OAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR’S REPORT

FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

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Independent Auditor's Report

To the shareholders and Board of Directors of OAO NOVATEK

1 We have audited the accompanying consolidated financial statements of OAO NOVATEK and its subsidiaries (the "Group") set out on pages 4 to 70 which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, consolidated statement of cash flows, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
11 March 2011

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

	Notes	At 31 December: 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	185,573	161,448
Investments in associates and joint ventures	7	27,026	1,214
Long-term loans and receivables	8	40,151	933
Other non-current assets	9	2,858	2,669
Total non-current assets		**255,608**	**166,264**
Current assets			
Inventories	10	1,868	1,790
Current income tax prepayments		285	241
Trade and other receivables	11	8,670	8,504
Prepayments and other current assets	12	8,504	5,800
Cash and cash equivalents	13	10,238	10,532
Total current assets		**29,565**	**26,867**
Assets held for sale		**-**	**508**
Total assets		**285,173**	**193,639**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	47,074	23,876
Deferred income tax liabilities	26	9,473	7,460
Other non-current liabilities		917	3,034
Asset retirement obligations		2,482	2,232
Total non-current liabilities		**59,946**	**36,602**
Current liabilities			
Short-term debt and current portion of long-term debt	16	25,152	13,827
Trade payables and accrued liabilities	17	28,479	7,335
Current income tax payable		1,212	386
Other taxes payable		2,598	2,045
Total current liabilities		**57,441**	**23,593**
Liabilities associated with assets held for sale		**-**	**4**
Total liabilities		**117,387**	**60,199**
Equity attributable to OAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(446)	(599)
Additional paid-in capital		30,865	30,609
Currency translation differences		(120)	(112)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		110,810	78,393
Total equity attributable to OAO NOVATEK shareholders	18	**147,119**	**114,301**
Non-controlling interest		**20,667**	**19,139**
Total equity		**167,786**	**133,440**
Total liabilities and equity		**285,173**	**193,639**

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 10 March 2011:

L. Mikhelson
General Director

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: 2010	2009
Revenues			
Oil and gas sales	20	115,162	86,903
Sales of polymer and insulation tape		1,699	1,873
Other revenues		163	1,178
Total revenues		**117,024**	**89,954**
Operating expenses			
Transportation expenses	21	(37,200)	(29,026)
Taxes other than income tax	22	(10,077)	(8,042)
General and administrative expenses	23	(6,733)	(5,126)
Depreciation, depletion and amortization	6	(6,616)	(5,588)
Materials, services and other	24	(6,072)	(6,259)
Exploration expenses		(1,595)	(566)
Net impairment expense		(541)	(125)
Purchases of natural gas and liquid hydrocarbons		(154)	(1,143)
Change in natural gas, liquid hydrocarbons, and polymer products and work-in-progress		470	(255)
Total operating expenses		**(68,518)**	**(56,130)**
Net gain on disposal of interest in subsidiaries		1,329	52
Other operating income (loss)		396	(343)
Profit from operations		**50,231**	**33,533**
Finance income (expense)			
Interest expense	25	(437)	(819)
Interest income	25	598	527
Foreign exchange gain (loss)		1,036	(539)
Total finance income (expense)		**1,197**	**(831)**
Share of profit (loss) of associates and joint ventures, net of income tax		(346)	(202)
Profit before income tax		**51,082**	**32,500**
Income tax expense			
Current income tax expense		(9,405)	(5,896)
Net deferred income tax (expense) benefit		(1,399)	(882)
Total income tax expense	26	**(10,804)**	**(6,778)**
Profit (loss)		**40,278**	**25,722**
Profit (loss) attributable to:			
Non-controlling interest		(255)	(321)
Shareholders of OAO NOVATEK		**40,533**	**26,043**
Basic and diluted earnings per share (in Russian roubles)		13.37	8.59
Weighted average number of shares outstanding (in thousands)		*3,032,218*	*3,032,114*

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2010	2009
Profit before income tax		**51,082**	**32,500**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		6,757	5,738
Net impairment expense		541	125
Net foreign exchange loss (gain)		(1,036)	539
Net loss (gain) on disposal of assets		(1,253)	233
Interest expense		437	819
Interest income		(598)	(527)
Share of loss (profit) in associates, net of income tax		346	202
Net change in other non-current assets and long-term receivables		1,063	399
Share-based compensation	18	68	176
Other adjustments		241	(238)
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(2,675)	(1,298)
Decrease (increase) in inventories		(479)	334
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends		(1,821)	(615)
Increase (decrease) in other taxes payable		765	724
Total effect of working capital changes		**(4,210)**	**(855)**
Income taxes paid		(8,575)	(4,264)
Net cash provided by operating activities		**44,863**	**34,847**
Cash flows from investing activities			
Purchases of property, plant and equipment		(21,436)	(16,218)
Purchases of inventories intended for construction		(1,200)	(20)
Acquisition of subsidiaries net of cash acquired		(1,718)	(19,034)
Investments in associates and joint ventures		(4,660)	-
Proceeds from disposals of subsidiaries net of cash disposed		1,173	419
Interest paid and capitalized		(2,002)	(1,280)
Loans provided		(39,402)	(427)
Repayments of loans provided		219	80
Interest received		184	295
Net cash (used for) provided by investing activities		**(68,842)**	**(36,185)**
Cash flows from financing activities			
Proceeds from long-term debt		35,018	16,926
Proceeds from short-term debt		20,331	5,385
Repayments of long-term debt		(18,718)	(6,758)
Repayments of short-term debt		(2,729)	(8,348)
Interest paid		(301)	(583)
Dividends paid	18	(9,868)	(7,628)
Acquisition of non-controlling interest	5	(629)	-
Additional capital contribution into subsidiaries	5	337	1,767
Proceeds from sale of treasury shares	18	341	-
Net cash (used for) provided by financing activities		**23,782**	**761**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2010	2009
Net effect of exchange rate changes on cash, cash equivalents and bank overdrafts		(45)	141
Net increase (decrease) in cash, cash equivalents and bank overdrafts		**(242)**	**(436)**
Cash and cash equivalents at beginning of the year		10,532	10,991
Cash and cash equivalents reclassified as assets classified as held for sale		-	(52)
Net decrease (increase) in cash and cash equivalents reclassified to assets classified as held for sale		(52)	(23)
Cash, cash equivalents and bank overdrafts at end of the year		**10,238**	**10,532**

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2010	2009
Other comprehensive income (loss) after income tax:			
Currency translation differences		(8)	(21)
Other comprehensive income (loss)		**(8)**	**(21)**
Profit (loss)		**40,278**	**25,722**
Total comprehensive income		**40,270**	**25,701**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(255)	(321)
Shareholders of OAO NOVATEK		**40,525**	**26,022**

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	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to OAO NOVATEK shareholders	Non-controlling interest	Total equity
31 December 2008	***3,032,114***	**393**	**(599)**	**30,433**	**(91)**	**5,617**	**60,316**	**96,069**	**571**	**96,640**
Currency translation differences	-	-	-	-	(21)	-	-	(21)	-	(21)
Profit (loss)	-	-	-	-	-	-	26,043	26,043	(321)	25,722
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(21)**	-	**26,043**	**26,022**	**(321)**	**25,701**
Dividends (Note18)	-	-	-	-	-	-	(7,641)	(7,641)	-	(7,641)
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	160	160
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	18,729	18,729
Equity call option consideration (Note 5)	-	-	-	-	-	-	(325)	(325)	-	(325)
Share-based compensation funded by shareholders	-	-	-	176	-	-	-	176	-	176
31 December 2009	***3,032,114***	**393**	**(599)**	**30,609**	**(112)**	**5,617**	**78,393**	**114,301**	**19,139**	**133,440**

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

	Number of ordinary shares (in thousands)	**Ordinary share capital**	**Treasury shares**	**Additional paid-in capital**	**Currency translation differences**	**Asset revaluation surplus on acquisitions**	**Retained earnings**	**Equity attributable to OAO NOVATEK shareholders**	**Non-controlling interest**	**Total equity**
31 December 2009	***3,032,114***	**393**	**(599)**	**30,609**	**(112)**	**5,617**	**78,393**	**114,301**	**19,139**	**133,440**
Currency translation differences	-	-	-	-	(8)	-	-	(8)	-	(8)
Profit (loss)	-	-	-	-	-	-	40,533	40,533	(255)	40,278
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(8)**	**-**	**40,533**	**40,525**	**(255)**	**40,270**
Dividends (Note18)	-	-	-	-	-	-	(9,855)	(9,855)	-	(9,855)
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	2,414	2,414
Impact of additional shares subscription in subsidiaries on non-controlling interest	-	-	-	-	-	-	-	-	1,818	1,818
Acquisition of non-controlling interest (Note 5)	-	-	-	-	-	-	1,739	1,739	(2,368)	(629)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(81)	(81)
Share-based compensation funded by shareholders	-	-	-	68	-	-	-	68	-	68
Sales of treasury shares (Note 18)	*1,070*	-	153	188	-	-	-	341	-	341
31 December 2010	***3,033,184***	**393**	**(446)**	**30,865**	**(120)**	**5,617**	**110,810**	**147,119**	**20,667**	**167,786**

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

In December 2010, the Group acquired 100 percent participation interest in OOO Yamalgazresurs-Chelyabinsk, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Chelyabinsk Region in Russian Federation (see Note 5).

In December 2010, the Group acquired 51 percent ownership in OAO Sibneftegas, an oil and gas production company, which owns four licenses for the fields located in YNAO, with total production in 2010 of 9.8 billion cubic meters (see Note 5).

In November 2010, OOO Yamal Development, the Group's joint venture, acquired a 51 percent participation interest in OOO SeverEnergia. SeverEnergia through its three wholly owned subsidiaries holds four exploration and production licenses for the fields located in the YNAO (see Note 5).

In September 2010, the Group disposed of its 100 percent participation interest in OOO NOVATEK-Polymer, its non-core subsidiary to OAO SIBUR Holding (see Note 5).

In August 2010, the Group acquired 100 percent ownership in Intergaz-System Sp.z o.o., domiciled in Poland, to support and extend the wholesale and retail trading of liquefied petroleum gas in Polish market (see Note 5).

In July 2010, NOVATEK and OAO Gazprom Neft, a subsidiary of OAO Gazprom, established a joint venture OOO Yamal Development for the purpose of developing potential hydrocarbon assets in the YNAO (see Note 5).

In May 2010, the Group established OOO NOVATEK Perm, a wholly-owned subsidiary, to support the Group's current natural gas deliveries to the Perm region, one of the largest industrial centers in the Russian Federation, as well as to expand potential sales opportunities in the territory.

In November 2009, the Group established Novatek Polska, a wholly-owned subsidiary, domiciled in Poland to manage the administration, marketing and trading of liquefied petroleum gas to European markets. Beginning in January 2010, the Group commenced export sales through this subsidiary.

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.

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

2 BASIS OF PRESENTATION (CONTINUED)

Most of the Group entities prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). 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 (1) depreciation, depletion and amortization, and valuation of property, plant and equipment, (2) consolidation of subsidiaries, (3) business combinations, (4) accounting for income taxes, and (5) valuation of unrecoverable assets, expense recognition and other provisions.

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 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 statement for the entities whose functional currency is not the Russian rouble were as follows:

	At 31 December:		Average annual rate	
For one currency unit to one Russian rouble	**2010**	**2009**	**2010**	**2009**
US dollar ("USD")	30.48	30.24	30.37	31.72
Polish Zloty ("PLN")	10.17	10.32	10.09	10.64

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of IFRS 3. Effective 1 January 2010, the Group adopted IFRS 3, *Business Combinations* (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirer's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of IAS 27. Effective 1 January 2010, the Group adopted IAS 27, *Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010.

Adoption of IAS 1. Effective 1 January 2009, the Group adopted IAS 1, *Presentation of Financial Statements* (revised September 2007) ("IAS 1"). Following the adoption, the Group introduced the statement of financial position instead of the balance sheet, and replaced the income statement by two statements: a separate income statement and a statement of comprehensive income. Also, non-controlling shares in the Group's subsidiaries' net assets and financial results are presented as non-controlling interests (previously "minority interests"). The adoption of IAS 1 affects the formal presentation of the Group's financial statements but has no impact on the recognition or measurement of specific transactions and balances.

Adoption of IFRS 8. Effective 1 January 2009, the Group adopted IFRS 8, *Operating Segments* ("IFRS 8"), which replaces IAS 14, *Segment Reporting*. IFRS 8 introduces new requirements and guidelines regarding the disclosures of operating segments. For periods prior to 1 January 2010, a measure of total segment assets was required to be disclosed for all segments regardless of whether those measures were reviewed by the chief operating decision maker. In December 2007, however, the IASB concluded that IFRS 8 should be changed to state that a measure of segment assets should only be disclosed when such information is provided to the chief operating decision maker. This change was included as part of the IASB's 2009 annual improvement project issued in April 2009 which has been adopted by Group as of 1 January 2009.

Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the chief operating decision maker (hereinafter referred to as "CODM", represented by the Management Committee of NOVATEK), which decides how to allocate resources and assesses operational and financial performance using the information provided.

The Group conducts its normal course of business through its principal business segment "exploration, production and marketing". Substantially all of the Group's business activities are related to the natural gas and gas condensate exploration, production and marketing segment, and includes all headquarter-related costs. To a significantly lesser extent, the Group was engaged in polymer production and marketing activities, which was considered a separately reportable operating segment until its disposal in September 2010.

The CODM assesses reporting segments 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.

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 purchase 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognised 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.

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 unrealised gains on transactions between group companies are eliminated; unrealised 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.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised 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 recognised 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 recognised 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 recognised 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, 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. The carrying amount of associates and joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the associates' post-acquisition profits or losses is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in the consolidated statement of changes in equity. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

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

Derivative instruments. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
(ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

At inception, the Group documents the relationship between the hedging instruments and the items hedged, as well as the Group's risk management objectives and strategy for undertaking various hedging activities. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group enters into commodity derivative instruments with the primary objective of reducing the Group's exposure to fluctuating of oil and gas prices. The Group has not entered into commodity derivative instruments for trading purposes.

During the year ended 31 December 2009, the Group entered into commodity price swap contracts for total notional volume of three million barrels of stable gas condensate. The contractual notional volumes are not physically exchanged, rather they are cash settled on a net basis. None of the contracts executed during this period qualified for hedge treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. All contracts were settled realizing net losses of RR 190 million. The results of the commodity price swap contracts were recorded within other operating income (loss) in the consolidated statement of income.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in the consolidated statement of income within finance income (expenses). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income within other operating income (loss). Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognized in the consolidated statement of income within finance income (expenses).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. There were no fair value hedges used throughout 2009 or 2010, or in place at 31 December 2010 and 2009.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in consolidated statement of changes in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income within other operating income (loss).

Amounts accumulated in equity are recycled in the consolidated statement of income in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the consolidated statement of income within finance income (expenses). The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income within other operating income (loss). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income within other operating income (loss). No cash flow hedges were used throughout 2009 or 2010, or in place at 31 December 2010 and 2009.

(c) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognized immediately in the consolidated statement of income within other operating income (loss). No net derivative instruments were recorded at fair value through profit or loss throughout 2009 or 2010, or in place at 31 December 2010 and 2009.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

Financial assets at fair value through profit or loss are classified as current assets. There were no financial assets designated at fair value through profit or loss held by the Group at the reporting dates.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and are classified as held-to-maturity when the Group has the positive intention and ability to hold these investments 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 specially 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 directly in the consolidated statement of changes 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 profit or loss.

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 consolidated statement of changes in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in consolidated statement of changes in equity. 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 profit or loss on sales of available-for-sale investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 removed from equity and recognized in the consolidated statement of 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:

(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. There were no financial liabilities designated at fair value through profit or loss held by the Group at the reporting dates.

(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.

Income taxes. Russian legislation does not contain the concept of a “consolidated tax payer” and, accordingly, the Group is not subject to Russian taxation on a consolidated basis but rather on an individual company basis. 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.

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, directly in equity.

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, 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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; production and marketing of polymer and insulation tape 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, 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.

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 and foreign exchange losses on borrowings 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

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 and polymer production 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 remeasurement into the functional currencies are included in the determination of profit for the reporting period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 remeasured to fair value, recoverable amount or realizable value, are translated at the exchange rate applicable to the date of remeasurement.

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 and sales of polymer and insulation tape 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, certain legal and other advisory expenses, insurance of properties, social expenses 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.

Share based compensation. The Group accounts for share-based compensation in accordance with IFRS 2, *Share-based Payment* (“IFRS 2”). 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. For share-based compensation made to employees by shareholders, an increase to additional paid in capital is recorded equal to the associated compensation expense each period.

Pension obligations. The Group operates a non-contributory post-employment defined benefit plan based on employees’ years of service and average salary (Note 15).

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. 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

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.

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.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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.

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.

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, the expected amount receivable is written off against the associated provision.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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 period 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.

5 MERGERS, ACQUISITIONS AND DISPOSALS

Acquisition of OOO Yamalgazresurs-Chelyabinsk

In December 2010, the Group acquired a 100 percent participation inteterest in OOO Yamalgazresurs-Chelyabinsk, a Russian regional natural gas trader, to support and expand natural gas sales opportunities in the Chelyabinsk Region of the Russian Federation for RR 410 million. Management has assessed the fair value of identifiable assets and liabilities and calculated that goodwill RR 82 million arose on the acquisition. The financial and operational activities of Yamalgazresurs-Chelyabinsk would not have had a material impact on the Group’s revenues and results if the acquisition occurred in January 2010.

Acquisition of Intergaz-System Sp.z o.o.

In August 2010, the Group acquired a 100 percent ownership in Intergaz-System Sp.z o.o., domiciled in Poland, for RR 159 million (USD 5 million). Intergaz-System holds a discharging and transhipment facility and was purchased to support and extend the wholesale and retail trading of liquefied petroleum gas in the Polish market. Management has assessed the fair value of identifiable assets and liabilities and calculated that negative goodwill RR 10 million arose on the acquisition which was recognized as other operating profit in the consolidated statement of income. The financial and operational activities of Intergaz-System would not have had a material impact on the Group’s revenues and results if the acquisition occurred in January 2010.

In December 2010, the Group merged Intergaz-System into its wholly-owned subsidiary Novatek Polska. The aforementioned merger did not affect the Group’s consolidated financial and operational results.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OAO Sibneftegas

On 17 December 2010, the Group acquired 51 percent of the outstanding ordinary shares of OAO Sibneftegas, an oil and gas company located in the YNAO, for total cash consideration of RR 25,826, of which RR 4,650 million was paid in December 2010 and the remaining RR 21,176 million is payable in February and March 2011. Sibneftegas holds two production licenses: the Beregovoye and Pyreinoye gas condensate fields, which expire in 2023 and in 2021, respectively. Estimated aggregated proved reserves on these two fields as well as the Khadyryahinskoye (expires in 2031) field appraised by DeGolyer and MacNaughton at 31 December 2010 under the PRMS and SEC reserve methodologies totaled approximately 282 and 200 billion cubic meters of natural gas and 2 and 0.7 million tons of hydrocarbon liquids, respectively.

As part of the acquisition, the Group granted a loan in the amount of RR 11,038 million to Sibneftegas, which was used to fully repay its outstanding debt to Gazprombank ahead of its maturity schedule. Subsequent to the acquisition the Group also entered into the purchase contract to buy natural gas from Sibneftegas in proportion to its ownership interest in the company's total production at pre-determined prices.

As described above, the Group acquired 51 percent of the outstanding ordinary shares of Sibneftegas; however, the Charter agreement 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. As a result, the Group has determined that it has significant influence over the business activities of Sibneftegas and will account for the investment under the equity method.

In accordance with IAS 28 *"Investments in Associates"*, the Group assessed preliminary fair values of the identified assets and liabilities of Sibneftegas. In the consolidated financial statements for the year ended 31 December 2010, 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 Sibneftegas:

Sibneftegas	**Preliminary fair values at the acquisition date**
Non-current assets	66,930
Current assets	1,072
Non-current liabilities	(28,199)
Current liabilities	(2,222)
Total identifiable net assets	**37,581**
Purchase consideration	25,826
Preliminary fair value of the Group's interest in net assets (RR 37,581 million at 51% ownership)	(19,166)
Preliminary goodwill	**6,660**

In accordance with Russian legislation, the Group issued (via AKB "Bank of Moscow") a bank guarantee for RR 25.8 billion in January 2011 in favor of the minority holders of the ordinary shares of Sibneftegas. The guarantee is provided as financial support in case the minority shareholders tender to sell their stakes to the Group at a pre-determined fixed price. This bank guarantee expires in April 2011. Management does not believe that any of the minority shareholders will tender their shares as a result of this offer.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OOO SeverEnergia

On July 2010, NOVATEK and OAO Gazprom Neft, a subsidiary of OAO Gazprom, established a joint venture OOO Yamal Development. The Group owns a 50 percent participation interest in the new entity and accounts for its share of the joint venture using the equity method.

On 30 November 2010, Yamal Development acquired a 51 percent participation interest in OOO SeverEnergia for total cash consideration of RR 48,715 million paid upon acquisition. The acquisition was financed proportionally by its founders through the provision of loans in the total amount of RR 56,247 million (see Note 8). As part of the acquisition, Yamal Development also provided a loan in the amount of RR 7,532 million to SeverEnergia, which was used to fully repay the outstanding debt of the company to its previous shareholder ahead of its maturity schedule. NOVATEK financed its part of the loan to Yamal Development through the use of a bridge loan facility (see Note 16).

SeverEnergia through its three wholly owned subsidiaries holds exploration and production licenses listed below:

Subsidiary of SeverEnergia	Field	Expiring date
OAO Arkticheskaya gazovaya kompaniya	Samburgskoye, Yevo-Yakhinskoye	2018
ZAO Urengoil Inc.	Yaro-Yakhinskoye	2018
OAO Neftegastehnologiya	North-Chaselskoye	upon full production

Estimated aggregated proved reserves on these fields appraised by DeGolyer and MacNaughton under the PRMS and SEC reserve methodologies at 31 December 2010 totaled approximately 245 and 224 billion cubic meters of natural gas and 42 and 39 million tons of hydrocarbon liquids, respectively.

The transaction provides the Group with an effective interest ownership of 25.5 percent in SeverEnergia. Since this company is a subsidiary of Yamal Development, the Group’s joint venture, the assets and liabilities of SeverEnergia and its financial results are included in the assets, liabilities and financial results of Yamal Development and its subsidiaries in the disclosure of summarized financial information about the Group’s investments in associates and joint ventures (see Note 7).

In accordance with IAS 28 *“Investments in Associates”*, the Group assessed preliminary fair values of the identified assets and liabilities of SeverEnergia. In the consolidated financial statements for the year ended 31 December 2010, 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 the SeverEnergia and its subsidiaries.

SeverEnergia and its subsidiaries	Preliminary fair values at the acquisition date
Non-current assets	137,228
Current assets	3,810
Non-current liabilities	(22,950)
Current liabilities	(22,568)
Total identifiable net assets	**95,520**

As a result of the preliminary assessment of fair value of identifiable assets and liabilities management calculated that no goodwill arose on the acquisition.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Disposal of OOO NOVATEK-Polymer

In September 2010, the Group disposed of its 100 percent participation interest in OOO NOVATEK-Polymer, its non-core subsidiary, to OAO SIBUR Holding for RR 2,400 million (undiscounted) payable throughout September 2013. The Group recognized a loss on the sale of RR 279 million, net of associated income tax of RR 25 million. The Group has 100 percent participation interest in OOO NOVATEK-Polymer as collateral for the receivable until full settlement.

Below is a breakdown of major classes of assets and liabilities disposed:

OOO NOVATEK-Polymer	**RR million**
Property, plant and equipment	1,617
Deferred tax assets	189
Inventories	440
Financial assets	340
Other non-financial assets	160
Deferred tax liability	(294)
Short-term debt	(113)
Other financial liabilities	(66)
Total net assets	**2,273**

The following table summarizes the consideration details from the sale of OOO NOVATEK-Polymer:

	RR million
Cash	287
Receivable in respect of the deferred payments (RR 2,113 million discounted at 8 percent per annum)	1,732
Total consideration	2,019
Less: carrying amount of net assets disposed	(2,273)
Loss on disposal	**(254)**

OOO NOVATEK-Polymer constituted the Group's "polymer products production and marketing" segment (see Note 31).

Acquisition of OAO Tambeyneftegas

On 1 July 2010, the Group acquired 100 percent of the outstanding ordinary shares of OAO Tambeyneftegas, an exploration stage oil and gas company located in the southern portion of the Yamal peninsula (YNAO) for total cash consideration of RR 312 million (USD 10 million), of which 75 percent was acquired from related parties for RR 234 million (USD 7 million) (see Note 30). Tambeyneftegas holds the license for exploration and development of the Malo-Yamalskoye field (expires in 2019) with estimated natural gas and gas condensate reserves in accordance with the Russian reserve classification (categories C1 + C2) amounting to 161 bcm and 14.4 mmt, respectively.

Tambeyneftegas had no notable operating activities up to and as at the purchase date, and is considered an entity in the early exploration stage; consequently, this acquisition is outside the definition of business as defined in IFRS 3, *"Business Combinations"*. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the mineral license), and liabilities of the company acquired.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

OAO Tambeyneftegas	RR million
Property, plant and equipment	303
Deferred tax assets	176
Other non-financial assets	23
Financial assets	12
Short-term debt	(641)
Interest on short-term debt	(229)
Assets retirement obligations	(165)
Other non-financial liabilities	(4)
Total identifiable net liabilities	**(525)**

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

	RR million
Total purchase consideration	312
Add: identifiable net liabilities	525
Cost of the acquired mineral rights	**837**

The property, plant and equipment in the amount of RR 303 million combined with the cost of the mineral rights in the amount of RR 837 million are included in the line "acquisition of subsidiaries" as disclosed in Note 6. Short-term debt in the amount of RR 641 million and interest on short-term debt in the amount of RR 229 million represent balances with the Group companies, which are to be settled in the normal course of business.

The financial and operational activities of Tambeyneftegas were not material to the Group's revenues and results of operations for the year ended 31 December 2010.

Disposal of ownership interest in ZAO Terneftegas

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

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

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of controlling interests in the associates

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

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

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

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

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

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

The aforementioned property, plant and equipment in the amount of RR 1,876 million combined with the cost of mineral rights in the amount of RR 4,685 million are included in the line "acquisition of subsidiaries" as disclosed in Note 6.

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

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of additional participation interest in subsidiaries

In April 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas to 82.4 percent, 92.6 percent and 94.2 percent, respectively, through an additional capital contribution to the ordinary share capital of these entities. Furthermore, in May 2010, the Group brought its participation interest in the share capital of each of the above mentioned companies to 100 percent through the acquisition of the remaining ordinary share capital from non-controlling interests. As a consequence of these two transactions the Group paid cash of RR 629 million, reduced non-controlling interests by RR 2,368 million and recorded a difference of RR 1,739 million directly to retained earnings.

In December 2010, the Group merged its wholly-owned subsidiary, OOO Oiltechproduct-Invest, which holds exploration licenses for the Middle-Chaselskiy, West-Chaselskiy and North-Russkiy license areas into its wholly-owned subsidiary OOO NOVATEK-Tarkosaleneftegas. The aforementioned merger did not affect the Group’s consolidated financial and operational results.

Acquisition of 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. This company holds the license for exploration and development of the South-Tambeyskoye field (initial license term expired in 2020 but was extended to 2045 in December 2009). The acquisition of the South-Tambeyskoye field significantly increases the Group’s resource base ensuring future natural gas and gas condensate production growth.

OAO Yamal LNG had no notable operating activities up to and as at the purchase date, and is considered an entity in the early exploration stage; consequently, this acquisition is outside the definition of “business” as defined in IFRS 3, “*Business Combinations*”. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the mineral license), and liabilities of the company acquired.

The following table summarizes the total purchase consideration for the acquisition of Yamal LNG.

	USD million	Exchange rate	RR million
Cash	250	30.51	7,628
Promissory notes of NOVATEK	300	30.73	9,219
Deferred cash payment	100	30.51	2,546 (*)
Total purchase consideration	**650**		**19,393**

(*) – discounted at 7.5 percent per annum.

The contingent consideration arrangement (referred to as the deferred cash payment) requires the Group to pay the former owners of Yamal LNG USD 100 million (undiscounted) upon the conclusion of an agreement between Yamal LNG and OAO Gazprom, defining the main sales terms of the LNG produced from the South-Tambeyskoye field. On 18 September 2010, such Cooperation Agreement, setting out the key parameters for cooperation between Gazprom and NOVATEK in implementing the pilot LNG project including the development and subsequent utilization of related infrastructure facilities on the Yamal peninsula, was signed and in February 2011 the payment was made.

Acquisition-related costs (legal and evaluation services) directly associated with the transaction in the amount of RR 100 million were included in the cost of the asset acquired.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

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

OAO Yamal LNG	**RR million**
Financial assets	886
Property, plant and equipment	818
Other non-financial assets	807
Long-term debt	(2,833)
Other financial liabilities	(271)
Asset retirement obligations	(587)
Other non-financial liabilities	(150)
Total identifiable net liabilities	**(1,330)**

In November 2009, the Group fully repaid the outstanding long-term debt of Yamal LNG ahead of its maturity schedule.

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

	RR million
Total purchase consideration	19,393
Gross up for total value of the asset acquired	18,704
Legal and evaluation services	100
Add: identifiable net liabilities	1,330
Cost of the acquired mineral rights	**39,527**

The aforementioned property, plant and equipment in the amount of RR 818 million combined with the cost of mineral rights in the amount of RR 39,527 million are included in the line "acquisition of subsidiaries" as disclosed in Note 6.

In May 2009, the Group signed a call option agreement with one of the sellers, which provides the Group with the right, but not the obligation, to purchase an additional 23.9 percent of OAO Yamal LNG for USD 450 million within three years following the controlling acquisition. To enter into this call option agreement, the Group paid RR 325 million (USD 10 million) in July 2009, which was recorded as a decrease in retained earnings in the consolidated statement of changes in equity.

In accordance with the Russian legislation, in November 2009, the Group issued (via AKB "Bank of Moscow") a bank guarantee for RR 19.4 billion in favor of the minority holders of the ordinary shares of OAO Yamal LNG. The guarantee was provided as financial support in the case the minority shareholders tender to sell their stakes to the Group at the pre-determined fixed price. The guarantee expired in August 2010 and no payment was made.

In March 2010, the existing shareholders of Yamal LNG made cash contributions to the company's ordinary share capital proportionally to their respective ownership interests in the total amount of RR 3,607 million. The resulting increase of RR 1,767 million in non-controlling interest was recorded within consolidated statement of changes in equity.

The financial and operational activities of Yamal LNG were not material to the Group's revenues and results of operations for the year ended 31 December 2009.

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

5 MERGERS, ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of OOO EkropromStroy

On 19 June 2009, the Group acquired 100 percent of the participation interest in OOO EkropromStroy from several members of key management personnel of the Group for total cash consideration of RR 1,999 million, all paid in 2009. The Group obtained an independent appraisal supporting the purchase price and considers that the amount paid is substantially consistent with the terms that would be agreed in an arm's length transaction. The company manages the construction of the Group's new office building located in Moscow and has no activities other than the management of construction activities and ownership of the constructed building. Accordingly, the purchase is outside the definition of business as defined in IFRS 3, *"Business Combinations"*. The cost of the acquisition has been allocated based on the relative fair values of the assets (largely comprised of the office building), and liabilities of the company acquired. The property, plant and equipment in the amount of RR 2,263 million was included in the line "acquisition of subsidiaries" as disclosed in Note 6.

The financial and operational activities of EkropromStroy were not material to the Group's revenues and results of operations for the year ended 31 December 2009.

6 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment, for the years ended 31 December 2010 and 2009 are as follows:

	Oil and gas properties and equipment	**Assets under construction and advances for construction**	**Other**	**Total**
Cost	95,242	24,771	4,787	124,800
Accumulated depreciation, depletion and amortization	(15,166)	-	(920)	(16,086)
Net book value at 1 January 2009	**80,076**	**24,771**	**3,867**	**108,714**
Acquisition of subsidiaries	40,141	2,463	4	42,608
Additions	943	16,927	2	17,872
Transfers	21,650	(23,431)	1,781	-
Depreciation, depletion and amortization	(5,221)	-	(578)	(5,799)
Reclassified as assets held for sale	(65)	(323)	(2)	(390)
Disposals, net	(5)	(522)	(1,030)	(1,557)
Cost	157,955	19,885	5,319	183,159
Accumulated depreciation, depletion and amortization	(20,436)	-	(1,275)	(21,711)
Net book value at 31 December 2009	**137,519**	**19,885**	**4,044**	**161,448**
Acquisition of subsidiaries	5,960	1,875	70	7,905
Additions	3,265	22,828	13	26,106
Transfers	27,018	(27,722)	704	-
Depreciation, depletion and amortization	(6,461)	-	(367)	(6,828)
Disposal of subsidiaries, net	-	(319)	(1,298)	(1,617)
Impairment	(321)	-	-	(321)
Disposals, net	(495)	(525)	(100)	(1,120)
Cost	193,411	16,022	4,236	213,669
Accumulated depreciation, depletion and amortization	(26,926)	-	(1,170)	(28,096)
Net book value at 31 December 2010	**166,485**	**16,022**	**3,066**	**185,573**

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within the oil and gas properties and equipment balance at 31 December 2010 and 2009 are proved properties of RR 64,219 million and RR 65,086 million, net of accumulated depreciation, depletion and amortization of RR 8,915 million and RR 7,730 million, respectively.

Oil and gas properties and equipment balance at 31 December 2010 and 2009 include costs to acquire unproved properties in the amount of RR 4,352 million and RR 99 million, respectively. The Group's management believes these costs are recoverable and has plans to explore and develop the respective properties.

Included within assets under construction are advances to suppliers of equipment of RR 2,676 million and RR 1,217 million at 31 December 2010 and 2009, respectively.

Included in additions to property, plant and equipment for the years ending 31 December 2010 and 2009 are capitalized interest and foreign exchange loss of RR 2,621 million and RR 1,481 million, respectively. The interest capitalization rates for 2010 and 2009 used for additions were 5.4 percent and 6.0 percent, respectively.

During 2010, the transfers and additions to oil and gas property include the completion of the second phase of the Purovsky Gas Condensate Plant for RR 1,718 million, completion of the second and third stages of the second phase development at the Yurkharovskoye field in the amount of RR 22,784 million and the completion of the second phase development at the Khancheyskoye field in the amount of the RR 180 million.

During 2009, the transfers and additions to oil and gas property include the completion of the second phase of the Purovsky Gas Condensate Plant for RR 5,268 million, completion of the second stage of the second phase development at the Yurkharovskoye field in the amount of RR 8,390 million and the completion of the second phase development at the Khancheyskoye field in the amount of the RR 2,412 million.

Reconciliation of depreciation, depletion and amortization (DD&A):

	Year ended 31 December:	
	2010	**2009**
DD&A included in operating expenses	6,616	5,588
DD&A included in general and administrative expenses (see Note 23)	141	150
DD&A capitalized in the in the course of intra-group construction services	71	61
Total depreciation, depletion and amortization	**6,828**	**5,799**

At 31 December 2010 and 2009, no property, plant and equipment were pledged as security for the Group's borrowings. Impairment of RR 321 million and nil was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2010 and 2009, respectively.

Capital commitments are disclosed in Note 28.

Asset retirement obligations. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing facilities, including abandonment and site restoration costs, amounting to RR 1,115 million and RR 1,235 million at 31 December 2010 and 2009, respectively, are included in the cost of oil and gas properties and equipment. The Group has estimated its liability based on current legislation using estimated costs and timing of when the expenses are expected to be incurred between the end of the reporting period and 2051. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

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

7 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	At 31 December: 2010	2009
Associates:		
OAO Sibneftegas	25,758	-
OOO Oiltechproduct-Invest	-	438
OOO Tailiksneftegas	-	407
OOO Petra Invest-M	-	369
Joint ventures:		
ZAO Terneftegaz	1,268	-
Total investments in associates and joint ventures	**27,026**	**1,214**

The Group's investment in OOO Yamal Development at 31 December 2010 is valued at nil due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment. The excess of the accumulated losses over the Group's cost of investment in Yamal Development were allocated to decrease of long-term loans provided by the Group to the joint venture (see Note 8).

The table below summarizes the movement in the carrying amounts of the Group's investments in associates and joint ventures.

	Year ended 31 December: 2010	2009
At 1 January	**1,214**	**1,416**
Share of profit (loss) of associates and joint ventures before income tax	(412)	(216)
Share of income tax (expense) benefit	66	14
Share of profit (loss) of associates and joint ventures, net of income tax	**(346)**	**(202)**
Acquisition of associates and joint ventures	19,176	-
Preliminary goodwill recognized on acquisition of associates	6,660	-
Disposals of subsidiaries resulting in recognition of associates and joint ventures	1,298	-
Acquisition of controlling stake resulting in derecognition of associates	(1,214)	-
Losses recognized in excess of investment in joint ventures, reclassified to long-term loans receivable	238	-
At 31 December	**27,026**	**1,214**

At 31 December 2010, the Group's interests in its principal associates and joint ventures and their summarized financial information, including total assets, liabilities, revenues and profit or loss relating to the Group's interest, were as follows:

Associate or joint venture	*Total non-current assets*	*Total current assets*	*Total non-current liabilities*	*Total current liabilities*	*Non-controlling interest*	*Revenues*	*Profit (loss)*	*% interest held*
OOO Yamal Development and its subsidiaries	68,567	1,931	39,599	7,782	23,355	-	(248)	50%
OAO Sibneftegas	34,053	703	14,381	1,277	-	157	(68)	51%
ZAO Terneftegaz	1,543	170	442	3	-	2	(30)	51%
Total	**104,163**	**2,804**	**54,422**	**9,062**	**23,355**	**159**	**(346)**	

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

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December:	
	2010	**2009**
Russian rouble denominated loans	38,057	-
Long-term receivables	2,063	932
Interest receivable (non-current)	31	1
Total long-term loans and receivables	**40,151**	**933**

On 15 December 2010, the Group provided two loans to OAO Sibneftegas, the Group's associate, for RR 7,429 million and RR 3,609 million. The first loan was issued at an annual interest rate of 10 percent and is repayable in November 2014, whereas the second loan was issued at an annual interest rate of 9.5 percent and is repayable by equal parts starting from March 2011 until November 2014. Included in the Russian rouble denominated loans is the long-term parts of the loans in the total amount of RR 10,069 million.

On 29 November 2010, the Group provided a loan to OOO Yamal Development, the Group's joint venture, in the amount of RR 28,123 million. The loan was issued at an annual interest rate of 8 percent and, in accordance with the signed terms and conditions is repayable by 29 November 2011. For the purpose of these financial statements, the loan was treated as part of the Group's net investment in its joint venture and classified as long-term. At 31 December 2010, the loan was recorded net of losses accumulated recognized by Yamal Development in excess of the Group's investment in the joint venture in the amount of RR 238 million (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 2010 and 2009.

9 OTHER NON-CURRENT ASSETS

	At 31 December:	
	2010	**2009**
Deferred tax assets	1,392	499
Materials for construction	953	2,115
Other	513	55
Total other non-current assets	**2,858**	**2,669**

10 INVENTORIES

	At 31 December:	
	2010	**2009**
Natural gas and hydrocarbon liquids at cost	1,090	705
Materials and supplies at cost	575	614
Materials and supplies at net realizable value (net of provisions of RR 33 million and RR 29 million at 31 December 2010 and 2009, respectively)	192	236
Polymer and insulation tape products (net of provisions of RR nil million at 31 December 2009)	-	174
Other inventories	11	61
Total inventories	**1,868**	**1,790**

The Group recorded an impairment expense of RR 8 million and RR 46 million during the years ended 31 December 2010 and 2009, respectively, to write-down the carrying value of inventory due to obsolescence. No inventories were pledged as security for the Group's borrowings or payables at both dates.

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

11 TRADE AND OTHER RECEIVABLES

	At 31 December: 2010	2009
Trade receivables (net of provision of RR nil million and RR 7 million at 31 December 2010 and 2009, respectively)	7,031	6,440
Other receivables	1,445	1,772
Interest on loans receivable	194	292
Total trade and other receivables	**8,670**	**8,504**

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 letter of credit in banks with investment grade rating as security for trade receivables in amount RR 1,667 million and RR 2,627 million at 31 December 2010 and 2009, respectively. Also the Group holds as a collateral 100 percent participation interest in OOO NOVATEK-Polymer for other receivables from OAO SIBUR Holding (see Note 5). 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 8 million and RR 188 million at 31 December 2010 and 2009, respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due but not impaired trade and other receivables are as follows:

	At 31 December: 2010	2009
Up to 90 days past-due	-	77
91 to 360 days past-due	-	103
Over 360 days past-due	8	8
Total past due but not impaired	**8**	**188**
Not past due and not impaired	8,662	8,316
Total trade and other receivables	**8,670**	**8,504**

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

	Year ended 31 December: 2010	2009
At 1 January	**7**	**34**
Additional provision recorded	184	51
Receivables written off as uncollectible	(191)	(72)
Provision amount reversed into income	-	(6)
At 31 December	**-**	**7**

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

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

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December: 2010	2009
Financial assets		
Russian rouble denominated loans	969	1,477
Short-term bank deposits	-	111
Non-financial assets		
Recoverable value-added tax	1,340	955
Prepayments and advances to suppliers (net of provision of RR 89 million and RR 77 million at 31 December 2010 and 2009)	2,388	1,814
Deferred export duties for stable gas condensate	1,151	-
Prepaid taxes other than income tax	912	660
Deferred transportation expense for natural gas	824	581
Deferred transportation expense for stable gas condensate	514	78
Other current assets	406	124
Total prepayments and other current assets	**8,504**	**5,800**

13 CASH AND CASH EQUIVALENTS

	At 31 December: 2010	2009
Cash at current bank accounts	4,509	2,944
Russian rouble denominated deposits (average interest rate 2.4% p.a. and 1.8% p.a. for 2010 and 2009, respectively)	4,105	5,479
US dollar denominated deposits (average interest rate 0.3% p.a. and 0.4% p.a. for 2010 and 2009, respectively)	1,584	2,107
Other currencies denominated deposits	40	2
Total cash and cash equivalents	**10,238**	**10,532**

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

14 LONG-TERM DEBT

	At 31 December: 2010	2009
Russian rouble denominated loans	24,948	11,030
US dollar denominated loans	19,129	26,673
Russian rouble denominated bonds	9,949	-
Total	54,026	37,703
Less: current portion of long-term debt	(6,952)	(13,827)
Total long-term debt	**47,074**	**23,876**

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

14 LONG-TERM DEBT (CONTINUED)

At 31 December 2010 and 2009, the Group's long-term debt by facility is as follows:

	At 31 December:	
	2010	2009
Sberbank	14,948	4,924
Gazprombank	10,000	6,106
Russian rouble denominated bonds	9,949	-
Syndicated term loan facility	6,952	20,646
Nordea Bank	6,095	-
UniCredit Bank	6,082	6,027
Total	**54,026**	**37,703**

Sberbank. On 28 August 2009, the Group obtained a RR 5 billion loan from OAO Sberbank repayable in January and February 2011. Throughout 2010, the Group gradually reduced the stated interest rate from the initial 12.37 percent to 8.5 percent per annum. In July 2010, the loan was fully repaid ahead of its maturity schedule.

On 6 December 2010, the Group obtained a RR 15 billion loan from Sberbank for general corporate purposes including financing capital expenditures. The loan bears an interest rate of 7.5 percent per annum and is repayable in December 2013. At 31 December 2010, the outstanding loan amount was RR 14,948 million, net of unamortized part of the transaction cost of RR 52 million.

Gazprombank. On 3 November 2009, the Group signed a loan agreement with OAO Gazprombank, which provided the Group with a loan facility of RR 10 billion until November 2012. At 31 December 2010, the full amount had been drawn down under this loan agreement. Throughout 2010, the Group gradually reduced the stated interest rate from the initial 13 percent to 8.5 percent per annum. Subsequent to the balance sheet date, in February 2011, the Group was able to further reduce the interest rate to 8 percent per annum.

Russian rouble denominated bonds. In June 2010, the Group issued ten million three-year non-convertible Russian rouble denominated bonds, each with a nominal value RR 1,000 and an annual coupon rate of 7.5 percent, payable semi-annually. At 31 December 2010, the outstanding amount was RR 9,949 million, net of unamortized part of the transaction costs of RR 51 million.

Syndicated term loan facility. On 21 April 2008, the Group obtained a USD 800 million unsecured syndicated term loan facility for general corporate purposes including funding capital expenditures. The facility has a three-year tenure with payments to begin 18 months after 21 April 2008 and is to be repaid in quarterly installments thereafter. The facility paid an initial interest of LIBOR plus 1.25 percent per annum for the first 18 months and subsequently increased to LIBOR plus 1.5 percent per annum thereafter (1.79 percent and 1.78 percent at 31 December 2010 and 2009, respectively). The loan facility includes the maintenance of certain restrictive financial covenants. At 31 December 2010, the remaining amount of the loan facility was RR 6,952 million (USD 228 million), net of unamortized part of the transaction costs of RR 15 million.

Nordea Bank. On 16 November 2010, the Group entered into a USD 200 million credit line facility with OAO Nordea Bank. The facility has a three-year tenure with repayments to begin in the first quarter 2013 and is to be repaid in quarterly installments thereafter until November 2013. The facility has an initial interest rate of LIBOR plus 1.9 percent per annum (2.16 percent at 31 December 2010) and includes the maintenance of certain restrictive financial covenants. At 31 December 2010, the full amount of RR 6,095 million (USD 200 million) had been drawn under this agreement.

UniCredit Bank. On 5 October 2009, the Group obtained a USD 200 million loan until October 2012 under credit line facilities with UniCredit Bank at an initial interest rate of LIBOR plus 6.5 percent, which was subsequently reduced to LIBOR plus 4.65 percent effective from 25 February 2010 (4.92 percent and 6.73 percent at 31 December 2010 and 2009, respectively). The loan includes the maintenance of certain restrictive financial covenants. At 31 December 2010, the amount of RR 6,082 million (USD 200 million), net of unamortized part of the transaction costs of RR 13 million, had been drawn under this agreement. Subsequent to the balance sheet date, in January 2011, the Group was able to further reduce the interest rate to LIBOR plus 3.25 percent per annum.

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

14 LONG-TERM DEBT (CONTINUED)

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

	At 31 December 2010
Sberbank	15,000
Gazprombank	10,122
Russian rouble denominated bonds	10,061
Syndicated term loan facility	6,885
UniCredit Bank	6,139
Nordea Bank	5,814
Total	**54,021**

Scheduled maturities of long-term debt at 31 December 2010 were as follows:

Maturity period:	RR million
1 January 2012 to 31 December 2012	16,082
1 January 2013 to 31 December 2013	30,992
Total long-term debt	**47,074**

15 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 and retire from the Group on or after the statutory retirement age will receive monthly payments from NOVATEK for life unless they are actively employed. The amount of payments to be disbursed depends 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:	
	2010	2009
Present value of the defined benefit obligations	758	620
Unrecognized past service cost	(200)	(228)
Defined benefit plan liability recognized in the consolidated statement of financial position	**558**	**392**

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

15 PENSION OBLIGATION (CONTINUED)

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

	Year ended 31 December:	
	2010	2009
At 1 January	**620**	**468**
Interest cost	31	30
Benefits paid	(8)	(5)
Current service cost	66	60
Past services cost	51	-
Disposal of obligation due to disposal of subsidiary	(75)	-
Actuarial (gain) loss	73	67
At 31 December	**758**	**620**

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

	Year ended 31 December:	
	2010	2009
Current service cost	66	60
Interest cost	31	30
Disposal of obligation due to disposal of subsidiary	(75)	-
Actuarial (gain) loss	73	67
Amortization of past service cost	79	28
Defined benefit plan (benefits) costs recognized in operating expenses	**174**	**185**
of which the following amounts were included as employee compensation in:		
Materials, services and other	73	85
General and administrative expenses	101	100

The Group recognized a gain of RR 5 million and RR 2 million as a result of experience adjustments on plan liabilities during the years ended 31 December 2010 and 2009, respectively, included in actuarial (gain) loss.

The principal actuarial assumptions used at 31 December 2010 and 2009 are as follows:

	At 31 December:	
	2010	2009
Weighted average discount rate	7.6%	7.8%
Projected annual increase in employee compensation	10%	10%
Expected increases to pension benefits	5%	5%

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 7.9 percent for 2010 to 5.8 percent in 2015 and on average equal to 5.6 percent thereafter.

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.

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

	At 31 December: 2010	2009
US dollar denominated loans	18,200	-
Total	18,200	-
Add: current portion of long-term debt	6,952	13,827
Total short-term debt and current portion of long-term debt	**25,152**	**13,827**

Bridge loan facility. On 29 November 2010, the Group obtained a USD 600 million bridge loan facility for financing of the acquisition by its joint venture OOO Yamal Development of a 51 percent participation interest in OOO SeverEnergia (see Note 5). The bridge loan facility has a one year tenure with a bullet repayment to be made by 15 November 2011. The interest rate under the bridge facility is LIBOR plus 1 percent per annum for the first six months from 16 November 2010, LIBOR plus 1.25 percent from May 2011 and LIBOR plus 1.5 percent from August 2011 and includes the maintenance of certain restrictive financial covenants. At 31 December 2010, the outstanding amount of the loan facility was RR 18,200 million (USD 597 million), net of unamortized part of the transaction costs of RR 85 million. In February 2011, the bridge loan was fully repaid ahead of its maturity schedule (see Note 33).

Available credit facilities. Available credit facilities at 31 December 2010 were as follows:

in millions of Russian roubles	Par value in	Expiring: Within one year	Between 1 and 2 years
Credit Agricole Corporate and Investment Bank [(a)]	USD	3,048	-
BNP PARIBAS Bank [(a)]	USD	-	3,048
UniCredit Bank [(a)]	USD	-	3,048
Sumitomo Mitsui Banking Corporation Europe Limited [(b)]	USD	6,096	-
Total available credit facilities		**9,144**	**6,096**

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

The Group also maintained available funds under short-term credit lines in the form of bank overdrafts with various international banks for RR 5,943 million (USD 195 million) and RR 6,048 million (USD 200 million) at 31 December 2010 and 2009, respectively, on either fixed or variable interest rates subject to the specific type of credit facility.

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December: 2010	2009
Financial liabilities		
Trade payables	2,194	2,483
Other payables	24,760	1,979
Interest payable	53	100
Non-financial liabilities		
Advances from customers	412	2,041
Salary payables	897	719
Other payables	163	13
Trade payables and accrued liabilities	**28,479**	**7,335**

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

17 TRADE PAYABLES AND ACCRUED LIABILITIES (CONTINUED)

At 31 December 2010, other payable included RR 21,176 million relating to the acquisition of 51 percent ownership in Sibneftegas (see Note 5).

18 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares at 31 December 2010 and 2009 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 program authorized by the Board of Directors on 11 February 2008, the Group's wholly-owned subsidiary, Novatek Equity (Cyprus) Limited, has periodically purchased ordinary shares of OAO NOVATEK in the form of Global Depository Receipts (GDRs) on the London Stock Exchange through the use of independent brokers. At 31 December 2010 and 2009, the Group held 312,277 GDRs (3,123 thousand ordinary shares) and 419,233 GDRs (4,192 thousand ordinary shares) at total cost of RR 446 million and RR 599 million, respectively. The Group has decided that these shares do not vote.

During the year ended 31 December 2010, the Group sold 106,956 GDRs (1,070 thousand ordinary shares) for RR 341 million recognizing a gain of RR 188 million which was 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:	
	2010	**2009**
Dividends payable at 1 January	13	-
Total dividends declared (*)	9,855	7,641
Dividends paid (*)	(9,868)	(7,628)
Dividends payable at 31 December	**-**	**13**
Dividends per share declared during the year (in Russian roubles)	3.25	2.52
Dividends per GDR declared during the year (in Russian roubles)	32.5	25.2

(*) – excluding treasury shares

The Group declares and pays dividends in Russian roubles. Dividends declared in 2010 and 2009 were as follows:

Final for 2009: RR 1.75 per share or RR 17.5 per GDR declared in April 2010	5,314
Interim for 2010: RR 1.50 per share or RR 15.0 per GDR declared in October 2010	4,554
Total dividends declared in 2010	**9,868**
Final for 2008: RR 1.52 per share or RR 15.2 per GDR declared in May 2009	4,615
Interim for 2009: RR 1.00 per share or RR 10.0 per GDR declared in October 2009	3,036
Total dividends declared in 2009	**7,651**

Share-based compensation. In 2005, certain shareholders provided share-based compensation to key members of the Group's management team. The fair value of the awards of RR 879 million is being recognized as compensation expense evenly over their five year vesting period beginning the second quarter of 2005. A corresponding increase is recorded to additional paid in capital as expense is recognized to reflect the shareholders contribution in providing the award. The fair value of the awards was determined by reference to the fair value of the limited liability company's net assets estimated by its owners.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

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. Russian legislation identifies the net profit as basis of distribution. As of the date of preparation of these consolidated financial statements the statutory net profit of NOVATEK for 2010 as determined under Russian Accounting Rules has not been finalized. For 2009, the net statutory profit of NOVATEK as reported in the published annual statutory reporting forms was RR 11,835 million and the closing balance of the accumulated profit including the current year net statutory profit totaled RR 59,853 million.

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.

19 SHARE-BASED COMPENSATION PROGRAM

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

The Program is established as a cash-settled payment program and references the Group's GDRs, which are publicly traded on the London Stock Exchange under the ticker symbol "NVTK". At 31 December 2010, the Program covered 164 employees amongst which 382,368 GDRs were allocated. 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.

	Number of GDRs
Total amount of GDRs granted at 12 February 2010	407,766
Granted	-
Exercised	-
Forfeited	(25,398)
Total amount of GDRs granted at 31 December 2010	382,368

The Program has three one-year vesting periods ending 31 January 2011, 2012, and 2013. 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. The closing prices per GDR on the LSE at 31 December 2010 and 2009 were USD 119.50 and USD 66.00, respectively.

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.

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

19 SHARE-BASED COMPENSATION PROGRAM (CONTINUED)

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

	2010	2011	2012
Expected volatility	57.7%	57.7%	57.7%
Risk-free interest rate	-	0.32%	0.69%
Expected option life (years)	0.08	0.96	1.96
Exercise price per GDR (USD)	48.62	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 (2.1 years). Risk-free interest rate is based on a benchmark USD curve including DEPO, FRA and IRS rates.

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.

During the year ended 31 December 2010, the Group recorded RR 400 million, as expenses under this Program, which is included in general and administrative expenses, and RR 164 million and RR 236 million was recognized as trade payables and accrued liabilities and other non-current liabilities at 31 December 2010, respectively.

20 OIL AND GAS SALES

	Year ended 31 December:	
	2010	2009
Natural gas	71,060	53,623
Stable gas condensate	29,754	23,599
Liquefied petroleum gas	12,747	8,253
Crude oil	1,458	1,335
Oil products	143	93
Total oil and gas sales	**115,162**	**86,903**

21 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2010	2009
Natural gas transportation to customers	26,569	20,019
Liquids transportation by rail	7,350	5,820
Liquids transportation by tankers	2,771	2,675
Unstable gas condensate transportation from the fields to the processing facilities through third party pipelines	307	340
Crude oil transportation to customers	190	160
Other	13	12
Total transportation expenses	**37,200**	**29,026**

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

22 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:	
	2010	2009
Unified natural resources production tax	7,861	6,699
Property tax	1,482	1,155
Excise and fuel taxes	454	-
Other taxes	280	188
Total taxes other than income tax	**10,077**	**8,042**

In 2010 and 2009, the unified natural resources production tax for natural gas production was fixed at a rate of RR 147 per thousand cubic meters.

The unified natural resources production tax rate for gas condensate is set at 17.5 percent of gas condensate revenues recognized by the producing entities.

Under the Tax Code of the Russian Federation, 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.

23 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2010	2009
Employee compensation	3,874	2,840
Charitable contributions	774	533
Legal, audit, and consulting services	504	301
Rent expense	270	245
Business trips expense	265	207
Fire safety and security expenses	149	143
Depreciation – administrative buildings	141	150
Concession management services	125	225
Insurance expense	73	90
Other	558	392
Total general and administrative expenses	**6,733**	**5,126**

Auditors' fees and services. ZAO PricewaterhouseCoopers Audit has served as the Group's independent external auditors 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:	
	2010	2009
Audit services fee (audit of the Group's consolidated financial statements and the statutory audit of the parent company)	36	37
Non-audit services	4	1
Total auditors' fees and services	**40**	**38**

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

24 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2010	**2009**
Employee compensation	2,572	2,457
Materials and supplies	1,386	1,455
Repair and maintenance services	640	396
Processing fees	566	556
Electricity and fuel	388	331
Fire safety and security expense	179	186
Third party services (under operator contracts)	3	624
Other	338	254
Total materials, services and other	**6,072**	**6,259**

25 FINANCE INCOME (EXPENSE)

Interest income	Year ended 31 December: 2010	2009
Interest income on cash and cash equivalents	170	294
Interest income on loans issued	328	168
Interest income (on historical cost basis)	**498**	**462**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	100	65
Total interest income	**598**	**527**

Interest expense	Year ended 31 December: 2010	2009
8.5% RR 10 billion Gazprombank November 2012 [(a)]	700	298
7.5% RR 10 billion Bonds June 2013	392	-
8.5% RR 5 billion Sberbank February 2011 [(a)]	341	231
LIBOR+4.65% USD 200 million UniCredit Bank October 2012 [(a)]	325	86
LIBOR+1.5% USD 800 million BNP PARIBAS April 2011	318	828
7.5% RR 15 billion Sberbank December 2013	46	-
Interest expense on short-term debt [(b)]	64	288
Other interest expense	6	59
Subtotal	**2,192**	**1,790**
Less: capitalised interest	(2,166)	(1,280)
Interest expense (on historical cost basis)	**26**	**510**
IAS 32 and IAS 39 *"Financial Instruments"* – fair value remeasurement	198	126
Provisions for asset retirement obligations: unwinding of the present value discount	213	183
Total interest expense	**437**	**819**

[(a)] – interest rates were changed during the periods (see Note 14)
[(b)] – including credit facility with interest rates negotiated at time of each withdrawal (see Note 16)

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

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 and share of income in associates.

	Year ended 31 December:	
	2010	**2009**
Profit before income tax (excluding share of profit (loss) of associates, net of income tax)	51,428	32,702
Theoretical income tax expense at statutory rate of 20 percent	10,286	6,541
Increase (decrease) due to:		
Non-deductible expenses	538	493
Foreign entities' taxation at lower income tax rate	(112)	(161)
Other non-temporary differences	92	(95)
Total income tax expense	**10,804**	**6,778**

Domestic and foreign components of current expense were:

	Year ended 31 December:	
	2010	**2009**
Russian Federation income tax	9,289	5,806
Foreign income tax	116	90
Total current income tax expense	**9,405**	**5,896**

Effective income tax rate. The Group's Russian statutory income tax rate for 2010 and 2009 was 20 percent. For the years ended 31 December 2010 and 2009, the Group's effective income tax rate was 21.0 percent and 20.7 percent, respectively.

The Group does not file a consolidated tax return according to Russian legislation. Instead, each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

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.

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

	At 31 December:	
	2010	**2009**
Long-term deferred income tax asset (other non-current assets)	1,392	499
Long-term deferred income tax liability	(9,473)	(7,460)
Net deferred income tax liability	**(8,081)**	**(6,961)**

Deferred income tax assets expected to be realized within twelve months of 31 December 2010 and 2009 were RR 747 million and RR 26 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2010 and 2009 were RR 258 million and RR 82 million, respectively.

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

26 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2010 and 2009 are as follows:

	At 31 December 2010	Statement of Income effect	Acquisitions	Disposals	At 31 December 2009
Liabilities					
Property, plant and equipment	(11,100)	(2,050)	(70)	282	(9,262)
Inventories	(75)	2	-	14	(91)
Other current assets	(63)	(61)	-	(2)	-
Trade payables and accrued liabilities	(91)	(8)	(82)	(1)	-
Total deferred income tax liabilities	(11,329)	(2,117)	(152)	293	(9,353)
Assets					
Inventories	1,344	426	299	102	517
Trade and other receivables	116	(14)	-	1	129
Trade payables and accrued liabilities	948	331	(11)	(106)	734
Tax losses carried forward	835	47	38	(181)	931
Other	5	(72)	-	(4)	81
Total deferred income tax assets	**3,248**	**718**	**326**	**(188)**	**2,392**
Net deferred income tax liabilities	**(8,081)**	**(1,399)**	**174**	**105**	**(6,961)**

	At 31 December 2009	Reclassification to the (assets) liabilities classified as held for sale	Statement of Income effect	Acquisitions	Disposals	At 31 December 2008
Liabilities						
Property, plant and equipment	(9,262)	(26)	(1,672)	(126)	35	(7,473)
Inventories	(91)	-	(43)	-	8	(56)
Other current assets	-	-	-	-	10	(10)
Trade payables and accrued liabilities	-	-	25	-	-	(25)
Total deferred income tax liabilities	(9,353)	(26)	(1,690)	(126)	53	(7,564)
Assets						
Inventories	517	30	(191)	318	(70)	430
Trade and other receivables	129	-	84	-	-	45
Trade payables and accrued liabilities	734	-	228	117	-	389
Tax losses carried forward	931	29	694	40	(58)	226
Other	81	1	(7)	5	-	82
Total deferred income tax assets	2,392	60	808	480	(128)	1,172
Net deferred income tax liabilities	**(6,961)**	**34**	**(882)**	**354**	**(75)**	**(6,392)**

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

26 INCOME TAX (CONTINUED)

At 31 December 2010, the Group had recognized deferred income tax assets of RR 835 million (31 December 2009: RR 931 million) in respect of unused tax loss carry forwards of RR 4,175 million (31 December 2009: RR 4,655 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:

	Loans and receivables	
Financial assets	**At 31 December:**	
	2010	**2009**
Non-current		
Long-term loans receivable	38,057	-
Trade and other receivables	2,094	933
Long-term bank deposits	-	20
Current		
Short-term loans receivable	969	1,477
Trade and other receivables	8,670	8,504
Short-term bank deposits	-	111
Cash and cash equivalents	10,238	10,532
Total carrying amount	**60,028**	**21,577**

	Measured at amortized cost	
Financial liabilities	**At 31 December:**	
	2010	**2009**
Non-current		
Long-term debt	47,074	23,876
Other non-current liabilities	110	2,636
Current		
Current portion of long-term debt	6,952	13,827
Short-term debt	18,200	-
Trade and other payables	27,007	4,562
Total carrying amount	**99,343**	**44,901**

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.

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

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 products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2009	Russian rouble	US dollar	Other	Total
Financial assets				
Non-current				
Trade and other receivables	933	-	-	933
Long-term deposits	20	-	-	20
Current				
Short-term loans receivable	1,477	-	-	1,477
Trade and other receivables	4,461	4,021	22	8,504
Short-term bank deposits	43	-	68	111
Cash and cash equivalents	7,390	3,128	14	10,532
Financial liabilities				
Non-current				
Long-term debt	(11,030)	(12,846)	-	(23,876)
Other non-current liabilities	-	(2,636)	-	(2,636)
Current				
Current portion of long-term debt	-	(13,827)	-	(13,827)
Short-term debt				
Trade and other payables	(4,312)	(222)	(28)	(4,562)
Net exposure at 31 December 2009	**(1,018)**	**(22,382)**	**76**	**(23,324)**

The Group has chosen 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 change in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2010 and 2009, respectively.

Effect on pre-tax profit	Increase in exchange rate	At 31 December: 2010	2009
RUR / USD	10%	(3,394)	(2,239)

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

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

As part of the plan, the FTS increased the regulated price by 5 percent, 7 percent, 7 percent and 6.2 percent effective 1 January 2009, 1 April 2009, 1 July 2009 and 1 October 2009, respectively. In December 2009, the FTS approved an increase of 15 percent in the regulated price effective 1 January 2010 for the year 2010. In December 2010, the FTS approved a further increase of 15 percent in the regulated price effective 1 January 2011 for the year 2011.

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

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 for full liberalization of the domestic natural gas market is 1 January 2015. The regulation of the domestic natural gas price prior to 2015 will be based on the net-back parity of natural gas prices on the domestic and export markets while taking into account the cost of alternative fuels.

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

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

(c) Cash flow and fair value interest rate risk

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

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

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

	At 31 December:	
	2010	**2009**
At variable rate	37,327	26,673
At fixed rate	34,899	11,030
Total debt	**72,226**	**37,703**

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 for 2010 would decrease by the amounts shown below.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Effect on pre-tax profit	At 31 December: 2010	2009
Increase by 100 basis points	373	267

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 2010 and 2009, or during 2010 and 2009.

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

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

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

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

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

Moody's and/or Fitch	**At 31 December: 2010**	**2009**
Investment grade rating	4,489	5,176
Non-investment grade rating	1,338	2,939
No external rating	2,843	389
Total trade and other receivables	**8,670**	**8,504**

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

Moody's and/or Fitch	**At 31 December: 2010**	**2009**
Investment grade rating	8,008	9,614
Non-investment grade rating	449	846
No external rating	1,781	72
Total cash and cash equivalents	**10,238**	**10,532**

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services and as AAA to BBB- for Fitch Rating, respectively.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

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

At 31 December 2009	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Debt at fixed rate				
Principal (*)	-	4,924	6,106	11,030
Interest	619	77	-	696
Debt at variable rate				
Principal (*)	13,827	6,819	6,027	26,673
Interest	570	385	209	1,164
Trade and other payables	4,562	2,636	-	7,198
Total financial liabilities	**19,578**	**14,841**	**12,342**	**46,761**

(*) – differs from long-term debt (Note 14) for transaction costs

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

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

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.

28 CONTINGENCIES AND COMMITMENTS

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

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

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 2010, the Group had contractual capital expenditures commitments aggregating approximately RR 9,834 million (at 31 December 2009: RR 10,974 million) mainly for phase two development of the Yurkharovskoye field (through 2012), development of the East-Tarkosalinskoye and Khancheyskoye fields (through 2011), for continuation of phase two construction of the Purovsky Gas Condensate Plant (through 2011) and development of the South-Tambeyskoye field (through 2012) all in accordance with duly signed agreements. In addition, at 31 December 2010, the Group has capital commitments for exploration activities under the El Arish Concession Agreement aggregating USD nil million (at 31 December 2009: USD 13 million). Furthermore the Group's share of capital commitments for investments in joint ventures aggregates approximately RR 4,581 million development of the Samburgskoye field through 2012 (at 31 December 2009: nil).

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

As at 31 December 2010, 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, statement of income or of cash flows.

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

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 under the Ministry of Natural Resources and the Group pays unified natural resources production tax to produce oil and gas from these fields and contributions for exploration of license areas. The principal licenses of the Group and its associates and joint ventures and their expiry dates are:

Field	License holder	License expiry date
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2026
South-Tambeyskoye	OAO Yamal LNG	2045
Termokarstovoye	ZAO Terneftegas (joint venture)	2021
Beregovoe	OAO Sibneftegas (associate)	2023
Pyreinoye	OAO Sibneftegas (associate)	2021
Samburgskoye	OAO Arkticheskaya gazovaya kompaniya (under control of joint venture Yamal Development)	2018
Yevo-Yakhinskoye	OAO Arkticheskaya gazovaya kompaniya (under control of joint venture Yamal Development)	2018
Yaro-Yakhinskoye	ZAO Urengoil Inc. (under control of joint venture Yamal Development)	2018
North-Chaselskoye	OAO Neftegastehnologiya (under control of joint venture Yamal Development)	upon full production

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 which might arise 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, statement of income or of cash flows.

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

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

29 PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The principal subsidiaries and associates of the Group and respective ownership in the ordinary share capital at 31 December 2010 and 2009 are set out below.

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2010	2009		
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 Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK Severo-Zapad	100	100	Russia	Trading and marketing
OOO NOVATEK-Polymer	-	100	Russia	Production of polymer and insulation tape
OOO NOVATEK-Ust-Luga	100	100	Russia	Construction of sea terminal
OOO Yargeo	51	51	Russia	Exploration activities
OAO Yamal LNG	51	51	Russia	Exploration activities
OOO Oiltechproduct-Invest (merged into OOO NOVATEK-Tarkosaleneftegas in December 2010)	-	25	Russia	Exploration activities
OOO Petra Invest-M	100	25	Russia	Exploration activities
OOO Tailiksneftegas	100	25	Russia	Exploration activities
OOO Tambeyneftegaz	100	-	Russia	Exploration activities
OOO NOVATEK-Perm	100	-	Russia	Trading and marketing
OOO Yamalgazresurs-Chelyabinsk	100	-	Russia	Trading and marketing
OOO EkropromStroy	100	100	Russia	Construction of office building
Novatek Overseas AG	100	100	Switzerland	Holding company
Runitek GmbH	100	100	Switzerland	Trading and marketing
Novatek Overseas Exploration & Production GmbH	100	100	Switzerland (branch in Egypt)	Exploration activities
Novatek Equity (Cyprus) Limited	100	100	Cyprus	Purchase and sale of the Group's shares
Novatek Polska	100	100	Poland	Trading and marketing
Joint ventures				
ZAO Terneftegas (until September 2009 OOO Terneftegas)	51	100	Russia	Exploration and production
OOO Yamal Developmet	50	-	Russia	Holding company
OOO SeverEnergia (through OOO Yamal Developmet)	25.5	-	Russia	Exploration and production
Associates				
OAO Sibneftegas	51	-	Russia	Exploration and production

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

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. The Group enters into transactions with related parties based on market or regulated prices.

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

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

	As at and for the year ended 31 December:	
Related parties – OAO Gazprom and its subsidiaries	**2010**	**2009**
Transactions		
OAO Gazprom:		
Natural gas sales	12,935	-
Natural gas transportation to customers	(26,550)	(19,930)
Other expenses	(25)	(3)
OOO Gazprom mezhregiongaz (formerly OOO Mezhregiongaz):		
Natural gas sales	1,055	15,791
Other Gazprom subsidiaries:		
Sales of polymer and insulation tape	22	37
Unstable gas condensate transportation	(307)	(340)
Processing fees	(458)	(532)
Natural gas transportation	(4)	(3)
Other operating income (loss)	9	-
Other expenses	(34)	(33)
Balances		
OAO Gazprom:		
Trade payables and accrued liabilities	-	530
OOO Gazprom mezhregiongaz (formerly OOO Mezhregiongaz):		
Trade and other receivables	-	784
Other Gazprom subsidiaries:		
Trade and other receivables	-	16
Trade payables and accrued liabilities	-	157

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

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

	As at and for the year ended 31 December:	
Related parties – associates and joint ventures	**2010**	**2009**
Transactions		
OAO Sibneftegas (from December 2010):		
Interest income on loans issued	45	-
OOO Yamal Development and its subsidiaries (from November 2010):		
Interest income on loans issued	191	-
OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas (until February 2010):		
Other revenues	-	773
Interest income on loans issued	-	76
Balances		
OAO Sibneftegas (from December 2010):		
Long-term loans receivable	10,070	-
Interest on long-term loans receivable	33	-
Short-term loans receivable	967	-
OOO Yamal Development and its subsidiaries (from November 2010):		
Long-term loans receivable	27,886	-
Interest on long-term loans receivable	191	-
ZAO Terneftegas (from February 2010):		
Long-term loans receivable	102	-
OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas (until February 2010):		
Long-term loans and receivable	-	108
Trade and other receivables	-	80
Short-term loans receivable	-	837

As discussed in Note 5, in February 2010, the Group's effective control over ZAO Terneftegas ceased; therefore, subsequent to that event, the Group's balances and transactions with this entity were disclosed as related parties – joint ventures.

As discussed in Note 5, in February 2010, the Group increased its participation interests in OOO Oiltechproduct-Invest, OOO Petra Invest-M and OOO Tailiksneftegas to 51 percent. These companies ceased to be associates subsequent to the date that the Group effectively acquired a controlling stake in these companies and, from that date forwards, are fully consolidated and are no longer accounted for as related parties.

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – parties under significant influence of key management personnel	**As at and for the year ended 31 December: 2010**	**2009**
Transactions		
OOO Nova (formerly SNP NOVA):		
Purchases of construction services (capitalized within property, plant and equipment)	3,825	2,245
Oil products sales	17	28
Other revenues	7	20
Other expenses	(9)	(5)
Other operating income (loss)	17	-
OAO Tambeyneftegas (until July 2010):		
Other operating income (loss)	(11)	-
Other expenses	(15)	(16)
Interest income on loans issued	44	79
Aldi trading Limited, Orsel consultant Limited, Innecto ventures Limited:		
Finance income (expense)	(221)	(41)
Balances		
OOO Nova (formerly SNP NOVA):		
Trade and other receivables	20	11
Advances for construction	278	137
Trade payables and accrued liabilities	312	188
OAO Tambeyneftegas (until July 2010):		
Trade and other receivables	-	184
Short-term loans receivable	-	636
OAO SIBUR Holding (from December 2010):		
Trade and other receivables	218	-
Long-term receivable	1,548	-
Trade payables and accrued liabilities	11	-
Aldi trading Limited, Orsel consultant Limited, Innecto ventures Limited:		
Other non-current liabilities	-	2,636
Trade payables and accrued liabilities	2,836	-

In December 2010, Chairman of the Management Board of NOVATEK acquired an effective 25 percent stake in OAO SIBUR Holding. As a result, the Group's balances and transactions with this company and its subsidiaries are disclosed from that date as related parties – parties under significant influence of key management personnel.

As discussed in Note 5, in July 2010, the Group acquired a 75 percent ownership interest in OAO Tambeyneftegas from parties under significant influence of a member of the Group's Board of Directors for RR 234 million (USD 7 million) and, as a result, this entity is fully consolidated and is no longer accounted for as a related party.

As discussed in Note 5, in May 2009, the Group purchased a 51 percent stake in OAO Yamal LNG. Following the acquisition (but not as of the acquisition date), an individual who significantly influences the sellers of the stake became a member of the Group's Board of Directors. Consequently, the sellers are considered a related party at 31 December 2009 and thereafter. The Group included outstanding liabilities to these related parties (Aldi trading Limited, Orsel consultant Limited, Innecto ventures Limited) in trade payables and accrued liabilities and other non-current liabilities at 31 December 2010 and 2009, respectively.

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

In addition, in June 2010, the Group paid RR 30 million in transaction fees to Investment Company Troika Dialog, the party under significant influence of a member of the Group's Board of Directors, for services related to the issuance of Russian rouble denominated bonds. This transaction cost was capitalized within long-term debt and will be amortized over the bonds life time.

Related parties – party under control of key management personnel	As at and for the year ended 31 December: 2010	2009
Transactions		
OAO Pervobank:		
Finance income (expense)	18	30
Other expenses	(12)	-
Balances		
OAO Pervobank:		
Cash and cash equivalents	1,760	845

As discussed in Note 5, in June 2009, the Group purchased 100 percent participation interest of OOO EkropromStroy from several members of the Group's key management personnel. As part of this acquisition, the Group consolidated a US dollar denominated long-term debt of RR 468 million (USD 15 million) of OOO EkropromStroy to SWGI Growth Fund (Cyprus) Limited, a party under control of key management personnel. The loan bore annual interest of 5.2 percent and was fully repaid in July 2009 ahead of its maturity schedule.

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

Related parties – members of the key management personnel	Year ended 31 December: 2010	2009
Board of Directors	93	38
Management Committee	1,049	624
Total compensation	**1,142**	**662**

Such amounts include personal income tax and are net of unified social tax. The Board of Directors consists of nine members. The Management Committee consisted of 11 members until 4 December 2009 and was subsequently increased to 15 members.

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

In addition, RR 68 million and RR 176 million was recognized during the years ended 31 December 2010 and 2009, respectively, as part of the share-based compensation scheme and included in general and administrative expenses. At 30 June 2010, share-based compensation to the key members of the Group's management team provided in 2005 (see Note 18) was fully recognized in the consolidated statement of changes in equity.

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

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 the following operating segments:

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

- Polymer products production and marketing – production and marketing of polymer insulation tape and other polymer products (disposed in September 2010, see Note 5).

Segment information is provided to the CODM in accordance with management accounting based on 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.

Segment information for the year ended 31 December 2010 is as follows:

For the year ended 31 December 2010	*References*	**Exploration, production and marketing**	**Polymer products production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues		115,590	1,739	117,329	(305)	117,024
Operating expenses	*a, b, c, d*	(67,879)	(1,545)	(69,424)	906	(68,518)
Other operating income (loss)	*e, b*	767	15	782	943	1,725
Interest expense	*f, h*	(2,010)	-	(2,010)	1,573	(437)
Interest income		414	2	416	182	598
Foreign exchange gain (loss)	*g*	580	-	580	456	1,036
Segment result		**47,462**	**211**	**47,673**	**3,755**	**51,428**
Share of loss of associates, net of income tax						(346)
Profit before income tax						**51,082**
Depreciation, depletion and amortization	*a, b*	9,031	50	9,081	(2,324)	6,757
Capital expenditures	*g, h*	22,259	57	22,316	3,790	26,106

Reconciling items mainly related to:

a. 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 3,049 million in operating expenses under IFRS;

b. 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 464 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

c. different methodology in recognizing expenses relating to natural gas storage services and payroll (incl. 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 149 million and additional payroll expenses of RR 708 million recorded in operating expenses under IFRS;

d. different methodology in recognizing of impairment expenses in respect of different categories of assets between IFRS and management accounting, which resulted in additional operating expense of RR 541 million charged under IFRS;

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31 SEGMENT INFORMATION (CONTINUED)

e. different methodology in recognizing the gain on disposal of ownership interest in ZAO Terneftegas and OOO NOVATEK-Polymer between IFRS and management accounting, which resulted in additional gain of RR 185 million recorded in other operating income (loss) under IFRS;

f. different methodology in valuating long-term payables and asset retirement obligations between IFRS and management accounting, which resulted in additional interest expense of RR 411 million charged under IFRS;

g. different methodology in capitalization policy between IFRS and management accounting which resulted in additional capitalization of foreign exchange loss of RR 455 million under IFRS; and

h. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional interest capitalized and additional capitalization of foreign exchange loss of RR 2,349 million and additional capital expenditures of RR 1,441 million under IFRS.

Segment information for the year ended 31 December 2009 is as follows:

For the year ended 31 December 2009	*References*	**Exploration, production and marketing**	**Polymer products production and marketing**	**Segment information as reported to CODM**	**Reconciling items**	**Total per consolidated financial statements**
External revenues	*a*	87,588	1,925	89,513	441	89,954
Operating expenses	*b, c*	(54,088)	(1,824)	(55,912)	(218)	(56,130)
Other operating income (loss)	*c*	(1,133)	3	(1,130)	839	(291)
Interest expense	*d, e*	(1,212)	-	(1,212)	393	(819)
Interest income		347	1	348	179	527
Foreign exchange gain (loss)		(736)	(1)	(737)	198	(539)
Segment result		**30,766**	**104**	**30,870**	**1,832**	**32,702**
Share of loss of associates, net of income tax						(202)
Profit before income tax						**32,500**
Depreciation, depletion and amortization		5,825	36	5,861	(123)	5,738
Capital expenditures	*d*	19,557	32	19,589	(1,717)	17,872

Reconciling items mainly related to:

a. different methodology in recognizing deferred natural gas revenue of RR 381 million recorded under IFRS in external revenues as a result of acquisitions of Tarkosaleneftegas and Khancheyneftegas in 2004;

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 951 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 966 million from other operating income (loss) to depreciation, depletion and amortization in operating expenses under IFRS;

d. different methodology in interest capitalization policy and certain recognition policy differences in capital expenditures between IFRS and management accounting, which resulted in additional interest capitalized of RR 1,084 million and reversal of capital expenditures of RR 2,801 million under IFRS; and

e. different methodology in valuating long-term payables and asset retirement obligations between IFRS and management accounting, which resulted in additional interest expense of RR 294 million charged under IFRS.

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31 SEGMENT INFORMATION (CONTINUED)

Geographical information. The Group's two segments operate in four major geographical areas of the world. In the Russian Federation (considered the Group's home country), the Group is mainly engaged in the exploration, development, production and sales of natural gas, crude oil, gas condensate and related products and sales of polymer and insulation tape (until September 2010). Activities outside the Russian Federation are conducted in the United States (sales of stable gas condensate), in Europe (sales of stable gas condensate, liquefied petroleum gas and crude oil), in Asian-Pacific region (sales of stable gas condensate) and other areas (sales of liquefied petroleum gas and sales of polymer and insulation tape).

Geographical information for the year ended 31 December 2010 and 2009 is as follows:

For the year ended 31 December 2010	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	71,060	-	-	-	-	-	-	71,060
Stable gas condensate	34	6,598	25,976	12,660	3,653	(19,167)	29,720	29,754
Liquefied petroleum gas	4,686	8,855	-	-	9	(803)	8,061	12,747
Crude oil	855	1,191	-	-	-	(588)	603	1,458
Oil products	143	-	-	-	-	-	-	143
Oil and gas sales	**76,778**	**16,644**	**25,976**	**12,660**	**3,662**	**(20,558)**	**38,384**	**115,162**
Polymer products sales	1,390	-	-	-	309	-	309	1,699
Other revenues	157	6	-	-	-	-	6	163
Total external revenues	**78,325**	**16,650**	**25,976**	**12,660**	**3,971**	**(20,558)**	**38,699**	**117,024**

For the year ended 31 December 2009	Russian Federation	Outside Russian Federation						Total
		Europe	USA	APR	Other	Export duty	Subtotal	
Natural gas	53,623	-	-	-	-	-	-	53,623
Stable gas condensate	354	3,303	21,415	10,324	-	(11,797)	23,245	23,599
Liquefied petroleum gas	2,724	5,533	-	-	100	(104)	5,529	8,253
Crude oil	781	945	-	-	-	(391)	554	1,335
Oil products	83	14	-	-	-	(4)	10	93
Oil and gas sales	**57,565**	**9,795**	**21,415**	**10,324**	**100**	**(12,296)**	**29,338**	**86,903**
Polymer products sales	1,534	-	-	-	339	-	339	1,873
Other revenues	1,178	-	-	-	-	-	-	1,178
Total external revenues	**60,277**	**9,795**	**21,415**	**10,324**	**439**	**(12,296)**	**29,677**	**89,954**

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

Major customers. For the years ended 31 December 2010 and 2009, the Group has three and one major customer to whom individual revenues represent 42 percent and 18 percent of total external revenues, respectively.

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

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32 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

The amounts included within the consolidated financial statements associated with the exploration for and evaluation of mineral resources for the years ended 31 December 2010 and 2009 is as follows:

	Year ended 31 December:	
	2010	2009
Net book value of assets value at 1 January	**2,535**	**2,462**
Additions	1,394	249
Acquisition of subsidiaries	7,894	39,527
Disposals	(821)	(176)
Reclassification in proved properties	(4,630)	(39,527)
Net book value of assets at 31 December	**6,372**	**2,535**
Liabilities	3,026	2,653
Cash flows used for operating activities	1,151	350
Cash flows used for investing activities	2,112	16,786

33 SUBSEQUENT EVENTS

On 3 February 2011, the Group issued two tranches of Eurobonds, in the amount of USD 600 million with a coupon rate of 5.326 percent per annum due in five years and USD 650 million with a coupon rate of 6.604 percent per annum due in ten years. The proceeds from Eurobonds issues were used for repayment of a bridge loan.

As discussed in Note 16, in February 2011, the Group fully repaid a RR 18,285 (USD 600 million) bridge facility ahead of its maturity schedule.

34 NEW ACCOUNTING PRONOUNCEMENTS

Beginning 1 January 2010, in addition to that which is disclosed in Note 3, the Group has adopted the following new standards and interpretations:

- Amendments to IFRS 2, *Share-based Payment. Group Cash-settled Share-based Payment Transactions*. (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard;

- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement. Eligible Hedged Items.* (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations;

- IFRIC 17, *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners;

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; and amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009; and

- IFRIC 18, *Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

34 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The adoption of these new standards and interpretations, in case of such operations, had an insignificant effect on the Group's consolidated financial statement.

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

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

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

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

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

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

34 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- IFRS 9, *Financial Instruments Part 1: Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. 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 only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;

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

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

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

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statement.

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 2010 and 2009 (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2010	**2009**
Costs incurred in exploration and development activities		
Acquisition cost	7,694	39,897
Exploration costs	2,042	770
Development costs	22,123	15,977
Total costs incurred in exploration and development activities	**31,859**	**56,644**
The share of the Group in its equity investees	69,286	178

	At 31 December:	
	2010	**2009**
Capitalized costs relating to oil and gas producing activities		
Wells and related equipment and facilities	163,130	134,538
Support equipment and facilities	29,222	22,509
Uncompleted wells, equipment and facilities	10,277	15,839
Total capitalized costs relating to oil and gas producing activities	202,629	172,886
Less: accumulated depreciation, depletion and amortization	(26,698)	(20,211)
Net capitalized costs relating to oil and gas producing activities	**175,931**	**152,675**
The share of the Group in its equity investees	69,413	1,896

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 both transportation and processing costs are included in revenues from oil and gas sales (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2010	**2009**
Revenues from oil and gas sales	115,162	86,903
Lifting costs	(4,786)	(3,646)
Transportation expenses	(37,187)	(28,482)
Taxes other than income tax	(9,363)	(7,840)
Depreciation, depletion and amortization	(6,384)	(5,139)
Exploration expenses	(1,595)	(566)
Total production costs	**(59,315)**	**(45,673)**
Purchases of natural gas, gas condensate and crude oil	(154)	(1,143)
Transportation expenses related to purchases of natural gas, gas condensate and crude oil	-	(533)
Results of operations for oil and gas producing activities before income tax	55,693	39,554
Less: related income tax expense	(11,139)	(7,911)
Results of operations for oil and gas producing activities	**44,554**	**31,643**

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"), for the Group's fields – Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye, Sterkhovoye, Termokarstovoye (until February 2010), Urengoyskoe, South-Tambeyskoye, West-Yurkharovskoye, Yarudeiskoye, North-Khancheyskoye and North-Russkoye fields. 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.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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.

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2010 and 2009.

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 expire between 2014 and 2045, with the most significant license, 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.

The Group has disclosed information on proved oil and gas reserve quantities for periods up to and past the license expiry dates separately.

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. 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.

	Year ended			
	31 December 2010:		31 December 2009:	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
Consolidated entities:				
Net proved reserves at 1 January	**40,726**	**1,153**	**24,357**	**690**
Revisions of previous estimates	(54)	(1)	(187)	(6)
Extension and discoveries	3,097	88	4,278	121
Acquisitions	-	-	13,420	380
Disposals	(870)	(25)	-	-
Production	(1,314)	(37)	(1,142)	(32)
Net proved reserves at 31 December(*)	**41,585**	**1,178**	**40,726**	**1,153**
Net proved developed reserves (included above)	22,515	638	20,612	584
Net proved undeveloped reserves (included above)	19,070	540	20,114	569
Equity-accounted entities (based on the Group's proportional interest):				
Net proved reserves at 31 December	**6,057**	**171**	**-**	**-**
Net proved developed reserves (included above)	2,536	71	-	-
Net proved undeveloped reserves (included above)	3,521	100	-	-

(*) – The net proved reserves reported in the table above included reserves of natural gas attributable to non-controlling interest of 7,227 billions of cubic feet and 205 billion of cubic meters and 6,576 billions of cubic feet and 186 billions of cubic meters at 31 December 2010 and 2009, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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

	Year ended			
	31 December 2010:		31 December 2009:	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
Consolidated entities:				
Net proved reserves at 1 January	**589**	**70**	**452**	**55**
Revisions of previous estimates	(12)	(1)	(23)	(4)
Extension and discoveries	60	8	67	8
Acquisitions	-	-	118	14
Disposals	(40)	(5)	-	-
Production	(31)	(4)	(25)	(3)
Net proved reserves at 31 December(*)	**566**	**68**	**589**	**70**
Net proved developed reserves (included above)	304	36	272	33
Net proved undeveloped reserves (included above)	262	32	317	37
Equity-accounted entities (based on the Group's proportional interest):				
Net proved reserves at 31 December	**103**	**13**	**-**	**-**
Net proved developed reserves (included above)	-	-	-	-
Net proved undeveloped reserves (included above)	103	13	-	-

(*) – 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 65 millions of barrels and eight million of metric tons and 58 million of barrels and seven million of metric tons at 31 December 2010 and 2009, respectively.

During 2010, the Group acquired a 51 percent of the outstanding ordinary shares of OAO Sibneftegas, which holds licenses on Beregovoye, Pyreinoye and Khadyryahinskoye fields (see Note 5). During 2010, the Group's joint venture OOO Yamal Development acquired a 51 percent of the participation interest in OOO SeverEnergia. OOO SeverEnergia and its subsidiaries hold licenses on Samburgskoye, Yevo-Yakhinskoye, Yaro-Yakhinskoye and North-Chaselskoye fields (see Note 5).

During 2010, the Group disposed a 49 percent ownership in ZAO Terneftegas (see Note 5), the holder of the Termokarstovoye field. As a result, the Group's interest in ZAO Terneftegas is accounted for using the equity method.

During 2009, the Group acquired a 51 percent equity stake in OAO Yamal LNG (see Note 5), the holder of the South Tambeyskoye license area. Included in the reserves estimates noted above are reserves attributable to 100 percent of the equity in the acquired company as required by US GAAP SFAS 69, *Disclosures about Oil and Gas Producing Activities*. The reserves estimates for proved reserves attributable to the non-controlling interest are shown separately for natural gas and crude oil, gas condensate and natural gas liquids.

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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