the straight-line method over the period of their useful life. There were no intangible assets with indefinite useful lives held by the Group at the reporting dates.

Effective interest method. The effective interest method is a method of calculating the carrying value of a financial asset or a financial liability held at amortized costs and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

Financial assets. The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Subsequent reclassification of financial assets is made only as a result of a change in intention or ability of management to hold the financial assets. Financial assets are recognized initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivative instruments are also categorized as held for trading unless they are designated as hedges. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of income within other operating income (loss) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as part of other operating income (loss) when the Group's right to receive payments is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Held-to-maturity investments

Held-to-maturity investments include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. After initial measurement, the held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. There were no such investments held by the Group at the reporting dates.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale are non-derivatives financial assets that are either designated in this category or are not classified in any of the other categories. After initial recognition, financial assets classified as available-for-sale are measured at fair value, with gains and losses recognized in other comprehensive income and accumulated in revaluation reserve in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in consolidated statement of income as a reclassification adjustment from other comprehensive income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale financial assets are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in consolidated statement of income, while translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of income as a reclassification adjustment from other comprehensive income.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of income) is recognized in the consolidated statement of income as a reclassification adjustment from other comprehensive income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed. There were no available-for-sale investments held by the Group at the reporting dates.

Financial liabilities. Financial liabilities are classified at initial recognition as either financial liabilities at fair value through profit or loss, derivative instruments designated as hedging instruments in an effective hedge or as financial liabilities measured at amortized cost. There were no derivative instruments designated as hedging instruments by the Group at the reporting dates. The measurement of financial liabilities depends on their classification, as follows:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial liabilities at fair value through profit or loss

Derivative instruments, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category. These financial liabilities are carried on the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement of income.

(b) Financial liabilities measured at amortized cost

All other financial liabilities are included in this category and initially recognized at fair value. For interest-bearing debt, the fair value of the liability is the fair value of the proceeds received net of associated issue costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. This category of financial liabilities includes trade and other payables and debt in the consolidated statement of financial position.

Derivative instruments. Derivative financial instruments are contracts: (a) whose value changes in response to the change in one or more observable variables; (b) that do not require any material initial net investment; and (c) that are settled at a future date. Accordingly, contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements, are accounted for as financial instruments. Gains or losses arising from changes in the fair value of derivatives are recognized in the consolidated income statement within other operating profit (loss).

Derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets or liabilities expected to be recovered, or with the legal right to be settled more than twelve months after the reporting date are classified as non-current, with the exception of derivative financial instruments held for the purpose of being traded. The amounts of assets and liabilities associated with derivatives are presented without netting assets and liabilities with the same counterparty except where the right of offset and intent to net exist.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize in a current market situation.

Derivatives embedded in other non-derivative financial instruments or in non-financial host contracts are recognized as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value. Where there is an active market for a commodity or other non-financial item subject of a purchase or sale contract, a pricing formula will, for instance, be considered to be closely related to the host purchase or sales contract if the price formula is based on the active market in question. A price formula with indexation to other markets or products will however result in the recognition of a separate derivative. Where there is no active market for the commodity or other non-financial item in question, the Group assesses the characteristics of such a price related embedded derivative to be closely related to the host contract if the price formula is based on relevant indexations commonly used by other market participants. This applies to the Group's liquid hydrocarbons and domestic natural gas sales and purchases agreements. Contracts are assessed for embedded derivatives when the Group becomes a party to them, including at the date of a business combination. Such embedded derivatives are measured at fair value at each period end, and the changes in fair value are recognized in profit or loss for the period**.**

Income taxes. Effective 1 January 2012, Russian tax legislation introduced an option to prepare and file a single, consolidated income tax declaration. According to the new legislation, the taxpayers' group should be comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). To be eligible for registration, the taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. Management has chosen to adopt this option, as discussed in Note 26.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In prior periods, Russian legislation did not contain the concept of a "consolidated tax payer" and, accordingly, the Group's entities were subject to Russian taxation on an individual company basis.

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted as of end of the reporting period. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity. Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are recognized in full for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries or joint ventures, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. Any resultant deferred income tax is measured at the expected tax rate.

Inventories. Natural gas, gas condensate, crude oil and related products inventories are valued at the lower of cost or net realizable value. The cost of inventories includes applicable purchase costs of raw materials, direct operating costs, and related production overhead expenses and is recorded on a first-in-first-out (FIFO) basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies inventories are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

Trade and other receivables. Trade receivables are represented by amounts due from regular customers in the ordinary course of business (production and marketing of natural gas, gas condensate, crude oil and related products). Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method and include value-added taxes. Trade receivables are analyzed for impairment on a debtor by debtor basis. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the consolidated statement of income within operating expenses. Subsequent recoveries of amounts previously written off are credited against the amount of the provision in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents comprises cash on hand, cash deposits held with banks, investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less. For purposes of the presentation of the statement of cash flows and bank overdrafts are deducted from cash and cash equivalents. Bank overdrafts are shown within short-term debt in current liabilities on the consolidated statement of financial position.

Treasury shares. Where any Group company purchases NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to OAO NOVATEK shareholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to OAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Value added tax (VAT). Output VAT related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT related to purchases is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which is not settled or recovered at the balance sheet date (VAT payable and VAT recoverable) is recognized on a gross basis and disclosed separately within current assets and current liabilities. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

Interest costs on borrowings and exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs) used to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date and changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Asset retirement obligations. An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation, determined using discount rates reflecting adjustments for risks specific to the obligation. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Changes in the obligation, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil and gas gathering and treatment facilities and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production, i.e. the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and related costs.

The Group's management believes that due to the limited history of gas condensate processing plants activities, the useful lives of these assets are indeterminable (while certain of the operating components and equipment have definite useful lives). Because of these reasons, and the lack of clear legal requirements as to the recognition of obligations, the fair value of an asset retirement obligation for such processing facilities cannot be reasonably estimated and, therefore, legal or contractual asset retirement obligations related to these assets are not recognized.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Foreign currency transactions. Transactions denominated in foreign currencies are converted into the functional currency of each entity of the Group at the exchange rates prevailing on the date of transactions. Exchange gains and losses resulting from foreign currency re-measurement into the functional currencies are included in the determination of profit (loss) for the reporting period.

Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency of each entity of the Group by applying the year end exchange rate and the effect is stated in the consolidated statement of income. Non-monetary assets and liabilities denominated in foreign currencies valued at cost are converted into the functional currency of each entity of the Group at the initial exchange rate. Non-monetary assets that are re-measured to fair value, recoverable amount or realizable value, are translated at the exchange rate applicable to the date of re-measurement.

Revenue recognition. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, value-added tax and export duties.

Revenues from oil and gas sales are recognized when such products are shipped or delivered to customers in accordance with the contract terms, the price is fixed or determinable, and the title has transferred. Services are recognized in the period in which the services are rendered.

Interest income is recognized as the interest accrues as related to the net carrying amount of the financial asset.

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, legal and other advisory expenses, insurance of properties, social expenses and compensatory payments of general nature not directly linked to the Group's oil and gas activities, charity and other expenses necessary for the administration of the Group.

Employee benefits. Wages and salaries, bonuses, voluntary medical insurance, paid annual and sick leaves are accrued in the period in which the associated services are rendered by the employees of the Group. Compensation at dismissals, vocational support payments, and other allowances are expensed when incurred.

The Group contributes to the Russian Federation State social insurance fund and State pension plan on behalf of its employees based on gross salary payments. Mandatory contributions to the State social insurance fund and the State pension plan, which is a defined contribution plan, are expensed when incurred and are included in payroll expenses in the consolidated statement of income.

The Group also incurs employee costs related to the provision of benefits such as health and social infrastructure and services, employees meals, transportation, and other services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to payroll expenses in the consolidated statement of income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share based compensation. The Group accounts for share-based compensation in accordance with IFRS 2, *Share-based Payment*. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted measured at the grant date.

Pension obligations. The Group operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 14).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date, together with adjustments for unrecognized past service costs. The present value of the pension obligations are determined by discounting the estimated future cash outflows and then attributing such present value to years of service of the respective employees. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded to the consolidated statement of income in the period in which they arise. Past service costs are amortized on a straight-line basis over the vesting period.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to OAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.

Segment reporting. Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the Group's chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK). Segments whose revenues, results or assets are ten percent or more of the total segments are reported separately.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Consolidated financial statements prepared in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions 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. Management also makes certain judgments, apart from those involving estimations, in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these consolidated financial statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

Useful lives of property, plant and equipment. Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Fair values of financial assets and liabilities. The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Discounted cash flow analysis is used for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market instruments available adjusted for the Group's specific risk premium estimated by management. For derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market models and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's derivative commodity contracts and sensitivities to price assumptions are presented in Note 27.

Deferred income tax asset recognition. Management assesses deferred income tax assets at each balance sheet date and determines the amount recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimations based on prior years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Estimation of oil and gas reserves. Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges, impairment assessments and asset retirement obligations that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Assuming all variables are held constant, an increase in proved developed reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Although the possibility exists for changes or revisions in estimated reserves to have a critical effect on depreciation, depletion and amortization charges and, therefore, reported net profit for the year, it is expected that in the normal course of business the diversity of the Group's asset portfolio will mitigate the likelihood of this occurring.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Information about the carrying amounts of major classes of non-financial assets – property, plant and equipment and long-term investments is presented in Notes 6 and 7.

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, it is written off against the associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Pension obligations. The cost of defined benefit pension plans and related current service costs are determined using actuarial valuations. The actuarial valuations involve making demographic assumptions (mortality rates, age of retirement, employee turnover and disability) as well as financial assumptions (discount rates, expected rates of return on assets, inflation forecasts, future salary and pension increases). Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Asset retirement obligations. Management makes provision for the future costs of decommissioning oil and gas production facilities, pipelines and related support equipment based on the best estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The Group also assesses its liabilities for site restoration at each consolidated statement of financial position date in accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date based on current legislation where the Group's respective operating assets are located, and is also subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs.

Fair value assessment of OAO Yamal LNG. As further discussed in Note 5, the Group ceased control of Yamal LNG effective 6 October 2011, but retained joint control and, consequently, was required to fair value the remaining interest in Yamal LNG in accordance with IFRS. The fair value of the investment in Yamal LNG was calculated based on a discounted cash flow model for the Yamal LNG project. The discounted cash flow model included a number of key assumptions, the sensitivities of which are included in Note 5.

5 ACQUISITIONS AND DISPOSALS

Acquisition of OOO Gazprom mezhregiongas Kostroma

On 28 December 2012, the Group acquired an 82 percent participation interest in OOO Gazprom mezhregiongas Kostroma, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Kostroma region in the Russian Federation, for total cash consideration of RR 554 million, which was subsequently paid in 2013. At the date of acquisition, the company held three percent of its participation interest in the form of treasury shares, which were eliminated upon consolidation and, accordingly, the Group's effective participation interest in OOO Gazprom mezhregiongas Kostroma was 84.54 percent.

Management has assessed the fair value of identifiable assets and liabilities and calculated that no goodwill arose on the acquisition. The following table represents the net fair values comprising 100 percent of the assets and liabilities of Gazprom mezhregiongas Kostroma:

OOO Gazprom mezhregiongas Kostroma	Fair values at the acquisition date
Non-current assets	735
Trade receivables	895
Other current assets	12
Cash and cash equivalents	296
Non-current liabilities	(129)
Trade payables	(1,096)
Other current liabilities	(58)
Total identifiable net assets	**655**
Purchase consideration	554
Fair value of the Group's interest in net assets (RR 655 million at 84.54% ownership)	(554)
Goodwill	**-**

The financial and operational activities of Gazprom mezhregiongas Kostroma would have had an effect of an additional RR 6.7 billion in the Group's revenues and immaterial effect on the Group's profit before tax, if the acquisition occurred on 1 January 2012.

Disposal of OOO Purovsky Terminal

In December 2012, the Group disposed of its 100 percent participation interest in OOO Purovsky Terminal, its non-core subsidiary, to a third party for RR 97 million, which was fully paid in December 2012. The Group recognized a loss on the sale before income tax of RR 60 million.

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.

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of ZAO Nortgas

On 27 November 2012, the Group acquired 49 percent of the outstanding ordinary shares of ZAO Nortgas, an oil and gas company located in the YNAO, for total cash consideration of RR 42,697 million (USD 1,375 million), which was fully paid in November 2012. Nortgas holds a production license for the North-Urengoyskoye field, which expires in 2018. Estimated proved reserves of the field appraised by DeGolyer and MacNaughton under the PRMS and SEC reserve methodologies at 31 December 2012 totalled approximately 186 billion and 157 billion cubic meters of natural gas and 25 million and 21 million tons of hydrocarbon liquids, respectively.

As described above, the Group acquired 49 percent of the ownership interest in Nortgas; however, the Charter stipulates that key financial and operating decisions regarding its business activities are subject to unanimous approval by the Board of Directors. Consequently, the voting mechanism effectively establishes joint control over Nortgas and the Group accounts for the investment under the equity method.

At 31 December 2012, in accordance with IAS 31, *Interest in Joint Ventures*, the Group assessed preliminary fair values of the identified assets and liabilities of Nortgas. In the consolidated financial statements for the year ended 31 December 2012, the fair value of purchase consideration and the fair value of the identifiable acquired assets and liabilities are preliminary as the Group is in the process of finalizing the fair value estimates for certain assets and liabilities, primarily for property, plant and equipment. Management is required to finalize the fair value determination within 12 months of the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

The following table represents the preliminary fair values comprising 100 percent of the assets and liabilities of Nortgas:

ZAO Nortgas	**Preliminary fair values at the acquisition date**
Property, plant and equipment	130,135
Other non-current assets	1,623
Trade receivables	2,312
Other current assets	2,246
Cash and cash equivalents	966
Long-term debt	(14,378)
Other non-current liabilities	(22,055)
Short-term debt	(1,341)
Dividends payable	(9,700)
Other current liabilities	(2,671)
Total identifiable net assets	**87,137**
Purchase consideration	42,697
Preliminary fair value of the Group's interest in net assets (RR 87,137 million at 49% ownership)	(42,697)
Preliminary goodwill	**-**

Subsequent to the acquisition, the Group signed a purchase contract to buy 50 percent of total natural gas produced by Nortgas starting from 1 January 2013 at a predetermined price reflecting current ex-field market price for the region subject to indexation based on the relevant Federal Tariffs Service (FTS) prices. In addition, the Group signed the contract until 31 December 2015 to purchase 100 percent of the unstable gas condensate produced by Nortgas at ex-field prices based on benchmark crude oil and oil products market quotes adjusted for quality and respective tariffs for transportation and processing.

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OOO Gazprom mezhregiongas Chelyabinsk

In November 2011, the Group acquired a 100 percent participation interest in OOO Gazprom mezhregiongas Chelyabinsk to expand and market natural gas sales in the Chelyabinsk Region of the Russian Federation for cash consideration of RR 1,550 million, which was fully paid in December 2011. Gazprom mezhregiongas Chelyabinsk is responsible for the sale of natural gas to industrial and residential customers in the Chelyabinsk Region, one of the top ten Russian regions in terms of natural gas consumption.

Management has assessed the fair value of identifiable assets and liabilities and calculated that no goodwill arose on the acquisition. The following table represents the net fair values of the assets and liabilities of Gazprom mezhregiongas Chelyabinsk:

OOO Gazprom mezhregiongas Chelyabinsk	**Fair values at the acquisition date**
Property, plant and equipment	321
Other non-current assets	1,230
Trade receivables	2,112
Other current assets	205
Cash and cash equivalents	654
Non-current liabilities	(232)
Trade payables	(2,364)
Other current liabilities	(376)
Total identifiable net assets	**1,550**
Purchase consideration	1,550
Goodwill	**-**

Acquisition of additional equity stake in OAO Yamal LNG

On 26 May 2009, the Group entered into the contract to acquire 51 percent of the outstanding ordinary shares of OAO Yamal LNG, an exploration stage oil and gas company located in the north-eastern part of the Yamal peninsula, YNAO. In September 2011, the Group exercised two call options, acquired in 2009 and 2011, and, as a result, increased its equity stake in Yamal LNG to 100 percent through a purchase of additional 49 percent shares of the company for the total consideration of RR 31,670 million (USD 986 million), of which RR 15,101 million (USD 482 million) was paid in 2009-2011 and RR 16,290 million (USD 504 million) was paid in 2012. As a result of these transactions, the Group reduced non-controlling interest by RR 19,920 million and recorded a difference of RR 11,750 million directly to retained earnings.

Disposal of ownership interest in OAO Yamal LNG

On 5 October 2011, the Board of Directors of OAO NOVATEK approved the sale of a 20 percent stake in Yamal LNG, the Group's wholly owned subsidiary, to TOTAL S.A., the strategic partner in the Yamal LNG project (the "Project"). Prior to that date, the proposed sale received the necessary approvals from the Russian Federation's Strategic Investment Committee and Federal Anti-Monopoly Service.

On 6 October 2011, the Group entered into a Sales contract and signed a new shareholder's agreement (the "Shareholders' agreement") with TOTAL E&P YAMAL SAS, an affiliate of TOTAL S.A., establishing the framework for joint cooperation in exploring and developing the South-Tambeyskoye field (held by Yamal LNG) located in the YNAO.

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

Total consideration for the 20 percent stake in Yamal LNG to be paid by TOTAL E&P YAMAL comprises of three tranches:

i. *first tranche* – a cash payment of USD 425 million to NOVATEK upon the contract conclusion (payment received in October 2011);
ii. *second tranche* – a cash payment of USD 375 million through additional capital contributions to the ordinary share capital of Yamal LNG, of which USD 170 million was received in 2011 and the remainder USD 205 was received in 2012; and
iii. *third tranche* – an additional cash payment ranging from USD nil to USD 500 million depending on the amount of the Project's capital expenditure through additional capital contribution to the ordinary share capital of Yamal LNG; the final amount of the additional payment will be determined based on the result of the Final Investment Decision. Management has assessed that it is most likely that the full USD 500 million will need to be paid. If the actual amount is less than the amount assessed then the associated consideration and gain recognized for the disposal of the 20 percent stake would need to be adjusted.

In addition, TOTAL E&P YAMAL agreed to compensate past costs of USD 11 million, incurred by NOVATEK in respect of the Project prior to finalization of contractual terms and conditions, through an additional capital contribution to the ordinary share capital of Yamal LNG, which was paid in December 2011.

The Shareholders' agreement further stipulates that additional financing for the Project, if needed, will be partly exercised in a form of disproportional loans from shareholders. Management is unable to quantify at this time the likelihood, amount, timing or interest rate for these loans and, based on this assessment, has determined that their fair value cannot be measured reliably at this moment.

The Shareholders' agreement also permits the Group to subsequently reduce its shareholding in Yamal LNG to 51 percent based on certain pre-specified terms and governance structure.

Presently, the Group has retained an 80 percent interest in Yamal LNG after the transaction; however, the Shareholders' agreement stipulates that key strategic, operational and financial decisions are subject to approval by eight out of nine members of the Board of Directors. As a result of these changes, the Group's effective control over Yamal LNG ceased on 6 October 2011. The Group has determined Yamal LNG to be a joint venture and will account for this investment under the equity method.

Based on the Shareholders' agreement and the provisions of the Sales contract, the Group recorded the disposal of a 20 percent interest in Yamal LNG for total consideration of RR 36,893 million realizing a gain of RR 62,831 million, net of associated income tax of RR 117 million.

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

	RR million
First tranche (USD 425 million at exchange rate of 32.64 to USD 1.00)	13,871
Compensation of past costs (80 percent of USD 11 million at exchange rate of 32.64 to USD 1.00)	294
Second tranche (80 percent of USD 375 million at exchange rate of 32.64 to USD 1.00)	9,790
Third tranche (80 percent of USD 500 million at exchange rate of 32.64 to USD 1.00 discounted at 0.884 percent per annum)	12,938
Total consideration	**36,893**
Less: carrying amount of the Group's 20 interest in the net assets	(8,208)
Add: fair value adjustment relating to the retained investment in joint venture	34,263
Gain on the sale of ownership interest	**62,948**

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

In accordance with IAS 27, *Consolidated and Separate Financial Statements,* the Group re-measured its retained investment in Yamal LNG at fair value at the date of ceasing control, with the change in value of RR 34,263 million recognized as an additional gain from disposal as reflected in net gain on disposal of interest in subsidiaries in the consolidated statement of income. The fair value of the investment in Yamal LNG was based on a discounted cash flow model for the Yamal LNG project. The significant assumptions in the discounted cash flow model are: forecasted prices for liquefied natural gas ("LNG"); anticipated production volumes; future capital expenditures required to build necessary infrastructure and drill production wells; and the discount factor used in the fair value calculation. The key sensitivities in relation to the discounted cash flows are:

- future LNG prices were based on estimated Brent prices using growth rates as forecasted by the World Bank. If these estimated future prices were to decrease by one percent for each year in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Yamal LNG and the associated gain on the revaluation would be reduced by RR 6,903 million;
- future production was based on estimates of proved and probable reserves. If production volumes were to be one percent lower in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Yamal LNG and the associated gain on the revaluation would be reduced by RR 4,903 million;
- future capital expenditure over the life of the project has been estimated based on preliminary engineering and costing estimates. If the level of capital expenditure were to be one percent higher in the cash flow projection then, assuming that other parameters remain unchanged, the fair value of the retained interest in Yamal LNG and the associated gain on the revaluation would be reduced by RR 3,904 million; and
- the discount rate was assumed to be 11.9% (in US dollar terms). If the discount rate was increased by half of one percent (to 12.4%) then, assuming that other parameters remain unchanged, the fair value adjustment and the associated gain on the revaluation would be reduced by RR 21,139 million.

Below is a breakdown of major classes of assets and liabilities at the date of disposal:

OAO Yamal LNG	RR million
Property, plant and equipment	45,867
Other non-current assets	1,404
Cash and cash equivalents	1,846
Other current assets	1,135
Other non-current liabilities	(810)
Short-term debt	(8,100)
Other current liabilities	(300)
Total identifiable net assets at disposal	**41,042**

The aforementioned property, plant and equipment in the amount of RR 45,867 million (including the costs of mineral rights aggregating RR 39,714 million) was included in the line "disposal of subsidiaries, net" as disclosed in Note 6. Short-term debt in the amount of RR 8,100 million, which was owed to the Group was settled in December 2011 ahead of its maturity schedule.

The following table reconciles the carrying value of Yamal LNG prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method of accounting in these consolidated financial statements:

OAO Yamal LNG	RR million
Carrying value of the net assets at disposal	41,042
Add: Group's proportion of proceeds from additional shares emissions	23,022
Less: carrying amount of the Group's 20 interest in the net assets	(8,208)
Add: fair value adjustment relating to the retained investment in joint venture	34,263
The carrying value of equity investment	**90,119**

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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.

6 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the years ended 31 December 2012 and 2011 are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	193,411	16,022	4,236	213,669
Accumulated depreciation, depletion and amortization	(26,926)	-	(1,170)	(28,096)
Net book value at 1 January 2011	**166,485**	**16,022**	**3,066**	**185,573**
Acquisition of subsidiaries	108	183	30	321
Additions	10,140	27,869	22	38,031
Transfers	15,455	(20,216)	4,761	-
Depreciation, depletion and amortization	(9,026)	-	(424)	(9,450)
Disposal of subsidiaries, net	(40,136)	(5,665)	(66)	(45,867)
Impairment	(513)	(107)	-	(620)
Disposals, net	(549)	(439)	(216)	(1,204)
Cost	177,788	17,647	8,603	204,038
Accumulated depreciation, depletion and amortization	(35,824)	-	(1,430)	(37,254)
Net book value at 31 December 2011	**141,964**	**17,647**	**7,173**	**166,784**
Acquisition of subsidiaries	24	33	23	80
Additions	1,564	41,522	468	43,554
Transfers	21,608	(22,414)	806	-
Depreciation, depletion and amortization	(10,882)	-	(503)	(11,385)
Disposal of subsidiaries, net	(14)	-	(32)	(46)
Disposals, net	(69)	(1,493)	(49)	(1,611)
Reclassifications	1,415	-	(1,415)	-
Cost	202,420	35,295	8,031	245,746
Accumulated depreciation, depletion and amortization	(46,810)	-	(1,560)	(48,370)
Net book value at 31 December 2012	**155,610**	**35,295**	**6,471**	**197,376**

Included within the oil and gas properties and equipment balance at 31 December 2012 and 2011 are proved properties of RR 28,205 million and RR 22,355 million, net of accumulated depreciation, depletion and amortization of RR 11,744 million and RR 10,300 million, respectively.

Included within the oil and gas properties and equipment balance at 31 December 2012 and 2011 are unproved properties of RR 7,753 million and RR 14,061 million, respectively. The Group's management believes these costs are recoverable and has plans to explore and develop the respective unproved properties.

Included within assets under construction and advances for construction are advances to suppliers of equipment of RR 3,836 million and RR 3,781 million at 31 December 2012 and 2011, respectively.

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the years ending 31 December 2012 and 2011 are capitalized interest and foreign exchange differences of RR 2,839 million and RR 4,145 million, respectively. The interest capitalization rates for 2012 and 2011 used for additions were 6.8 percent and 7.1 percent, respectively.

In September 2011, the Group purchased, through participation in a tender process, exploration and production licenses for the Salmanovskoye (Utrenneye) and Geofizicheskoye fields and geological studies, exploration and production licenses for the North-Obskiy and East-Tambeyskiy license areas for a total payment of RR 6,870 million, which were included in additions to oil and gas properties.

In October 2011, the Group ceased control of OAO Yamal LNG as described in Note 5 and has recorded a disposal aggregating RR 45,867 million as "Disposal of subsidiaries, net" in property, plant and equipment. The Group retained 80 percent of Yamal LNG and has recorded its proportional share in investments in joint ventures (see Note 7).

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2012	2011
Depreciation, depletion and amortization of property, plant and equipment	11,385	9,450
Add: DDA of intangible assets	244	111
Less: DDA included in general and administrative expenses (see Note 22)	(314)	(198)
Less: DDA capitalized in the course of intra-group construction services	(130)	(86)
DDA as presented in the consolidated statement of income	**11,185**	**9,277**

At 31 December 2012 and 2011, no property, plant and equipment was pledged as security for the Group's borrowings. Impairment of RR nil million and RR 620 million was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2012 and 2011, respectively.

Capital commitments are disclosed in Note 28.

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2012	At 31 December 2011
Joint ventures:		
OAO Yamal LNG	96,736	89,549
ZAO Nortgas	42,586	-
OOO Yamal Development (consolidated)	24,430	8,100
OAO Sibneftegas	24,160	24,187
ZAO Terneftegas	1,224	1,193
Total investments in joint ventures	**189,136**	**123,029**

OAO Yamal LNG. As discussed in Note 5, on 6 October 2011, the Group sold a 20 percent stake in OAO Yamal LNG and signed a new Shareholder's agreement with TOTAL E&P YAMAL, establishing the framework for joint cooperation in exploring and developing the South-Tambeyskoye field (held by Yamal LNG) located in the YNAO.

The Group retained an 80 percent interest in Yamal LNG after the transaction; however, the Shareholders' agreement stipulates that key strategic, operational and financial decisions are subject to approval by eight out of nine members of the Board of Directors. As a result of these changes, the Group's effective control over Yamal LNG ceased on 6 October 2011, following which the Group has determined Yamal LNG to be a joint venture and accounts for it under the equity method.

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

ZAO Nortgas. As discussed in Note 5, on 27 November 2012, the Group acquired 49 percent of the outstanding ordinary shares of ZAO Nortgas, an oil and gas company holding the production license for the North-Urengoyskoye field located in the YNAO for RR 42,697 million. The Charter of Nortgas stipulates that key financial and operating decisions regarding its business activities are subject to unanimous approval by the Board of Directors. Consequently, the voting mechanism effectively establishes joint control over Nortgas. The Group accounts for it under the equity method.

OOO Yamal Development. The Group holds a 50 percent participation interest in OOO Yamal Development, its joint venture with OAO Gazprom Neft, a subsidiary of OAO Gazprom, and accounts for its share of the joint venture using the equity method.

Yamal Development holds a 51 percent participation interest in OOO SeverEnergia, which through its wholly owned subsidiary OAO Arkticheskaya gazovaya kompaniya holds a number of exploration and production licenses, located in YNAO (see Note 28).

The Charter of SeverEnergia stipulates that key financial and operational decisions regarding its business activities are subject to approval by six out of the seven members of the Board of Directors, i.e. none of the participants have a preferential voting right. As a result, the Group has determined SeverEnergia as a joint venture of Yamal Development; the assets and liabilities of SeverEnergia and its financial results are included in the assets, liabilities and financial results of Yamal Development under the equity method in the disclosure of summarized financial information about the Group's investments in joint ventures.

OAO Sibneftegas. The Group holds 51 percent ownership in OAO Sibneftegas, an oil and gas company, which holds a number of exploration and production licenses, located in the YNAO (see Note 28). The Charter of Sibneftegas stipulates that key financial and operational decisions regarding its business activities are subject to approval by nine out of the eleven members of the Board of Directors, that means effectively the unanimous approval by both shareholders. Consequently the voting mechanism effectively establishes joint control over Sibneftegas. The Group accounts for it under the equity method.

ZAO Terneftegas. The Group holds 51 percent ownership in ZAO Terneftegas, its joint venture with TOTAL E&P ACTIVITIES PETROLIERES, established for joint cooperation in exploring and developing the Termokarstovoye gas condensate field (held by Terneftegas) located in the YNAO.

The Shareholders' agreement stipulates that key financial and operational decisions shall be subject to unanimous approval by both shareholders and none of the participants have a preferential voting right. Consequently, the Group's interest in Terneftegas is accounted for using the equity method.

The table below summarizes the movement in the carrying amounts of the Group's joint ventures:

	Year ended 31 December	
	2012	2011
At 1 January	**123,029**	**27,026**
Share of profit (loss) of joint ventures before income tax	(2,221)	(4,725)
Share of income tax (expense) benefit	116	845
Share of profit (loss) of joint ventures, net of income tax	**(2,105)**	**(3,880)**
Acquisitions of joint ventures (see Note 5)	42,697	-
Contributions to equity	25,515	10,000
Disposals of subsidiaries resulting in recognition of joint ventures	-	90,121
Losses (reversals) recognized in excess of investments in joint ventures, reclassified to long-term loans receivable for these companies	-	(238)
At 31 December	**189,136**	**123,029**

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

In 2012, the equity of Yamal LNG was increased through disproportional contribution by its participants totalling RR 23,811 million in accordance with the Shareholders' agreement, of which RR 9,167 million was attributable to NOVATEK (see Note 8). As a result of disproportional contributions, the Group's shareholding did not change notably.

In February 2012, the charter capital of Yamal Development was increased by converting RR 32,697 million of loans provided to the company by its participants, of which RR 16,348 million was attributable to NOVATEK (see Note 8). In June 2011, the charter capital of Yamal Development was increased by RR 20 billion through the conversion of loans, provided to the company by its participants, of which RR 10 billion was attributable to NOVATEK. As a result of each transaction, the participants' pro-rata share in the joint venture increased.

As discussed in Note 5, in October 2011, the Group's effective control over Yamal LNG ceased and subsequent to that event, the Group classified Yamal LNG as a joint venture and recognized its carrying value in line 'Disposals of subsidiaries resulting in recognition of joint ventures'.

At 31 December 2012 and 2011, the Group's interests in its joint ventures and their summarized financial information, relating to the Group's interest, were as follows:

As at and for the year ended 31 December 2012	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**	**Net assets**	**Revenues**	**Profit (loss)**	**Interest held**
Yamal LNG	96,586	3,378	15,326	708	83,930	51	(1,811)	80%
Nortgas	64,904	1,899	22,838	1,379	42,586	365	(110)	49%
Yamal Development (consolidated)	24,421	9	-	-	24,430	-	(19)	50%
SeverEnergia	42,493	1,322	16,799	2,993	24,023	1,297	11	25.5%
Less: investment and share of profit of Yamal Development in SeverEnergia	(24,023)	-	-	-	(24,023)	(1,297)	(11)	-
Sibneftegas	37,931	1,056	13,984	843	24,160	5,272	(27)	51%
Terneftegas	3,479	1,053	3,220	88	1,224	1	30	51%
Total	**245,791**	**8,717**	**72,167**	**6,011**	**176,330**	**5,689**	**(1,937)**	

As at and for the year ended 31 December 2011	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**	**Net assets**	**Revenues**	**Profit (loss)**	**Interest held**
Yamal LNG	85,529	1,946	20,542	240	66,693	32	(707)	80%
Yamal Development (consolidated)	24,340	109	-	16,349	8,100	-	(1,662)	50%
SeverEnergia	37,068	1,264	5,933	8,376	24,023	-	(224)	25.5%
Less: investment and share of loss of Yamal Development in SeverEnergia	(24,023)	-	-	-	(24,023)	-	224	-
Sibneftegas	40,046	640	15,469	1,030	24,187	3,661	(1,571)	51%
Terneftegas	1,713	164	668	16	1,193	-	(74)	51%
Total	**164,673**	**4,123**	**42,612**	**26,011**	**100,173**	**3,693**	**(4,014)**	

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2012 and 2011, the Group's investment in Yamal LNG totaled RR 96,736 million and RR 89,549 million, which differed from its share in the net assets of RR 83,930 million and RR 66,693 million, respectively, as noted above. These differences of RR 12,806 million and RR 22,856 million, respectively, relate to the Group's share in the second and third tranches recognized as part of the consideration for the disposal of the 20 percent interest in Yamal LNG (see Note 5).

All of the joint ventures listed above are registered in the Russian Federation.

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December 2012	At 31 December 2011
Russian rouble denominated loans	8,564	9,737
US dollar denominated loans	4,366	220
Total	**12,930**	**9,957**
Less: current portion of long-term loans	(428)	(634)
Total long-term loans	**12,502**	**9,323**
Long-term receivables	394	22,027
Long-term interest receivable	254	780
Total long-term loans and receivables	**13,150**	**32,130**

Russian rouble denominated loans. At 31 December 2012 and 2011, the Russian rouble denominated loans included loans to OAO Sibneftegas, the Group's joint venture, in the amount of RR 8,564 million and RR 9,737 million, respectively (see Note 30). The loans had interest rates ranging from 9.5 percent to 10 percent per annum (weighted average interest rate of 9.93 percent and 9.88 percent at 31 December 2012 and 2011, respectively) and are repayable until November 2014.

US dollar denominated loans. At 31 December 2012 and 2011, the US dollar denominated loans included loans to ZAO Terneftegas, the Group's joint venture, in the amount of USD 48 million and USD 7 million, respectively. The loans bear an interest rate of 3.88 percent per annum, which can be adjusted in the subsequent years subject to certain conditions. The loans and interest are repayable after the commencement of commercial production.

In November 2012, the Group provided a shareholder loan to OAO Yamal LNG, the Group's joint venture, in the amount of USD 96 million at an interest rate of 5.09 percent per annum, which can be adjusted in subsequent years subject to certain conditions. The loans and interest are repayable after the commencement of commercial production.

Long-term receivables. In November 2011, the shareholders of OAO Yamal LNG made a decision to increase its equity through a disproportional subscription to the entity's additional shares emissions in the aggregated amount of RR 17,046 million. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's share of RR 3,955 million paid in 2011 was recognized as long-term receivables. In January 2012, the Group paid the remaining RR 2,507 million. In April 2012, the new charter was formally registered (see Note 7).

In November 2011, the participants of OOO Yamal Development, the Group's joint venture, made a decision to pro-ratably increase its equity by converting the part of the loan provided to the company in the amount of RR 32,697 million to equity. The legal procedures to register the new charter were not completed at 31 December 2011 and, accordingly, the Group's share of RR 16,348 million was recognized as long-term receivables. In February 2012, the new charter was formally registered (see Note 7).

No provisions for impairment of long-term loans and receivables were recognized in the consolidated statement of financial position at 31 December 2012 and 2011.

9 INVENTORIES

	At 31 December 2012	At 31 December 2011
Natural gas and hydrocarbon liquids at cost	2,239	1,146
Materials and supplies at cost	583	400
Materials and supplies at net realizable value (net of provisions of RR 29 million and RR 31 million at 31 December 2012 and 2011, respectively)	256	133
Other inventories	13	4
Total inventories	**3,091**	**1,683**

No impairment expenses were recorded during the years ended 31 December 2012 and 2011. No inventories were pledged as security for the Group's borrowings or payables at both dates.

10 TRADE AND OTHER RECEIVABLES

	At 31 December 2012	At 31 December 2011
Trade receivables (net of provision of RR 406 million and RR 133 million at 31 December 2012 and 2011, respectively)	14,250	14,900
Other receivables (net of provision of RR 4 million and RR 14 million at 31 December 2012 and 2011, respectively)	2,158	1,703
Interest on loans receivable	1	96
Total trade and other receivables	**16,409**	**16,699**

The carrying values of trade and other receivables approximate their respective fair values. The related exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above.

The Group holds letters of credit in banks with investment grade rating as security for trade receivables in amount RR 1,610 million and RR 1,706 million at 31 December 2012 and 2011, respectively. Also the Group holds as a collateral 100 percent participation interest in OOO BIAXPLEN NK (formerly – OOO NOVATEK-Polymer) for other receivables from OAO SIBUR Holding. The Group does not hold any other collateral as security for trade and other receivables (see Note 27 for credit risk disclosures).

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RR 277 million and RR 478 million at 31 December 2012 and 2011, respectively, were past due but not impaired. The Group has expanded its natural gas sales to a larger number of mid- to small-sized customers as a result of the recent acquisitions of regional gas traders.

The Group has assessed the payment history of these accounts and recognized impairment where deemed necessary.

The ageing analysis of these past due but not impaired trade and other receivables are as follows:

	At 31 December 2012	At 31 December 2011
Up to 90 days past-due	185	343
91 to 360 days past-due	85	135
Over 360 days past-due	7	-
Total past due but not impaired	**277**	**478**
Not past due and not impaired	16,132	16,221
Total trade and other receivables	**16,409**	**16,699**

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements on the Group provision for impairment of trade and other receivables are as follows:

	Year ended 31 December:	
	2012	**2011**
At 1 January	**147**	**-**
Additional provision recorded	272	92
Acquisition of subsidiaries	124	76
Disposal of subsidiaries	(3)	-
Receivables written off as uncollectible	(130)	(1)
Provision reversed	-	(20)
At 31 December	**410**	**147**

The provision for impaired trade and other receivables has been included in the consolidated statement of income in net impairment expense.

11 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2012	At 31 December 2011
Financial assets		
Russian rouble denominated loans	428	6,859
Cash restricted in the form of guarantee	1,959	-
Commodity derivatives	451	-
Short-term bank deposits (with original maturity over three months)	10	17
Non-financial assets		
Deferred export duties for stable gas condensate and liquefied petroleum gas	2,718	922
Recoverable value-added tax	1,992	1,550
Deferred transportation expenses for natural gas	1,902	1,139
Prepayments and advances to suppliers (net of provision of RR 13 million and RR 12 million at 31 December 2012 and 2011, respectively)	6,479	3,322
Prepaid taxes other than income tax	1,523	668
Deferred transportation expenses for stable gas condensate and liquefied petroleum gas	1,067	413
Other current assets	38	60
Total prepayments and other current assets	**18,567**	**14,950**

At 31 December 2011, the Russian rouble denominated loans included a loan provided by NOVATEK proportionally with other participants to OOO SeverEnergia, the Group's related party, in the amount of RR 6,225 million (see Note 30). The loan bore an annual interest rate of MosPrime plus three percent and was fully repaid in March 2012.

12 CASH AND CASH EQUIVALENTS

	At 31 December 2012	At 31 December 2011
Cash at current bank accounts	8,206	7,958
Russian rouble denominated deposits (average interest rate 4.7% p.a. and 4.5% p.a. for 2012 and 2011, respectively)	4,223	4,986
US dollar denominated deposits (average interest rate 0.6% p.a. and 0.8% p.a. for 2012 and 2011, respectively)	5,686	10,822
Other currency denominated deposits	305	65
Total cash and cash equivalents	**18,420**	**23,831**

All deposits have original maturities of less than three months (see Note 27 for credit risk disclosures).

13 LONG-TERM DEBT

	At 31 December 2012	At 31 December 2011
US dollar denominated bonds	67,998	39,982
Russian rouble denominated bonds	29,960	9,971
Russian rouble denominated loans	24,821	24,966
US dollar denominated loans	9,708	20,559
Total	**132,487**	**95,478**
Less: current portion of long-term debt	(34,682)	(20,298)
Total long-term debt	**97,805**	**75,180**

At 31 December 2012 and 2011 the Group's long-term debt by facility is as follows:

	At 31 December 2012	At 31 December 2011
Eurobonds – Ten-Year Tenor (repayable in 2022)	30,232	-
Russian rouble denominated bonds (repayable in 2015)	19,969	-
Eurobonds – Ten-Year Tenor (repayable in 2021)	19,620	20,776
Eurobonds – Five-Year Tenor (repayable in 2016)	18,146	19,206
Sberbank three-year loan (repayable in 2013)	14,984	14,966
Russian rouble denominated bonds (repayable in 2013)	9,991	9,971
Sberbank credit line facility	9,837	-
Nordea Bank	6,075	6,439
Sumitomo Mitsui Banking Corporation Europe Limited	3,633	7,685
UniCredit Bank	-	6,435
Gazprombank	-	10,000
Total	**132,487**	**95,478**

Eurobonds. In December 2012, the Group issued Eurobonds in the amount of USD 1 billion. The Eurobonds were issued with an annual coupon rate of 4.422 percent, payable semi-annually. The bonds have a ten-year tenure and are repayable in December 2022.

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. The bonds are repayable in February 2016 and February 2021, respectively.

13 LONG-TERM DEBT (CONTINUED)

Sberbank. In December 2011, the Group obtained a RR 40 billion credit line facility from OAO Sberbank available to withdraw until March 2012 which was subsequently extended until June 2012. In June 2012, the Group withdrew RR 10 billion under the facility until December 2014 at an interest rate of 8.9 percent per annum. The remaining part of the credit line was not utilized. The facility includes the maintenance of certain restrictive financial covenants.

In December 2010, the Group received a three-year Russian rouble denominated loan from OAO Sberbank in the amount of RR 15 billion at an interest rate of 7.5 percent per annum. The loan is repayable in December 2013 and includes the maintenance of certain restrictive financial covenants.

Gazprombank. In November 2009, the Group obtained a three-year Russian rouble denominated loan from OAO Gazprombank in the amount of RR 10 billion at an interest rate of eight percent per annum. The loan was fully repaid in January 2012 ahead of its maturity schedule.

Sumitomo Mitsui Banking Corporation Europe Limited. In April 2011, the Group obtained a US dollar denominated loan from Sumitomo Mitsui Banking Corporation Europe Limited in the amount of USD 300 million at an interest rate of LIBOR plus 1.45 percent per annum (1.76 percent and 2.03 percent at 31 December 2012 and 2011, respectively). The loan is payable until December 2013 and includes the maintenance of certain restrictive financial covenants.

Nordea Bank. In November 2010, the Group obtained a US dollar denominated loan from OAO Nordea Bank in the amount of USD 200 million at an interest rate of LIBOR plus 1.9 percent per annum (2.11 percent and 2.18 percent at 31 December 2012 and 2011, respectively). The loan is repayable until November 2013 and includes the maintenance of certain restrictive financial covenants.

UniCredit Bank. In October 2009, the Group obtained a US dollar denominated loan from ZAO UniCredit Bank in the amount of USD 200 million at an interest rate of LIBOR plus 3.25 percent per annum. In October 2012, the loan was fully repaid in accordance with its maturity schedule.

Syndicated term loan facility. In November 2012, the Group obtained an unsecured syndicated term loan facility in the amount of USD 667 million. The facility bore an interest rate of LIBOR plus one percent for the first six months and was repayable in May 2014. In December 2012, the loan was repaid ahead of its maturity schedule.

Russian rouble denominated bonds. In October 2012, the Group issued three-year non-convertible Russian rouble denominated bonds in the amount of RR 20 billion with a coupon rate of 8.35 percent per annum, payable semi-annually. The bonds are repayable in October 2015.

In June 2010, the Group issued three-year non-convertible Russian rouble denominated bonds in the amount of RR 10 billion with a coupon rate of 7.5 percent per annum, payable semi-annually. The bonds are repayable in June 2013.

The fair values of long-term debt at 31 December 2012 and 2011 were as follows:

	At 31 December 2012	At 31 December 2011
Eurobonds – Ten-Year Tenor (repayable in 2022)	30,543	-
Eurobonds – Ten-Year Tenor (repayable in 2021)	23,201	21,150
Russian rouble denominated bonds (repayable in 2015)	20,198	-
Eurobonds – Five-Year Tenor (repayable in 2016)	19,567	19,414
Sberbank three-year loan (repayable in 2013)	14,745	14,539
Russian rouble denominated bonds (repayable in 2013)	10,005	10,000
Sberbank credit line facility	9,928	-
Nordea Bank	6,041	6,256
Sumitomo Mitsui Banking Corporation Europe Limited	3,617	7,561
UniCredit Bank	-	6,439
Gazprombank	-	9,928
Total	**137,845**	**95,287**

13 LONG-TERM DEBT (CONTINUED)

The fair value of the long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 27).

Scheduled maturities of long-term debt at 31 December 2012 were as follows:

Maturity period:	RR million
1 January to 31 December 2014	9,837
1 January to 31 December 2015	19,970
1 January to 31 December 2016	18,146
1 January to 31 December 2017	-
After 31 December 2017	49,852
Total long-term debt	**97,805**

14 PENSION OBLIGATIONS

In February 2007, the Group announced the implementation of a post-employment benefit program for its retired employees. Under the pension program, employees who are employed by the Group for more than three years (extended to five years effective 1 February 2011) and retire from the Group on or after the statutory retirement age will receive lump sum retirement benefit and monthly payments from NOVATEK for life unless they are actively employed. The amounts of payments to be disbursed depend on the average salary, duration and location of employment. The program is effective from 1 January 2007 and applies to employees who retire after that date.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The impact of the program on the consolidated financial statements is disclosed below.

The amounts recognized in the consolidated statement of financial position and included in other non-current liabilities are determined as follows:

	At 31 December 2012	At 31 December 2011
Present value of the defined benefit obligations	1,532	810
Unrecognized past service cost	(132)	(146)
Defined benefit plan liability recognized in the consolidated statement of financial position	**1,400**	**664**

The movements in the present value of the defined benefit obligations are as follows:

	Year ended 31 December:	
	2012	2011
At 1 January	**810**	**758**
Interest cost	54	48
Benefits paid	(18)	(13)
Current service cost	91	88
Past service cost	-	-
Actuarial (gain) loss	256	(71)
Lump sum retirement benefit	339	-
At 31 December	**1,532**	**810**

14 PENSION OBLIGATIONS (CONTINUED)

The amounts recognized in the consolidated statement of income are as follows:

	Year ended 31 December:	
	2012	2011
Current service cost	91	88
Interest cost	54	48
Actuarial (gain) loss	256	(71)
Amortization of past service cost	13	55
Lump sum retirement benefit	339	-
Defined benefit plan (benefits) costs recognized in operating expenses	**753**	**120**
of which the following amounts were included as employee compensation in:		
Materials, services and other	278	46
General and administrative expenses	475	74

The Group recognized a loss of RR 32 million and RR 9 million as a result of experience adjustments on plan liabilities during the years ended 31 December 2012 and 2011, respectively, included in actuarial (gain) loss.

The principal actuarial assumptions used at 31 December 2012 and 2011 are as follows:

	At 31 December 2012	At 31 December 2011
Weighted average discount rate	6.4%	7.4%
Projected annual increase in employee compensation	5.2%	5.8%
Expected increases to pension benefits	5.2%	5.8%

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group. Inflation forecasts have been estimated to reduce from 6.5 percent for 2013 to 4.9 percent in 2017 and subsequent years.

Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee from the years 1986 to 1987, which management believes are the most conservative and prudent Russian whole-population mortality tables available.

Management has assessed that reasonable changes in the most significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the liability recognized in the consolidated statement of financial position.

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

Short-term debt and current portion of long-term debt. At 31 December 2012 and 2011, short-term debt and current portion of long-term debt consisted only of the current portion of long-term debt in the amount of RR 34,682 million and RR 20,298 million, respectively.

Available credit facilities. The Group's available credit facilities at 31 December 2012 were as follows:

		Expiring	
	Par value	**Within one year**	**Between 1 and 3 years**
BNP PARIBAS Bank [a]	USD 100 million	3,037	-
Credit Agricole Corporate and Investment Bank [a]	USD 100 million	3,037	-
UniCredit Bank [a]	USD 350 million	-	10,630
Sberbank [a]	RR 30 billion	30,000	-
Total available credit facilities		**36,074**	**10,630**

[a] – interest rates are predetermined or negotiated at time of each withdrawal.

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 7,327 million (USD 175 million and EUR 50 million) and RR 6,278 million (USD 195 million) at 31 December 2012 and 2011, respectively, on variable interest rates subject to the specific type of credit facility.

16 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2012	At 31 December 2011
Financial liabilities		
Trade payables	9,959	5,187
Interest payable	1,464	1,009
Other payables	718	16,615
Commodity derivatives	43	-
Non-financial liabilities		
Advances from customers	1,227	743
Salary payables	251	210
Other liabilities	2,263	1,158
Trade payables and accrued liabilities	**15,925**	**24,922**

At 31 December 2011, other payables included RR 16,244 million, relating to the acquisition of a 49 percent equity stake in OAO Yamal LNG, which was fully repaid in June 2012.

17 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares at 31 December 2012 and 2011 with a par value of RR 0.1 each. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

Treasury shares. In accordance with the *Share Buyback Programs* authorized by the Board of Directors, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, during 2012 and earlier has purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange ("LSE") and ordinary shares on Moscow Interbank Currency Exchange (MICEX) through the use of independent brokers. At 31 December 2012 and 2011, the Group held in total (both shares and GDRs) 2,894 and 1,969 thousand ordinary shares at a total cost of RR 584 million and RR 281 million, respectively. The Group has decided that these shares do not vote.

During the year ended 31 December 2012, the Group purchased in total 925 thousand ordinary shares (both shares and GDRs) at a total cost of RR 303 million. During the year ended 31 December 2011, the Group sold 115,424 GDRs (1,154 thousand ordinary shares) for RR 520 million, recognizing gain of RR 355 million, which were recorded within additional paid-in capital in the consolidated statement of changes in equity.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	Year ended 31 December:	
	2012	**2011**
Dividends payable at 1 January	-	-
Dividends declared (*)	19,723	15,166
Dividends paid (*)	(19,718)	(15,166)
Dividends payable at 31 December	**5**	**-**
Dividends per share declared during the year (in Russian roubles)	6.50	5.00
Dividends per GDR declared during the year (in Russian roubles)	65.0	50.0

(*) – excluding treasury shares.

The Group declares and pays dividends in Russian roubles. Dividends declared in 2012 and 2011 were as follows:

Final for 2011: RR 3.50 per share or RR 35.0 per GDR declared in April 2012	10,627
Interim for 2012: RR 3.00 per share or RR 30.0 per GDR declared in October 2012	9,109
Total dividends declared in 2012	**19,736**
Final for 2010: RR 2.50 per share or RR 25.0 per GDR declared in April 2011	7,591
Interim for 2011: RR 2.50 per share or RR 25.0 per GDR declared in October 2011	7,591
Total dividends declared in 2011	**15,182**

Distributable retained earnings. In accordance with Russian legislation, NOVATEK distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the net profit as basis of distribution. For 2012 and 2011, the net statutory profits of NOVATEK as reported in the published annual statutory reporting forms were RR 28,830 million and RR 39,714 million, respectively. The closing balances of the accumulated profit including the respective years net statutory profit totalled RR 149,719 million and RR 120,889 million at 31 December 2012 and 2011, respectively.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

18 SHARE-BASED COMPENSATION PROGRAM

On 12 February 2010, Management Committee of NOVATEK 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 three one-year vesting periods ending 31 January 2011, 2012, and 2013.

The Program is established as a cash-settled payment program and references the Group's GDRs, which are publicly traded on the LSE under the ticker symbol "NVTK". At 31 December 2012 and 2011, the Program covered 134 and 146 employees, respectively. Each participant is assigned a pre-determined number of GDRs in accordance with their respective job classification grade and the entitlement for the cash-settled share-based payment cannot be transferred to another person. The cash-settled payments will only be awarded if the participant is employed with the Group at the date of payment.

Each participant is granted share appreciation rights, as part of their remuneration package, and may elect to get paid in cash at the end of each vesting period or to defer payment to the subsequent vesting periods during the Program life. Each payment is based on the sale of the allocated GDRs and is calculated as the difference between the GDRs market price at time of sale and the Program's pre-defined price set at USD 48.62 relating to the one-third of the total number of GDRs assigned to each participant during the vesting period, including any deferrals from prior vesting periods. The grant date is defined as 31 March 2010 and represents the date when all participants agreed to a share-based payment arrangement.

In November 2012, the Group extended the Program's tenor for an additional one-year vesting period ending 31 January 2014 with no change to other terms and conditions.

	Number of GDRs	*Weighted average or closing price (LSE), USD per GDR*
Total amount of GDRs granted at 31 December 2010	**382,368**	**119.5**
Granted	-	-
Exercised	(104,728)	105.0
Forfeited	(36,984)	-
Total amount of GDRs granted at 31 December 2011	**240,656**	**125.2**
Granted	-	-
Exercised	(112,305)	144.2
Forfeited	(11,140)	-
Total amount of GDRs granted at 31 December 2012	**117,211**	**119.3**

In accordance with IFRS 2, *Share-based payment*, the Group re-measures the employees' services rendered and the liability incurred at the fair value of the liability. Until the liability is settled, the Group re-measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model based on Monte-Carlo simulations, and to the extent to which the employees have rendered service to date.

18 SHARE-BASED COMPENSATION PROGRAM (CONTINUED)

The fair value of the Program is determined based on the following assumptions:

	2012	2013
Expected volatility	43.04%	43.04%
Risk-free interest rate	-	0.22%
Expected option life (years)	0.96	0.96
Exercise price per GDR (USD)	48.62	48.62

Expected volatility is calculated based on the historical volatility of the price per GDR for the historical period equal to the expected life of the Program (1.1 years). Risk-free interest rate is based on a benchmark USD curve including Deposit Rates (DEPO), Forward Rate Agreements (FRA) and Interest Rate Swaps (IRS).

The fair value of the share-based payments is recognized as a payable to the employees over the vesting period and any changes in the fair value of the liability recognized in the consolidated statement of income.

The amounts recognized by the Group in respect of the Program are as follows:

	Year ended 31 December:	
Expenses included in	2012	2011
General and administrative expenses	121	235

Liabilities included in	At 31 December 2012	At 31 December 2011
Other non-current liabilities	57	226
Trade payables and accrued liabilities	181	244
Total share-based compensation program liabilities	**238**	**470**

19 OIL AND GAS SALES

	Year ended 31 December:	
	2012	2011
Natural gas	142,613	110,932
Stable gas condensate	46,684	46,778
Liquefied petroleum gas	15,599	14,436
Crude oil	5,000	2,479
Oil and gas products	350	186
Total oil and gas sales	**210,246**	**174,811**

20 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2012	2011
Natural gas transportation to customers	45,925	34,441
Liquid hydrocarbons transportation by rail	10,537	9,791
Liquid hydrocarbons transportation by tankers	3,742	3,647
Crude oil transportation to customers	527	281
Other	117	169
Total transportation expenses	**60,848**	**48,329**

21 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December:	
	2012	2011
Unified natural resources production tax (UPT)	14,833	14,523
Property tax	1,754	1,742
Other taxes	259	294
Total taxes other than income tax	**16,846**	**16,559**

The unified natural resources production tax for natural gas production was set at a rate of RR 251 and RR 237 per thousand cubic meters for 2012 and 2011, respectively.

The unified natural resources production tax rate for gas condensate was set for 2011 at the level of 17.5 percent of gas condensate revenues recognized by the producing entities. Effective 1 January 2012, the approach set by the Tax Code of the Russian Federation was changed and a tax rate of RR 556 per ton of gas condensate produced was set.

Under the Tax Code, the tax rate for the unified natural resources production tax for crude oil is calculated by reference to an average price for Urals blend and an average exchange rate over the relevant tax period.

According to the amendments to the Tax Code, effective from 1 January 2012, a zero UPT rate is set for crude oil produced at fields located in the YNAO to the north of the 65th degree of the northern latitude. The Group's East-Tarkosalinskoye and Khancheyskoye fields are located within the applicable geographical area; therefore, the zero UPT rate was applied for the crude oil produced at these fields effective from 1 January 2012.

22 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2012	2011
Employee compensation	6,869	4,650
Legal, audit, and consulting services	1,274	774
Social expenses and compensatory payments	1,001	1,212
Depreciation – administrative buildings	314	198
Business trips expense	292	218
Fire safety and security expenses	199	178
Repair and maintenance expenses	168	115
Rent expense	113	140
Board remuneration	105	103
Insurance expense	86	58
Bank charges	82	58
Other	433	514
Total general and administrative expenses	**10,936**	**8,218**

22 GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)

Auditors' fees and services. ZAO PricewaterhouseCoopers Audit has served as the Group's independent external auditor for each of the reported financial years. The independent external auditor is subject to re-appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The following table presents the aggregate fees for professional services and other services rendered by ZAO PricewaterhouseCoopers Audit to the Group included within legal, audit, and consulting services:

	Year ended 31 December:	
	2012	2011
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	40	39
Non-audit services	4	1
Total auditors' fees and services	**44**	**40**

23 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2012	2011
Employee compensation	3,808	2,953
Repair and maintenance services	1,598	1,435
Electricity and fuel	457	405
Materials and supplies	412	309
Security expenses	271	237
Transportation expenses	186	184
Processing fees	99	99
Other	385	325
Total materials, services and other	**7,216**	**5,947**

24 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2012	2011
Natural gas	14,706	5,854
Unstable gas condensate	2,498	-
Other liquid hydrocarbons	279	140
Total purchases of natural gas and liquid hydrocarbons	**17,483**	**5,994**

Natural gas purchases included volumes procured from OAO Sibneftegas, the Group's joint venture, pro-rata to its total production (see Note 30). From January 2012, the Group began purchasing natural gas from its related party OAO SIBUR Holding at prices based on the market prices in the region of purchases (see Note 30).

In November 2012, the Group began purchasing unstable gas condensate from ZAO Nortgas, the Group's joint venture from November 2012, at ex-field prices based on benchmark crude oil and oil products market quotes adjusted for quality and respective tariffs for transportation and processing (see Note 30).

In April 2012, the Group began purchasing unstable gas condensate from OOO SeverEnergia, a related party, at ex-field prices based on benchmark crude oil and oil products market quotes adjusted for quality and respective tariffs for transportation and processing (see Note 30).

25 FINANCE INCOME (EXPENSE)

Interest expense (including transaction costs)	Year ended 31 December: 2012	2011
6.604% USD 650 million Eurobonds February 2021	1,355	1,165
7.5% RR 15 billion Sberbank December 2013	1,143	1,144
5.326% USD 600 million Eurobonds February 2016	1,022	879
7.5% RR 10 billion Bonds June 2013	772	772
8.9% RR 10 billion Sberbank December 2014	520	-
8.35% RR 20 billion Bonds October 2015	355	-
LIBOR+1.45% USD 300 million Sumitomo Mitsui Banking Corporation Europe Limited December 2013	148	148
LIBOR+1.9% USD 200 million Nordea Bank November 2013	133	125
LIBOR+3.25% USD 200 million UniCredit Bank October 2012 [(1)]	71	215
4.42% USD 1 billion Eurobonds December 2022	69	-
8% RR 10 billion Gazprombank November 2012 [(1)]	42	805
Other interest expenses [(2)]	72	169
Subtotal	**5,702**	**5,422**
Less: capitalized interest	(2,698)	(3,709)
Interest expense (on historical cost basis)	**3,004**	**1,713**
Effects of discounting of long-term financial liabilities	-	212
Provisions for asset retirement obligations: effect of the present value discount unwinding	232	225
Total interest expense	**3,236**	**2,150**

[(1)] – interest rates were reduced during the periods.
[(2)] – including credit facility with interest rates negotiated at time of each withdrawal.

Interest income	Year ended 31 December: 2012	2011
Interest income on loans issued	1,051	2,828
Interest income on cash and cash equivalents	444	355
Interest income (on historical cost basis)	**1,495**	**3,183**
Long-term financial assets: effect of the present value discount unwinding	236	209
Total interest income	**1,731**	**3,392**

26 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to profit before income tax.

	Year ended 31 December:	
	2012	2011
Profit before income tax	86,215	135,025
Theoretical income tax expense at statutory rate of 20 percent	17,243	27,005
Increase (decrease) due to:		
Non-temporary differences in respect of share of losses of equity investments	421	776
Non-deductible expenses	546	686
Russian entities' taxation at lower income tax rate	(117)	(118)
Foreign entities' taxation at lower income tax rate	(107)	(226)
Deferred taxes write-off	(21)	342
Tax benefit relating to priority investment projects in the YNAO	(1,709)	-
Disposal of 20 percent interest in Yamal LNG	-	(12,473)
Other non-temporary differences	518	(258)
Total income tax expense	**16,774**	**15,734**

In 2012, one of Group's investment projects in the YNAO was included by the YNAO authorities in the list of priority projects, which allows the Group's subsidiary, that carried out the project, to apply a reduced income tax rate of 15.5 percent.

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2012	2011
Russian Federation income tax	16,011	12,364
Foreign income tax	131	103
Total current income tax expense	**16,142**	**12,467**

Effective income tax rate. The Group's Russian statutory income tax rate for 2012 and 2011 was 20 percent. For the years ended 31 December 2012 and 2011, the consolidated Group's effective income tax rate was 19.5 percent and 11.7 percent, respectively. Excluding the effect of 20 percent disposal of Yamal LNG, the Group's effective income tax rate for the year ended 31 December 2011 was 21.7 percent.

The Group did not file a consolidated tax return for 2011. Instead, each legal entity filed separate tax returns with various tax authorities, primarily in the Russian Federation. Effective 1 January 2012, Russian tax legislation introduced an option to submit a single consolidated income tax return, and, accordingly, in April 2012, the Group's management registered NOVATEK and its core Russian producing subsidiaries as a consolidated group of taxpayers for 2012 and thereafter.

The Group has recorded a deferred tax liability in respect of the temporary difference associated with the investment in Yamal LNG at a zero tax rate as management expects that the carrying value of the investment in Yamal LNG would be recovered primarily through dividends taxable at zero tax rate and also potentially partially through a sale of an additional equity stake in the entity. The Group did not recognize deferred taxes related to a future sale as the tax base in respect of potential interest in Yamal LNG to be sold is assessed to be equal to its carrying amount.

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

26 INCOME TAX (CONTINUED)

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	At 31 December 2012	At 31 December 2011
Long-term deferred income tax asset (other non-current assets)	1,062	660
Long-term deferred income tax liability	(13,969)	(12,805)
Net deferred income tax liability	**(12,907)**	**(12,145)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2012 and 2011 were RR 983 million and RR 462 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2012 and 2011 were RR 629 million and RR 199 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2012 and 2011 are as follows:

	At 31 December 2012	Statement of Income effect	Acquisitions	Disposals	At 31 December 2011
Property, plant and equipment	(15,902)	(1,124)	-	11	(14,789)
Intangible assets	(398)	51	(125)	-	(324)
Other	(714)	(496)	(5)	-	(213)
Total deferred income tax liabilities	(17,014)	(1,569)	(130)	11	(15,326)
Tax losses carried forward	1,474	95	4	-	1,375
Inventories	1,077	438	-	(15)	654
Asset retirement obligation	577	30	-	-	547
Trade payables and accrued liabilities	809	327	-	-	482
Other	170	47	-	-	123
Total deferred income tax assets	4,107	937	4	(15)	3,181
Net deferred income tax liabilities	**(12,907)**	**(632)**	**(126)**	**(4)**	**(12,145)**

	At 31 December 2011	Statement of Income effect	Acquisitions	Disposals	At 31 December 2010
Property, plant and equipment	(14,789)	(3,827)	-	138	(11,100)
Intangible assets	(324)	23	(265)	-	(82)
Other	(213)	(53)	(13)	-	(147)
Total deferred income tax liabilities	(15,326)	(3,857)	(278)	138	(11,329)
Tax losses carried forward	1,375	603	16	(519)	1,275
Inventories	654	(167)	-	(83)	904
Asset retirement obligation	547	131	-	(80)	496
Trade payables and accrued liabilities	482	27	3	-	452
Other	123	(4)	8	(2)	121
Total deferred income tax assets	3,181	590	27	(684)	3,248
Net deferred income tax liabilities	**(12,145)**	**(3,267)**	**(251)**	**(546)**	**(8,081)**

26 INCOME TAX (CONTINUED)

At 31 December 2012, the Group had recognized deferred income tax assets of RR 1,474 million (31 December 2011: RR 1,375 million) in respect of unused tax loss carry forwards of RR 7,370 million (31 December 2011: RR 6,875 million). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

Financial assets	At 31 December 2012	At 31 December 2011
Loans and receivables		
Current		
Trade and other receivables	16,409	16,699
Russian rouble denominated loans	428	6,859
Short-term bank deposits	10	17
Cash restricted in the form of guarantee	1,959	-
Cash and cash equivalents	18,420	23,831
Non-current		
Long-term loans	12,502	9,323
Trade and other receivables	648	22,806
Long-term deposits	3	1
At fair value through profit or loss		
Current		
Commodity derivatives	451	-
Non-current		
Commodity derivatives	148	-
Total assets	**50,978**	**79,536**

Financial liabilities	At 31 December 2012	At 31 December 2011
At amortized cost		
Current		
Current portion of long-term debt	34,682	20,298
Trade and other payables	12,141	22,811
Non-current		
Long-term debt	97,805	75,180
At fair value through profit or loss		
Current		
Commodity derivatives	43	-
Non-current		
Commodity derivatives	592	-
Total liabilities	**145,263**	**118,289**

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Derivative instruments. Certain foreign long-term natural gas purchase and sales contracts were entered into for trading purposes on active markets that do not meet the expected own-use requirements. These contracts include pricing terms that are based on a variety of commodities and indices and volume flexibility options that collectively qualify them under the scope of IAS 39, *Financial instruments: recognition and measurement*, although the activity surrounding these contracts involves the physical delivery of natural gas. Such contracts are recognized in the statement of financial position at fair value with movements in fair value recognized in the income statement.

The Group determines the fair values of these financial commodity derivative contracts using the mark-to-market and mark-to-model methods and as such, the Group evaluates the quality and reliability of the assumptions and data used to measure fair value in accordance with IFRS 7, *Financial instruments: Disclosures,* in the three hierarchy levels as follows:

i. quoted prices in active markets (Level 1);
ii. inputs other than quoted prices included in Level 1 that are directly or indirectly observable in the market (externally verifiable inputs) (Level 2); and
iii. inputs that are not based on observable market data (unobservable inputs). These inputs reflect the Group's own assumptions about the assumptions a market participant would use in pricing the asset or liability (Level 3).

The fair values of natural gas derivative contracts are estimated using internal models and other valuation techniques due to the absence of quoted prices or other observable, market-corroborated data, for the duration of the contracts. Valuations were derived from quoted market prices for the periods in which market quotes are available; thereafter, forward natural gas prices were developed by reference to equivalent oil and oil products prices on other analogous markets. For periods beyond observable market prices the fair values of the long-term contracts were calculated using the market yield curve at the reporting date. Due to the assumptions underlying their fair value, the gas contracts are categorized as Level 3 in the fair value hierarchy, described above.

At 31 December 2012, the Group recognized RR 599 million of assets and RR 635 million of liabilities related to long-term natural gas contracts in the consolidated statement of financial position. For the year ended 31 December 2012, a loss of RR 36 million was included within other operating income (loss) representing non-cash mark-to-market net movements in fair values on these derivative instruments during the reporting period. Trading operations under these contracts in 2012 resulted in the net income of RR 112 million that was recognized in the consolidated income statement within other operating profit (loss).

The fair value of natural gas derivative contracts is sensitive to price changes in the event of a one-off shift step in the market. The table below represents the effect on the fair value estimation of these derivative contracts that would occur from price changes by RR 201.14 (five Euros) by 1 megawatt-hour:

Sensitivity summary	**Price decrease**	**Price increase**
Market shift from 2014 sensitivity	2,454	(3,379)
Market shift from 2019 sensitivity	2,011	(2,695)

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.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum gas 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 December 2012	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	8,136	4,366	-	12,502
Trade and other receivables	562	67	19	648
Commodity derivatives	-	-	148	148
Long-term deposits	-	-	3	3
Current				
Trade and other receivables	9,604	4,794	2,011	16,409
Russian rouble denominated loans	428	-	-	428
Short-term bank deposits	-	-	10	10
Commodity derivatives	-	-	451	451
Cash restricted in the form of guarantee	-	1,959	-	1,959
Cash and cash equivalents	8,251	9,740	429	18,420
Financial liabilities				
Non-current				
Long-term debt	(29,818)	(67,987)	-	(97,805)
Commodity derivatives	-	-	(592)	(592)
Current				
Current portion of long-term debt	(24,963)	(9,719)	-	(34,682)
Trade and other payables	(9,135)	(1,400)	(1,606)	(12,141)
Commodity derivatives	-	-	(43)	(43)
Net exposure at 31 December 2012	**(36,935)**	**(58,180)**	**830**	**(94,285)**

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2011	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Long-term loans receivable	9,103	220	-	9,323
Trade and other receivables	22,761	14	31	22,806
Long-term deposits	-	-	1	1
Current				
Trade and other receivables	8,692	7,618	389	16,699
Russian rouble denominated loans	6,859	-	-	6,859
Short-term bank deposits	-	-	17	17
Cash and cash equivalents	10,774	12,113	944	23,831
Financial liabilities				
Non-current				
Long-term debt	(24,937)	(50,243)	-	(75,180)
Other non-current liabilities	-	-	-	-
Current				
Current portion of long-term debt	(10,000)	(10,298)	-	(20,298)
Trade and other payables	(4,949)	(17,799)	(63)	(22,811)
Net exposure at 31 December 2011	**18,303**	**(58,375)**	**1,319**	**(38,753)**

The Group chooses to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a 10 percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2012 and 2011, respectively:

		Year ended 31 December:	
Effect on pre-tax profit	Increase in exchange rate	2012	2011
RUB / USD	10%	(5,818)	(5,838)

The effect of a corresponding 10 percent decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

The Group's overall commercial trading strategy in natural gas and liquid hydrocarbons 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 supplies on the Russian domestic market. As an independent natural gas producer, the Group is not subject to the government's regulation of natural gas prices, except for those volumes sold to residential customers. 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.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 to implement full liberalization of the domestic natural gas market is planned on 1 January 2015; however, the Government reserves the right to amend or change the proposed timetable. As part of the plan, in June 2012, the FTS approved an increase of 15 percent in the regulated prices effective 1 July 2012. According to the Government's program, 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.

Management believes it has limited downside commodity price risk for natural gas and does not use commodity derivative instruments for trading purposes. All of the Group's natural gas purchase and sales contracts in the domestic market are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*. 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 eventually to the natural gas exchange when trading commences.

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

Natural gas foreign trading activities are exercised by Novatek Gas & Power GmbH, the Group's wholly owned subsidiary, and are managed within the Group's integrated trading function.

Liquid hydrocarbons. The Group sells all its crude oil and gas condensate under spot contracts. Gas condensate volumes sold to the US, European, South American 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 a combination thereof) or Naphtha Japan and Naphtha CIF NWE, 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. All of the Group's liquid hydrocarbon purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

(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.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 31 December 2012	At 31 December 2011
At fixed rate	122,779	74,919
At variable rate	9,708	20,559
Total debt	**132,487**	**95,478**

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.

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation would decrease by the amounts shown below:

	Year ended 31 December:	
Effect on pre-tax profit	**2012**	**2011**
Increase by 100 basis points	97	206

The effect of a corresponding 100 basis points decrease in interest rate is approximately equal and opposite.

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place as of 31 December 2012 and 2011, or during 2012 and 2011.

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. 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.

As a result of recent acquisitions of Russian regional natural gas trading companies, the Group's exposure to small and medium-size industrial users and individuals has increased. The Group monitors the recoverability of these debtors by analyzing the ageing of receivables by type of customers and their respective prior payment history.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies.

Moody's, Fitch and/or Standard & Poor's	At 31 December 2012	At 31 December 2011
Investment grade rating	7,208	9,059
Non-investment grade rating	4,825	1,581
No external rating	4,376	6,059
Total trade and other receivables	**16,409**	**16,699**

The table below highlights the Group's cash and cash equivalents balances to published credit ratings of its banks and/or their parent companies.

Moody's, Fitch and/or Standard & Poor's	At 31 December 2012	At 31 December 2011
Investment grade rating	16,887	19,381
Non-investment grade rating	1,526	4,358
No external rating	7	92
Total cash and cash equivalents	**18,420**	**23,831**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB- for Fitch Ratings and Standard & Poor's.

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, except of natural gas derivative contracts, based on contractual undiscounted payments, including interest payments:

At 31 December 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal (*)	25,000	10,000	38,224	50,115	123,339
Interest	7,589	6,097	11,062	11,279	36,027
Debt at variable rate					
Principal (*)	9,719	-	-	-	9,719
Interest	116	-	-	-	116
Trade and other payables	12,141	-	-	-	12,141
Total financial liabilities	**54,565**	**16,097**	**49,286**	**61,394**	**181,342**

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 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 [(*)]	10,000	25,000	19,318	20,927	75,245
Interest	4,748	3,825	6,298	5,655	20,526
Debt at variable rate					
Principal [(*)]	10,303	10,302	-	-	20,605
Interest	366	135	-	-	501
Trade and other payables	22,811	-	-	-	22,811
Total financial liabilities	**48,228**	**39,262**	**25,616**	**26,582**	**139,688**

[(*)] – differs from long-term debt (Note 13) for transaction costs.

The following table represents the maturity profile of the Group's derivative commodity contracts based on undiscounted cash flows.

At 31 December 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash inflow	23,150	23,600	69,289	108,742	224,781
Cash outflow	(22,678)	(23,175)	(68,593)	(107,598)	(222,044)
Net cash flows	**472**	**425**	**696**	**1,144**	**2,737**

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, BBB- (stable outlook) by Fitch Ratings, as well as a credit rating of BBB- (stable 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.

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 plus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the year ended 31 December 2012. At 31 December 2012 and 2011, the Group's capital totalled RR 404,117 million and RR 312,660 million, respectively.

28 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 December 2012, the Group had contractual capital expenditures commitments aggregating approximately RR 22,476 million (at 31 December 2011: RR 17,805 million) mainly for ongoing development activities at the Yurkharovskoye field (through 2015), development at the North-Russkoe field (through 2014), both the Salmanovskoye (Utrenneye) and the Geofizicheskoye fields (through 2016), phase three construction of the Purovsky Gas Condensate Plant (through 2013), construction of the terminal for the transshipment and fractionation of stable gas condensate (through 2013) and ongoing development of the East-Tarkosalinskoye (through 2014) and Khancheyskoye fields (through 2013) all in accordance with duly signed agreements. Furthermore, the Group's share in capital commitments for its interests in joint ventures aggregates approximately RR 31,411 million (at 31 December 2011: RR 5,850 million) for development of the South-Tambeyskoye (through 2014), Termokarstovoye (through 2016), North-Urengoiskoye (through 2015) and Samburgskoye (through 2014) fields.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Correspondingly, the relevant regional and federal tax authorities may periodically challenge. Management's interpretation of such taxation legislation as applied to the Group's transactions and activities. 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 December 2012, 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.

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.

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 of the Russian Federation and the Group pays unified natural resources production tax to produce crude oil, natural gas and unstable gas condensate from these fields and contributions for exploration of license areas. The principal licenses of the Group and its joint ventures and their expiry dates are:

Field	License holder	License expiry date
	Subsidiaries:	
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Salmanovskoye (Utrenneye)	OOO NOVATEK-Yurkharovneftegas	2031
Geofizicheskoye	OOO NOVATEK-Yurkharovneftegas	2031
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoe	OOO NOVATEK-Tarkosaleneftegas	2031
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
Urengoiskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
Malo-Yamalskoye	OAO Tambeyneftegas	2019
Yarudeyskoye	OOO Yargeo	2029
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
North-Urengoyskoye	ZAO Nortgas	2018
Urengoiskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	OAO Arkticheskaya gazovaya kompaniya (Subsidiary of OOO SeverEnergia)	2018
Samburgskoye	OAO Arkticheskaya gazovaya kompaniya (Subsidiary of OOO SeverEnergia)	2018
Yaro-Yakhinskoye	OAO Arkticheskaya gazovaya kompaniya (Subsidiary of OOO SeverEnergia)	2018
North-Chaselskoye	OAO Arkticheskaya gazovaya kompaniya (Subsidiary of OOO SeverEnergia)	Life of field
Termokarstovoye	ZAO Terneftegas	2021
Beregovoe	OAO Sibneftegas	2023
Pyreinoye	OAO Sibneftegas	2021

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields.

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.

29 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective ownership in the ordinary share capital at 31 December 2012 and 2011 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2012	2011		
Subsidiaries				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Construction of transhipment and fractionation facilities
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk (formerly OOO Yamalgazresurs-Chelyabinsk)	100	100	Russia	Trading and marketing
OOO Gazprom mezhregiongas Chelyabinsk (merged into OOO NOVATEK-Chelyabinsk in June 2012)	-	100	Russia	Trading and marketing
OOO Gazprom mezhregiongas Kostroma	84.54	-	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO Yamalenergogas (merged into OOO NOVATEK-Perm in January 2012)	-	100	Russia	Trading and marketing
OOO Yargeo	51	51	Russia	Exploration and development
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Joint ventures				
OAO Yamal LNG	80	80	Russia	Exploration and development
OAO Sibneftegas	51	51	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and development
OOO Yamal Development	50	50	Russia	Holding company
OOO SeverEnergia (includes a producing subsidiary, see Note 7)	25.5	25.5	Russia	Holding company
ZAO Nortgas	49	-	Russia	Exploration and production

30 RELATED PARTY TRANSACTIONS

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

For the purposes of these consolidated financial statements, 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.

Related parties – joint ventures	Year ended 31 December:	
	2012	**2011**
Transactions		
OAO Sibneftegas:		
Interest income on loans issued	901	1,023
Oil and gas products sales	41	39
Purchases of natural gas	(5,272)	(3,661)
OOO Yamal Development:		
Interest income on loans issued	-	1,325
OOO SeverEnergia:		
Interest income on loans issued	145	247
Purchases of unstable gas condensate	(1,956)	-
ZAO Terneftegas:		
Interest income on loans issued	45	5
OAO Yamal LNG (from October 2011):		
Interest income on loans issued	17	167
Other revenues (operator services sales)	97	15
ZAO Nortgas (from 27 November 2012):		
Purchases of unstable gas condensate	(312)	-

In October 2011, the Group disposed of a 20 percent equity stake in OAO Yamal LNG, and in accordance with the new shareholders' agreement lost effective control over the entity, but joint control was retained (see Note 5); therefore, subsequent to that event, the Group's balances and transactions with this entity are disclosed as related parties – equity investments.

Related parties – joint ventures	**At 31 December 2012**	**At 31 December 2011**
Balances		
OAO Sibneftegas:		
Long-term loans receivable	8,136	9,103
Interest on long-term loans receivable	187	775
Short-term loans receivable	428	634
Trade payables and accrued liabilities	705	387
OOO Yamal Development:		
Long-term loans and receivables	-	16,348
OOO SeverEnergia:		
Short-term loans receivable	-	6,225
Interest on short-term loans receivable	-	94
Trade payables and accrued liabilities	398	-

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	At 31 December 2012	At 31 December 2011
Balances		
ZAO Terneftegas:		
Long-term loans receivable	1,451	220
Interest on long-term loans receivable	50	5
OAO Yamal LNG:		
Long-term loans receivable	2,915	-
Long-term receivables	-	3,955
Interest on long-term loans receivable	17	-
ZAO Nortgas (from 27 November 2012):		
Trade payables and accrued liabilities	368	-

In September 2011, the Chairman of the Management Committee of NOVATEK acquired a controlling stake in OAO SIBUR Holding. As a result, the Group's balances and transactions with this company and its subsidiaries following that date were disclosed as related parties – parties under control of key management personnel.

In October 2012, the Group signed an agreement for the transport of stable gas condensate from the Purovsky Gas Condensate Plant to the Port of Vitino on the White Sea with OOO Transoil, an entity under control of a member of the Board of Directors of NOVATEK. The Group's balances and transactions with this company are disclosed below as related parties – parties under control of key management personnel of the Group.

	Year ended 31 December:	
Related parties – parties under control of key management personnel	2012	2011
Transactions		
OAO SIBUR Holding and its subsidiaries (from 1 October 2011):		
Natural gas sales	2,042	-
Purchases of natural gas	(9,434)	-
Purchases of liquid hydrocarbons	(45)	-
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(472)	-

Related parties – parties under control of key management personnel	At 31 December 2012	At 31 December 2011
Balances		
OAO Pervobank:		
Cash and cash equivalents	1,224	4,066
OAO SIBUR Holding and its subsidiaries:		
Long-term receivable	-	1,424
Trade and other receivables	1,568	248
Trade payables and accrued liabilities	826	-
Prepayments and other current assets	1,690	-
OOO Transoil:		
Trade payables and accrued liabilities	170	-
Prepayments and other current assets	61	-

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation. The Group paid to key management personnel (members of the Board of Directors and the Management Committee) short-term compensation, including salary, bonuses, and excluding dividends the following amounts.

Related parties – members of the key management personnel	Year ended 31 December: 2012	2011
Board of Directors	105	103
Management Committee	1,282	1,242
Total compensation	**1,387**	**1,345**

Such amounts include personal income tax and are net of payments to non-budget funds made by the employer. Some members of key management personnel have direct and/or indirect interests in the Group and receive dividends under general conditions based on their respective shareholdings. 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.

31 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 one operating segment: "exploration, production and marketing".

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 financial statements for the fair presentation in accordance with IFRS.

The CODM assesses reporting segment performance based on income before income taxes, since income taxes are not allocated. No business segment assets or liabilities (except for capital expenditures for the period) are provided to the CODM for decision-making.

Segment information for the year ended 31 December 2012 is as follows:

For the year ended 31 December 2012	References	Exploration, production and marketing	Segment information as reported to CODM	Reconciling items	Total per consolidated financial statements
External revenues	*a*	211,885	211,885	(912)	210,973
Operating expenses	*a - e*	(130,558)	(130,558)	4,783	(125,775)
Other operating income (loss)	*c*	(292)	(292)	428	136
Interest expense	*f*	(5,231)	(5,231)	1,995	(3,236)
Interest income		1,479	1,479	252	1,731
Foreign exchange gain (loss)	*f*	4,358	4,358	133	4,491
Segment result		**81,641**	**81,641**	**6,679**	**88,320**
Share of profit (loss) of joint ventures, net of income tax					(2,105)
Profit before income tax					**86,215**
Depreciation, depletion and amortization	*b, c*	15,286	15,286	(3,787)	11,499
Capital expenditures	*f*	36,021	36,021	7,533	43,554

31 SEGMENT INFORMATION (CONTINUED)

Reconciling items mainly related to:

a. different methodology of liquefied petroleum gas sales recognition under IFRS and the RAR which requires reclassification of external revenues and expenses for RR 951 million under IFRS;

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 3,987 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 147 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

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 additional transportation expenses of RR 216 million and additional payroll expenses of RR 1,962 million recorded in operating expenses under IFRS;

e. different methodology in recognizing of exploration expenses, which resulted in the reversal of operating expenses of RR 2,364 million 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 capitalized interest and foreign exchange differences of RR 2,156 million and additional capital expenditures of RR 5,377 million under IFRS.

Segment information for the year ended 31 December 2011 is as follows:

For the year ended 31 December 2011	**References**	**Exploration, production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues	a	176,340	176,340	(1,067)	175,273
Operating expenses	*a - e*	(101,659)	(101,659)	4,839	(96,820)
Other operating income (loss)	*c, f*	12,950	12,950	50,205	63,155
Interest expense	*g*	(5,392)	(5,392)	3,242	(2,150)
Interest income		3,137	3,137	255	3,392
Foreign exchange gain (loss)	*g*	(4,368)	(4,368)	423	(3,945)
Segment result		**81,008**	**81,008**	**57,897**	**138,905**
Share of profit (loss) of joint ventures, net of income tax					(3,880)
Profit before income tax					**135,025**
Depreciation, depletion and amortization	*b, c*	12,925	12,925	(3,450)	9,475
Capital expenditures	*g*	30,510	30,510	7,521	38,031

31 SEGMENT INFORMATION (CONTINUED)

Reconciling items mainly related to:

a. different methodology of liquefied petroleum gas sales recognition under IFRS and the RAR which requires reclassification of external revenues and expenses for RR 998 million under IFRS;

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 3,892 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 280 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

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 additional transportation expenses of RR 37 million and additional payroll expenses of RR 233 million recorded in operating expenses under IFRS;

e. different methodology in the recognition of impairment expenses between IFRS and management accounting, which resulted in net reversal of RR 755 million recorded in operating expenses under IFRS;

f. different methodology in recognizing the gain on disposal of ownership interest in OAO Yamal LNG between IFRS and management accounting, which resulted in additional gain of RR 49,589 million recorded in other operating income (loss) under IFRS; and

g. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional capitalized interest and foreign exchange differences of RR 3,942 million and additional capital expenditures of RR 3,579 million under IFRS.

Geographical information. The Group operates in the following geographical areas:

- *Russian Federation* – exploration, development, production and processing of hydrocarbons, and sales of natural gas, stable gas condensate, crude oil and related products;
- *USA* – sales of stable gas condensate;
- *Europe* – sales of stable gas condensate, liquefied petroleum gas and crude oil; and
- *Asian-Pacific Region ("APR")* – sales of stable gas condensate.

Geographical information for the years ended 31 December 2012 and 2011 is as follows:

For the year ended	Russian	Outside Russian Federation						
31 December 2012	Federation	Europe	USA	APR	Other	Export duty	Subtotal	Total
Natural gas	142,613	-	-	-	-	-	-	142,613
Stable gas condensate	319	22,857	8,614	46,351	3,597	(35,054)	46,365	46,684
Liquefied petroleum gas	5,968	12,137	-	-	-	(2,506)	9,631	15,599
Crude oil	3,215	3,661	-	-	-	(1,876)	1,785	5,000
Oil and gas products	350	-	-	-	-	-	-	350
Oil and gas sales	**152,465**	**38,655**	**8,614**	**46,351**	**3,597**	**(39,436)**	**57,781**	**210,246**
Other revenues	642	85	-	-	-	-	85	727
Total external revenues	**153,107**	**38,740**	**8,614**	**46,351**	**3,597**	**(39,436)**	**57,866**	**210,973**

31 SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2011	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	110,932	-	-	-	-	-	-	110,932
Stable gas condensate	46	28,265	17,920	35,642	-	(35,095)	46,732	46,778
Liquefied petroleum gas	5,728	11,024	-	-	10	(2,326)	8,708	14,436
Crude oil	1,458	2,143	-	-	-	(1,122)	1,021	2,479
Oil and gas products	186	-	-	-	-	-	-	186
Oil and gas sales	**118,350**	**41,432**	**17,920**	**35,642**	**10**	**(38,543)**	**56,461**	**174,811**
Other revenues	323	139	-	-	-	-	139	462
Total external revenues	**118,673**	**41,571**	**17,920**	**35,642**	**10**	**(38,543)**	**56,600**	**175,273**

Revenues 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 operating assets are located in the Russian Federation.

Major customers. For the years ended 31 December 2012 and 2011, the Group has one and two major customers to whom individual annual revenues exceed 10 percent of total external revenues, which on an aggregate basis represent 19 percent and 30 percent of total external revenues, respectively.

32 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

	Year ended 31 December:	
	2012	2011
Net book value of assets value at 1 January	**16,251**	**6,372**
Additions	1,212	13,500
Disposals	(940)	(1,921)
Reclassification in proved properties	(7,192)	(574)
Transfers	(584)	(1,126)
Net book value of assets at 31 December	**8,747**	**16,251**
Liabilities	1,483	650
Cash flows used for operating activities	1,174	1,469
Cash flows used for investing activities	1,730	10,093

33 SUBSEQUENT EVENTS

On 20 February 2013, the Group issued four-year non-convertible Russian rouble denominated Eurobonds in the amount of RR 14 billion with a coupon rate of 7.75 percent per annum.

On 28 February 2013, the Group repaid a Russian rouble denominated loan in the amount of RR 15 billion obtained from OAO Sberbank. The loan was repaid ahead of its maturity schedule.

On 1 March 2013, the Group repaid the US dollar denominated loan in the amount of US 200 million obtained from OAO Nordea bank. The loan was repaid ahead of its maturity schedule.

34 NEW ACCOUNTING PRONOUNCEMENTS

The Group has reviewed new and revised accounting pronouncements that have been issued but are not yet effective for the Group and determined that the following may have an impact on the Group.

IFRS 9, *Financial Instruments: Classification and Measurement.* IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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 at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, *Consolidated Financial Statements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation—special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, *Joint Arrangements,* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

34 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 12, *Disclosure of Interest in Other Entities,* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

The Group will adopt IFRS 10, IFRS 11 and IFRS 12 from January 1, 2013. The adoption of IFRS 10 and IFRS 12 is not expected to have a material impact on the Group's financial position or operations but will require additional disclosures to be presented in the consolidated financial statements.

IFRS 13, *Fair value measurement,* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The adoption of this standard is not expected to have a material impact on the Group's financial position or operations.

IAS 27, *Separate Financial Statements,* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. The adoption of this amendment is not expected to have a material impact on the Group's financial position or operations.

IAS 28, *Investments in Associates and Joint Ventures,* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the International Accounting Standards Board's ("Board") project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The adoption of this amendment is not expected to have a material impact on the Group's financial position or operations.

Amendments to IAS 1, *Presentation of Financial Statements* (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, *Employee Benefits* (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect these amendments to have a material impact on the Group's financial position or operations.

34 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Amendments to IFRS 7, *Disclosures—Offsetting Financial Assets and Financial Liabilities* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, *Borrowing costs*, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group does not expect these amendments to have a material impact on the Group's financial position or operations.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group's exploration and production activities are mainly within the Russian Federation; therefore, all of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the years ended 31 December 2012 and 2011 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2012	2011
Costs incurred in exploration and development activities		
Acquisition of unproved properties	-	7,053
Exploration costs	2,028	2,447
Development costs	29,988	23,493
Total costs incurred in exploration and development activities	**32,016**	**32,993**
The share of the Group in joint ventures	80,777	2,051

	At 31 December 2012	At 31 December 2011
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	157,048	145,063
Support equipment and facilities	38,922	30,717
Uncompleted wells, equipment and facilities	17,312	12,862
Total capitalized costs relating to oil and gas producing activities	213,282	188,642
Less: accumulated depreciation, depletion and amortization	(46,131)	(35,540)
Net capitalized costs relating to oil and gas producing activities	**167,151**	**153,102**
The share of the Group in joint ventures	226,887	150,449

The Group has reclassified capitalized costs relating to oil and gas producing activities of Yamal LNG due to cessation of control on 6 October 2011 and the subsequent accounting of its activities under the equity method (see Note 5).

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are shown below. The results of operations for oil and gas producing activities do not include general corporate overhead or its associated tax effects. Income tax is based on statutory rates. In the following table, revenues from oil and gas sales are comprised of the sale of the Group's hydrocarbons and include processing costs, related to the Group's processing facilities as well as transportation expenses to the customer (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2012	2011
Revenues from oil and gas sales	184,629	162,975
Lifting costs	(7,599)	(5,403)
Transportation expenses	(57,888)	(46,216)
Taxes other than income tax	(16,546)	(16,307)
Depreciation, depletion and amortization	(10,589)	(8,937)
Exploration expenses	(2,022)	(1,819)
Total production costs	**(94,644)**	**(78,682)**
Results of operations for oil and gas producing activities before income tax	89,985	84,293
Less: related income tax expenses	(17,997)	(16,859)
Results of operations for oil and gas producing activities	**71,988**	**67,434**
Share of profit (loss) of joint ventures	729	(555)
Total results of operations for oil and gas producing activities	**72,717**	**66,879**

Proved Oil and Gas Reserves

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

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2012 and 2011.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's licenses for exploration and production expire between 2018 and 2045, with the most significant licenses for Yurkharovskoye and East-Tarkosalinskoye fields, expiring in 2034 and 2043, respectively. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures. A portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing reserves, a portion represents existing wells which are to be returned to production at a future date.

For convenience, reserves estimates are provided both in English and Metric units.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Reserves at 31 December 2010	**41,585**	**1,178**	**6,057**	**171**	**47,642**	**1,349**
Changes attributable to:						
Revisions of previous estimates	(106)	(3)	370	11	264	8
Extension and discoveries	3,398	97	676	19	4,074	116
Disposals	(3,331)	(95)	-	-	(3,331)	(95)
Reclassifications	(13,323)	(377)	13,323	377	-	-
Production	(1,676)	(48)	(190)	(5)	(1,866)	(53)
Reserves at 31 December 2011	**26,547**	**752**	**20,236**	**573**	**46,783**	**1,325**
Changes attributable to:						
Revisions of previous estimates	231	6	(9)	-	222	6
Extension and discoveries	738	21	1,018	29	1,756	50
Acquisitions (*)	12,717	360	2,729	77	15,446	437
Production	(1,781)	(50)	(211)	(6)	(1,992)	(56)
Reserves at 31 December 2012	**38,452**	**1,089**	**23,763**	**673**	**62,215**	**1,762**
Net proved developed reserves (included above)						
At 31 December 2010	22,515	638	2,536	71	25,051	709
At 31 December 2011	20,763	588	2,348	66	23,111	654
At 31 December 2012	20,053	568	3,222	91	23,275	659
Net proved undeveloped reserves (included above)						
At 31 December 2010	19,070	540	3,521	100	22,591	640
At 31 December 2011	5,784	164	17,888	507	23,672	671
At 31 December 2012	18,399	521	20,541	582	38,940	1,103

(*) – the acquisitions include the first time reserve estimation for the Salmanovskoye (Utrenneye) and Geofizicheskoye fields, that were acquired late in 2011 and additionally explored in 2012.

The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 128 billion of cubic feet and 4 billion of cubic meters and 120 billion of cubic feet and 4 billion of cubic meters at 31 December 2012 and 2011, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Reserves at 31 December 2010	**566**	**68**	**103**	**13**	**669**	**81**
Changes attributable to:						
Revisions of previous estimates	10	1	4	1	14	2
Extension and discoveries	116	14	38	4	154	18
Disposals	(34)	(4)	-	-	(34)	(4)
Reclassifications	(138)	(16)	138	16	-	-
Production	(35)	(4)	-	-	(35)	(4)
Reserves at 31 December 2011	**485**	**59**	**283**	**34**	**768**	**93**
Changes attributable to:						
Revisions of previous estimates	2	-	(37)	(4)	(35)	(4)
Extension and discoveries	13	1	40	3	53	4
Acquisitions (*)	78	9	85	10	163	19
Production	(35)	(4)	(1)	-	(36)	(4)
Reserves at 31 December 2012	**543**	**65**	**370**	**43**	**913**	**108**
Net proved developed reserves (included above)						
At 31 December 2010	304	36	-	-	304	36
At 31 December 2011	282	33	-	-	282	33
At 31 December 2012	269	32	26	3	295	35
Net proved undeveloped reserves (included above)						
At 31 December 2010	262	32	103	13	365	45
At 31 December 2011	203	26	283	34	486	60
At 31 December 2012	274	33	344	40	618	73

(*) – the acquisitions include the first time reserve estimation for the Salmanovskoye (Utrenneye) and Geofizicheskoye fields, that were acquired late in 2011 and additionally explored in 2012.

The net proved reserves reported in the table above included reserves of crude oil, gas condensate and natural gas liquids attributable to non-controlling interest of 17 million of barrels and 2 million of metric tons and 16 million of barrels and 2 million of metric tons at 31 December 2012 and 2011, respectively.

In November 2012, the Group acquired 49 percent of the outstanding ordinary shares of ZAO Nortgas, which holds license on North-Urengoyskoye field (see Note 5).

In October 2011, the Group's effective control over OAO Yamal LNG, the holder of the South-Tambeyskoye field, ceased. As a result, the Group's interest in Yamal LNG is accounted for using the equity method (see Note 5).

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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